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The 5 best independent research firms Before Wall Street goes on a shopping spree for research, it should check out this list.

November 4, 2002: 3:03 PM EST

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NEW YORK (CNN/Money) - A billion dollars is a lot of money. Wall Street had better spend it wisely.

In an effort to end investors' concerns about analysts' conflict of interest, Wall Street firms, with the help of New York State Attorney General Eliot Spitzer and the Securities and Exchange Commission, are considering a plan that calls for investment banks to spend about \$1 billion over a five-year period to [buy](#) research from independent firms and provide these reports to investors.

Companies like Sanford Bernstein and Prudential, known as independents because they have no investment banking businesses, have been praised for being straight shooters.

But independent is not necessarily synonymous with great stock picking.

According to Investars.com, which tracks the performance of analysts' stock picks, a portfolio of Prudential's stock picks have lost an average of 7 percent over the past 12 months while Bernstein's portfolio has declined 10.8 percent. Maligned firms like Merrill Lynch, Morgan Stanley and Salomon Smith Barney all posted better performances than that.

So who really are the best independent firms out there? With the help of Investars.com and BNY Jaywalk, a network of independent research companies, we identified several top-notch independent firms that Wall Street should consider.

The five that we chose -- [Alpha Equity Research](#), [Buckingham Research](#), [Ford Investor Services](#), [Global Capital Institute](#) and [Market Profile Theorems](#) -- all have been around since long before it was trendy to be an independent, they follow a broad array of stocks and have had solid track records during the bear market. We talked to the heads of research at these five companies to find out about their stock-picking strategies.

Alpha Equity Research

Like many independent firms, Alpha has clients ranging from mutual fund companies to hedge funds. And since many of Alpha's customers are able to short stocks, a tactic that has worked well in this market, Alpha has been more willing to call a stock a "sell" when warranted.

Timely sells have been a large reason why the firm's portfolio posted a 21.1 percent gain over the past 12 months. But Todd Campbell, principal with Alpha Equity Research, says that even in bull markets, the firm, around since 1994, has helped clients make money with sell calls.

"The reality of the marketplace is that markets are made of buyers and sellers. Stocks go up and stocks go down," Campbell says.

The company has just six employees but covers nearly 2,500 stocks. Campbell says that he and other researchers look closely at historical earnings and potential, and they rate stocks each week on a 0-100 scale. Above a 60 is a stock that they recommend as a "buy." Below 40 is a "sell" or "short" and between 40 and 60 is what Campbell calls "no man's land."

Buckingham Research

Analysts at Buckingham cover technology companies like [Cisco \(CSCO: Research, Estimates\)](#) and [Microsoft \(MSFT: Research, Estimates\)](#). But the firm itself? It doesn't even have a Web site.

Manny Korman, director of research for Buckingham, says the company will probably get around to building a site sooner or later, but ultimately it's more important to keep churning out high-quality research than to have an Internet presence.

And the lack of a Web site hasn't hurt the company's stock picking. Buckingham is just one of a few firms (independent or otherwise) to post a gain during this bear market. Since November 1999, Buckingham's picks are up an average of 3 percent. (The past 12 months have been a little rougher though, with selections dropping an average of 5 percent.)

Korman, who worked at Dean Witter before joining Buckingham, says he and the 14 analysts working for the company have a simple ethic when it comes to following companies: staying on top of things in order to be right more often than not. Unlike the big banks, Buckingham doesn't have the luxury to be wrong.

"If we do a good job recommending stocks, we'll stay in business. If we do a bad job, we're out of business," he says.

Ford Investor Services

There's been a lot of talk lately about how Standard & Poor's recent report on core earnings showed that companies are making a lot less than many investors and analysts thought. But Tim Alward, president and COO of Ford Investor Services, says his firm has been backing out of things like options and pension fund expenses when analyzing companies for more than 30 years.

"We've been collecting fundamental data and cleaning it since 1970," Alward says. "We spend a lot of time looking at the numbers, so we get what we believe are the actual operating earnings of companies."

The strategy seems to be working. In the past 12 months, Ford's stock picks are up an average of 20.2 percent. Alward says once the company's 10 researchers have figured out the real earnings of a company, they look at technical factors such as price momentum as well as

fundamentals and valuations to determine whether or not the stock is a "buy" or "sell." Like Alpha, Ford has a 0-100 point system.

And even though the company's performance has benefited from numerous "sell" calls to hedge fund clients, Alward says that investors have been able to make money from buying stocks as well. In this environment, he says, companies with low price-to-earnings ratios and real earnings momentum have done well.

The firm looks at more than 4,400 stocks.

Global Capital Institute

The name of the firm may sound more like a think tank, but Global Capital Institute (GCI) is actually a part of a larger institutional investment company, Thomas White Asset Management. The company has three mutual funds -- [Thomas White American Enterprise](#), [Thomas White American Opportunities](#), and [Thomas White International](#) -- that have outperformed the S&P 500 during the bear market.

Thomas White, the firm's founder and chief investment officer, says that having mutual funds based on GCI's research is a major selling point to clients since he is not just making recommendations but also using them to manage money for his own firm. And it doesn't hurt that the research arm's stock picks have done extremely well recently.

Over the past year, GCI's selections are up about 7 percent. White says he and his team of 13 look at about 20 different industries and take a bottom-up approach to rank stocks within each industry. Each month they review the valuations for more than 2,300 stocks and re-rank them, based on a 1-to-10 scale.

White adds that the investing timeframe for his picks is typically at least a year, a contrast to the constant upgrading and downgrading of stocks by Wall Street firms. White, who left Morgan Stanley 10 years ago to form his own firm, says investors clearly need access to research that is more objective and long-term oriented.

"Investors are starting to say, 'These guys never added any value. In fact they've actually subtracted value. Why should I take their advice?'" he says.

Market Profile Theorems

Sam Waksal and Martha Stewart have made insider trading a hot topic again, for all the wrong reasons.

But Michael Painchaud, director of research and principal of Market Profile Theorems, uses insider data along with other fundamental research to make solid stock picks. The company's recommendations are up slightly during the past three years, with an average gain of 0.5 percent.

"The insider part of our work is sexy, especially in this market environment," says Painchaud. In particular, he says that one investing strategy that has worked over the past few years is to find companies that have above-average earnings expectations and a strong history of insider buying as well. Painchaud says he and five other analysts also look at technical factors and

valuations. The firm follows more than 2,500 stocks.

Painchaud says that he is a little skeptical of Wall Street's plans to feature independent research because he thinks that the reforms are more of a government mandate as opposed to something the brokerage houses are doing willingly. That said, he is confident that if big brokerage firms did decide to buy his research, it would be helpful to the average investor.

"There's going to be a benefit. That's how I sleep at night. I know that the research I do benefits a manager or some other investors," Painchaud says. ■

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