

Newsweek International Edition

The Analysts: Keeping the Bulls Running

Can investors get an honest stock tip on (or off) Wall Street?

By Adam Piore

Newsweek International

March 15 issue - Back in 1999, Tyco chief executive L. Dennis Kozlowski went on TV to call for an investigation of "false, unfounded and malicious rumors" of accounting irregularities at his firm, and to attack the independent analyst who had dared raise these charges in public. "We don't know this David Tice," Kozlowski said. "He has never spoken to anyone at Tyco, and we don't know who he is or what he does." Wall Street took Kozlowski's side. Now Kozlowski is on trial for the biggest accounting fraud in history, and independent analysts like Tice are a rising force on Wall Street.

In-house investment bank analysts are in retreat. Last April, 10 big Wall Street investment banks set aside \$450 million for "independent research" to settle charges that their own analysts were disingenuously touting companies in order to attract banking business.

Since 2001, big banks have slashed in-house research staffs by as much as a quarter. HSBC just announced it would stop picking stocks altogether, declaring the old research model "broken." Meanwhile, the number of independent research firms has risen from 250 to more than 400, says Scott Cleland, chairman of the Investorside Research Association. "We are the natural outgrowth of the bubble bursting," Cleland says.

So is it now easier to find a straight tip? The category of independent analysis is ill defined, creating new problems. **In an ongoing study, Virginia Tech professor Michael Cliff has found almost no difference between the accuracy of independent picks and those of analysts from the very banks that underwrote the stocks. Many analysts share a**

advertisement

How
can you upgrade to

Michael Mauldin
Atlanta, GA



- The U.S.'s Supporters Are Dwindling in Europe
- South Korea Survives a Dramatic Election
- Will H.K.'s Economy Become Like Japan's?
- Looking Back at Iraq, One Year Later

DEPARTMENTS

- International Mail Call
- International Periscope & Perspectives
- Letter From America: 'A Double New Guinea Peaberry'
- Viewpoint: Appeasement? No.

basic fear, says Cliff: "If they say negative things, they might get cut out of that loop of information." For his part, Tice says his Prudent Bear Fund does not need to speak with company insiders. "A lot of times companies aren't interested in talking to us [anyway] if they know who we are," he says. Reports filed with the SEC usually offer enough information to make a call, he says.

Many independents are tainted, like Wall Street analysts, by the way they are paid. Some receive commissions on each trade, which gives them an incentive to persuade clients to buy and sell frequently. Some are even paid directly by the companies they review. "You'll find people who are not trained analysts," warns Louis Thompson Jr., president and chief executive officer of the National Investor Relations Institute. "The institutional investor is sophisticated enough to see through it. The concern is the individual investor."

The rise of independents does not mean stock picking has improved. Some analysts continue to feed the best tips to their largest clients. Nor do new rules that aim to impose more objectivity on in-house analysts necessarily ensure accuracy, says New York Attorney General Eliot Spitzer, an architect of the Wall Street reforms: "It's too early to pass judgment." The best tip: hold on to your skepticism.

© 2004 Newsweek, Inc.

MORE FROM NEWSWEEK: INTERNATIONAL EDITIONS

[Next →](#)

Newsweek: International Editions Section Front

- It's All One War Now
- Pyrrhic Victory?
- The War on Strokes
- Newsweek: International Editions Section Front

Newsweek TOP STORIES

- Terror Watch: Was 9/11 Preventable?
- Protest, Prayer as Court Hears Pledge Case
- Clarke's Place in Kiss-and-Tell History
- Wolffe: Lessons From the 9/11 Commission
- Humor: Pentagon Launches 'Pink Storm' Op

TOP MSNBC STORIES

- Clarke: Government 'failed you'
- Blair meets Gadhafi in Libya
- Pakistan al-Qaida hunt continues
- U.S. soldier killed in Iraq attack
- Bryant accuser testifies

- The Last Word:
Michael Brown
-

Sponsored Links

[Tyco Stock Fraud Lawsuit](#)

Lawyers representing current and former Tyco shareholders.

www.yourlawyer.com

[Duff & Phelps, LLC.](#)

Specialty investment banking & financial advisory firm.

www.duffllc.com

[M&A, Private Placements](#)

Distinguished Clients Large & Small Technology-Health Care-Real Estate

www.Southport-Partners.com

[Kaplan Financial Planning](#)

Earn your degree online. CFP board-registered program affil.

www.eduselect.com