

The World's Top Analysts...!



Bloomberg Markets magazine ran an article in their November 2006 edition entitled 'The World's Top Analysts'.

The magazine's survey is extensive; having examined the recommendations issued by more than 350 firms over a two year period and weighed the accuracy of their individual forecasts of the world's 200 largest companies by market value.

Ranking first in terms of accurate calls was Merrill Lynch, with a score of just 34%. In other words Merrill analysts were right about a third of the time. Put another way **they got it wrong two thirds of the time**. Remember, this is a story about 'the world's top analysts'. We are talking about well-resourced investment banks with highly paid analysts plugged into every conceivable source of information. It gets worse from this point – Citigroup at 10th position were right just 16% of the time. The article drops the detail from this point and we are unaware of the statistics for the 350th ranked firm.

We are left wondering as to the promotional benefit of this article for the research services provided to active fund managers, and at the extreme end of this spectrum, the hedge fund industry. As a performance statistic, being labelled the best when your forecasts are judged wrong two thirds of the time just doesn't seem that great.

If during this period you had purchased a basic large company index fund covering the world's 200 largest companies by market value, you would have made a return of 22 percent. The risk of undershooting the benchmark by enlisting the help of Wall St analysts is highly probable.

The article makes several other interesting statements:

- Analysts inside the large investment houses such as Merrill Lynch; JP Morgan; Citibank; Goldman Sachs; and Morgan Stanley are now less influenced by the merchant banking arms of those firms, and thus their analysis carries less bias than historically.
- In this new environment the remuneration model of analysts is now directly related to the brokerage stemming from the trades they recommend. As such Hedge Fund managers are the big clients accounting for about 40% of all brokerage commissions.
- Smart advice is apparently harder and harder to obtain nowadays. The article notes that by the time a money manager sees investment advice in print, it's probably too late to profit from it. Listed companies are constantly under review by teams of analysts from competing firms, with analysts assigned full time to the larger companies.
- 'Sell' recommendations that were an anathema when bankers overshadowed the analyst environment still account for just 8% of total recommendations – which strangely seems more akin to a buy and hold philosophy.

The article then goes to some lengths to provide a number of case studies of several 'star analysts'. However, getting lost in the selective detail of the study can not mask the glaring failure represented by the overall statistics that are listed.