

Securities Industry News

BUYERS GUIDE & RESOURCE DIRECTORY

2008

A Supplement to Securities Industry News

Research Technology Ready to Enter a 'Breakout Year'

By Alexa Jaworski

The research technology sector has seen a boom over the past few years that some observers say mirrors that of electronic trading earlier this decade. What began with a handful of small companies introducing ways for the buy side to better manage the vast amount of information flooding the in-boxes of portfolio managers is now a business with a steep growth trajectory.

“We are expecting a tremendous amount of growth in IT spending” on research technology among buy-side firms, said Dushyant Shahrawat, research director of TowerGroup’s investment management service.

According to Shahrawat, the segments that will see the biggest boost are intelligent search and data mining, research performance measurement and management, research management technology and the fundamental data space—the access and aggregation of financial, economic and other data relevant to investment decisionmaking.

In a report released by the Needham, Mass.-based research firm in October, Shahrawat noted that “the investment research business is finally beginning to exploit technology, and IT will play a crucial role over the next five years at both

buy-side and brokerage research departments.” TowerGroup estimates that global buy-side spending on research technology will grow to \$1.1 billion in 2010, up from \$586 million this year.

Research technology still has plenty of room for expansion, said Shahrawat: “While the dollars in aggregate seem large, the vendors in the space are pretty small. It’s a cottage industry, so aside from companies ... like S&P and Reuters, most of the others are relatively new upstarts with \$3 million to \$5 million in revenue. This business is still incubating new companies.”

Information Overload

One such company is Boston-based Norbury Financial Systems—a provider of research software that manages the internal operations of investment professionals—which has been addressing the buy

side’s need to better manage the sea of available information via its flagship product, Norbury Links.

“People on the buy side are demanding more efficient and easier ways to cull from vast amounts of data very quickly,” said David Earley, a former co-manager of hedge fund Clipper Capital Management and president and COO of Norbury, which launched Links almost three years ago. For Earley, the biggest challenge portfolio managers and analysts currently confront, and will continue to face in the coming year, is the “infinite amount of data” that they can’t process on their own. An average client reads six to seven hundred e-mails per day, he said, but only 5 percent to 10 percent of that may contain useful information.

“What they’re demanding is efficient, streamlined ways to make sense of the



never-ending river of data that's coming out of research shops, bulge-bracket firms and news Web sites," he said. And for the buy side, he explained, the biggest fear is that an important piece of information will be overlooked.

Due to client demand for better management tools, Earley said that Norbury next year plans to continue to upgrade its e-mail indexing capability. "In the first generation of the product, you could only perform limited e-mail processing," he said. "Next year, we're extending that to account for the thousands of e-mails our users are getting every week."

Tim Gavin, co-founder and CEO of Boston-based software provider Code Red, provider of the Red Alerts research management system, sees 2008 as "the breakout year" for research technology on a number of fronts. "Basic in-house research management systems are becoming more accepted as a product line," said Gavin. "People are seeing competitive advantages to having systems in place that not only aggregate your research from internal and external places, but also aggregate additional data from a variety of sources to give you a better, 360-degree view of the stocks in one central platform."

On Jan. 1, Code Red will launch a new product, IdeaNet, that gives sell-side firms and research providers a single portal where they can submit research trade ideas, meetings, appointments and investment calendars. According to Gavin, the platform will integrate seamlessly with Red Alerts.

"Firms are constantly complaining about the lack of a way to manage all of the brokers' upcoming appointments," he said. "This will be a tool that will allow brokers to put trade ideas into one site and direct all their buy-side clients to it, rather than going to multiple sites and products as they do now."

David Lichtblau, VP of San Francisco-based StarMine, a provider of analytics and equity research tools and objective performance ratings to securities analysts, said his company, which is in the process of being acquired by Reuters, is observing "more realization" of the overload problem and is addressing firms' need to handle more data in less time by better understanding their workflow.

"What vendors have historically done is provide access to all of this information," he said. "You can get onto a Bloomberg terminal which has access to everything. ... But what's not there, and what we're seeing more demand for, is understanding the workflow. Adding analytical overlay and better workflow" will be a growing source of demand.

Alternative Research

Penny Herscher, CEO of Foster City, Calif.-based search technology provider FirstRain, predicts that the buy side will continue to look for better independent, or alternative, research. "It's a sector where there's explosive growth at the moment because what we and other firms are finding is" that information is

being left out in the current research environment, she said.

FirstRain uses pattern detection—a method that identifies recurring relationships and distributions of data to generate adaptive models of business concepts—to find information on the Internet that customers might otherwise have missed.

A factor behind the growing demand for alternative research is that the traditional publishing world is in turmoil, said Herscher, who pointed to the explosion of alternative sources of online news and data such as blogs. "The world at large is looking to get information from sources other than the repetitive news that goes across the mainstream media," she said.

Herscher said that buy-side firms are hiring more research staff, which is an indication that those companies are increasingly taking the research function upon themselves, rather than relying on the sell side. "Those people need tools and systems to do the research, and that's where we fit in," she added.

Code Red's Gavin said that his company's IdeaNet will be a "big help" to independent research firms. "These are typically small firms that lack the kind of sales force and visibility that they would like to have," he said. "They might have some of the best analysts on a particular sector but it's hard to hit those big firms they would like to get their research into. This can almost be used as a marketing-type tool for some of these firms. We see that as hopefully a problem we could solve for them as well." ■