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A Day in the Life of an Equity Research Analyst

Q: So let's walk through what an average day in your life is like – when do you get in and start working, and what do you do?

A: I would usually get in around **7:30 AM** and I'd check for important news and research notes relating to companies I covered right away.

I might spend 15 – 30 minutes catching up on emails from traders and salespeople, reading the news, and understanding the market as a whole. Stock movements can be affected by anything from the company itself to global economic news.

Throughout the rest of the day, it's a mix of **maintenance work** – updating models, for example – researching companies (mostly by speaking with the buy-side to see what investor sentiment is), and then finding new companies to **initiate coverage**on.

It might take **2-3 months** to initiate coverage on new companies, so we have to balance that with all the ongoing work and make sure we're not sacrificing quality by covering too many stocks at once.

Equity research is most well-known for the reports we issue, but ironically that's not what takes up most of my time – each Associate might cover only a few companies and we only issue a few reports each quarter.

We issue reports when companies announce earnings each quarter, and then a few times in between for incremental information and news – an investor conference they hold, a big M&A deal, or a major new product announcement from a competitor, for example.

The most important part is to **predict the company's earnings in advance** – shortly before they announce, we'll meet with the management team, survey customers and partners, and do other research to figure out whether they'll come in at, above, or below the consensus.

This work is split between the Associate and the Research Analyst – the Associate handles the tactical aspects while the Research Analyst is the first point of contact since his/her name is on top of the report.

Q: So it sounds like just as in M&A, the amount of modeling work you do is greatly exaggerated – though I think people understand that a bit more with equity research.

How do you decide when to initiate coverage on a new company? That seems like a huge decision given that equity research is small and that teams have limited resources.

A: Most research teams cover **8 – 15 companies** – so if you're responsible for large-cap tech stocks, your team might cover Microsoft, IBM, Intel, Cisco, Dell, Oracle, Google, Apple, HP, Yahoo, and Amazon (in real life the team would be split into hardware, software, and internet).

When you pick companies to cover, you want names that will **drive trading volume**. They might be large-cap names that always have lots of trading volume, which is why most bulge bracket banks focus on the biggest companies. Or, they could be small- or mid-cap names that have less analyst coverage, but where you can offer a differentiated opinion and potentially make a name for yourself that way.

Remember that equity research exists to give buy-side investors ideas and to encourage those investors to make the trades through the bank and generate trading commissions like that – there's no point in covering companies that investors don't want to buy or sell.

Sometimes we pick a new company to cover because an existing one was acquired or otherwise de-listed; other times it's because there's some new development like a partnership or a change of strategy that makes a company more interesting to follow.

But it's always a balancing act and there's no easy way to make decisions – sometimes we think a company would be great to add, but we just don't have the resources to do so.

One final point: sometimes we may also cover a company that gets little attention from other equity research analysts, but which may attract many investors – the key there is to make a **different call** than everyone else.

Lots of boutique and middle-market banks and research firms take this approach and purposely focus on lesser-known names because they can add more value when there aren't 25 other analysts covering the same stock.

Q: Right, I think a lot of people forget that equity research actually *does* generate revenue – just not directly like you see in banking and trading.

So how much time do you spend on modeling vs. writing reports vs. doing research and speaking with companies?

A: I can't give an exact percentage here, but the majority of my time is spent on**research** – as I've mentioned, we don't issue reports frequently enough for them to consume a lot of time.

And similarly with models, it might take some time upfront to build the model in the first place but once it's done we just make small tweaks and update it for earnings announcements and important channel checks – we're not going to scrap everything and rebuild the models for fun.

Q: You realize I'm not going to let you escape without giving estimated percentages, right?

A: Fine, if I had to guess:

- Research / Conferences / Speaking to Investors and Management: 65%
- Reports: 20%
- Modeling: 15%

And again, that's because most of the modeling work consists of small tweaks and because even the reports themselves, aside from company initiations, are not terribly long most of the time.

Q: So then what are the best and worst parts of the job? It actually sounds pretty cool since you talk to real people rather than burying yourself in Excel and PowerPoint all day.

A: I'd say there are 3 "best parts":

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1. You learn how to **analyze** companies from the perspective of investors;

2. You develop **credibility** and detailed knowledge about a certain sector;

3. You get to **interact** with investors and senior management teams.

You might get #2 in banking depending on your team, but since you focus more on transactions you don't think about companies in the same way public market investors do.

And you may get #3 to some extent, but more so at boutique and middle-market firms.

The worst part is that **you have no skin in the game** – you're always making recommendations for *other* people to follow.

The hours are also long and you'll be in your cubicle a lot, but that point above motivates a lot of people to move to the buy-side.

