

# Financial Voyage

## Will Wall Street research improve?

This map is about stock research from the leading Wall Street securities firm.

Given the amount of bad publicity, complaints to the SEC and the filing of lawsuits against these firms, one might think that this is the golden opportunity to reform Wall Street. This map suggest that nothing will change because in a sense Wall Street culture is just the expression of human greed and fear.

Non traditional players are jumping on to the bandwagon to offer stock research. They are providing a much needed service, but it is unlikely that they will be very successful and supplant the firms that they are challenging.

In the end, Wall Street will serve up what the majority wants to pay for. How to make money quickly, by means fair or foul.

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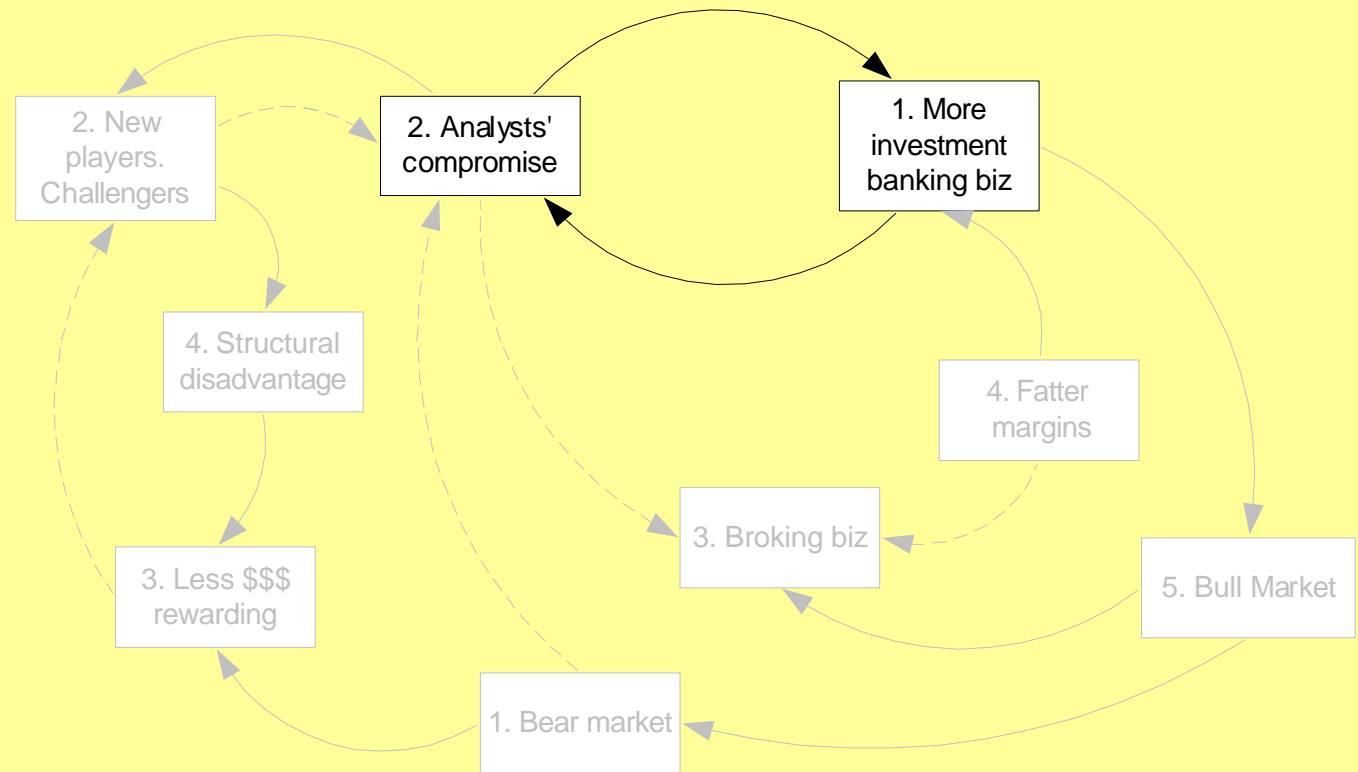
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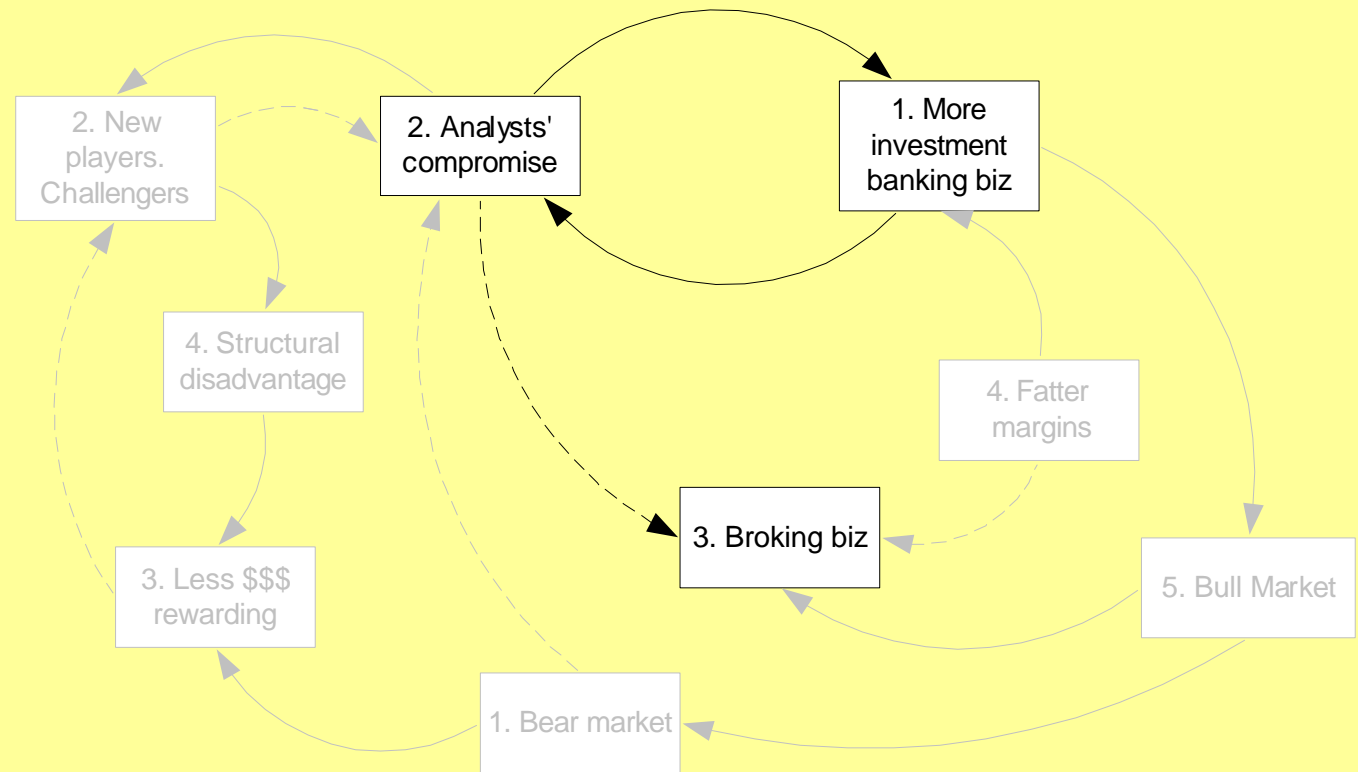
**1.** Investment banking is very competitive (box 1). Star analysts are roped in to help sell the deal (box 2) as it confers an aura of legitimacy, “independence” and rigor to the analysis of the company.

The reinforcing loop between Box 1 and Box 2 is what help the leading firms on Wall Street bag those lucrative IPO and other corporate finance deals.

