**(Excerpt from 'Global Finance', Sept. '03)**

# Going It Alone

## *Independent research houses are booming.*

Economic analysis by herd instinct. That could well be a fair description of most of the research material produced in the world's financial centers.

"Over the past decade the pressures on analysts to conform-not to make waves or be involved in law suits and to keep to corporate ~~templates~~-has been enormous," says Jamie Stewart, a director at London brokerage, the Eden Group. "It's been emasculated. ~~The research~~ we're receiving nowadays could as ~~equally been~~ written in Sydney as in San Francisco."

Ten years ago it was possible to arbitrage two different views on interest rates and currency movements-depending whether you were in New York or London-at at least one well-known US investment bank.

But no longer. Few bemoan the crumbling of the research culture of the most recent stock market boom, which was all-too-often investment banking-driven. But end users says argue that banks' attempts to navigate the new regulatory landscape have made caution a watchword and resulted in research that reads like it's been pushed through a sausage machine.

Few of the characters and stars of yesteryear would be allowed to thrive nowadays. That's good-many of the standout analysts of recent years were revealed as pumped-up cheerleaders. But it's bad too. A growing number of analysts are now finding banking culture a straitjacket, and are jumping ship to form or join independent research houses. Of course, it's been done before.

Take one-time London-based analyst Terry Smith, now CEO of independent brokerage Collins Stewart. As an analyst at BZW in the 1980s he recommended dumping shares in parent bank Barclays. He kept his job. He wasn't so lucky the next time.

Despite being voted best bank analyst for six years in the 1980s he was fired from Swiss banking giant UBS for his views in 1992. His crime? He wrote a book naming and shaming firms that were using creative accounting to inflate their profits.

His revenge was to set up on his own research house-cum-brokerage, which has since gone on to roil a series of top companies with its independent and, it has to be said, provocative research. He's been proved right often enough-over entertainment giant Vivendi, for example, or telecom disaster Marconi-to have attracted a growing band of followers. Hedge funds are keen listeners, as his 'cashflow return on investment' has proved useful in signaling profitable stock shorting opportunities.

Most of the new operations have yet to reach this mark. The first thing you notice about them is their size. Frequently they start as a one-man band, who then hire ex-colleagues. Invariably, the key figure will have been a senior figure at a sell-side institution with a reputation they can trade on. Very rarely does the number of employees reach double figures.

Part of the reason for the size is the set-up cost. "The largest US banks can employ as many as 200 analysts-almost all of them stock-in their research departments," says a London based consultant. "Given that their average salary is going to be around $100,000 and the cost of maintaining their desk about the same again, you're talking about fixed overheads of around $400 million."

Because they cannot compete with the full range of services that a global bank can provide, independent research boutiques are inevitably specialists.

"This is the way forward," says Eden Group's Stewart. "It's similar to going to a shopping mall. You buy your regular household goods in the supermarket but you go to the specialist liquor store when you want to buy fine wines. So too will be research."

But analysis by herd instinct shouldn't be dismissed totally.

Some research houses say their output is enhanced by working closely with the markets. "We're not rumor-mongering but capturing the flavour of what traders are thinking about," says Ray Attrill, research director at 4Cast, a London-based economic consultancy. "And that in itself can be as useful to investors as a 200 page report."