



## EDEN GROUP

## Jamie Stewart

Is head of institutional marketing and independent research at Eden Group.

He ran the European research department for Instinet (Europe) before taking up a similar role at Eden.

He trained in financial analysis at Hill Samuel Wood Mackenzie in the mid 1980s.

# A double-edged sword

Investment research has grown in stature, importance and, unfortunately, in quantity.

Within a context of ever tighter regulation, narrower margins, fiercer competition, globalisation and integration within the industry, it has inevitably become a two-edged sword. Research is as likely to be bad as good.

The over populated and over-paid ranks of traditional institutional analysts have a cut and thrust culture, which leads ambitious and inexperienced analysts to seek out a prominent stance or a dodgy call, albeit within the institutional confines.

If it goes wrong, there are disclaimers, excuses, reasons and the grey light of the background to protect one. If one gets it right, there is celebrity status, promotion, bonus flow and calls from the headhunters.

Cast your mind back to Spitzer and what he uncovered: the emails from analysts in New York, who followed up their external buy recommendations with internal emails referring to

**Independent investment research is becoming increasingly indispensable. But it is costly and its real value is open to question**

free lunch, and certainly there is no such thing as a free piece of research. The truth is that the investor pays through the nose for his research.

The structure of dealing costs conceals a huge cost covering and recovery exercise, whereby the saver pays exaggerated commissions for a very large amount of research, generated at a monstrous price, of doubtful effectiveness and poor value for money. No wonder the FSA is looking at brokers' commissions and research management principles.

Independent research is fast becoming one of those watchwords about which many know a little, but not at all much. Independent Research is a product generated by entities without any link or obligation to any bank, broker, investible corporate or third party with vested interests.

Suffice it to say, such entities are typically set up and developed by analysts formerly working in an investment banking environment, who have seen the light. They realise that their skills have been dumbed down, pirated or misdirected; that they are told what to write rather than write what is right and are paid to smother their consciences.

Suddenly quality of life becomes more important than quantity of salary and self-control, and being your own boss is better than being bossed about. Furthermore, the clients who respect them say that they would follow them faithfully if only they were not forever pushing initial public offerings and

helping those market makers out of a mess.

Independent research is driven by genuine, transparent forces and thrusts: commercial realities, not subsidies; the fact that nothing breeds success like success; the surgical steel blades of competition and keen and flexible pricing; and demand and supply.

How can you be sure that these independents are as reliable, experienced and accurate as you need them to be? The answer is verification.

Investment managers have to take a certain amount of assurance and assumption for granted. They have a duty and an obligation to check their sources, double-check their resources, triple-check their materials, screen their advisers and filter their intake. And this is the case even where they have good reason to be able to take them for granted. What they don't have is time.

Enter the specialised intermediary who, in the capacity of an equally conflict free agent, undertakes verification as one of the components of the service they offer to institutions as consultants and coordinators in the field of independent research.

In the US there are a few well known entities who have practised in this manner for years and years. In the UK there is far less choice.

Providers include Enders Analysis, the TMT specialist; Gerson Lehrman Group, the multi-sector analysts based in the US; Arete Research, a TMT specialist and a doyen of the segment; New Street Research, the telecoms services industry specialist; Bullhound; Belkin; Zyrk; Independent Research, which preaches David Roche's words of wisdom; and 13D Research, also based in the US.

The aggregate skills, experience and success which these providers represent is significant and undoubted. They are the embodiment of that rarefied equation that sees risk pass through the hoop of verification to be reincarnated as reward.

This is the process which everyone hopes for and, for once, is actually there for the taking.

## VIEWPOINT

### A case of keep your distance



The distance marketing directive (DMD) is a piece of regulation that dropped into our laps in October last year. Its primary purpose, to protect investors from being entered into financial contracts without express written permission, is well intended. But there are, I think, some unintended knock on effects which are detrimental for pensions.

The DMD covers contracts written 'at a distance' where the parties involved are not physically present together. As you would expect, direct mail shots, off the page advertising, internet and telephone transactions are all covered, but so is auto-enrolment – opt-out – for group pensions. In my view this is where the problems start.

To be exempted from the strictures of the DMD, an adviser needs to be in the same place as the client when a contract is entered into. As the DMD makes clear, there should be a 'meaningful simultaneous physical presence'. However, it does not specify what actually constitutes such a presence. Common sense dictates that a full face to face review counts, whereas wandering through a workplace distributing application forms without talking to anyone does not. The FSA needs to clarify exactly what 'distance' means, with particular reference to group pensions.

For some time now advisers have been signing up group pension clients using a streamlined joining process. Although not specifically targeted at pensions, this is where the DMD bites. The process assumes that all eligible employees will join the pension unless they specify otherwise. No signature is required and because of this it has been a boon for advisers. It is particularly useful where an employer has multiple sites and remote workers.

The process quite rightly has its fans. Alan Johnson has said that the Government considers auto-enrolment to be a good way of encouraging saving. In fact, at the Association of British Insurers Saver Summit in November last year, he stated that it had become Government policy.

So it must be down to the law of unintended consequences that the DMD pretty much kills it stone dead. It is very unlikely that any adviser using opt-out is going to be physically present in a meaningful and simultaneous way with every single employee. The result of this is that the contract cannot be concluded without a signature.

If the Government is serious about promoting opt-out as a joining method, and if it is serious about encouraging the unpensioned into pensions, as I think it has to be, then it needs to push very hard for an exemption from the strictures of the DMD for pensions. Without it the millions of pensionless employees out there will remain pensionless and the Government's plans will have failed.

Mark Polson, group pensions marketing manager, Scottish Life

If you have strong views on issues affecting the financial services industry, contact [leonora.walters@incisivemedia.com](mailto:leonora.walters@incisivemedia.com)

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those shares as 'sh\*t'; the antics of Blodgett, Grubman and Meacher; Claire Kent and the thoughts she published from London on French luxury goods houses; and the list goes on.

There is constant confusion among consumers of research between cost, price, value and value for money as regards the research and analysis product. This is in part perpetuated by brokers placing self interest before thought.

Proprietary research represents a huge cost base for brokers, yet they purport to give it away free to their clients so they can apply it to creating millions at that end of the process. They say there is no such thing as a

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