Buy-side Versus Sell-side Analysts

Much is made of the "Wall Street analyst" as though it were a uniform job description. In reality, there are significant differences between sell-side and buy-side analysts. True, both spend much of their day researching companies and industries in an effort to handicap the winners or losers. On many fundamental levels, however, the jobs are quite different.

The Buy-Side Job Description

Simply put, the job of a sell-side research analyst is to follow a list of companies, all typically in the same industry, and provide regular research reports to the firm's clients. As part of that process, the analyst will typically build models to project the firms' financial results, as well as speak with customers, suppliers, competitors, and other sources with knowledge of the industry. From the public's standpoint, the ultimate outcome of the analyst's work is a research report, a set of financial estimates, a price target, and a recommendation as to the stock's expected performance.

In practice the job of an analyst is to convince institutional accounts to direct their trading through the trading desk of the analyst's firm and the job is very much about marketing. In order to capture trading revenue, the analyst must be seen by the buy-side as providing valuable services. Information is clearly valuable, and some analysts will constantly hunt for new information or proprietary angles on the industry. Since nobody cares about the third iteration of the same story, there is a tremendous amount of pressure to be the first to the client with new and different information.

Of course, that is not the only way to stand out with clients. Institutional investors
value one-on-one meetings with company management and will reward those analysts who arrange those meetings. On a very cynical level, there are times when the job of a sell-side analyst is much like that of a high-priced travel agent. Complicating matters is the fact that companies will often restrict access to management by those analysts who do not toe their line - placing analysts in the uncomfortable position of giving the Street useful news and opinion (which may be negative) and maintaining cordial relations with company management.

Analysts will also seek to create expert networks that they can rely upon for a constant stream of information. After all, it stands to reason that a deeper understanding of a market or product will allow for differentiated calls. What's more, anybody can call a doctor or engineer but the best sell-sides analysts know the right ones to call (and just as importantly, have found a way to make sure they pick up the phone). Much of this information is digested and analyzed so it never actually reaches the public page, and cautious investors might not necessarily assume that an analyst's printed word is their real feeling for a company - rather it is in the private conservations with the buy-side (conversations that occupy much of an analyst's day) where the real truth is imagined to come out.

**The Buy-Side Job Description**

In contrast to the sell-side analyst position, the job of a buy-side analyst is much more about being right; benefiting the fund with high-alpha ideas is crucial, as is avoiding major mistakes. In point of fact, avoiding the negative is often a key part of the buy-side analyst's job, and many analysts pursue their job from the mindset of figuring out what can go wrong with an idea. (Learn how to generate higher returns while keeping the same risk profile, see Adding Alpha Without Adding Risk.)

On a day-to-day basis, the jobs do not look all that different. Buy-side analysts will be reading news (though more of its from sell-side analysts than the sell-side analyst would read), tracking down information, building models, and otherwise going about the business of trying to deepen their knowledge of their area of responsibility - all with an eye toward making the best stock recommendations.

Though the largest institutions will have their analysts allocated similarly to sell-side
analysts, buy-side analysts in general have broader coverage responsibilities. It is not uncommon for funds to have analysts covering the "technology" or "industrials" sector, whereas most sell-side firms would have several analysts covering particular industries within those sectors (like software, semiconductors, etc.).

Whereas many sell-side analysts try to spend much of their time finding the best sources of information about their sector, many buy-side analysts spend that time trying to sort out the most useful sell-side analysts. That is not to say that many buy-side analysts do not do their own proprietary research (the good ones always do), rather it just means that there is significant value to a buy-side analyst in developing a list of the real go-to analysts in their space.

Buy-side analysts are also often indirectly responsible for a sell-side analyst's compensation. Buy-side analysts often have some say in how trades are directed by their firm, and that is quite often a key component of sell-side analyst compensation.

**Key Differences**

Although both sell-side and buy-side analysts are charged with following and assessing stocks, there are many differences between the two jobs.

On the compensation front, sell-side analysts often make more, but there is a wide range and buy-side analysts at successful funds (particularly hedge funds) can do much better. Working conditions arguably tilt in the favor of buy-side analysts; sell-side analysts are frequently on the road and often work longer hours, though buy-side analysis is arguably a more pressurized job.

As the job descriptions might suggest, there are significant differences in what these analysts are really paid to do. Speaking realistically, sell-side analysts are paid largely for information flow and access the management (and/or high-quality information sources). Compensation for buy-side analysts is much more dependent upon the quality of recommendations the analyst makes and the overall success of the fund(s).

The two jobs also differ in the role accuracy plays. Contrary to what many investors expect, good models and financial estimates have less weight to the role of a sell-side
analyst, but can be critical for the buy-side analyst. Likewise, price targets and buy/sell/hold calls are not nearly as important to sell-side analysts as some financial media might seem to think. In fact, sell-side analysts can be below average when it comes to modeling or stock picks but still do alright so long as they provide useful information. On the other hand, a buy-side analyst usually cannot afford to be wrong often - or at least not to a degree that significantly impacts the fund's relative performance.

Buy-side and sell-side analysts also have to abide by different rules and standards. Sell-side analysts have to pass several regulatory exams that buy-side analysts do not even have to take. Likewise, buy-side analysts typically enjoy less restrictive rules on share ownership, disclosures and outside employment, at least insofar as regulators are concerned (individual employers have different rules concerning these practices).

The Bottom Line
There is no real value in arguing who has the better, or more important, job between the sell-side and the buy-side. When the system functions as it should, both are valuable. No buy-side analyst can hope to cover everything and smart buy-siders make a point of quickly figuring out who they can trust and rely on in the sell-side community. Likewise, dedicated sell-side analysts can typically dive deeper than buy-side analysts and really learn the ins and outs of an industry. For readers considering a career on Wall Street, though, it is important to understand the differences and pursue the career path that really best fits their skills and demeanor.