Memorandum on the Impact of a Falling Stock Price on Shareholders

Robert Shapiro, May 27, 2021

While most economic analyses and studies of the effects of a falling share price focus on the impact for the company, a declining share price can adversely affect shareholders who do not sell their stock:

- If manipulators depress the share price of a company that issues dividends, the company may reduce or eliminate its dividends payments, damaging the incomes of shareholders.

- About 25 percent of U.S. stocks are held in IRAs and 401ks, and other defined contribution pension plans, so when manipulators depress a stock's value, they damage the retirement savings of its shareholders. If MyMedx shares are held in the retirement or other investment accounts of people currently retired, the manipulation will reduce their incomes.

- Most state and local public employees are covered by defined benefit pension plans. If the holdings of those plans include manipulated MyMedx stock, the public plan's legal prefunding requirements may force its managers to offset the associated losses by diverting resources from wages and employment or by raising taxes.

- People can use their stock portfolios as collateral for bank loans, so a decline in the value of MyMedx stock used as loan collateral may force a borrower to liquidate those or other assets to avoid defaulting on the loan.

- Similarly, a decline in a manipulated stock's value can make it more difficult for its owner to secure a loan and/or increase the interest rate charged for loans.

- The decline in a manipulated stock's value also can change a shareholder's behavior: By reducing the shareholder's net worth, the manipulation tends to produce a "negative wealth effect" in which the shareholder pulls back on spending or other investments.

As noted, manipulation that depresses a company's share price also can damage the company itself, which in turn can damage its shareholders by further depressing the stock price.

- If a company such as MyMedx needs to borrow funds to expand, purchase new equipment, or conduct more R&D, a falling share price may preclude a bank loan or increase the company's cost to borrow. Banks often use P/E ratios to help evaluate the risks involved in business loans, and a declining share price raises the company's P/E ratio, signaling new risk. If manipulation also reduces a company's earnings, the falling earnings also signal more risk and therefore increase the likelihood that a bank will decline to lend or charge much higher interest to do so.

- A falling share price also makes it more difficult for a company to raise funds in the corporate paper market or increase the cost of those funds, because falling share prices often are accompanied by declining sales and profits, and a downward trend in sales and profits will discourage investors from buying the company's bonds.

- Companies with declining share prices also tend to reduce their investments in new equipment and the development of new products and technologies – a particular issue for a company like MyMedx -- which in turn reduces their future profits and thereby further depresses their share prices.

- A declining share price may also limit MyMdex's ability to expand and diversify: For example, companies trying to purchase other companies often use their own stock to cover much of the cost of the new acquisition, so a falling share price forces an acquiring company to use more of its stock for that purpose and thereby further dilutes the holdings of current shareholders.

- A falling share price for a company seeking to acquire another firm also may force the acquiring company to borrow from banks or issue more corporate paper, raising the cost of the acquisition for its shareholders and perhaps precluding it.

- A falling share price also can draw responses that further depress the stock and increase the associated damages to the company and its shareholders: For example,

    - Analysts use the trend in a company's share price to help them gauge its financial health, so a falling price for MyMedx stock can result in sell recommendations that further depress the stock and further damage its shareholders.

    - A declining share price also may attract short sellers and induce more sales of the stock, further depressing its price and further damaging its shareholders.

    - A falling share price also can depress a company's sales by seeding doubts in customers' minds about quality issues and the future availability of service and parts, and those declining sales create additional downward pressure on the stock and further damage shareholders.