TradeTech Asia
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SPEAKER INTERVIEW:

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ANALEC MODELVIEWER®

Indy Sarker is the CEO of ANALEC (www.analec.com) – a financial technology company focused on the investment research and capital markets space. Apart from the general management functions of a CEO, Indy is responsible for corporate strategy, business development and product sales. Prior to ANALEC, Indy was a top ranked sell-side analyst in a career that spanned over 10 years in the UK and Asia, with over 7 years based out of Hong Kong.

With over 18 years experience of the investment research and client servicing function within the investment banking industry, Indy brings his deep domain knowledge to bear on the products and services on offer at ANALEC.

Indy holds a Masters degree in Economics from Cambridge University (UK). At the time of his departure from the sell-side, Indy was ranked No. 1 by Asiamoney and No. 2 by Institutional Investor in the Asian Utilities sector.

TradeTech: How is the Asian buy-side changing their view on the value of research?

Indy: I believe the value of and the need for investment research and analysis has never been questioned by the buy-side. What has been questioned over the last decade or so has been the integrity and objectivity of sell-side research delivered to the buy-side. If you look at the evolution of the investment research industry in Asia over the last 15 years; sell-side research has shrunk their research footprint, due to cost pressures and economic challenges, while in response the buy-side has added in-house research and analytics capabilities.

The buy-side is not looking to the sell-side to provide clear Buy and/or Sell ideas alone, as they prefer to do their own due diligence and draw their own investment conclusions. The value of the research service from the sell-side to the buy-side is measured across a number of key parameters, namely the quality, depth and breadth of research coverage in the markets, corporate access, and ability to engage with sell-side analysts. While the buy-side would like to have more in-house research capability, they have been slow to grow their in-house research spends as the commercial justification for such increased in-house capabilities at times have been challenging.

We at ANALEC via our ModelViewer offering (www.model-viewer.com) are looking to address this commercial justification challenge (at the buy-side) by providing a viable alternative by which the buy-side research infrastructure can be used most productively and add greater value to their internal investment decision-making process.

TradeTech: What in your opinion has been one of the most significant developments in the broker-dealer industry over the last decade?

Indy: In my opinion the emergence of Commission Sharing Arrangements (CSAs) primarily over the last 5-6 years has been one of the most important developments in the capital markets space. In my opinion its full consequences (and resulting impact) are yet to be fully appreciated in the market place.

While calls for commission "un-bundling" over the last decade has seen limited success in their implementation, CSAs over the last 5 years in the United States have grown to a US$2.0bn per annum payment channel, out of a total estimated equities commission payout of US$13bn in 2009. CSA in its simplest explanation is the separation of the execution service from the research service, enabling the buy-side to utilize their commission dollars more effectively.
With the advent of CSAs a buy-side firm can focus its trading activities with a few select brokers and in turn use their CSA accounts with these select brokers to pay for services that facilitate their investment decision-making process. Such payments from their CSA account(s) can be made to Independent Research Providers, other broker-dealers that provide pockets of good quality service, but fail to get on the broker panel for many of the buy-side firms.

The real challenge for each sell-side firm is to ensure that they are the ones writing the CSA cheques (on behalf of their buy-side clients), as that would imply they are securing the trading flows from their clients. In the event a sell-side firm becomes primarily a recipient of CSA cheques (from a fellow broker) for services delivered to a particular buy-side entity, it destroys their business model and theoretically makes their investment in a sales & trading infrastructure redundant. In Asia, as and when CSAs grow in their importance, there will be another round of competitive re-alignment in the market place, in my opinion.

Some large broker-dealers in the United States have as a policy decision stated that they will not transact business with any buy-side firm that intends to pay them via CSAs; but will only service them if they have a full service relationship with them. All large broker-dealers now have (or are increasingly putting in place) CSA management platforms, in order to help their clients trade with them and then use allocation to CSA accounts to pay for other service providers.

As far as independent service providers (to the buy-side) are concerned, the advent and emergence of CSAs is a significant development to create a level playing field between them and their full service broker-dealer competitors. Despite that each (independent) service provider has to "sell" its services and therefore a sales effort is vital for their commercial success.

TradeTech: Why do you think CSAs have been slow to take off in Asia?

Indy: CSAs have been slow to take off in Asia for a number of reasons. Primary amongst them is the fact that unlike in Europe and the United States where the market regulators have played a pivotal role to grow their use, Asian market regulators have largely been passive on this front. Secondly, over the last 10 years, the growth of independent service providers in the US and Europe has been quite aggressive, providing greater opportunities to the buy-side to secure value-added services and use CSAs to pay for them.

In Asia, the number of credible independent service providers remains small (but growing) and hence limited opportunities to channel payments to them via CSAs. However, increasingly smaller broker-dealers, that fail to get on broker panels of many buy-side firms, are increasingly going to get remunerated via CSA payments. While that in itself brings new set of challenges to these marginal broker-dealers, it does however mean that CSAs will grow in their importance in Asia.

TradeTech: What are the major challenges facing investors following the global financial crisis?

Indy: In our opinion the global financial crisis highlighted the emergence of three very important phenomena in global capital markets. Firstly, it is not good enough to disproportionately focus on micro factors (i.e., company specific factors) when it comes to fundamental investment decision-making; one has to pay equal attention to macro factors and their resulting impact on the decision-making process.

Secondly, global capital increasingly flows freely across geographic boundaries creating a borderless world when it comes to international capital flows. Consequently, such capital flows or resulting liquidity surges (or it pull back) will continue to have disproportionate impact on asset valuations globally; not to mention greater volatility in asset prices.

According to a recent survey conducted by Thomson Reuters and Lepus Research (an independent research firm), at a money manager level, data quality and consistency are key to risk management and transparency. Investment managers are increasingly looking at data hungry risk management processes to form a more extensive view on risk. Secondly, there is real need for "stress testing" one's investment thesis by being able to run sensitivity analyses on a range of high impact-low probability events that could pose a potential risk to their investment thesis.

TradeTech: How is ANALEC looking to help the evolution of the investment research industry (both buy-side and sell-side) over the next decade?

Indy: ANALEC believes the intelligent use of financial technology solutions within the investment research and decision-making process can go a long way in improve quality and speed of investment decision-making.

ANALEC through its ModelViewer offering is looking to functionally disaggregate the fundamental investment decision-making process and provide a commercially viable cost-of-business argument for the buy-side to make the necessary investments in in-house analytical capabilities, using CSA dollars; while allowing the sell-side to improve their ability to raise analyst stock coverage capacity and focus on greater value-add in the investment decision-making and client servicing process.

ANALEC ModelViewer provides in-depth and granular financial modeling and forecasting capability across a range of globally listed companies, starting with Asia. Apart from that the software-enabled screening capabilities (using the manipulated output) significantly raises the quality and speed of investment decision-making for each user. In fact ANALEC ModelViewer across a range of globally listed companies is looking to address the data consistency, accuracy and transparency issues faced by the investor community, while providing technology that allow for stress-testing ones investment thesis in a granular sense.

In our first phase we have targeted the Top 300 listed companies in Asia, accounting for around 50% of the aggregated market capitalization of Asia (ex. Japan). In the subsequent phase we intend to raise our coverage to the Top 500 Asian companies; accounting for an aggregated market capitalization of close to 70% of the Asia (ex. Japan) universe.