Despite knowing that the star analysts are not impartial, investors feel that they could pick out the bias from the research reports – at least that is how people behave in a Bull market.

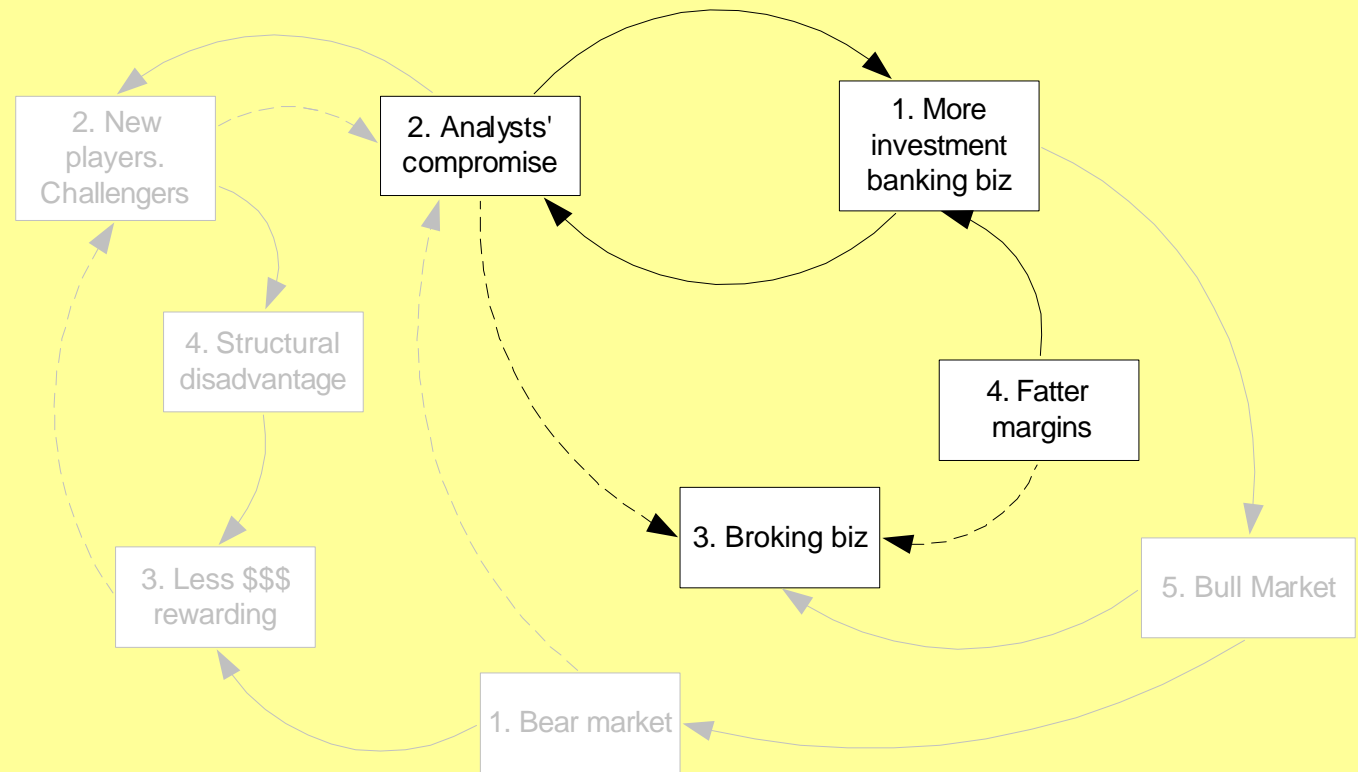


**2.** Still after a while, it would hurt the broking side of their business (box 3). Fund managers will beef up their in-house research. But the common investors unfortunately are no wiser until disaster struck.