Hierarchy, Advancement, Culture, and Pay

Q: Let's talk about the hierarchy in equity research, which you mentioned was "flatter than the investment banking" earlier. Is it pretty much just the Associates at the bottom and Research Analysts at the top, with none of the silly middlemen as in the investment banking hierarchy?

A: Yes – it's more like how a hedge fund or asset management firm is structured where you have 1 head person making decisions and everyone else below him/her executing and coming up with new ideas.

There is a quasi-mid-level in that you may have Senior Analysts and then just Research Analysts, but it's much less hierarchical than IB. Equity research is more about how good you are at servicing clients and coming up with insightful ideas – we don't need a truckload of people as you do with M&A deals.

There are usually **2 – 3 Associates** and **1 Senior Analyst** on each sector team – so if we're covering 15 companies, each Associate might cover 5 names.

Q: So that would be for one sector team – if you were covering software companies or pharmaceuticals or REITs, for example. What about the total number of sectors covered by banks and the total headcount in equity research?

A: The sectors covered depend on the bank, but the bulge brackets cover everything – most mid and large-cap companies with a few smaller ones thrown in as well.

Boutique firms might cover only **5 – 10 sectors** since they may not have the resources to do more than that; and then you get firms like Meredith Whitney's company, which specializes in the financial institutions sector.

Middle-market banks might be somewhere in between, but they focus more on smaller-cap companies and stocks with less analyst coverage.

In terms of headcount, middle-market banks might have **30 – 60 Analysts and Associates** total in equity research and bulge bracket banks might have more like**several hundred Analysts and Associates** across all sectors.

I realize those are broad ranges, but it depends on the bank, the geography, the economy, and other factors so it's hard to give more exact figures.

Q: I was expecting detailed breakouts of the headcount by region and sector, but I guess I'll overlook that since we know each other.

Since the hierarchy is relatively flat, does that mean it's difficult to advance? Or is it like banking and PE where you still see the up-or-out culture?

A: It's **difficult to advance by staying at one bank** – most advancement comes when you leave to join another bank and they promote you, or when you leave to go start your own firm.

Senior Analysts have cushy jobs and few leave willingly – but if one does happen to leave and you're well-respected, you might get a chance to take over and cover your own names.

And if you build up a good reputation among investors, someone else may hire you – whether it's another bank or a hedge fund.

Sometimes Associates have a difficult time advancing because they **bury themselves in Excel** all day – but that's the wrong approach because no one cares how fancy your model is. Both buy-siders and other sell-siders generally care more about how insightful your ideas are and how much they know, like, and trust you.

So you have to get out of your bubble and go meet real people, build up a reputation, and make good decisions if you want to advance.

Q: You just mentioned that it's not as much of an up-or-out culture – what's the turnover like?

A: People here usually stick around for **2 – 4 years** before moving on. It's not dramatic like in banking because there's no real reason to fire Associates – they don't cost the firm as much as they do in banking, and it's valuable to have people who know what they're doing and don't require a lot of supervision or training.

So you could conceivably stay an Associate in equity research for much longer than you would in banking – you would still get promotions and pay increases along the way, but your title wouldn't change much.

Q: You just mentioned that Associates cost the bank less than Analysts or Associates in IB – I'm assuming that's because ER doesn't directly generate revenue? What are the typical pay ranges?

A: Base pay at the Associate level is pretty much standardized – it's around **$65 – $70K USD** and bonuses for entry-level Associates might be **$25K – $45K USD**. If you're at the MBA-level you would see considerably higher ranges there.

As a 2nd or 3rd year Associate, you might be making **$70K – $90K USD** base with bonuses in the **$35 – $60K** USD range.

All-in pay caps out at around $200K USD for Associates – and that's if you're very experienced or you've been hired out of business school with an MBA or other advanced degree.

As a Research Analyst, base pay is **$125K – $150K USD** and your bonus will be some multiple of that – all-in, you'll probably get at least **$300K USD** and even more if you're at a larger bank. Those numbers go up even more if the economy is good.

In the late 90s things were much crazier and you saw Analysts earning **$10 million+** in the case of true superstars, but that won't happen anytime soon due to increased regulation.

Q: Analysts must hate themselves – $300K is barely enough to live on, especially when you get bottle service every night. Why is the pay so ridiculously low?

A: The sad thing is that I can't tell whether or not you're joking right now.

Q: Yeah, that was sarcasm. Anyway, how are bonuses determined if you don't generate revenue directly?

A: It is difficult to link us directly to trading commissions, but they take into account a few factors:

1. **Rankings (e.g. Institutional Investor, Greenwich Poll)** – How highly investors on the buy-side rate you and your ideas.

