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Star Analysts Are Back (No Autographs, Please)

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Minh Uong/The New York Times

THEY are the new tastemakers of Web investing, the supposed seers of Bubble-Tech 2.0. And despite the stock market's recent craziness, they are almost as hot as some of the stocks they cover.

Long after star analysts of the dot-com era self-destructed, along with Pets.com and its sock puppet, a new generation of Wall Street researchers is grabbing These Internet analysts are nowhere nearly as famous (or infamous) as Jack Grubman and Henry Blodget, who came to symbolize the conflicted, let's-put-lipstick-on-this-pig research of the dot-com era. Nor are they as influential as Mary Meeker, the onetime Queen of the Net at Morgan Stanley, whose pronouncements captivated the investing public in the late 1990s.

But not since those heady days of the Nasdaq stock market bubble has working as a technology analyst seemed so, well, sexy. Even as the economy wobbles again, there's money to be made in providing banking advice to big names like Facebook. And the great investment houses are sparring over specialists in Web search and social media, who are hired to tell the stories of these hot companies to investors. Such analysts have been jumping from one bank to another, chasing the highest offer. Today, some of these analysts are pulling down several million

dollars a year — figures that, not so long ago, would have been almost unthinkable.



Graphic: [Three Analysts' Stock Recommendations \(Click for Larger Image\)](#)

Even in Wall Street circles, some people wonder whether all of this is another sign that Internet mania is again spinning out of control. Add to this the recent turbulence in the financial markets — including big declines in technology stocks — and you might conclude that some analysts yet again were telling investors to buy at exactly the wrong time.

Gustavo G. Dolfino, president of a Wall Street recruitment firm, the WhiteRock Group, has conducted searches for roughly a dozen analyst positions so far this year, versus seven in all of 2010.

“It is red-hot out there,” Mr. Dolfino says. Whether the bull market in technology specialists will last if the economy and markets sour is anyone’s guess. Hype or not, talk that companies like LinkedIn, Facebook and Groupon will change the way we live and do business — and make their shareholders rich in the process — has Wall Street pining for the fees that come with taking these companies public. And, in turn, the banks need people who can explain these companies to investors and, hopefully, spot the right time to buy or sell.

Banking executives rarely talk publicly about how much they pay employees, particularly their stars. But privately, insiders at several banks have been buzzing about a number of Internet analysts who made big-money moves this year. According to people familiar with the compensation of various analysts, here are three analysts who have done well of late:

Douglas Anmuth was lured to JPMorgan Chase earlier this year with a pay package valued at roughly \$2 million. He had been making about \$1.3 million at Barclays Capital, an arm of the British bank.

Heather Bellini landed at Goldman Sachs with a remarkable pay package worth almost \$3 million. And Mark Mahaney, whom JPMorgan tried to hire with an offer of about \$3 million, stayed on at Citigroup — after getting a raise.

The three analysts, as well as media officers for the banks, declined to comment for this article.

ON the surface, the work of a stock analyst might seem straightforward. You size up companies, run the numbers, handicap potential winners and losers and issue one of three classic stock recommendations: buy, hold or sell.

In practice, it's more complicated than that. Even after the dot-com imbroglio, the subsequent research scandal, the financial collapse of 2008-9 and all the ups and downs in between, Wall Street rarely says "sell."

Even now, for instance, just a handful of the 38 analysts who cover Bank of America, one of the worst-performing stock in the Dow Jones industrial average so far this year, have a "sell" recommendation on it, according to Bloomberg. Nor, according to that data, are there very many sells on I.B.M., Microsoft, Yahoo, General Motors, General Electric, Google or Apple — the list goes on.

One possible explanation is that Wall Street research reflects the inherent optimism of the marketplace — the attitude that says, "Hey, you gotta believe!" Another is that Wall Street is in the business of advising corporations and selling investments, so why bother trashing too many stocks?

Whatever the case, analysts have typically ranked far below traders and bankers in Wall Street's pecking order, in both pay and prestige. Headliners of the 1990s like Mr. Blodget, Mr. Grubman and Ms. Meeker broke out by becoming the public faces of Wall Street.

Late in that decade, after Mr. Blodget correctly predicted that the share price of Amazon.com would vault above \$400 — from less than \$250 at the time — a new phrase entered the investment lexicon: to "Blodget" a stock. It meant that analysts could cause such a stir with seemingly over-the-top predictions that those predictions would become self-fulfilling.

But the Nasdaq collapse laid bare conflicts at the heart of the Wall Street research machine. Many analysts, it turned out, were pushing stocks to help their banks win lucrative investment banking business. They were issuing favorable research reports and pitching corporate clients to clinch deals. It was good fun while it lasted, at least for some top analysts, who were pulling down \$15 million or even more a year.

