

is our first global list of the most-accurate research departments and 20 top analysts. This wasn't a popularity contest. Rather than rely on investor surveys, Bloomberg ranked firms based on the investment advice their analysts provided on shares of the world's 200 largest companies by market value. To identify the top researchers, we examined recommendations issued by more than 350 firms during a two-year period. We tallied the number of "buy" recommendations that analysts at each firm issued on the stocks that rose during this time. We also counted the number of "sell" recommendations they placed on the stocks that declined.

Merrill Lynch leads the pack. Merrill analysts made 68 winning calls on the 200 stocks during the two-year period, more than any other firm, according to data compiled by Bloomberg. (Merrill Lynch is a passive, minority investor in Bloomberg LP, the parent of Bloomberg News.)

It's a close race. UBS AG is second, with 58 winners, followed by Credit Suisse Group, with 52. Morgan Stanley, with 48, and Deutsche Bank AG, with 46, round out the top five. (See "How We Crunched the Numbers," page 59.)

The furor over the cozy relationship between analysts and their investment banking colleagues has prompted profound changes on Wall Street. The first and most important one is that Chinese walls have been strengthened between analysts and bankers, researchers say.

"I can't even say 'Happy Birthday, Joe,' if I see a banker I know walking down the hall," says Jeffery Harte, a brokerage analyst at Sandler O'Neill & Partners, a New York-based investment bank.

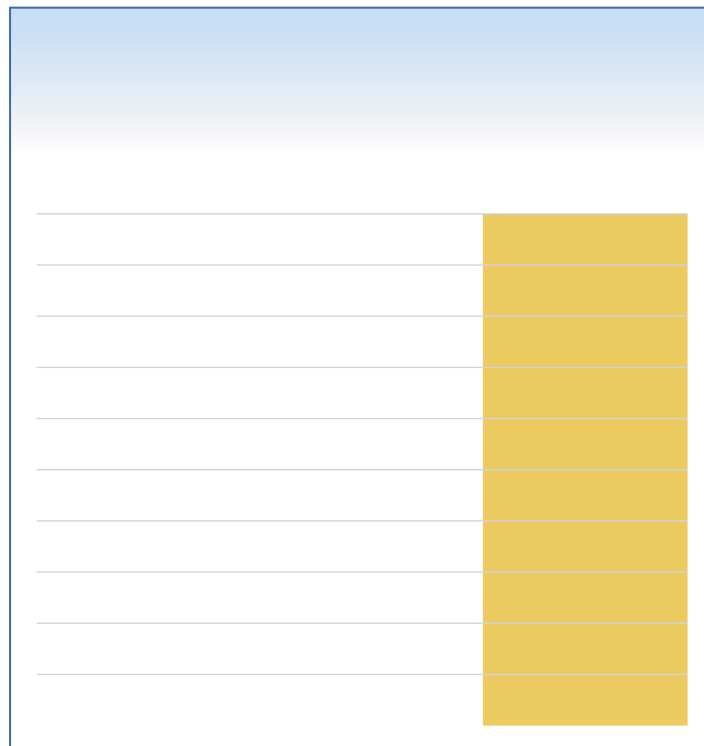
Research directors such as Browning have had to rethink the economics of the business and come up with a product that investors will pay for, either directly or with commission dollars. Hedge funds, which try to profit in bull markets and bear markets alike, demand more than old-fashioned stock picks. They want trading ideas that help them generate what

traders call alpha, or profit above and beyond what a particular market index might provide.

To tap the \$1.2 trillion hedge fund industry, Merrill Lynch, Credit Suisse, UBS and other firms are pushing analysts to spot trades across industries, markets and borders. Browning says she wants her analysts to turn up not only winners for the long haul but also quick, profitable trades employing convertible bonds, which can be exchanged for shares, and derivatives such as options, which provide the right, but not the obligation, to buy or sell a specific security at a particular price.

"The age of the rock star analyst is gone," says Browning, who spent 18 years covering airlines at Merrill Lynch, Oppenheimer & Co. and Wertheim Schroeder & Co. before rising through the ranks. "The age of the alpha-generating analyst is here."

