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Rankings take brokers' measure first coverage list

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The institutional equity sales desk at Merrill Lynch has been judged the winner among the large dealers for providing ideas generating the highest average returns to buy-side clients for 2006 while the desk at Sprott Securities was deemed to be the winner among independent firms.

The rankings were generated by First Coverage Inc., a privately held software company formed last May to objectively determine the value of a relationship between portfolio managers and sell-side institutional salesmen at brokerages.

Jamsheed Mehta, a member of the equity sales team at BMO Capital Markets, and Nirvaan Meharchand at Wellington West Capital Markets were judged to be the winners of the best ideas from an individual salesman for large and independent firms respectively. Mr. Meharchand also topped the rankings for best average return for an independent firm, while Emily Won of CIBC claimed that spot among large brokerages.

"We are a search engine for alpha," said **Randy Cass**, the cofounder of First Coverage, when describing the term used to measure out-performance. "We are valuing the information being provided by the sell-side to the buy-side. And that's being done in a purely objective manner," said Mr. Cass.

"We spend time navigating the global Merrill platform for ideas that are suitable and generate performance for our clients and their investors. To be recognized by First Coverage for excelling in this area is a tremendous honour for our company and the team of individuals who work so diligently for our clients every day," said Pat Burke, managing director of institutional equities of Merrill Lynch.

"We are pleased that our efforts are being recognized by First Coverage and we hope to continue providing the same level of quality opportunities for our clients in the future," said Scott Lamacraft, CEO of Sprott Securities.

Mr. Cass, a securities lawyer who also worked as a buy-side portfolio manager at Ontario Teachers Pension Plan Board, wanted to develop a way to determine the value of an institutional sales desk and the individual salespeople.

"There was no practical way that a buy-side portfolio manager could keep track of this information," said Mr. Cass who formed First Coverage with Colin Webster, whose father, Ben, is generally regarded as the country's father of venture capital investing. "They are getting hundreds of e-mails and dozens of voice-mails every day and each is a separate idea," added Mr. Cass, whose firm just opened an office in Boston.

Mr. Cass said First Coverage's objective analysis of the information provided by the sell side starts when a buy-side client signs up for the service. The relevant information -- such as stock recommendations and the price at which those recommendations are made -- are entered onto the system. "Here's when you suggested it, here's when you recommended you close it and here's the return. It's very clean and very simple," said Mr. Cass.

"It is a unique product given that we are all responsible for spending the commission dollars in the most productive way," said David Burrows, president of Barometer Capital, a money manager recently spun out of Rockwater Capital.

"We get swamped with ideas, but to be able to go back and check the merits of an idea is a real plus. The system allows us to have a quantitative record of which firm or salesman is generating valuable ideas."

Mr. Burrows, whose firm deals with about 16 brokerage firms, insists that each institutional equity desk uses some prudence when they enter their best ideas. "We tell them, 'if you have strong conviction about an idea and if you think it's relevant to us, then make sure it's on First Coverage.' They know that they will be judged on their best ideas and the system gives us a basis for deciding how we will allocate our trading commissions."

Mr. Cass argues that an objective methodology to measure the value of the relationship between a sell-sider and a buy-sider is needed because of possible regulatory changes.