FIRST COVERAGE

From the Founders of First Call and StreetEvents

Historical Challenges with Written Research and Methods to Unlock Hidden Value

This paper provides an overview of why there may be a perception that written sell-side research can rarely generate significant value for fundamental portfolio managers. However, even with that acknowledged, we will demonstrate that most sell-side research departments generate data that has the potential to create substantial alpha. We will examine the factors that currently impede the delivery of this valuable information from the sell-side to their buy-side clients. This paper will then conclude by recommending specific actions portfolio managers can undertake to unlock this value and generate additional alpha within their funds.

Is There Value in Published Sell-Side Research?

Since 1992, more than 250 academic papers have been written about the ability, or more precisely the perceived inability, of financial research publications to add value to the buy-side investment process. The vast majority of these studies have reached a common conclusion. Sell-side research, at least in its current form, has done little to improve the buy-side's investment process. According to a 2009 study by Michael Mainelli, Jamie Stevenson & Raj Thamotheram, the value of sell-side research has been minimized given that the sell-side "clearly and consistently"

1. Err towards "buy" recommendations and stances supportive and uncritical of current company management policies and/or management fads;
2. Miss most of the major insights or turning points in company analysis;
3. Follow consensus (and company guidance) forecasts and views, rather than constructing independent earnings models and opinions; and
4. Prioritize daily client marketing contact over long-term development of fundamental research.[i]

So, what you're saying is that I'm okay if I just keep ignoring sell-side information.

Not really.