The rock stars had more fun. These days, analysts are working harder for less money. Pay—which had poisoned the system because analysts' compensation was linked to investment banking work—has been cut almost in half. Senior analysts now earn about \$600,000 a year, down from \$1 million in 2000, says Alan Johnson, managing director of Johnson Associates Inc., a New York-based com-



*Percentage of accurate calls on the 200 stocks with the largest market caps. Source: Bloomberg

penetration consulting firm. At Citigroup Inc., No. 10 on our list, about 300 analysts cover 2,900 companies, up from 2,300 three years ago, according to Matthew Carpenter, Citigroup's equity research director for the Americas. "I can't think of a single position on Wall Street that has ever gone through such a dramatic change," Johnson says.

The new economics of research are paying off for some Wall Street firms. Analysts make money for No. 3 Credit Suisse, where hedge funds now account for about 40 percent of all brokerage commissions, up from 20 percent three years ago, says Stefano Natella, head of equity research. At Deutsche Bank Securities Inc., hedge funds now account for

Wall Street has had to rethink the economics of research and produce a product clients will pay for.

about half of all U.S. research revenue, says David Manlowe, head of company research in the Americas.

The biggest customers get the most attention. Some analysts, focused on hedge fund commissions, are giving small-time investors the brushoff, says Bob Bacarella, president of Wheaton, Illinois-based Monetta Financial Services Inc. and manager of the \$55 million Monetta Fund. When Bacarella called one Wall Street analyst not long ago, the analyst promptly asked who his sales rep was, he says. "I said, 'I don't have one,'" Bacarella says. "He said, 'I really can't talk to you.'"

In the old days, when investment banking deals effectively paid for research, analysts could afford to take such calls and send their ideas to just about anyone. "You threw all your spaghetti against the different walls and saw where it stuck," Manlowe says.

Now that hedge fund managers, rather than in-house bankers, are paying the bills, the hot-money crowd gets top treatment. "The market is segmenting. There is a tiering going on," says Mark Steinert, global head of stock research at UBS. "Hedge funds and other investors are deciding who they like and seeking more depth from the relationship."

Natella figures Credit Suisse's roster of big institutional clients has declined to 200 from 600. His analysts have more time to provide what he calls investigative research that can help those investors earn money. "The work of an analyst was like an Avon sales lady," Natella says of the old days. "Today, 50 percent of analysts' time is spent on investigative research, versus 20 percent three years ago."

Hedge funds are willing to take trades elsewhere if they don't get winning research, says Graham Copley, global head of equity research at London-based HSBC Holdings Plc, the No. 9 researcher. "If the salesperson picks it up and says, 'What do you do with this?' clearly you're wasting your time," Copley says of a research report. "You can't afford to have analysts wasting their time on research that isn't being read."

Analysts have cut back on run-of-the-mill "maintenance" reports, which many write as a matter of routine after, say, a company reports quarterly earnings. Merrill limits these to two pages. At JPMorgan Chase & Co., maintenance reports make up about 20 percent of the research, down from 40 percent three years ago.

Fund management companies are getting pickier about which research they'll pay for and which Wall Street firms they'll trade through. Boston-based Fidelity Investments, for example, has begun to "unbundle" research payments from trading commissions. Last year, the fund giant began paying for research directly out of its own pocket, rather than foisting the cost onto fund investors, and allocating trades based on the quality of execution. In the U.K., meantime, the Financial Services Authority this year began requiring fund companies that cater to individual investors to disclose how much of their trading commissions are payment for research.

Analysts can't afford to waste time on money managers who can't or won't pay them back with trades. Clients who generate the most commissions will get the best service, Manlowe says. "Quite frankly, in the past, some clients didn't have the commission wallet to pay for all the research they received," he says.

Many analysts used to depend on corporate executives to provide "guidance" on their earnings estimates. As a result, researchers often were able to nail earnings-per-share forecasts to within a penny or two of the actual results.

The U.S. Securities and Exchange Commission put an end to all that in 2000 with Regulation FD, which requires corporate executives to disclose market-sensitive data to everyone at the same time. "The information is open to everyone; it's become a commodity," Browning says. "You need to find new kinds of information."

Manlowe agrees. "It's a lot harder job than it used to be, no two ways about it," he says. "It's a lot tougher for an analyst to have an edge in an industry."

