

## 2013 Greenwich Leaders: U.S. Equities

Q2 2013

### Bulge Bracket U.S. Equity Brokers Defend Share in Shrinking Trading Market

Bulge Bracket brokers are fighting hard to protect their aggregate market share in U.S. equity trading as a slow-down in institutional trading activity continues to erode the overall pool of commission revenues generated by sell-side firms.

The total amount of commissions paid to brokers by U.S. institutions on trades of domestic equities has decreased by about one-third over the past four years, falling to an annual \$9.3 billion in the year ending Q1 2013 from \$14 billion in 2009. Over the past 12 months alone, the U.S. commission pool contracted by 15%. This decline has sharply reduced broker trading revenues, leading to widespread cost cutting, including desk consolidation and headcount reductions.

“The major brokers have concluded that trading activity is unlikely to bounce back to pre-crisis levels,” says Greenwich Associates consultant Jay Bennett. “As a result, they are downsizing their own businesses to maintain profitability in an environment of lower trading volumes, fewer commissions and less revenue.”

In this increasingly difficult marketplace, Bank of America Merrill Lynch captured the lead spot among U.S. equity brokers with a 9.1% trading share, followed by a group of closely matched brokers including Morgan Stanley, Credit Suisse, J.P. Morgan and Goldman Sachs, all with trading shares ranging from 8.1% to 8.4%. Among portfolio managers, J.P. Morgan captured the top spot in U.S. equity research/advisory with a 10.9% share of the institutional research vote—the process by which institutions determine which sell-side providers will be used and compensated.

### Greenwich Share Leaders — 2013



#### U.S. Equity Research/Advisory Portfolio Managers Vote Share<sup>1</sup>

Broker	Vote Share	Statistical Rank
J.P. Morgan	10.9%	1
Morgan Stanley	9.2%	2T
Bank of America Merrill Lynch	8.6%	2T
Credit Suisse	8.6%	2T
Goldman Sachs	8.0%	5

#### U.S. Equity Research/Advisory Analysts Vote Share<sup>1</sup>

Broker	Vote Share	Statistical Rank
J.P. Morgan	8.4%	1
Bank of America Merrill Lynch	7.4%	2
Morgan Stanley	6.9%	3
Credit Suisse	6.1%	4T
Goldman Sachs	6.1%	4T

#### U.S. Equity Trading Sharing<sup>1,2</sup>

Broker	Trading Share	Statistical Rank
Bank of America Merrill Lynch	9.1%	1
Morgan Stanley	8.4%	2T
Credit Suisse	8.1%	2T
J.P. Morgan	8.1%	2T
Goldman Sachs	8.1%	2T

#### North American Portfolio Trading Share<sup>3</sup>

Broker	Trading Share	Statistical Rank
Goldman Sachs	11.9%	1T
Credit Suisse	11.8%	1T
Bank of America Merrill Lynch	10.8%	1T
Citi	9.5%	4T
Morgan Stanley	8.9%	4T
Deutsche Bank	8.4%	4T

Note: Based on responses from 217 buy-side institutions for U.S. Equity Research/Advisory Portfolio Managers Vote Share, 2,679 for U.S. Equity Research/Advisory Analyst Vote Share and 294 for U.S. Equity Trading Share, both weighted by commission spend of accounts. <sup>1</sup>Greenwich 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. <sup>2</sup>Equity Trading encompasses sales trading, execution, sector trading, and electronic trading. <sup>3</sup>For the 86 respondents for U.S. Portfolio Trading Share, the results are weighted by notional portfolio trading dollar volume. Top five leading brokers are cited including ties. Source: Greenwich Associates 2013 U.S. Equity Investors Study and U.S. Equity Analysts Study

## Tension Between Research Demand and Trading Revenues

When it comes to U.S. equity research, Bulge Bracket brokers' vote share has been steadily eroded over the past several years by gains made by smaller brokers and independent research providers. As recently as 2011, Bulge Bracket firms controlled about 64% of the institutional research vote. By 2013, that share had fallen to 56.2%. Meanwhile, the research share of mid-sized, regional and sector specialist brokers increased to 37.3% in 2013 from 31.8% in 2012 and the share captured by independent research providers grew to 5.9% from 4.2%.

