

Top Four U.S. Equity Brokers Distance Themselves from the Pack

2015 Greenwich Leaders: U.S. Equities

Q2 2015

U.S. institutional investors are casting a wide net in their search for liquidity and investment ideas by maintaining relationships with scores of U.S. equity brokers. That dynamic has not undermined the leadership position of the four full-service brokers, which have increased their lead over rivals in terms of commission share in U.S. equity trading and research/advisory services.

As part of its 2015 U.S. Equity Investors Study, Greenwich Associates interviewed 243 institutional portfolio managers and 321 institutional traders about the brokers they use for U.S. equities.

The study results show Goldman Sachs, J.P. Morgan, Bank of America Merrill Lynch, and Morgan Stanley deadlocked atop the U.S. equity trading business with commission shares of 8.2–8.7%. Credit Suisse rounds

out the top five with a share of 6.9%. These firms are the 2015 Greenwich Share Leaders in U.S. Equity Trading. The 2015 Greenwich Quality Leaders in U.S. Equity Sales Trading & Execution Service are Goldman Sachs, J.P. Morgan and Morgan Stanley.

In U.S. Equity Research/Advisory Vote Share, the same four firms lead the market, with J.P. Morgan and Bank of America Merrill Lynch tied at the top with commission-weighted vote shares of 9.1–9.4%, followed by Morgan Stanley and Goldman Sachs, which are statistically tied with vote shares of 8.1–8.5%. A second tier of four brokers each earns between 5.4 and 5.9% vote share. These firms are the 2015 Greenwich Leaders in U.S. Equity Research/Advisory Services Vote Share. The 2015 Greenwich Quality Leaders in U.S. Equity Research Product & Analyst Service are J.P. Morgan, Morgan Stanley and Sanford C. Bernstein.

Greenwich Share Leaders — 2015



U.S. Equity Trading Share^{1,2}

Broker	Trading Share	Statistical Rank
Goldman Sachs	8.7%	1T
J.P. Morgan	8.6%	1T
Bank of America Merrill Lynch	8.4%	1T
Morgan Stanley	8.2%	1T
Credit Suisse	6.9%	5

U.S. Equity Research/Advisory Vote Share¹

Broker	Vote Share	Statistical Rank
J.P. Morgan	9.4%	1T
Bank of America Merrill Lynch	9.1%	1T
Morgan Stanley	8.5%	3T
Goldman Sachs	8.1%	3T
Barclays	5.9%	5T
Credit Suisse	5.8%	5T
Deutsche Bank	5.5%	5T
Citi	5.4%	5T

U.S. Equity Algorithmic Trading Share³

Broker	Trading Share	Statistical Rank
Goldman Sachs	11.2%	1T
Credit Suisse	11.1%	1T
Bank of America Merrill Lynch	8.8%	3
Morgan Stanley	7.1%	4T
ITG	7.0%	4T
RBC Capital Markets	6.7%	4T

Global Portfolio Trading Share — North American Institutions⁴

Broker	Trading Share	Statistical Rank
Bank of America Merrill Lynch	12.6%	1
Morgan Stanley	10.1%	2
Goldman Sachs	8.8%	3T
Citi	8.6%	3T
J.P. Morgan	8.4%	3T

Note: Based on responses from 243 buy-side institutions for U.S. Equity Research/Advisory Vote Share and 321 for U.S. Equity Trading Share, both weighted by commission spend of accounts. ¹Greenwich Associates Research/Advisory Vote Share and Trading Share represent a broker's relative importance to the buy-side institutions within the Greenwich Associates universe. Scores are based upon the amount of business conducted with each respondent and the size of each responding institution based on commission spend with the sell-side community. ²Equity Trading encompasses sales trading, execution, sector trading, and electronic trading. ³Based on 289 respondents. Broker share is weighted by overall commission size of institutions and buy-side traders' allocation by rank. Algorithmic/SOR Trading share is weighted by overall Algorithmic/SOR commissions paid by institutions' and buy-side traders' allocation by rank. ⁴For the 80 respondents for North American Portfolio Trading Share, the results are weighted by notional portfolio trading dollar volume. Top five leading brokers are cited including ties. Source: Greenwich Associates 2015 U.S. Equity Investors Study

Institutions Seeking Liquidity and Alpha Support Long List of Brokers

All of the full-service investment banks that make up the top rank of the U.S. equity brokers have been forced to reassess their business models to contend with changes in regulation and market structure. Many of these firms have decided to narrow their strategic focus in order to maintain attractive overall returns on equity. As a result, most of these leading brokers have become more selective in their coverage and less focused on amassing market share from any and all institutional clients.

“As these shifts played out over the past 12 months, a clear separation has emerged between the biggest brokers and the rest of the market in terms of share in both research/advisory services and trading,” says Greenwich Associates consultant Jay Bennett. “The result is a segmented market composed of the four leading firms, the rest of the bulge bracket, and a long tail of competitors with relatively smaller shares.”

That long tail of brokers is supported by institutional investors that are using anywhere from 35 to 60 brokers on average for research/advisory services and about 40–60 brokers for equity trading.