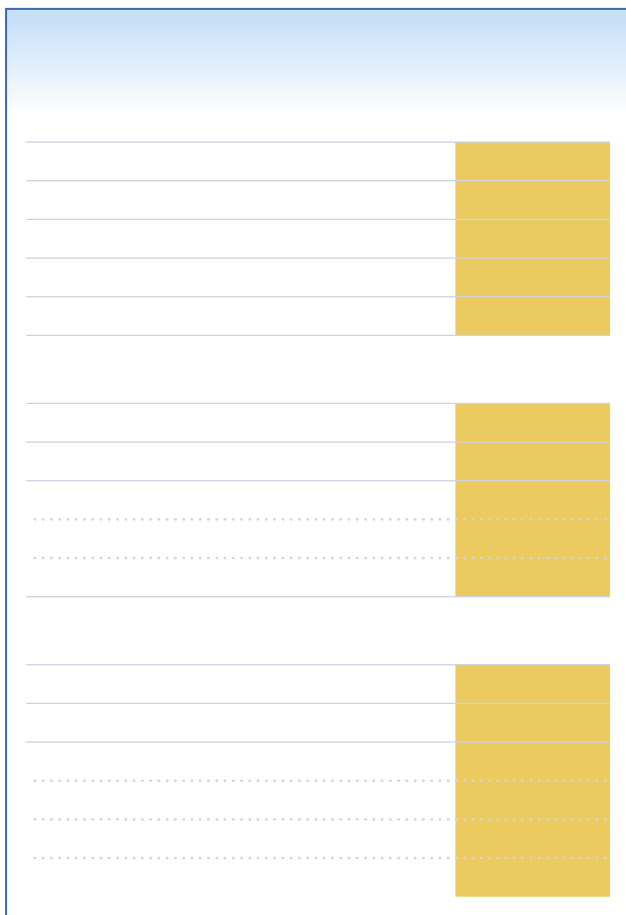
Reg FD has actually made good analysts even more valuable, Natella says. Back when executives would grant full access to select analysts, it was hard for any one of them to have a major impact. "A really smart analyst could be 10 percent more accurate than the rest because of his access to company data," Natella says. "Now, if I'm covering Motorola and I get some key information from a supplier or customer right, I can do 100 percent better."

Not all money managers are impressed. Harold Bradley, who oversees small and midsize growth company investing at Kansas City, Missouri-based American Century Cos., says many of the analyst reports he gets are worthless. "My desk is covered with research that I should have thrown out the minute I received it," Bradley says. By the time a money manager sees investment advice in print, it's probably too late to profit from it, he says. "Truly good research loses its value the minute it hits the Street," Bradley says.

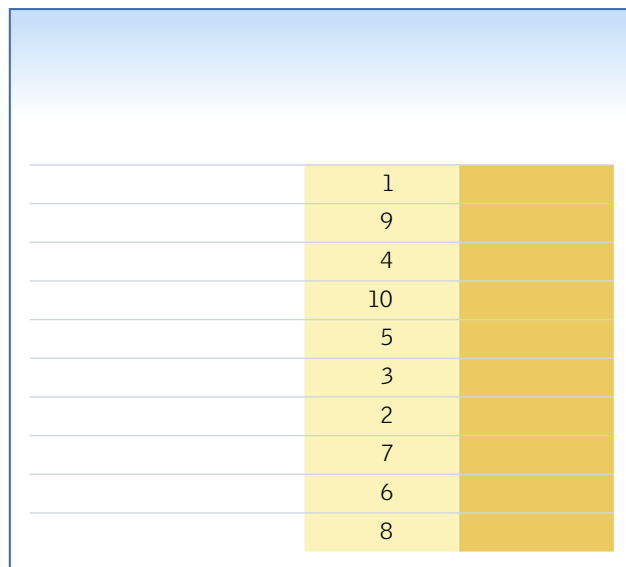
Even many independent research firms, which seemed poised to blossom after scandal shamed Wall Street analysts, are struggling to persuade investors to pay for their advice. As part of the 2003 settlement, Wall Street investment banks were required to provide independent research in addition to their own analyst reports. Many have opted to use reports from stalwarts such as Standard & Poor's and Value Line Inc. rather than turn to small, independent startups. During the past 18 months, Boston-based Moors & Cabot Inc. stopped providing equity research; TheStreet.com Inc. closed its Independent Research Group LLC unit; and the research department of New York-based Fulcrum Global Partners LLC was bought by Soleil Securities Group Inc.

