

# AQ

## CRISIS BUSTERS

P R O M O T I N G   G O O D   R E S E A R C H

### Three year RQ analysis of Euro 300

## When the going gets tough...

Since starting in 1998, AQ Research has been measuring the performance of equity research and publishing the results through Yearbooks and quarterly reports, as well as through AQ Online. Our AQ Select quarterly reports look at the performance of research on the AQ300, a selection of large market capitalisation companies with a robust variety of analyst research available.

By any measure the past three years have been the most turbulent since we started, with high volatility and large index swings all underpinned by low trading volumes. Another feature is the high correlation between stocks, for instance as measured by the CBOE S&P500 Implied Correlation Coefficient. We believe that investors are primarily focused on asset allocation rather than stock picking within equity. The result is a focus on the most liquid (large cap) stocks which are cheap to buy and sell. The other corollary of these lower traded

**TABLE 2: AVERAGE SECTOR RQ SCORES 2009-11**

Sector	Average RQ
Oil & Gas	5.2
Financial Services	4.5
Basic Resources	3.0
Technology	2.0
Health	2.0
Media	1.7
Chemicals	1.6
Food & Beverages	1.6
Travel & Leisure	1.5
Automobiles & Parts	1.2
Insurance	0.8
Construction & Materials	0.4
Telecoms	0.4
Retail	0.2
Utilities	-1.6
Industrial Goods & Services	-1.8
Personal & Household Goods	-1.9
Banks	-8.8

**TABLE 1: 21 ELIGIBLE**

Research Firm	Avg RQ Outperformance	Avg Stocks per Quarter	Methodology
DayByDay	3.4	181	Ab
Royal Bank of Scotland	2.7	153	Ab
Credit Suisse	2.1	223	SR
UniCredit Global Res	1.9	128	IR
Exane BNP Paribas	1.4	215	SR
DZ Bank	0.6	77	Ab
Cheuvreux	0.1	200	IR
Goldman Sachs	0.1	240	Ab
Odco Securities	0.1	124	Ab/SR

A = Absolute SR - Sector Relative IR = Index Relative

volumes has been lower revenues for equity research. All this has tested commitment to equity research. We have seen the loss of more than 25% of the research houses from our analysis of the AQ300 in the past 3 years, and others have scaled back coverage.

Against this bleak backdrop it is possible to find research houses that are helping investors to make money through stock selection. We have compiled a summary of our quarterly reports from the past 3 years (see page 4) to find who, on average across that period, has been adding value through their recommendations. The results are shown in Table 1, where the independent French research house DayByDay achieved the highest average score (see methodology on page 4).

Table 2 shows the same information but by sector. Analysts have generally done well measured by the average RQ in Oil & Gas and Basic Resources. But they have failed spectacularly (on average) in helping Bank sector investors, generally underestimating both the initial problems and the subsequent bounce back. Even within the Bank sector, there have been individual analysts who have managed to do an outstanding job (see page 3).

#### CONTENTS

Introduction.....	1
Country & sector winners.....	2
Consensus beating analysts.....	3
Historic winners.....	4

## COUNTRY RESULTS

Sector	First	Second	Third
Austria	Kepler Capital Markets	22.2 Cheuvreux	17.6 Raiffeisen 14.0
Belgium	Exane BNP Paribas	7.6 Natixis Securities	6.7 Cheuvreux 6.3
Denmark	Credit Suisse	26.3 Handelsbanken Cap Mrkts	23.5 ABG Sundal Collier 7.4
Finland	Exane BNP Paribas	14.8 FIM	8.4 Cheuvreux 6.3
France	DayByDay	3.7 DZ Bank	3.6 Standard and Poor's 3.0
Germany	Royal Bank of Scotland	10.7 Natixis Securities	5.8 Berenberg Bank 3.9
Greece	UniCredit Global Res	28.9 Goldman Sachs	22.5 Natixis Securities 21.5
Ireland	NCB Stockbrokers (ESN)	16.8 AlphaValue	15.1 Royal Bank of Scotland 8.2
Italy	Royal Bank of Scotland	14.3 DayByDay	6.9 UniCredit Global Res 5.4
Netherlands	AlphaValue	6.7 DayByDay	5.5 Credit Suisse 5.4
Norway	Kaupthing Research	9.1 AlphaValue	7.4 ABG Sundal Collier 7.2
Portugal	Natixis Securities	12.3 Exane BNP Paribas	7.2 Credit Suisse 6.9
Spain	Exane BNP Paribas	6.4 Royal Bank of Scotland	5.1 LBBW 4.8
Sweden	Royal Bank of Scotland	11.1 Swedbank Securities	6.9 ABG Sundal Collier 6.7
Switzerland	Metzler Seel. Sohn & Co.	11.1 Standard and Poor's	5.1 UniCredit Global Res 4.8
UK	Numis Securities	8.9 AlphaValue	4.9 DayByDay 3.4

