Module 10 Article

Two Sides of a Transaction

Key Terms

- **Risk-Adjusted Return**: A measurement that describes an investment's possible return taking into account the risk required to achieve that return. Calculated using the Sharpe and Treynor Ratios.
- **Commercial Bank**: Companies that offer a variety of different financial services to individual customers.
- **Financial Planner**: Financial planners help clients, which tend to be individuals, achieve their financial goals and maintain financial stability.

Every Transaction Has A Buyer & Seller

The world of finance and the markets run based on the synergies between two "sides"- the "buy-side" and the "sell-side". The buy side includes firms that, heeding the name, buy and invest securities. Mutual funds, hedge funds - generally any type of asset or portfolio management are part of the buy side.

The sell side consists of institutions such as investment banks, which bring securities to the market and sell them to funds and investors.

A Deeper Dive Into The Sell Side

The sell side helps corporations raise money through selling securities. This can include issues of stock or debt. Companies need to raise money when beginning a new project or expanding across a larger geographic area.

Professionals on the sell side, such as at an investment bank, will prepare financial models and analyses to understand how the market may value the company. When the company does decide to issue shares, services on the sell-side will help market and sell the securities.

Additional Responsibilities

Other roles of the sell side include advising on mergers and acquisitions, conducting equity research, and building new business avenues through networking.

Besides investment banking, the sell-side includes jobs in Equity Research, Corporate Banking and Sales & Trading. Some of the most renowned sell-side institutions include Citibank, JP Morgan, Goldman Sachs and Barclays.

While they all have different roles & objectives, there is a common skill set that serves professionals across the industry. Some of these skills include financial modeling, research proficiency, networking, leading and closing deals and generating business.

Breaking Down The Buy Side

On the other side of the market, the buy side, institutions and professionals purchase and invest securities issued by the sell side. In the case of asset management, the buy and sell sides work together, as an investment bank may inform an asset management firm of an upcoming IPO in a relevant company.

This facilitates the flow of capital from the sell side to the buy side. More broadly, roles across the buy side include money management, investment research, financial modeling, making investment decisions and growing assets.

The Traditional Path: From Sell To Buy Side
The direction of talent in finance generally moves from the sell side to the buy side. The reason for this is quite simple. The Buy Side has higher paying jobs, but in order to develop the skills, many young professionals first work on the Sell Side where they are trained in hard skills such as financial modeling & equity research.

The Benefits Of Sell-Side Training
This provides a strong foundation to work in industries on the buy side such as Private Equity, Venture Capital, Wealth Management and Hedge Funds.

As a whole, corporations in the buy side seek to generate returns on their invested capital through either growth or value investing strategies.

The Bottom Line
The two sides of the market are the buy side and the sell side. The sell side helps bring securities to the market, and the buy side purchases and invests them for clients. Some of the common skills needed on both sides include financial modeling, familiarity with excel and networking. There are various career paths on both the buy and sell sides, and many people start on one side and shift to the other later in their career. The Sell-Side provides more initial training for incoming analysts, which is why many people enter finance as investment & commercial bankers.