AAII Survey: Slight Majority View Mergers in a Negative Light

According to **The New York Times**, more than $2.5 trillion in mergers were announced during the first half of 2018, as fears of Silicon Valley's growing ambitions helped drive a record run of deal-making. Four of the 10 biggest deals were struck in part to fend off competition from the largest technology companies as the value of acquisitions announced during the first six months of the year increased 61% from the same period in 2017, according to data compiled by Thomson Reuters. That has put mergers in 2018 on pace to surpass $5 trillion, which would top 2015 as the largest yearly total on record.

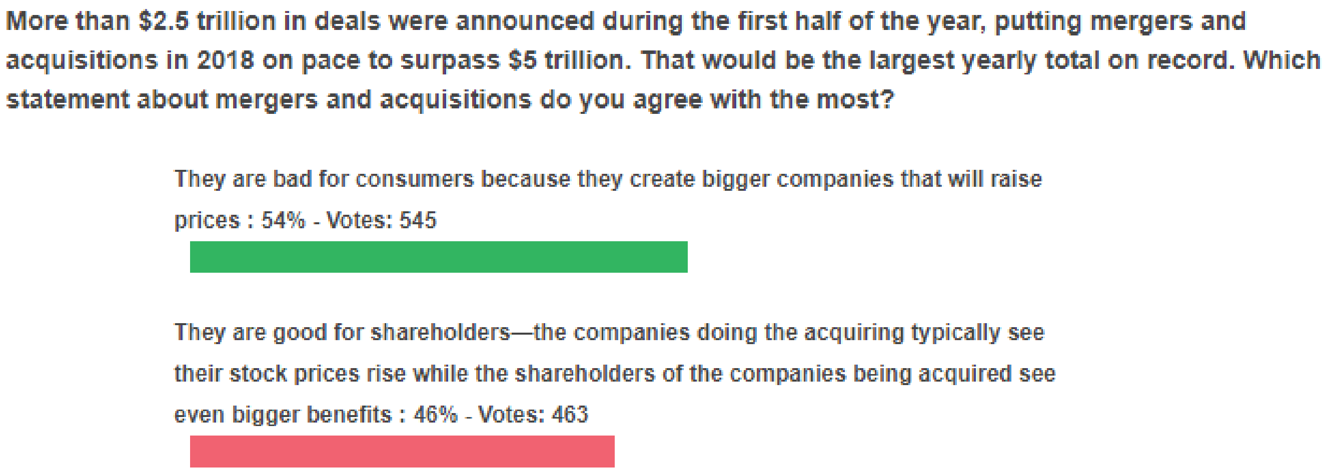
Even rising global trade tensions did not manage to slow down acquisitions: Deals involving companies based in different countries nearly doubled compared with the first half of last year, and accounted for more than 40% of all announced transactions.

AAII Weekly Survey Question

Mergers and acquisitions are viewed in very different lights, depending on who you ask. To see where our readers stand on the subject, last week's survey question asked:

> **Which statement about mergers and acqusitions do you agree with most: 1) They are bad for consumers or 2) They are good for shareholders?**

Here are the results:



In all, 1,008 readers participated.

The results are almost evenly matched, with 54% of readers believing that mergers and acquisitions are bad for consumers because they create bigger companies that will raise prices. The remaining 46% think that mergers are good for shareholders, as companies doing the acquiring typically see their share prices rise while the shareholders of the companies being acquired see even bigger benefits.

Weekly Special Question

According to The New York Times' article, history indicates that an uptick in deal-making is not necessarily a positive sign for the economy. Other recent peaks in merger and acquisition activity have been followed in short order by a recession.

In 1989, deal-making topped out at $558 billion. By July of 1990, though, a recession had set in. Companies announced acquisitions worth a then-record $3.4 trillion in 2000, and within three months the dot-com bubble had burst and the U.S. economy had fallen into recession. Seven years later, merger activity hit another record, topping $4.1 trillion, but the economy had already slipped into recession as the year came to a close.

So last week's special question asked:

> Do you think the surge in mergers and acquisitions is a sign of a robust and sustainable economic and business environment or marks the last gasp of the current economic expansion?

In all, we received 223 responses.

Roughly 38% of responses cast the current mergers and acquisitions (M&A) environment in a negative light. Of those voters, nearly 80% see the current spate of mergers and acquisitions as being the last gasp of the current economic expansion.

One-third of responses (33%) had a neutral tone when it comes to M&A. One-third of this group (34%) believe nothing can be gleaned from the current M&A environment in terms of the future direction of the economy. One-fifth of this group (21%) think M&A is a natural part of the business cycle.

The remaining 28% of respondents take a positive view of the current M&A wave. Among these readers, 54% see it as a sign of a strong economy. Another 29% attribute the latest round of mergers as being fueled by deregulation and the new tax policy.

Here is a sampling of the responses we received as to whether readers are adjusting their investment portfolios or strategies in case of a U.S.-China trade war:

- "I think the increase in M&A activity is more an expression of problems for company owners finding successors. In many cases, the children just want to take the money and not the responsibility. Hence a lot of solid companies are for sale."
- "I suspect we are due for a recession. And Trump's initiation of a trade war will likely speed this up, despite the fact that this is not currently reflected in market prices."
- "Just history repeating itself."
- "It is a sign of companies struggling to grow organically."
- "I think it cries out for more government control and 'trust busting'."
- "I see mergers as good for the people who own the merging business, but bad for the consumers."
- "Late-stage business cycle mistake: Too much money chasing too few good investment opportunities, resulting in waste and losses for the economy."
- "Sign of a robust environment and taking loans before interest rates go higher."

Everybody has an opinion! Why not give us yours? Participate in our weekly member poll, updated every Monday, and see the results online at www.aaii.com/memberquestion.