## SECTOR RESULTS

Sector	First	Second	Third
Automobiles & Parts	National Bank	21.2 ESN	15.9 Royal Bank of Scotland 14.6
Banks	Exane BNP Paribas	12.2 Credit Suisse	9.4 Kepler Capital Markets 6.6
Basic Resources	Oddo Securities	15.4 SG Securities	11.1 Seymour Pierce Ltd. 11.0
Chemicals	Metzler Seel. Sohn & Co.	10.6 DZ Bank	10.4 LBBW 8.7
Construction & Materials	Standard and Poor's	10.8 DayByDay	5.8 ING Financial Markets 4.7
Financial Services	Kepler Capital Markets	8.3 SG Securities	5.0 DayByDay 4.5
Food & Beverages	AlphaValue	13.8 Investec Securities	7.7 DayByDay 3.1
Health	Goldman Sachs	5.2 Berenberg Bank	5.1 ESN 3.6
Industrial Goods & Svcs	Handelsbanken Cap Mrkts	14.4 Swedbank Securities	10.5 DayByDay 8.7
Insurance	DayByDay	13.4 AlphaValue	7.0 Metzler Seel. Sohn & Co. 4.6
Media	Numis Securities	20.6 Charles Stanley	6.7 AlphaValue 6.4
Oil & Gas	Royal Bank of Scotland	12.1 AlphaValue	7.7 SG Securities 5.3
Personal & Household Gds	Royal Bank of Scotland	5.6 Charles Stanley	5.6 Seymour Pierce Ltd. 5.0
Retail	SG Securities	9.8 AlphaValue	3.3 Goldman Sachs 1.0
Technology	WestLB	15.1 DZ Bank	14.6 DayByDay 5.2
Telecoms	AlphaValue	10.0 Kepler Capital Markets	5.4 Cheuvreux 1.7
Travel & Leisure	LBBW	10.1 Standard and Poor's	8.9 Oddo Securities 8.5
Utilities	BBVA	6.6 Credit Suisse	4.7 Natixis Securities 4.6

## CONSENSUS BEATERS

- We have also derived from our database the outperformance of individual analysts as compared to the firms that collectively employ them. To qualify for this table, an analyst must have covered at least 3 stocks in the AQ300 for at least 7 quarters.
- The outperformance measures the analyst's RQ score (see page 3) against the average of all analysts covering the same company. This residual is then averaged across the all the analyst's coverage. This particularly identifies analysts who take a contrarian but correct view.
- Five of the top 25 analysts are covering **Industrial Goods & Services** (about 10% of the AQ300 companies in this sector), four are covering **Banks** (16% of AQ300) and three cover the **Telecommunications** sector (5%).
- The worthy winner by a good margin is **Jonathan Pierce**, one time banks analyst at **Credit Suisse**. The biggest component of his score was a buy recommendation on Barclays in March 2009 when all other analysts were either neutral or negative on the stock. He was also one of the first analysts to downgrade HBOS and RBS in summer 2007. Currently he is reported to be inspiring the next generation of potential financial analysts, teaching mathematics in a secondary school.

### RECOMMENDATION CONSENSUS BEATING RQ ANALYSTS

Analyst	Current Broker	RQ outperformance	Average # stocks/quarter	Average # top stocks/quarter
Jonathan Pierce	Credit Suisse*	49.3	3	0.6
Hampus Engellau	Handelsbanken Capital Markets	33.8	3	0.9
Pierre Chedeville	CM-CIC (ESN)	28.1	5	1.3
Ulle Wörner	LBBW	26.4	3	1.0
Dirk Becker	Kepler Capital Markets	26.1	7	1.6
Lorna Tilbian	Numis Securities	25.9	3	1.0
Mats Liss	Swedbank Securities	25.3	3	0.9
Thomas Langer	WestLB	25.0	4	0.7
Sandy Morris	Royal Bank of Scotland	24.0	4	1.2
Alessandro Migliorini	Helvea SA	23.3	3	0.6
Niclas Höglund	Swedbank Securities	22.5	3	0.9
Tom Gidley-Kitchin	Charles Stanley	22.4	10	1.7
Tim Schuldt	equinet (ESN)	20.6	6	0.8
Axén Magnus	Evli Bank	20.4	5	1.1
Alexander Peterc	Exane BNP Paribas	16.6	3	0.4
Samuel Henry-Diesbach	Kepler Capital Markets	16.5	3	1.1
Hans Pluijgers	Cheuvreux	16.2	7	0.8
Morten Normann	Kaupthing Research	16.1	3	0.6
Peter Spengler	DZ Bank	16.1	5	1.3
Sophie Cabo-Broseta	AlphaValue	14.7	10	3.9
Mark Freshney	Credit Suisse	14.4	7	1.6
Tania Gold	UniCredit Global Research	14.1	8	1.0
Jean-Michel Salvador	AlphaValue	13.9	16	3.8
Jose Asumendi	Royal Bank of Scotland	13.9	9	1.1
Guillaume Tiberghien	Exane BNP Paribas	13.7	6	0.3