The number of independent researchers worldwide probably has dwindled to about 400 from 450 two years ago, says Robert Hoehn, research director at New York-based Soleil. That number will probably fall to 150 in the next few years, he says.

Specialization has paid off for some research departments. In Europe and Asia, some local securities firms have managed



*Percentage of accurate calls divided by stocks covered in each region. Source: Bloomberg



*Number of accurate calls divided by stocks covered for the top research firms. Source: Bloomberg

to take on the industry giants, the Bloomberg list shows. Paris-based Kepler Equities, for example, tops the list of the most-accurate researchers in Europe, according to Bloomberg data. Kepler's 60 or so analysts cover only continental European companies—and that's a plus, says research director Jose Antonio Hernandez. "It's a clear advantage to do research on Germany from Germany," Hernandez says. "A German construction company's competitors and economy are the key drivers, and those are local, not global."

Paris-based Ixis Securities is also among the top European researchers. In Asia, Hong Kong-based CLSA Asia-Pacific Markets, Tokyo-based Daiwa Securities Group Inc. and Sydney-based Macquarie Bank Ltd.'s Macquarie Research are among the leaders.

Independent researchers and regional firms also walked away with some of the top honors for individual analysts. (See chart at right.) Among them were Sandler O'Neill brokerage analyst Harte; oil analyst Fadel Gheit of New York-based Oppenheimer & Co.; drug analyst Richard Evans of New York-based Sanford C. Bernstein & Co.; Internet analyst Marianne Wolk of Bala Cynwyd, Pennsylvania-based Susquehanna Financial Group; and Ivan Feinseth, research director of New York-based Matrix USA LLC, which uses a database to cover 3,100 stocks.

The pressure on research departments is unlikely to let up. The bosses and the clients are both watching costs.

To save money, firms including No. 10 Citigroup and No. 7 JPMorgan Chase have been hiring analysts in cities such as Mumbai to crunch numbers and do basic research for their colleagues. Deutsche Bank has outsourced some of its number-heavy, quantitative research to independent firms, Manlowe says.

Browning at Merrill Lynch says she'd rather hire young analysts fresh out of college, or people with experience in the industry they'll cover, than grab expensive talent from Wall Street competitors.

How can analysts stand out? One way is to say "sell"—something that was anathema when bankers ruled the roost. Back in 2000, sells accounted for just 1.7 percent of the recommendations on U.S. stocks, according to Bloomberg data. Today, that figure is about 8 percent.

Analysts who say "sell" are likely to win kudos from clients. Merrill Lynch analyst Yasumasa Goda, for example, initiated coverage of a company with a "sell" in July. Goda wrote that he was skeptical of Tokyo-based Softbank Corp.'s push into mobile communication.

"It was an excellent report," says Thomas Steen, managing principal at Natural Selection Investors Corp., a Toronto-based hedge fund firm. Goda's sum-of-the-parts valuation helped confirm his own negative outlook on the company, Steen says. As of Sept. 11, Softbank stock had fallen 19.2 percent since Goda advised investors to sell.

Another way to stick out is to work with colleagues covering bonds and derivatives. Hedge funds typically have the freedom to invest in a variety of financial instruments and often buy one

security of a company while simultaneously betting against another issued by the same firm, a tactic known as capital-structure arbitrage.

When Pembroke, Bermuda-based Tyco International Ltd. announced last January that it would split itself into three companies, for example, Merrill Lynch analyst John Inch kept his “hold” on the stock, arguing the breakup might be riskier than people thought. In June, he forecast Tyco shares, then trading at about \$27, would bob between \$25 and \$30 until the division was completed in January 2007. Tyco was trading at \$26.33 on Sept. 11.

