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As Bank Industry Analysts Lose Jobs, Serious Blogs Take the Forefront

by: Reggie Middleton November 27, 2008


The most successful analysts are being laid off on Wall Street. The Street has always thought of the analysis as a loss leader for M&A sales and brokerage commissions. After Spitzer tightened down on the industry, they tightened the budgets even more. Now, with this unprecedented downturn combined with the limited ability of the firms to use the analysts to sell other services (the Spitzer conflict of interest argument), the analytical staff is considered expensive dead weight that does not add directly to the revenue line.

If you thought the accuracy of the sell side was bad in the past, you ain't seen nothin' yet. With conflicts of interest still deeply ingrained in the culture and business models, the top flight (cost?) quality talent fleeing or getting fired, and budgets cut to the bone marrow, expect accuracy and analytical quality to drop considerably below mean - and mean was not very high to begin with. Luckily, a certain entrepreneurial investor who never was shackled by the hypocritical, recursive conflicts of interests that plagues The Street has decided to share his proprietary research and lo and behold... I really think his research is better!

Goldman Sachs, Citigroup and Bank of America have recently axed analysts who covered some of their competitors. The analysts were particularly prominent within the industry because they were often quoted in Wall Street news stories and invited to meetings with bank executives. They were the voices who questioned executives on earnings calls, and they were often the ones casting most doubt on their field. Now they join a growing pool of bankers and traders losing their jobs just before bonus time, with little hope of new employment any time soon.

"A lot of these analysts did not believe that they could get sacked," said Gustavo Dolfino, president of WhiteRock Group, a head-hunter in New York. "But just writing about the market doesn't mean you're making any money for the firm, that's why these analysts are losing their jobs."

Goldman was the first major bank to sack its banking analyst, William Tanona. Tanona, laid off Nov. 7, had worked there since 2005, when Goldman recruited him from JPMorgan Chase . He was one of the first analysts last fall to turn negative on Citigroup and to warn about Merrill's problems with its bundles of mortgages...

In a note to clients, the bank, which is cutting 10 percent of its work force, said it was suspending coverage of his companies, which included Merrill Lynch, Morgan Stanley and Citigroup. Last week, Citigroup laid off Prashant Bhatia, who covered a range of brokers and asset mangers like the Fortress Investment Group, Merrill Lynch and BlackRock. Earlier this fall, Bank of America dismissed Michael Hecht, who covered investment banks. A Bank of America spokesman declined to say whether it had begun eliminating overlapping workers among its ranks since it agreed to acquire Merrill Lynch in September.

Banking analysts were not singled out. Goldman, for instance, dismissed a dozen other analysts who covered other industries, including newspapers and industrial companies. In some cases, banks may choose to lay off senior analysts and promote lower-cost workers into their roles. Anybody looking for analysis can always come to me. I won't even try to push the securities of a company that I just underwrote or try and convince you to allow me to churn your account.