2. **Performance of Your Calls** – Did you say "Buy" right before the stock price doubled?

3. **Performance of Yourself** – How did your accomplishments over the year compare with the goals and expectations that you and management set at the beginning of the year? Have you shown continued improvement along with rising potential?

4. **Client and Trading Commissions** – Did your reports and conversations generate fees from investors trading through your bank?

People always say that equity research is "non-revenue generating," but that's like saying that marketing at a normal company is non-revenue generating.

It **does** generate revenue, but it doesn't do so directly like sales would – that's why people constantly get this one wrong.

Q: So you're still making less than bankers because your link to revenue is a bit hand-wavy – but how much do you work to earn those bonuses?

A: The average day is **7:30 AM to 7:30 PM** – so about 12 hours per day, or 60 hours per week. Sometimes work goes on longer, so the average is more like **60 – 70 hours per week**. It's not quite as bad as banking, but don't come into this expecting a 9 to 5 job.

The hours get worse in the midst of **earnings season** and also during **industry conferences** – sometimes we work until midnight or later, so it pretty much turns into banking hours then.

Earnings season is obviously busy: we have to update all our models and issue new reports as all our companies announce how they did.

But people forget about the industry conferences, which are really hectic because you're running around meeting people all day and then must do your research and other work at night.

Q: Do your co-workers at least make it tolerable? Are they cool, or do you get visions of Bateman when you bump into them?

A: Overall, equity research culture is more **reserved** than what you see in banking. IB is more of a "work hard, play hard" group, but equity research attracts a different type and people don't want to go out and drop $10,000 on bottle service – at least not every night.

It's also quite a bit different from the trading desk, where people tend to speak their minds readily and are very direct – sell-side traders are not around clients much, if at all, so bluntness doesn't matter there.

But in equity research you must be cool and collected, yet still have an opinion at the same time. You can't just say what happened recently in the market – you need to**predict** how a stock will perform in the future, even if that means lightly challenging your boss occasionally.

It's a tricky balance because you need to be independent, but not so independent that you piss off everyone else.

What You Do Next: The Infamous Exit Opps

Q: You mentioned earlier how people in ER often advance by hopping to other banks – but that's still the sell-side, so I don't count that as a true exit opp. What's the most common path to the buy-side?

A: Hedge funds are the most common option because there's a direct skill set overlap – you're analyzing public market investments and making recommendations. It depends a bit on the strategy of the fund as well – a shop that specializes in commodities won't be as good a fit as a pure long/short equity fund.

It's also not uncommon to go into corporate finance at a normal company or investor relations – especially if you've covered the company before and you know the management team.

Sometimes you see people going into business development or private equity as well, but private equity is tough because you don't have much experience working on **transactions**. You do understand companies' filings and how investors might think about them, but overall it's more of a challenge going from equity research into PE.

Q: What about if you want to go to a top business school? Do you have a good shot of getting in if you've worked in equity research?

A: From an admissions standpoint, they don't view you too differently from bankers and other finance types – people come from so many different backgrounds that all the financiers sort of get lumped together.

The biggest issue is that it **can be hard to get good recommendations** since you work in much smaller teams. In banking, even if your Associate hates you, you could always go to a VP or Director or someone else on your team to get a recommendation – even at smaller banks deal teams are larger than what you find in ER.

In equity research, you rub elbows with fewer people within your firm, and so the quality of your recommendations is more random. However, if you have close working relationships with research management, or even salespeople or traders, you could call on them to vouch for you even if you can't ask your boss for a recommendation.

Anyway, I wouldn't worry about this issue too much because the bigger issue is getting **solid internships** once you've been admitted to business school –competition is fierce and everyone is going for the same roles at top schools.

Research is definitely a good background to have for business school, but it's not*that* much different from other fields in finance.

Q: That makes sense – the point you raised about recommendations is an interesting one and I never would have thought of that before we spoke.

What do you think about the future of equity research? Everyone seems to predict that the end is upon us every so often – is it still a good field to get into?

A: Most of those predictions are greatly exaggerated – ER will continue to exist for the foreseeable future, even if it's not what it once was.

You'll no longer make $10 million+ as you might have in the late 90s, but that's because it has become more regulated and there's a lot more competition these days.

If you're looking to build a solid foundation in finance and learn how to analyze businesses from the perspective of investors, you should consider equity research.

It's as good as any finance job out of school, and while you may not get quite as many exit opportunities as in IB, there are plenty of other benefits – especially if you have a passion for the markets and you see a long-term career in research, asset management, or hedge funds.

Q: Great – thanks for your time, really enjoyed this interview.

A: Same – talk soon!