Rather than stop there, Inch teamed up with Merrill Lynch options analyst Marc Malloy and proposed an options strategy called a “short strangle” designed to make money if, as he’d predicted, Tyco stock basically went nowhere. The pair recommended that clients simultaneously sell call options and put options set to expire on Oct. 21. The calls would give a holder the right to buy Tyco stock at \$30, while the puts would give them the right to sell at \$25. With this tactic, investors would earn 35 cents on the calls and 60 cents on the puts, provided Tyco stock stayed between \$25 and \$30 through Oct. 21. That’s a 3.5 percent return, or 11.2 percent annualized. The analysts’ tight time frame—fewer than four months—played to the short-term approach of many hedge funds. The 3.5 percent return Merrill predicted could be leveraged with borrowed money, a practice common among hedge funds.

“Hedge funds are generally more nimble and more leveraged,” Carpenter says. “A lot of hedge funds don’t care where a

stock is going to be in a year. They care where it’s going to be in six weeks.”

Hedge funds also want industry intelligence. In May, Merrill Lynch auto analyst John Murphy was trying to figure out how many General Motors Corp. employees were likely to accept a recent buyout offer from the automaker. “I realized this was a potentially game-changing event,” he says.

Murphy examined public comments by the United Auto Workers union, talked to dozens of auto industry sources,

	Vodafone, France Télécom
	Google, Yahoo!
	Toyota, Honda
	Wal-Mart, Home Depot
	Pfizer, Eli Lilly
	Novartis, Sanofi-Aventis
	Altria Group, Anheuser-Busch
	Nestlé, Group Danone
	Exxon Mobil, Chevron
	Gazprom, Lukoil
	BP, Eni
	PetroChina, China Petroleum & Chemical
	ING Groep, Allianz
	Morgan Stanley, Merrill Lynch
	UBS, Credit Suisse
	Citigroup, JPMorgan Chase
	Sumitomo Mitsui, Mitsubishi UFJ
	General Electric, Caterpillar
	Microsoft, Oracle
	Hewlett-Packard, Apple Computer

Source: Bloomberg

Analysts are doing more work for less money. Pay has been cut almost in half. **Workloads are up.**



Source: Bloomberg

KATHERINE GENIS ING Pharmaceuticals

Genis, 43, championed Novartis AG in April 2005. By that October, it was up 21 percent. A month later, she called Sanofi-Aventis AG a "buy" on hopes for its new obesity drug. By January 2006, that stock was up almost 14 percent.

Big Pharma isn't the growth story it was when blockbusters like Pfizer Inc.'s cholesterol buster Lipitor burst onto the scene, she says. "Now, companies have a critical mass and need to grow from a larger base," she says.

stock as well as a \$25 call option that was to be financed by selling two out-of-the-money options. That strategy would give an investor an enhanced return until \$35.40.

Finding a variety of ways to profit from a single change in a company's prospects is vital as competition heats up among hedge fund managers. The proliferation and growth of funds has made it harder to spot profitable trades and generate fat returns. "An equity play can yield multiple investments," UBS's Steinert says. "As the phenomenon of the crowded trade becomes prevalent, it makes sense to look at trades across the capital structure of a company."

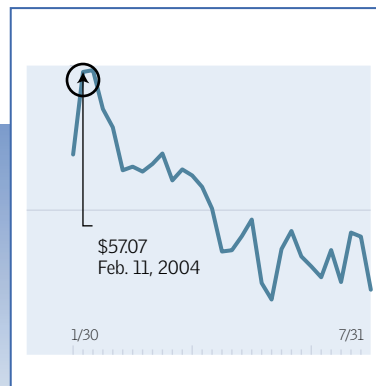
surveyed union members and put the number at about 30,000—more than other people had forecast. If he was right, the news might boost GM stock. Murphy quickly raised his 2007 per-share earnings estimate to \$4.10 from \$1.90 and lifted his stock rating to "buy" from "hold." GM later announced that about 35,000 workers had accepted its offer. From the release of his report to Sept. 11, GM stock rose 30.1 percent.

Murphy figured there were other ways to play the stock upgrade and, like Inch, turned to Malloy, the options analyst. "We were looking for ways to leverage the idea across the capital structure," Murphy says.

