

Increasing Trust Through Investorside ResearchSM

Investorside Research Association Backgrounder -- July 2002

Encourage alignment of interests, not conflicts of interest

- “A flat-out conflict of interest” is what President Bush recently called investment banking driven research, and said “stock analysts should be trusted advisors, not salesmen with a hidden agenda.”
- With an estimated 95% of the U.S. investment research market dominated by conflicted research provided by investment banking firms, it shouldn't be surprising that investors distrust analysts.
- Serving companies with investment banking services is much more profitable than serving investors with research; so the system's *incentives* favor company interests over protecting investor interests.
- It's more constructive and effective to encourage the alignment of research and investor interests through Investorside ResearchSM, than to “push the string” by regulating conflicts of interest.

Empower a private sector, investor grass-roots solution

- The best long-term solutions to restore investor/pensioner trust in research are better-informed consumers and easier-to-find, abundant, competitive research alternatives.
- Like consumers look to *Consumer Reports*® and the *Good Housekeeping Seal of Approval*® to look out for their interests, Investorside endeavors the Investorside Research Certified Provider seal will help investors discern which research is aligned with their interests.
- Like homebuyers now seek a “buyer's broker,” investors will benefit by seeking Investorside ResearchSM providers that are aligned with their interests.
- The www.investorside.org portal will help investors find research that's working for them.

Assist anti-fraud enforcement

- The Investorside Research Association's robust certification process could assist the Government in enforcing anti-fraud, misrepresentation, and truth-in-advertising laws.
- The certification seal will bring more clarity to the gray area of research that ill-serves investors.

Encourage pay for research performance

- To be sustainable, Investorside research firms must warrant that investors pay for the full cost of their research. Over time, the market will naturally weed out poor Investorside research, because there is no “hidden” investment banking business subsidizing it for ulterior motives.
- However, the market currently can't naturally weed out conflicted investment banking research because it's given away free as advertising to promote more profitable investment banking services.
- The old adage is true, “you get what you pay for.”

Competitively open up regulation-entrenched, dominant investment banking research

- With an estimated 95% of the U.S. investment research market dominated by investment banking research, there's little real competitive pressure to better serve investors.
- Material improvements in investment research are unlikely to occur until investment banking research loses significant market share, and is competitively forced to more objectively serve investors.

Stop protecting investment banking research from competition through regulation

- The current self-regulatory system actually perpetuates investment banking research conflicts by reinforcing the commingling of investment banking, trading and research commissions.
- Regulatory barriers to entry for pure research firms protect the status quo and prevent investor choice and the market from naturally disciplining investment banking conflicted research.