Over that same period, however, the Bulge Bracket's share in equity trading was essentially unchanged at just over two-thirds. In the context of an overall commission

pool that has been steadily and dramatically shrinking, these results show two things: 1) The decline in commissions has not yet forced institutions to retrench in terms of the research providers used in their investment processes, and 2) Brokers and research providers outside the Bulge Bracket are increasingly under pressure to capture what they view as adequate compensation for the research and services they are delivering.

## Greenwich Quality Leaders

Goldman Sachs is the 2013 Greenwich Quality Leader in U.S. Equity Trading, meaning that its institutional clients awarded the firm quality ratings in trading that exceeded those given to other brokers by a statistically significant margin. J.P. Morgan is the 2013 Greenwich Quality Leader in U.S. Equity Sales. In U.S. equity research and analyst

### Greenwich Quality Leaders — 2013



#### U.S. Equity Research and Analyst Service Quality — Portfolio Managers

##### Broker

Sanford C. Bernstein  
J.P. Morgan  
Morgan Stanley

#### U.S. Equity Sales Quality

##### Broker

J.P. Morgan

#### U.S. Equity Research and Analyst Service Quality — Analysts

##### Broker

Sanford C. Bernstein

#### U.S. Equity Trading Quality<sup>1</sup>

##### Broker

Goldman Sachs

Note: Based on 217 respondents for U.S. Equity Research and Analyst Service Quality (portfolio managers) and U.S. Equity Sales Quality, 2,679 for U.S. Equity Research and Analyst Service Quality (analysts), 294 for U.S. Equity Trading Quality, and 86 for North American Portfolio Trading Quality. Leading brokers are displayed in alphabetical order including ties.

<sup>1</sup>Equity Trading encompasses sales trading, execution, sector trading, and electronic trading. Source: Greenwich Associates 2013 U.S. Equity Investors Study and U.S. Equity Analysts Study

### Greenwich Share and Quality Leaders — 2013



#### U.S. Small- and Mid-Cap Research/Advisory Penetration<sup>1</sup>

Broker	Market Penetration	Statistical Rank
Robert W. Baird	67%	1
Credit Suisse	64%	2
J.P. Morgan	61%	3T
Raymond James	61%	3T
Bank of America Merrill Lynch	55%	5

#### U.S. Small- and Mid-Cap Sales Quality

##### Broker

Robert W. Baird

#### U.S. Small- and Mid-Cap Research and Analyst Service Quality

##### Broker

Robert W. Baird

Note: Based on interviews with 88 institutions. <sup>1</sup>U.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 2013 U.S. Equity Investors Study

service, the title of 2013 Greenwich Quality Leader is shared by three firms: Sanford C. Bernstein, J.P. Morgan and Morgan Stanley. Among analysts, Sanford C. Bernstein is the 2013 Greenwich Quality Leader in U.S. Equity Research and Analyst Service. “Institutions view Bernstein as a premium provider of research and they rate the firm as such,” says Greenwich Associates consultant John Colon. “Among providers with broader research coverage, J.P. Morgan and Morgan Stanley received the strongest quality ratings in 2013.”

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*Consultants Jay Bennett, John Colon and John Feng advise on the institutional equity markets globally.*

## **Methodology**

*Between December 2012 and February 2013, Greenwich Associates interviewed 217 U.S. equity fund managers, 2,679 equity analysts and 294 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.*

*The findings reported in this document reflect solely the views reported to Greenwich Associates by the research participants. They do not represent opinions or endorsements by Greenwich Associates or its staff. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Greenwich Associates compiles the data received, conducts statistical analysis and reviews for presentation purposes in order to produce the final results.*

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