Malloy had been recommending GM's 4.5 percent convertible bonds due in 2032. With the outlook for GM stock now improving, Malloy upgraded two more issues with higher yields, the 5.25 percent bonds also due in 2032 and the 6.25 percent bonds due in 2033. Malloy wasn't done yet. He also devised three different option strategies. First, he recommended a "collar": selling a \$35 call option and buying a \$20 put option, both of which expire in January 2007. That tactic would cap gains if the stock rose past \$35 but protect against losses below \$20. He suggested a "covered call," buying GM stock and selling \$32.50 call options, well above the then current share price, for \$1.35. That would earn the investor an extra 5.5 percent gain until the stock hit \$32.50 and cap gains thereafter. He also suggested buying the

last October, JPMorgan Chase rolled out a new daily product, a nearly 300-page tickler e-mailed to hedge fund and other clients before 8 a.m. The report, covering about 250 companies, tracks the relationship between the companies' stock prices, the volatilities of their options and the prices of their credit default swaps, which are derivatives that provide insurance against defaults. The cost of such insurance rises as a company's credit outlook deteriorates. In effect, buying such swaps is like shorting a company's bonds.

"There is a growing demand to bring together new ideas from across the capital structure, primarily for hedge funds, but also for long-only investors as well," says Margaret Cannella, head of North American corporate research at JPMorgan



Source: Bloomberg

GREGORY MELICH Morgan Stanley Retail

Melich, 36, started out as a car industry analyst. Since 2003, he's made a mark tracking retailers such as Wal-Mart Stores Inc. He's been wary about the world's largest retailer since 2004, as Wal-Mart has tried to expand in Chicago, Los Angeles and New York. "To maximize returns, they are going to have to slow the rate at which they open new stores," he says.

'It's a lot tougher for an analyst to have an edge in an industry,' **Deutsche Bank's Manlowe** says.



Source: Bloomberg

FADEL GHEIT Oppenheimer Energy

In January 2005, Gheit put a "buy" on all 28 energy stocks he covered. "It was the gutsiest move I made in 20 years," Gheit says. He bet refiners

would be unable to keep up with demand for fuel—and that industry profits would soar. On average, his picks rose by about 50 percent through this past July. He has since lowered his recommendation on energy stocks to "neutral." "The easy money has been made," he says.

Chase and a former credit analyst. The report is designed to alert clients when a company's stock, options or credit default swaps are out of sync. "This gives you the framework to see where there may be opportunities among the different asset classes," Eric Beinstein, head of corporate quantitative research at JPMorgan says.

On Aug. 11, for example, the report showed General Motors swaps and shares were out of step. Either the stock was cheap, the credit protection was dear or both. JPMorgan Chase highlights 10-30 outliers and may issue short-term recommendations on a few. In this case, JPMorgan analysts came together to recommend buying the swap—that is, effectively shorting the bonds and buying the stock.

Larry Petrella, a partner at Diamondback Capital Management LLC, a Stamford, Connecticut-based hedge fund firm, says looking beyond the obvious stock trade can be profitable. "When you're the first person to identify a trade in a different part of the capital structure, you can make a lot of money," he says.

Research departments have also begun to cater more to money managers running international funds. A few years ago, "global" research often consisted of three or four analysts in different countries regurgitating their old ideas in a single report. It was difficult to make sense of these recommendations because accounting standards often vary from country to country and each analyst tended to advocate his or her own picks, says Michael Kretschmer,

a senior portfolio manager at Rotterdam-based Robeco Group. "People tend to look in silos," Kretschmer says. "Everybody wants to push their favorite stock. I have a global account, and I have to place my bets on a global basis."

In February 2005, HSBC capital goods analyst Colin Gibson issued a three-part report running more than 100 pages on the production technology industry. Gibson entitled his report "Achilles' Last Stand" because it predicted the industry's old guard would eventually lose out to tech-savvy upstarts. Gibson handicapped eight companies, among them Zurich-based ABB Ltd.; St. Louis-based Emerson Electric Co.; Oshino-mura, Japan-based Fanuc Ltd.;

London-based Invensys Plc; and Munich-based Siemens AG.

For Andrew Kost, a manager at Lombard Odier Darier Hentsch & Cie., a private bank in Geneva, the report synthesized the ABB story and made him more comfortable owning the stock, one of his major investments. "Usually, you have your own convictions on a stock," he says. "The research helped reinforce my bullishness on the sector in general and ABB in particular."

