

# Chapter 6

---

## Buy-Side Only: Maximize Benefits of Sell-Side Relationships

**B**uy-side analysts should have a strategy to manage their sell-side relationships because some sell-siders can be of tremendous value while others will waste their time. This may not be an issue for buy-side analysts at small firms, but for most, there will be enough sell-side research, phone calls, and events to fill every hour of the workday, leaving no time for proprietary research. While the sell-side can be very helpful in providing unique perspectives, especially on the market psychology surrounding a stock, much of what it provides is widely disseminated and therefore shouldn't be the sole justification for a stock call. Viewed another way, the sell-side should be used as a means to an end and not the end itself. As one senior buy-side analyst put it, "Don't allow the sell-side analyst or salesperson to push product. Instead pull what is needed."

For a buy-side analyst, the sell-side can be a double-edged sword.

- The sell-side can help the buy-side's efforts by:
  - Providing insights on topics buy-side analysts may not have time to explore. Quentin Ostrowski, CFA, vice president at Castleark Management, said it well with, "I leverage the sell-side to avoid getting stuck in the weeds."

- Identifying critical factors earlier than buy-side analysts may have discovered on their own.
- Providing access to management or industry experts.
- Knowing the consensus view of the buy-side.
- Creating detailed financial forecasts that would be time consuming to replicate.
- Providing a more accurate and objective assessment of a company's management than any other source.
- The sell-side can interfere with the buy-side's efforts by:
  - Calling or e-mailing buy-side analysts about stocks that are not within their investable universe.
  - Raising concerns about factors not large enough to move a stock.
  - Making assertions in writing or in forecasts that are not well grounded.
  - Creating financial forecasts that have flawed logic or are riddled with mistakes.
  - Not updating their earnings estimates to reflect reality, which results in an unreliable consensus estimate.
  - Writing about a topic of interest that the buy-side analyst feels compelled to read, only to discover there are no unique or investable insights.

Successful buy-side analysts stay close to those sell-side analysts who add value and reduce distractions from those who don't, all the while not offending any given firm. As one senior buy-side portfolio manager said, "There's no upside in offending the sell-side because you might need them some day . . . for information or possibly even a job lead." So here are some thoughts on managing your sell-side relationships:

1. As quickly as possible, identify the most helpful sell-side analysts *and* salespeople.

Read the rest of this chapter in the full version available at [Amazon.com](https://www.amazon.com)

# BEST PRACTICES FOR EQUITY RESEARCH ANALYSTS

ESSENTIALS FOR  
BUY-SIDE  
AND SELL-SIDE  
ANALYSTS



Identifying Factors That Drive the Stock

---

Creating Financial Forecasts

---

Mastering the Practical Valuation Tools

**JAMES J. VALENTINE**