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Business

The Value of Independent Research
Ali Velshi

ALI VELSHI, CNNfn ANCHOR, STREET SWEEP: Well, the conflict over stock analyst research has put the spotlight on independent research firms. That's firms who do not have investment banking relationships with the companies that they rate. Paul La Monica is a writer with our Web site, cnmmoney.com. He's looked into the performance of some of these firms and he joins me now with some ratings.

Paul, great to have you here.

PAUL LA MONICA, Nice to have - thanks.

VELSHI: Was this a hot topic before this whole issue of analysts ratings came up in the last year because some of these companies aren't branded and don't have names that would suggest that they are interesting businesses that would appeal to retail investors?

MONICA: Exactly. For the most part these companies cater to an institutional client so you really didn't - they didn't have to really spend any money or effort on branding and all because they were really just going after like hedge fund clients and mutual fund clients.

VELSHI: Are there a lot of them? Are there a lot of funds that don't take money for research?

MONICA: I'm sorry (INAUDIBLE)

VELSHI: I'm sorry. Don't take money - don't do investing (INAUDIBLE) investment banking.

MONICA: Yes. There aren't too many firms out there that don't do any investment banking that are just really hard core research and they cater to clients that know that they can take objective research that will have not just buy ratings but sell ratings as well. Of course there's a lot of hedge funds out there that obviously want to short stocks and even some mutual funds that can do that as well.

VELSHI: And these companies -- institutional investors pay money for this research.

MONICA: Yes.

VELSHI: How do the retail investor benefit from that? Do they - can they get that research at all?

MONICA: The retail investor for the most part doesn't have access to this type of research and that's why hopefully if there are proposals that Eliot Spitzer and the SEC and some of the investment banks themselves are considering spending as much as a billion dollars in order to buy institutional - buy these independent research reports so they can package them with their own. So, say for example you're thinking about buying Microsoft (URL: <http://www.microsoft.com/>) from your -Merrill Lynch or Morgan Stanley in addition to getting a Merrill Lynch or Morgan Stanley report you might get some independent research reports as well.

VELSHI: Now you've looked into some of these companies. Did you rank them or did you just report on them?

MONICA: We didn't really rank them per se. We just looked at - there was like maybe 25 or 30 that are tracked by our Web and investstars.com (ph), which also tracks the big Wall Street brokerages as well and we looked at a one year, two, year, three year performance. Wanted to try and get the, you know, the bear market the whole breadth of it in there and there were some firms that have positive returns on their recommendations even over the past three years, which has obviously been awful for investors.

VELSHI: Let's look at some of those. I think we can show our viewers what some of them are. The ones that you've highlighted have been Alpha Equity Research, Ford Investor Services, Global Capital, Market Profile Theorems, boy what a name and Buckingham Research. What do the numbers mean on the side?

MONICA: The numbers there are the average gain or in the case of Buckingham a decline in the recommendations for the past 12 months. Buckingham despite that that's much better than most of the Wall Street firms and Buckingham also had a positive return over the past three years so that's why we included that despite the fact that it tailed off a little bit this year.

VELSHI: All right. What did you find in terms of trends, similarities between them differences? Do they all kind of work the same way?

MONICA: I would say Alpha and Ford were very similar in the sense that they both really rely on both technical and fundamental analysis, digging into the numbers both from a targeting standpoint as well as getting at the core earnings, which is what now has become a popular term thanks to an S&P report. But most of these firms they've been doing this for years.

VELSHI: Right.

MONICA: Realize that (INAUDIBLE)

VELSHI: Options and things like that, yes.

MONICA: Options and pensions can put a dent in earnings. So, they've done that and then you have something like a Market Profile Theorems, which is a little bit unique. They look at a lot of insider trading data and they found actually that insider buying coupled with some strong earnings momentum has actually been something that they've been able to make good "buy" recommendations on even in this bear market.

VELSHI: I think Buckingham - somebody at Buckingham said if we do a good job recommending stocks we'll stay in business. If we do a bad job we're out of business. I guess it's a little simpler to figure it out for these guys.

MONICA: Exactly. That's -- all of them pretty much have that mentality. They realize that, you know, it's as simple as that. Funds - mutual funds and hedge funds aren't going to buy their research if they're bad - if they're making bad stock recommendations.

VELSHI: This article is a good service. It's on the Web site now.

MONICA: Yes.

VELSHI: It's on cnnmoney.com. Paul La Monica is a staff writer. Thanks for joining us, Paul.

MONICA: Thank you.

VELSHI: All right.

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