Regulators cracked down. As part of a landmark settlement over research in 2003, major banks paid a \$1.4 billion fine. Mr. Blodget and Mr. Grubman were banished from the securities industry. (Mr. Blodget is now editor in chief and C.E.O. of the Business Insider, a business and news Web site. Mr. Grubman is a managing partner at the Magee Group, giving strategic advice to telecom, media and tech companies.)

The settlement forced banks to change the way their research departments operated. To avoid conflicts of interest, banks were barred from subsidizing analyst research with revenue from their investment-banking operations. Regulators specified that analysts be paid based on seniority, experience, quality

of research and the demand for their services in the marketplace — not on the deals they help wrangle.

Wall Street research has been searching for a viable business model ever since. Without the rich backing of investment banking, analysts' pay plummeted. In 2001, analysts earned an average of \$1.45 million. By 2005, that figure had dropped to less than \$800,000, according to a study by three Harvard professors, Boris Groysberg, Paul M. Healy and David A. Maber. Professor Healy says research budgets have been cut sharply, and people who run research departments agree. One says his analysts, on average, now earn about \$700,000 a year in salary and bonus.

Granted, many ordinary Americans would be thrilled to make \$700,000 a year. But on Planet Wall Street, it has been a big letdown for former stars.

The 2003 Wall Street analyst settlement, led by Eliot Spitzer when he was the New York attorney general, still haunts the industry. Banks are often reluctant to give raises to analysts who cover industries in which their investment bankers are particularly active, for fear of drawing regulators' attention.

But just when you think the glory days of Wall Street analysts are over, the bidding wars for the new breed of Internet analysts suggest otherwise.

WHATEVER financial pros say about the numbers and the metrics, the stock market is often about stories. What companies capture the imagination? Inspire a little old-fashioned greed or fear?

One big story right now is social media. After LinkedIn went public at \$45 a share this year, its share price shot as high as \$122.91. The run-up gave LinkedIn one of the highest valuations, based on its ratio of stock price to earnings, of any nonfinancial company in the United States.

Was Wall Street insane? It was great news for LinkedIn investors, and for companies like Facebook, which appears set to go public in the next year. Recent private investments in Facebook have valued that company at more than \$100 billion.

Some analysts are still upbeat. LinkedIn's stock has since come off the boil, closing at \$79.03 on Friday. But of the six analysts who cover the stock regularly, according to Thomson Reuters, two say "buy." Three have "hold" recommendations, and one has an "underperform" rating on it, which means you should really start thinking about selling.

Given the heat in this market, tech analysts are sitting pretty. The 2003 settlement laid out conditions under which analysts can get pay raises. One easy way is to get a job offer from a rival bank.

“We have some leeway in pay,” says a bank research executive, who spoke on the condition that he not be identified for fear of tipping his hand to competitors. “But once an analyst has a competing offer, we can move if we want to bump pay substantially.”

But analysts are a bit like stocks: they go in and out of style and are often hostage to marketplace whims. Those who happen to cover booming industries, or sectors ripe for takeovers, tend to get the most attention. Oil, mining, information technology, emerging economies — these areas are of particular focus to investors today, and, therefore, so are the analysts who cover them.

Bryan Keane, an analyst who covers technology service companies like Accenture, got a pay bump of several hundred thousand dollars for moving to Deutsche Bank from Credit Suisse, according to people with knowledge of his pay. Mr. Keane and Deutsche Bank officials declined to comment.

But Internet analysts are by far the hottest commodities. That is partly a function of the story, partly a function of supply. At the height of the dot-com boom, no fewer than 616 Wall Street analysts were covering Internet companies. Today, the figure is 362, according to data from Thomson Reuters.

And fewer than a dozen of those specialize in social networking stocks, as Mr. Anmuth does. Mr. Mahaney at Citigroup covers Pandora, and some people expect he will cover Facebook. As long as investors bid up these stocks, Wall Street will keep bidding up the price of its analysts.

BUT for better or worse, it seems unlikely that this new class of Internet analysts will ever rival the dot-com generation in reach and influence. The irony is that the Web, which these analysts embrace and celebrate, has actually shrunk their roles in the marketplace. These days, investors trawl through blogs and comment posts, run their own numbers and compare notes with other investors. Analysts are no longer the only game in town for insight and advice.

And, of course, there is the matter of trust, and whether analysts as a group can ever fully regain it. Some of the tarnish of the dot-com era has stuck. Inside banks, analysts no longer have their old cachet because they can no longer help bring in investment-banking business.

The good news is that some of today’s Internet analysts seem more tempered in their predictions than their predecessors did.

In late June, Mr. Anmuth issued a positive report on LinkedIn after his employer, JPMorgan, helped take the company public. LinkedIn, he wrote, was “disrupting both the online and offline job recruitment markets.” With the stock then trading at around \$76, he set a price target of \$85.

But on July 18, after shares of LinkedIn raced past \$100, Mr. Anmuth pulled back. He downgraded his rating from overweight to neutral. Whether investors will listen is anyone's guess.