

Independent researchers show strength

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Abstract:

(1) Callard Asset Management, up 8.21 percent; (2) A.G. Edwards, up 5.14 percent; (3) Ford Investor Services, up 4.97 percent; (4) Alpha Equity Research, up 3.56 percent; (5) Computrade Systems Inc., up 2.96 percent; (6) Channel Trend Inc., up 1.52 percent; (7) Raymond James, up 1.49 percent; (8) Market Profile Theorems, up 1.08 percent; (9) First Union, down 2 percent; (10) Merrill Lynch, down 2.19 percent; (11) Morgan Stanley, down 2.48 percent; (12) Prudential, down 3.24 percent; (13) Salomon Smith Barney, down 3.89 percent; (14) Deutsche Banc, down 4.59 percent; and (15) U.S. Bancorp Piper Jaffray, down 5.13 percent.

Full Text:

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YOUR MONEY.

Everyone likes to feel protected, especially when it comes to family and finances.

Unfortunately, turbulent world events, especially those with the potential to hit close to home, have shattered some of our national confidence.

We've also had to cope with new financial vulnerability in the wake of continuing investment scandals. Problems in the investment industry go unnoticed when everyone's rejoicing over a rising market, but a down market displays all warts. This sours investors on the whole system, hindering economic recovery.

Consider the recent case of Merrill Lynch & Co. agreeing to pay \$100 million and alter the way it monitors and pays its stock analysts. This settled a New York state investigation that alleged analysts gave small investors overly glowing stock reports about Merrill Lynch investment banking clients while trashing those same stocks in private e-mail messages to their colleagues.

Average investors want honest, reliable recommendations, fully realizing that stock investing is an inexact science that always carries some risk with it.

"With a lot of dirty laundry being hung out to dry, no matter what happens in the short run a lot of people are very wary about listening to analysts," said Kei Kianpoor, chief executive officer of the Investars analyst performance tracking service in New York. "Our own business model relies on there being good analysts out there and our telling people where to look for them."

At Investars.com, which has a \$19 monthly subscription rate, the company constructs and tracks hypothetical portfolios that follow the advice of the analysts of brokerage firms and independent stock research firms alike.

During the past 12 months, according to Investars, the following firms had the best overall performance:

(1) Callard Asset Management, up 8.21 percent; (2) A.G. Edwards, up 5.14 percent; (3) Ford Investor Services, up 4.97 percent; (4) Alpha Equity Research, up 3.56 percent; (5) Computrade Systems Inc., up 2.96 percent; (6) Channel Trend Inc., up 1.52 percent; (7) Raymond James, up 1.49 percent; (8) Market Profile Theorems, up 1.08 percent; (9) First Union, down 2 percent; (10) Merrill Lynch, down 2.19 percent; (11) Morgan Stanley, down 2.48 percent; (12) Prudential, down 3.24 percent; (13) Salomon Smith Barney, down 3.89 percent; (14) Deutsche Banc, down 4.59 percent; and (15) U.S. Bancorp Piper

Jaffray, down 5.13 percent.

Among those near the top of the list, only A.G. Edwards and Raymond James are familiar brokerage house names. None of Wall Street's other investment firms came up with a positive return for the 12-month period, according to Investars calculations.

Why are independent research firms outperforming?

"Independent analysts don't have conflicts of interest and a lot of them rely strictly on data, which means they don't fall prey to the charm of fancy lunches and the like," contends Kianpoor. "Because they cater to hedge funds and institutions that are likely to go short on a stock, they issue a lot more sell recommendations than investment banks do."

With investment banking fees few and far between, brokerage firms must refocus on retaining their retail customers with better service and quality research, Kianpoor asserted.

"Besides conflict of interest, there's the question of competence of analysts, as far as what they know and how good they are at what they do," said John Markese, president of the American Association of Individual Investors. "Everything is moving in the direction of making analysts completely independent and separate from investment banking functions, but I don't know that they've gotten to the point where they're completely unbiased."

A number of firms with no investment banking ties provide stock reports, all requiring subscription fees.

Besides some of those previously listed, these include Argus Research, which covers 350 companies; Value Line, 1,700 companies; Morningstar, 1,000 companies; Gartner Dataquest, 200 companies; Red Chip Review, 150 companies; and Jaywalk, which sells research from 15 independent research firms.

"Investor confidence has been shaken by auditing failures, conflicts of interest by analysts and the selloff in the market since the spring of 2000," acknowledged Marc Beauchamp, executive director of the North American Securities Administrators Association. "Nonetheless, Americans continue to put money into the stock market."

Most are investing the "right" way, Beauchamp believes, which means through 401(k) plans and individual retirement accounts.

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