

**GROYSBERG, B., HEALY, P. and CHAPMAN, C., 2008.** Buy-side vs. Sell-side analysts' earnings forecasts. *Financial Analysts Journal*, HEALY, P. and CHAPMAN, C., 2008, 64(4), 25-39.

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### I. Key points

- Buy-side analysts (fund managers) vs. sell-side analysts (investment banks):
  - Similarities: study companies to make recommendations to buy, sell or hold securities
  - Differences: scale and scope of coverage, sources of information used, private vs. public dissemination of reports, target audiences, ways in which analyst performance is measured and compensated
- Buy-side analysts (fund managers):
  - Scale and scope: Research departments are smaller; often responsible for covering an entire sector; research reports are shorter
  - Source of information: pitch recommendations to their own portfolio managers and staff
  - Availability: to portfolio managers - more likely to provide more impartial research
  - Target audience: portfolio managers
  - Compensation: rewarded for providing support to portfolio managers and new ideas that differ from the Street consensus (fresh perspectives)
- Sell-side analysts (investment banks):
  - Scale and scope: Usually covers only one segment of an industry; research reports are more comprehensive; specialization in a few stocks
  - Source of information: interactions with sales representatives and traders at their firms and with many of their clients
  - Availability: widely disseminated to institutional and retail clients - incentives to issue only positive reports
  - Target audiences: distributed to buy-side analysts and portfolio managers

- Compensation: rewarded for creating new business for the firm (by directing trading activity to their firms, which allows the costs of research to be recovered by commissions)
- Research findings:
  - Poorly performing analysts are more likely to continue working at the buy-side firm than on the sell side.
  - Buy-side analysts are more likely than sell-side analysts to write reports on stocks for which they have positive views and to stop writing reports on stocks when they find themselves having pessimistic views about the companies.
  - Analysts at the buy-side firm made more optimistic and less accurate forecasts than their counterparts on the sell side, which is partially explained by poor performing buy-side analysts and performance benchmarks.
  - Sell-side analysts are regularly measured against each other, while buy-side is not measured against the sell-side.

## II. Key quotes

- “At a fundamental level, buy-side and sell-side research analysts perform similar functions.” (Groysberg et al 2008, p. 25)
  - “Both study companies in order to make recommendations about whether to buy, sell or hold specific securities.”
  - “Buy-side and sell-side research differ fundamentally, however, in a variety of way: the scale and scope of their coverage, the sources of information used, the private versus public dissemination of reports, their target audiences, and the ways in which analyst performance is measured and analysts are compensated.”
- “Clients reward sell-side firms for providing these services by directing trading activity to their firms, which allows the costs of research to be recovered through commissions. Sell-side analysts also provide value for companies issuing stock by lowering the information costs of investors who are considering a stock and by helping create a liquid market for stocks. The cost of providing these services is recovered indirectly through investment banking fees” (Groysberg et al 2008, p. 26).
- “...sell-side analyst usually covers only one segment of an industry, such as semiconductors or biotech” (Groysberg et al 2008, p. 25).
- “Sell-side research is distributed to buy-side analysts and portfolio managers at a wide range of firms and to retail investors” (Groysberg et al 2008, p. 27).
- “Sell-side analysts cover more narrowly defined industries, which permits specialization in a few stocks” (Groysberg et al 2008, p. 27).
- “Compensation for sell-side analysts is typically tied to such metrics as commissions and soft-dollar revenues in the stocks that the analysts cover, their Institutional Investor magazine ranking, and (prior to the Global

Settlement) their ability to create demand for a new issue that their firm is underwriting or distributing." (Groysberg et al 2008, p. 27)

- "Sell-side analysts have long been benchmarked to other sell-side analysts" (Groysberg et al 2008, p. 33).