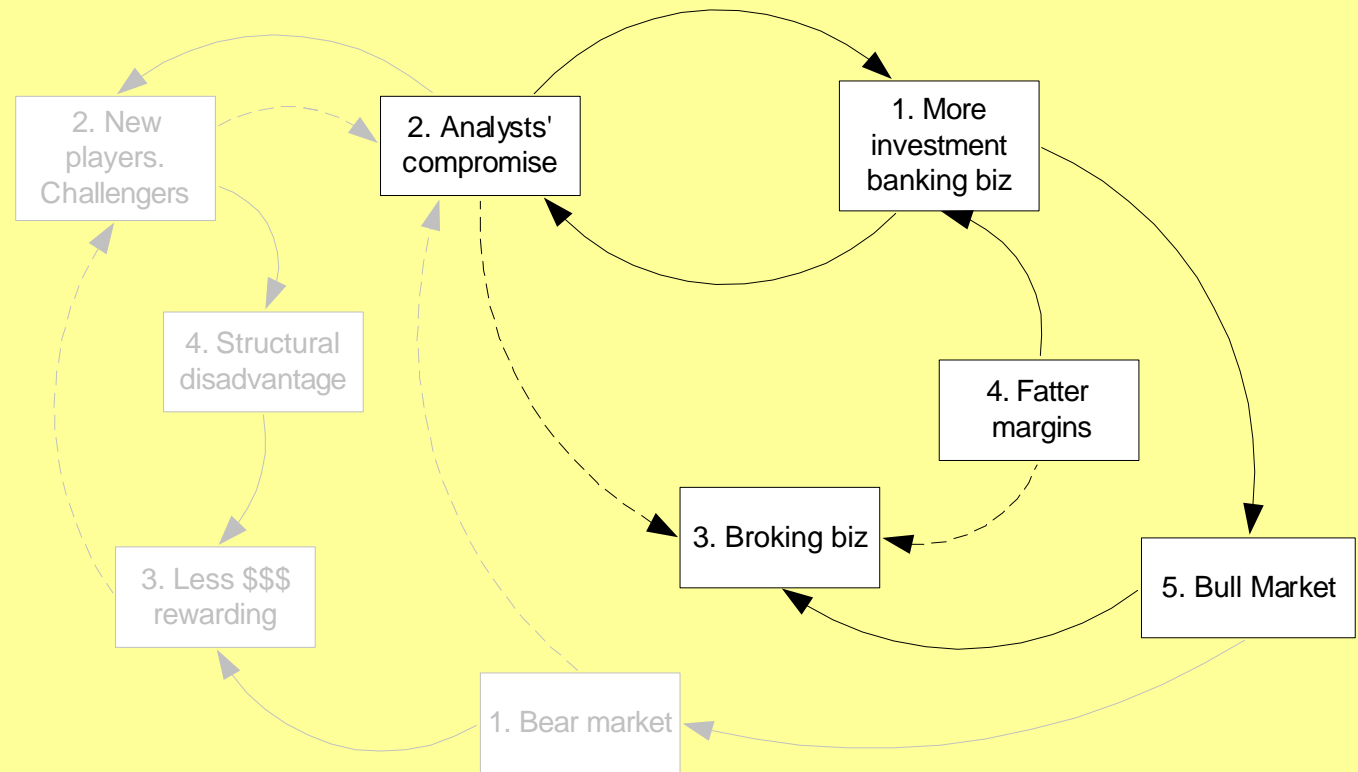
**3.** Why risk broking fee business for the investment banking business? Because the corporate finance margins are much fatter (box 4).

Experienced executives running these securities firms also know that in time people will forget and forgive their behavior.

