



OAK INVESTMENT MANAGEMENT GROUP



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Research on Research Notes

There is a parallel between research analysts and sports commentators. On the one hand, continual commentary requires hedging against all conceivable outcomes as you can't go out too much on a limb without being shown a fool by events. On the other hand, a bit of emphasis wins alpha, and after a track record of alpha respectability and kudos. Both roles require discretion and subtlety.

But research analysts are closer to the action than sports commentators. The process of analysis, investment and analysis is inextricably linked. But enjoying Wimbledon without the sound on is perfectly conceivable. Although one can sympathise with the spirit of what MiFID II and MiFIR and what they are trying to do to the research 'market' the provisions are nonsensical. 'Unbundling' will not make the financial system any more safe and, worse still, might provide a false sense of 'security' that regulatory compliance always confers.

When approaching any investment in any asset class at any time any investor must remember the injunction as old as the Roman Empire itself 'Caveat Emptor' or buyer beware. Even if an observer could be completely objective they are still cheerleaders for their own asset class, and retain biases picked up from here there and everywhere. The process of selling research along other services is only a small issue compared with the other massive biases in the system.

Our belief is that these regulations will make the financial analysis worse since, as an arbitrary state-imposed barrier, it is effectively a tax on analysis. Many politicians and even bankers do not mourn this. The former regard the industry as bloated and of no intrinsic social value and the latter as a cost centre. Both are dreadful and thoroughly wrong assessments. Exchanging a roulette wheel for analysis – with its consistent 'scoping' of the market is good for the whole of society because it means that allocators of capital are better informed than they would otherwise be – will bring about cowboy capitalism that those politicians are apparently so keen to avoid. Any banker that refers to a research department as a 'cost centre' is frankly analogous to a mechanic saying that the fuel tank and the exhaust in a car is redundant space. Of course, the financial industry will just have to accept this new constraint of business just like any other that is littering the free market. There seems to be no public official in the western world in plain sight that will make against this nonsense.

But the regulations themselves are a distraction from the work of first class research and analysis which is the only way the market system will get better for all. For every undervalued stock or misunderstood industry, there are plenty that are overrated. Swapping capital between these propositions is impossible without analysis. The best analysis challenges the client to see something differently. It is the analysis that can have a jarring effect on the client who will value it the most and impel them to action – hardly then something that can be separated from investment activity.

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