

PRESS CUTTING

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At the same time, small can be distinctly unbeautiful: a low-cap. company is usually less prominent and less closely followed than the leaders, and weaknesses – even the occasional instance of blatant mismanagement and fraud – can thrive undetected: Versailles is the Parmalat of UKSmallCoLand. Management style and strategy acquire higher gearing in younger companies: Unilever will scarcely wobble if someone gets a flow-chart wrong or a figure out of place, but UKSmallCo can give a death-rattle and expire on the spot. Forewarned is forearmed.

But the investor with vision, instinct and wisdom will not dedicate resources to smaller companies purely because they are there. He recognises that, where there is inadequate research, there lies opportunity.

The frailties, strengths and therefore prospects of these small, mid- and micro.-cap. companies are as plentiful and convincing as they are difficult to identify, quantify, monitor and evaluate. One equally small word - but one with big implications - gets one there: Research. It says it all.

Of all equity market changes over the recent past, the role and profile of research has arguably seen most shift. Paradoxically, it is the sharpest potential facilitator of high-quality stock-selection, yet the trickiest one to identify and the slipperiest to pin down. It has had stick from all sides and all comers at the hands of Spitzer, Myners, the FSA's CP176, and much more...it has claimed victims such as Grubman, Meacher, Blodgett and Kent...and stands accused of bias, corruption, overpayment and inconclusiveness.

Within this rather discoloured context, research and analysis as regards smaller and mid-size companies has not come out untainted. The nature of the segment is such that there is arguably less scope for generating mildly or blatantly ill-gotten gains if that is one's wont, largely because the shares are less liquid; Q.E.D.: the lower the capitalisation, the less reliable – let alone impressive – the traditional sell-side research will be.

The answer is that Independent Research. Independent Research steers clear of most of the hurdles and pitfalls that can hinder traditional 'bundled' broker research. Corporate advisory and issuing work is, by definition, a no-go area for the independents; the challenge for them lies in naturally restricted exposure and trading volumes, which ultimately channel the more rarefied rewards to fewer, better research entities.

One thing is certain: smaller caps., like bonsais and babies, are cute and desirable but the best ones are almost equally as hard to deal with. Reach for the best available Research, preferably independent; decide on your time-horizon, and stick to it unflinchingly; keep your nerve. There is little new in that finding, but by logic it is therefore a time-honoured formula, and there is a fair-to-good chance that it will keep on working well!

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