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Independent research firms in Europe set to fill vacuum

The backlash against investment banking analysts is rapidly increasing the demand for independent research among both fund managers and banks.

While regulations in the US and the UK are making it less economical for investment banks to provide vast amounts of research, independent research providers are stepping up to fill the gap.

Independent research teams have had a presence across Europe for about 10 years, and are finally starting to find a mainstream role.

Jamie Stewart, head of institutional marketing and research at UK stockbroker Eden Group, said that although there have been independent providers in Europe for a number of years, the market is much less developed than in the US.

"There are about 400-500 independent research firms worldwide that are recognisable, and the majority of these are in the US," he said. "There are about 150 in the UK, and [continental] Europe is gradually expanding from a zero baseline."

Most are obscure, but a select few are becoming better known than their counterparts at investment banks.

Eden Group distributes independent research, helping fund managers to pick the analysis which is

best for them. Although most research still comes from investment banks, Stewart said that proportion is falling. "Ten years ago, 97% of research resources were taken from traditional sell-side analysts. Now it is more like 75% — and heading fast towards 50%."

But it is not all plain sailing for independent providers. Dynamic Decisions is a quantitative research firm that supplies analysis to, among others, the largest French and Italian fund managers and one of the top five US hedge funds. The company uses options theory to calculate how much of a share price comprises growth and how much real asset value.

Olivier Vallée, managing director at Dynamic Decisions, said that many fund managers still prefer to receive all-encompassing research rather than specific ideas. "We've had to fight upstream to sell our research," he said. "We find it difficult to sell on a weekly subscription basis."

However, as fund managers realise that they cannot afford the in-house research teams built up over recent years, and as institutions such as Gartmore push through unbundling (see story right), investors are likely to become more receptive to independent research. □