

The weakness of new shares

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2020/6/5

1 Introduction

The long run performance of new shares is abnormal, also known as the weakness of new shares, which means that the return of new shares in the following three to five years is significantly lower than the average return of the stock market. In this article, I will test this theory through research.

2 The empirical research

2.1 Sample selection

My research objects are 20 new stocks listed in A-shares in 2016, including SF Holding, Shentong Express, Xinhuanet, etc. I obtained the annual returns of these 20 stocks from 2017 to 2019 and the market index of the same period, with a total of **60** statistics. The specific stock symbol is shown in the table below. All data are from **CSMAR**.

Table 1: Stock code

Number	Stkcd	Number	Stkcd
1	002823	11	603515
2	300523	12	603716
3	300535	13	603738
4	300562	14	603777
5	300565	15	603858
6	300571	16	603888
7	300572	17	002120
8	600909	18	002352
9	603258	19	002468
10	603336	20	600233

2.2 Definition of revenue metrics

- The excess return on stock i in year t .

$$ar_{it} = r_{it} - r_{mt}$$

Where, r_{it} is the stock price return rate of stock i in year t , and r_{mt} is the corresponding index return rate (Csi 300 Index).

- The average excess return

$$AR_t = \frac{1}{n} \sum_{t=1}^n ar_{it}$$

AR_t is the average excess return in year t , and I adopt the arithmetic average method.

- The cumulative excess return

$$CAR_{q,s} = \sum_{t=q}^s AR_t$$

$CAR_{q,s}$ represents the cumulative excess return from the q to the S years.

2.3 Statistical results and analysis

According to the above formula, the income index of each stock is calculated.

Table 2: Stock trends statistics

Time	Sample	Average excess returns	Cumulative excess return
2017	20	-0.45818955	-0.45818955
2018	20	0.03302195	-0.4251676
2019	20	-0.1022178	-0.5273854

Based on the analysis, we can conclude that these 20 new stocks issued in 2017 have underperformed the market as a whole from 2017 to 2019. From the perspective of average excess return, the average excess return in 2017 and 2019 is less than 0, even reaching -45.8% in the first year of initial offering, and only 3.3% in 2018. From the perspective of cumulative average excess return, the statistical results from 2017 to 2019 are all less than 0.

3. Appendix

Stock code	Year	Annual return	Excess return	Year	Annual return	Excess return	Year	Annual return	Excess return
002823	2017	-0.312968	-0.530719	2018	-0.339987	-0.086889	2019	-0.071057	-0.431752
300523	2017	-0.217208	-0.434959	2018	0.260677	0.513775	2019	0.134286	-0.226409
300535	2017	-0.585447	-0.803198	2018	-0.417706	-0.164608	2019	0.070761	-0.289934
300562	2017	-0.211062	-0.428813	2018	-0.566037	-0.312939	2019	0.538782	0.178087
300565	2017	-0.439516	-0.657267	2018	-0.133212	0.119886	2019	-0.221536	-0.582231
300571	2017	0.567563	0.349812	2018	0.414957	0.668055	2019	0.252387	-0.108308
300572	2017	-0.010221	-0.227972	2018	0.234506	0.487604	2019	0.779193	0.418498
600909	2017	-0.415936	-0.633687	2018	-0.342503	-0.089405	2019	0.559322	0.198627
603258	2017	-0.448794	-0.666545	2018	-0.470083	-0.216985	2019	0.390359	0.029664
603336	2017	-0.488421	-0.706172	2018	-0.145101	0.107997	2019	0.164759	-0.195936
603515	2017	0.120229	-0.097522	2018	-0.144935	0.108163	2019	0.022964	-0.337731
603716	2017	-0.449163	-0.666914	2018	-0.037452	0.215646	2019	-0.112454	-0.473149
603738	2017	-0.465690	-0.683441	2018	-0.261120	-0.008022	2019	0.554941	0.194246
603777	2017	-0.489546	-0.707297	2018	-0.481047	-0.227949	2019	0.237799	-0.122896
603858	2017	-0.449381	-0.667132	2018	-0.322100	-0.069002	2019	0.124209	-0.236486
603888	2017	-0.303428	-0.521179	2018	-0.448626	-0.195528	2019	0.662617	0.301922
002120	2017	0.092162	-0.125589	2018	-0.134382	0.118716	2019	0.444422	0.083727
002352	2017	0.214733	-0.003018	2018	-0.345314	-0.092216	2019	0.141985	-0.218710
002468	2017	-0.179682	-0.397433	2018	-0.325638	-0.072540	2019	0.215805	-0.144890
600233	2017	-0.336995	-0.554746	2018	-0.396418	-0.143320	2019	0.280000	-0.080695