\* to June 2011

QUARTERLY WINNERS

Q1 2009		Q2 2009		Q3 2009		Q4 2009	
BBVA	13.3	Credit Suisse	9.9	DayByDay	7.9	DayByDay	9.9
Credit Suisse	12.0	Cheuvreux	9.1	Credit Suisse	7.5	ESN	7.4
Cheuvreux	11.3	Exane BNP Paribas	7.8	Royal Bank of Scotland	5.2	DZ Bank	7.3
Exane BNP Paribas	9.9	BBVA	6.0	Exane BNP Paribas	4.7	Kepler Capital Markets	3.8
Cazenove & Co	8.9	Cazenove & Co	5.5	Cheuvreux	4.2	UniCredit Global Research	2.5
Natixis Securities	8.2	Natixis Securities	3.5	Oddo Securities	2.3	Royal Bank of Scotland	2.2
Q1 2010		Q2 2010		Q3 2010		Q4 2010	
DZ Bank	19.5	DayByDay	6.9	LBBW	4.5	Royal Bank of Scotland	4.8
ESN	15.2	DZ Bank	6.6	Royal Bank of Scotland	2.9	LBBW	4.1
DayByDay	8.2	Royal Bank of Scotland	3.4	DZ Bank	2.8	Charles Stanley	4.0
Royal Bank of Scotland	6.7	UniCredit Global Research	3.3	UniCredit Global Research	2.7	DZ Bank	3.9
Goldman Sachs	1.9	ESN	2.7	ING Financial Markets	1.0	DayByDay	3.6
Oddo Securities	1.3	Goldman Sachs	2.1	SG Securities	0.7	SG Securities	2.1
Q1 2011		Q2 2011		Q3 2011		Q4 2011	
DayByDay	3.2	Charles Stanley	7.6	DayByDay	6.0	Credit Suisse	6.2
DZ Bank	3.1	Royal Bank of Scotland	5.2	Credit Suisse	5.7	UniCredit Global Research	4.6
AlphaValue	2.3	Oddo Securities	3.1	UniCredit Global Research	4.5	Exane BNP Paribas	3.7
Royal Bank of Scotland	2.2	AlphaValue	2.5	Oddo Securities	4.2	Oddo Securities	3.6
SG Securities	1.8	SG Securities	1.8	Exane BNP Paribas	4.0	AlphaValue	2.3
Charles Stanley	0.4	DZ Bank	1.6	Cheuvreux	2.9	DayByDay	2.3

RQ METHODOLOGY

4

The methodology adopted in RQ has been developed after consultation with the industry. It is very different to our AQ report. The analysis scores research houses differently, depending on whether they have absolute or relative recommendations. The period over which we have examined recommendations is the 12 months to the end of each quarter; averaged to give an overall result. Each recommendation made during this period has been assessed over its "lifetime" (ie until it is changed). Current recommendations are therefore "open" and evaluation of them will continue in the next quarterly report until they are changed.

Analysts are scored on the basis of the percentage share price movement (up or down) during the lifetime of a particular recommendation.

Those with absolute recommendations are measured on the basis of the percentage change in the share price during the lifetime of the recommendation. Those with relative recommendations are measured on the price movement relative to the price of the relevant index. This is a country index (eg DAX 30 or FTSE All Share) for those houses which make recommendations on a local index basis. Or it is a sector index (the market sectors within the Dow Jones 600) for those which make sector relative recommendations. Scores are calculated as follows:

- Strong Buy recommendation receives the percentage share price movement times 1.25
- Buy recommendation receives the percentage share price movement times 1
- Hold has no score
- Reduce recommendation receives the percentage share price movement times -1
- Sell recommendation receives the percentage share price movement times -1.25

There is no theoretical limit – positive or negative – to the score which an analyst could achieve. Where share prices have risen by 100%, an analyst with a strong buy throughout the period could score 125 (or conversely -125 if the analyst had a strong sell on this stock). When markets and sector indices are trending upwards this tends to favour absolute analysts and when they are trending lower, relative analysts tend to do better.

To be included in the overall table a research house needs to analyse research in relation to at least 20% of the Euro 300 companies analysed, for at least 7 of the 12 calendar quarters in the analysis. An analyst must cover at least 3 stocks for a minimum of 7 quarters.

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