

Title: From Confessions of a Wall Street Analyst...

Author: disoriented_llama

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These analysts were a small but elite group of people who researched companies' publicly traded stocks and made recommendations to investors on whether or not to buy them. They studied companies in their area of expertise by doing everything from analyzing the financial trends in an industry to interviewing the top executives to gauging the impact of upcoming regulatory changes.

There were two kinds of analysts, each with different responsibilities. The first group, some 500 strong in total by the late 1980s, worked for investment banks like Morgan Stanley or Goldman Sachs. They published their research in reports that were then "sold" to outside investors from large pension funds, mutual funds, and other large institutions, which is why they were known as "sell-side" analysts. In practice, these reports were not really sold; they were given to the institutional investors in exchange for the fund managers buying or selling stocks through the firms with the most helpful research. At some banks, brokers in the "retail" arm of the business would also provide this research to individual investors. The sell-sider had to walk an odd sort of tightrope, providing research that was supposed to be completely independent of any banking business his employer might do with the companies the analysts covered.

The second group of analysts, a much larger but not as well-compensated group, worked directly for the large institutional investors that bought the sell-siders' research. Their job was to recommend which stocks their employers should own in their portfolios. They were known as "buy-side" analysts because their firm would "buy" the "sell-siders'" research. Although these analysts made their own investment decisions, buy-siders certainly read sell-side research, and sell-siders catered to them as their clients. Buy-siders didn't publish their own research, however, and had no responsibility to investors outside their own firms. The only master they served was the large pension-, mutual-, or hedge-fund manager that employed them.