“Institutions are hungry for liquidity and for alpha-generating investment ideas,” says Greenwich Associates consultant John Feng. “The best way to secure access to these essential items is by maintaining relationships with large numbers of full-service investment banks, regional or mid-sized broker-dealers and specialist firms.”

Brokers’ Performance in Trading Influenced by Research, Electronic and Portfolio Trading Platforms

The U.S. equity trading and research/advisory businesses are closely linked. Buy-side trading desks allocate about 60% of their U.S. equity trade commission payments to compensate providers of research/advisory services, including analyst service, sales, corporate access, and other services. Some brokers capture incremental trading business above and beyond that generated by their research functions due to their willingness to commit capital and other factors.

Several firms get a sizable boost in trading due to their strength in electronic trading. “Low-touch” electronic trades now make up about 45% of overall U.S. equity algorithmic trading volume and about 15% of the annual commission pool.

Credit Suisse and Goldman Sachs are the leaders in U.S. Equity Algorithmic Trading, with trading shares of 11.1–11.2%. Bank of America Merrill Lynch is third with a share of 8.8%, while Morgan Stanley, RBC Capital Markets and ITG round out the leaders group. These firms are the 2015 Greenwich Leaders in U.S. Equity Algorithmic Trading Share. The 2015 Greenwich Quality Leaders in U.S. Equity Electronic Trading are RBC Capital Markets and Sanford C. Bernstein.

The 2015 Greenwich Share Leaders in Global Portfolio Trading—North American Institutions are Bank of America Merrill Lynch, with a 12.6% weighted trading share, followed by Morgan Stanley, with a share of 10.1%, and Goldman Sachs, Citi, and J.P. Morgan, which are tied with shares of 8.4–8.8%.

Greenwich Quality Leaders — 2015



U.S. Equity Research Product & Analyst Service Quality

Broker

J.P. Morgan
Morgan Stanley
Sanford C. Bernstein

U.S. Equity Sales & Corporate Access Quality

Broker

J.P. Morgan

U.S. Equity Sales Trading & Execution Service Quality¹

Broker

Goldman Sachs
J.P. Morgan
Morgan Stanley

U.S. Equity Electronic Trading Quality²

Broker

RBC Capital Markets
Sanford C. Bernstein

Note: Based on 243 respondents for U.S. Equity Research and Analyst Service Quality (portfolio managers) and U.S. Equity Sales Quality, 321 for U.S. Equity Trading Quality and 297 for U.S. Equity Electronic Trading Quality. Leading brokers are displayed in alphabetical order including ties. ¹Equity Trading encompasses sales trading, execution, sector trading, and electronic trading. ²Electronic Trading encompasses electronic trading, client service, sales and algorithmic product quality.

Source: Greenwich Associates 2015 U.S. Equity Investors Study

Greenwich Share and Quality Leaders — 2015



U.S. Small/Mid-Cap Research/Advisory Penetration¹

Broker	Market Penetration	Statistical Rank
Robert W. Baird	74.0%	1
Stifel Nicolaus	67.0%	2T
J.P. Morgan	65.0%	2T
Raymond James	61.0%	4
William Blair	58.0%	5T
KeyBanc Capital Markets	57.0%	5T



U.S. Small/Mid-Cap Equity Sales & Corporate Access Quality

Broker
Raymond James
Robert W. Baird
William Blair

U.S. Small/Mid-Cap Equity Research Product & Analyst Service Quality

Broker
Raymond James
Robert W. Baird
William Blair

Note: Based on interviews with 92 institutions. ¹U.S. Small- and Mid-Cap Research/Advisory Penetration represents proportion of investors citing each broker as one of their 15 most important research/advisory firms. Share leaders are based on top five brokers including ties. Quality leaders are cited in alphabetical order including ties. Source: Greenwich Associates 2015 U.S. Equity Investors Study

Small-Cap Stocks

The market for research and advisory services in small and mid-cap U.S. equities is dominated by a group of full-service, non-bulge bracket brokers with deep expertise and strong relationships with the buy side—especially mid-sized institutions.

Nearly three-quarters of U.S. institutions active in small and mid-cap stocks use Robert W. Baird. In second place are Stifel Nicolaus and J.P. Morgan (the lone bulge bracket firm on the list), which are tied with market penetration scores of 65–67%, followed by Raymond James at 61%, and William Blair and KeyBanc, which are tied at 57–58%. These firms are the 2015 Greenwich Share Leaders in U.S. Small/Mid-Cap Research/Advisory Penetration.

“Some of these firms might not have the flashiest presence, but they provide consistent, high-quality coverage, usually with a specialty in some particular industries or regions,” says Jay Bennett. “Clearly, the buy side likes what it’s getting from these providers.”

Raymond James, Robert W. Baird and William Blair are the 2015 Greenwich Quality Leaders among small/mid-cap portfolio managers in both Equity Sales & Corporate Access and Equity Research Product & Analyst Service.

Consultants Jay Bennett, John Colon, John Feng, and David Stryker advise on institutional equity markets globally.

Methodology

Between December 2014 and February 2015, Greenwich Associates interviewed 243 U.S. generalist equity portfolio managers, 92 small/mid-cap fund managers and 297 U.S. equity traders at buy-side

institutions. The study participants were asked to evaluate the sales, research and trading services they receive from their equity brokers and to report on important market practices and trends.

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