

## Macro Roundup Article

**Headline:** [The Quality of New Entrants](#)

**Article Link:** <https://mailchi.mp/verdadcap/the-quality-of-new-entrants?e=7b209e1099>

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**Tweet:** Chris Satterthwaite @verdadcap argues the decline in US small-cap gross profit/assets has been driven by the recent IPOs of unprofitable firms during the SPAC boom of 2021.

**Summary:** At a high level, while there has been some decline in core profitability, most of the decrease in quality has come from an influx of unprofitable companies, which, after three years, enter the core cohort and contribute to deteriorating quality. In fact, the companies that have gone public since 2013, net of de-listings, currently account for 57% of our small-cap US universe of 2,750 stocks. Given the steep decline in quality since 2013 among new entrants, this significant influx has contributed to a broad deterioration of quality. To make matters worse, the exits from the small-cap universe have tended to be of higher quality than the core cohort. The new entrants to the US small-cap universe, on a market cap-weighted basis, have been heavily concentrated in biotech, financials, and health care. The SPAC boom of 2021 comprised a large portion of the financial entrants, but the biotech and health care overweights are notable.

**Related Articles:** The Death of Small Cap Equities? and Mr. Toad's Wild Ride: The Impact Of Underperforming 2020 and 2021 US IPOs and Birth, Death, and Wealth Creation

**Primary Topic:** Business Cycle

**Topics:** Business Cycle, Database, Financial Markets, GDP, Op-Ed/Blog Post, Weekly

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