Kost says Gibson's report familiarized him with some of ABB's lesser-known rivals, such as Invensys, affirmed that

JASON MAYNARD Credit Suisse Technology

Maynard, 34, has been bullish on Oracle Corp. since May 2005, when the stock was trading at about \$12. On Sept. 11, the software company's stock fetched \$16.29, for a gain of almost 36

percent. Oracle has done a good job helping new customers after spending almost \$20 billion on acquisitions, Maynard says. He's less enthusiastic about Microsoft Corp. and its new Zune digital music player. He calls Zune an iPod wannabe. "Frankly, they borrowed from Apple," he says.



Source: Bloomberg

Browning wants her analysts to turn up quick trades **employing options and convertible bonds.**

ABB management was headed in the right direction and reinforced his belief that business was looking up for the industry in general. And it didn't hurt that ABB was the cheapest stock in the group, based on its enterprise value relative to earnings before interest, taxes and amortization. "You've got to look at that kind of company from a global perspective," Kost says. "There's no substitute."

The rise in cross-border research has been paralleled by a growing trend in cross-industry analysis. William Drewry covers entertainment and media companies at Credit Suisse in Atlanta. Yet Sony Corp., which owns a movie studio and half of the Sony BMG Music Entertainment joint venture, had traditionally been covered largely by a consumer electronics analyst out of Tokyo, Koya Tabata. When Howard Stringer, a former CBS News producer who had headed the Sony movie studio, was named CEO in March 2005, Drewry and his colleagues decided to pay more attention to those media assets. "We realized there was an opportunity," Drewry says, noting that the biggest portion of Sony shareholders are in Japan. "They know very little about the entertainment and music businesses there."

Drewry worked late into the night with Tabata. "There were a lot of calls at 2 a.m. and 3 a.m.," Drewry says. "The Tokyo team returned the favor."

Drewry found that many investors had underestimated the potential of the media properties, including games and the music joint venture, whose total enterprise value he estimated at more than 1 trillion yen (about \$9 billion). "The earnings power of those businesses was not being understood," he says. Drewry pegged Sony's market value per share at ¥5,383. The stock was trading at ¥3,980 on Sept. 14, 2005, when Credit Suisse released the report ahead of a Sony restructuring announcement. It traded at ¥4,910, up 23.4 percent, on Sept. 11.

These days, some of the most creative research on a company may emanate from an analyst covering an entirely different industry. On Aug. 11, Jonathan Litt, a senior Citigroup analyst covering real estate investment trusts, or REITs, published a report that looked at the real estate holdings at cost of 177 different U.S. companies in a variety of industries. He found a dozen of them owned land and buildings equal to 75 percent or more of their enterprise value: the sum of their market capitalization, preferred equity and short- and long-term interest-bearing debt minus cash

and equivalents.

One company, Philadelphia-based auto maintenance and parts chain Pep Boys-Manny Moe & Jack, held real estate equal to \$1.17 billion, or 105 percent of its enterprise value. After the report was published, Pep Boys shares rose 37.7 percent to \$13.26 on Sept. 11.

And legwork has become vital. Deutsche Bank Securities analyst Darren Lechrich and his team produce a survey of more than 600 acute care hospitals each month to keep track of how many patients are being discharged, how they are paying and other figures like births and emergency room and outpatient surgery visits. The information helps investors forecast hospital profits, as well as the likelihood of bad debt. "The man hours that go into that are off the chart," Manlowe, the Deutsche Bank research director, says.

In April, Deutsche Bank Securities advertising and marketing analyst Paul Ginocchio hired a company to visit 15 grocery stores in five cities and purchase 767 items as a way to keep tabs on St. Petersburg, Florida-based Catalina Marketing Corp., which issues checkout counter coupons for food companies such as Battle Creek, Michigan-based Kellogg Co. and Vevey, Switzerland-based Nestlé SA.

What Ginocchio discovered was that Catalina wasn't issuing any coupons for Minneapolis-based General Mills Inc.—potentially a key customer—and so he maintained a "hold" on the stock.

Clients notice. "He reaches out for that incremental information," Diamondback's Petrella says. "My ability to generate alpha depends on being able to utilize that."