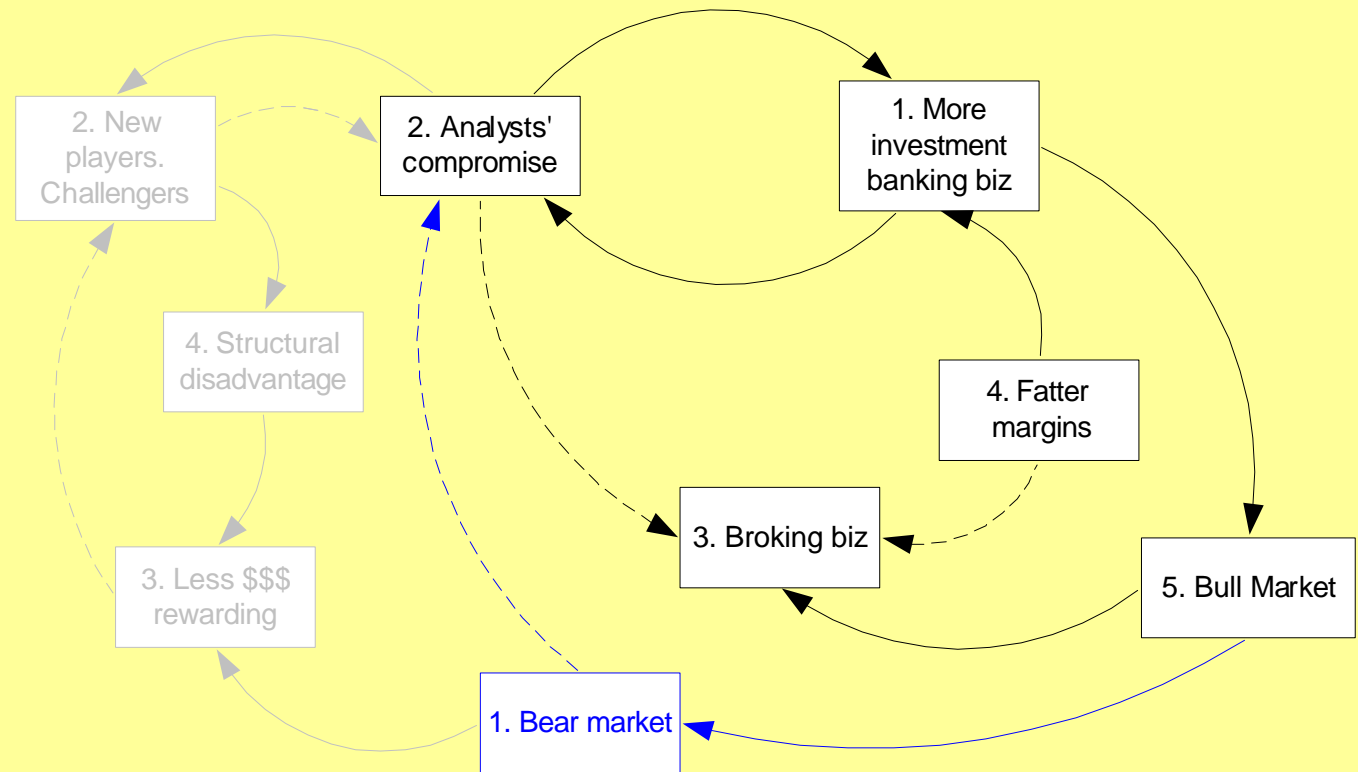


4. In a Bull market, this is the only profit optimization strategy (box 5). Honestly many investors do not want good quality research in this phase of the market. They just want good excuses to trade the market. Excuses that are good enough for the early buyers to sell to those after them.

In a perverse way, the Bull market cause additional revenue flow from Box 1 to Box 5 to Box 3. i.e., if you are not successful at investment banking, you would not do well in broking either. Can you blame these firms for not succumbing to "temptation".



5. But the Bear market eventually visits, and analysts' compromise become unacceptable (box 1). Complaints and lawsuits are now being filed.



6. With the incumbents badly discredited, new players e.g., Morningstar the highly reputed mutual funds rating agency, and other credit agencies saw this as an opportunity to enter the business of stock or company research (box 2).

When there are no plumb investment banking deals, analysts do not need or want to compromise (box 2).