Source: Bloomberg

In 2004-05, Greenberg, 42, surveyed 1,000 people age 21-30 about their drinking habits. His conclusion: The young crowd still likes beer, which is good news for Anheuser-Busch Cos., the maker of Budweiser. The St. Louis-based company just needed to repackage some of its brands to lure these drinkers. Through Sept. 11, Anheuser-Busch gained 10 percent in 2006—and Greenberg says the stock has plenty of fizz left.

MARC GREENBERG

Deutsche Bank

Consumer companies

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Analysts who say 'sell' often win kudos. **Researchers are making more bearish calls these days.**

The pressure on research departments is unlikely to let up. Hedge funds are grabbing top analysts.

Petrella says Ginnocchio's research has helped convince him not to invest in Catalina or another coupon company, Livonia, Michigan-based Valassis Communications Inc. "There's a ton of information out there," Petrella says. "I just need help synthesizing and analyzing it."

Big companies are followed by troops of Wall Street analysts. Exxon Mobil Corp., the world's largest company by market value, has 29 analysts covering it, according to Bloomberg data. No. 2 General Electric Co. has 26. With so many analysts scrutinizing a company, it's hard for any one of them to turn up exclusive ideas.

And even the best analysts rarely make money for investors on all companies they cover. "If you're covering 15 stocks, you're not likely to have 15 differentiated investment themes," Citigroup's Carpenter says.

One threat to Wall Street research departments comes from the very brokerage clients analysts want to cultivate: hedge funds. Johnson, the compensation consultant, says hedge fund firms have snapped up many of the industry's brightest researchers. "The best analysts are on the buy side now," he says.

Johnson says he doubts many money managers read most of the Wall Street research they get. "I say they should put a \$50 bill halfway through a research report and put a note there saying, 'Call us, and we'll send you another,'" he says.

Giving away fifties is no business model, of course. For research to keep on paying, Wall Street must prove that its analysts can teach the smart money how to get even smarter.

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How We Crunched the Numbers

To identify the top researchers, we examined stock recommendations issued by more than 2,500 analysts worldwide during a two-year period.

We based our ranking on how accurately researchers rated the shares of the world's 200 largest companies by market value. The list consisted of 91 companies in North America, 73 in Europe, 31 in Asia and five in Latin America.

Bloomberg has collected stock recommendations from more than 350 investment banks and research firms. This ranking used recommendations that were in effect from Aug. 1, 2004, to July 31, 2006. During that period, the 200 stocks on our list posted an average return of 22 percent, including reinvested dividends.

We used the Equity Search (QSRC) function to identify the

200 stocks; the Analyst Recommendations (ANR) function to identify the analysts covering these shares and to track their picks; and the Total Return Analysis (TRA) function to calculate the total return of each stock during the period.

Nomenclature varies from firm to firm. Not all researchers issue "buy," "hold" and "sell" recommendations, for example. Nonetheless, to ensure uniformity, we sorted the recommendations into these three, time-tested categories. To do so, we considered the essence of the advice. We regarded recommendations such as "outperform" as the equivalent of "buy" and "market neutral" as meaning "hold."

We also considered the consistency of analysts' coverage. To make the cut, an analyst must have issued at least one recommendation on a particular global

200 company both in 2005 and in 2006. Recommendations from analysts who stopped following a particular company before July 31 of this year were excluded.

Using ANR, we identified when analysts raised and lowered their recommendations on stocks. We then examined how those stocks performed subsequently. The number of analysts who made profitable calls on a particular stock varied. For some of the 200 stocks, we credited as many as 10 analysts with successful recommendations. For others, only one or two analysts made the grade.

We then counted how many winning calls were made by analysts at the various firms and ranked the firms by assigning each a stock-picking score. We calculated this grade by dividing the number of accurate recommendations by 200, the

number of stocks on our list.

The number of analysts varies from firm to firm. So we also calculated a "batting average" for each of the top 10 firms and ranked them by this score as well. To calculate this grade, we divided the number of accurate calls made by a firm by the number of stocks for which it had issued recommendations. To identify the firms that stood out in the U.S., Europe and Asia, we divided our 200 stocks into regions.

To find the 20 champion stock pickers, we singled out analysts who made winning calls on the largest companies in our global 200. We then reviewed those analysts' recommendations for other stocks on our list. Our goal was to identify the analysts who provided profitable advice for investing in not one but several of the world's largest companies.

LAURIE MEISLER