

Beautiful lies.

The Weekly Courier has often wondered why banks publish research. The cost of running research departments, staffed by highly paid analysts, is enormous and they have an astonishing history of unforecasted asset bubbles, crises and scandals.

In his wonderful book, "Traders, Guns & Money", Satyajit Das describes a lecture to trainees at the bank (either City or Merrill Lynch – he worked at both banks):



"Look, it's quite simple," I said, breaking down the hierarchy of the trading floor. "There are sales people – they lie to clients. Traders lie to sales and to risk managers. Risk managers? They lie to the people who run the place – correction, think they run the place. The people who run the place lie to shareholders and regulators."

"Oh yes," I remembered our quantitative colleagues. "I forgot the quants – our fabulous rocket scientists! When last heard from, they were trying to develop a model for lying."

"And clients?" One of the trainees asked tentatively. I thought about it for a few seconds.

"Clients. They lie mainly to themselves! ". Entering the world of derivatives trading is to enter this world of beautiful lies.

The Weekly Courier is heavy user of brokers' reports and is a bit worried that this may be less helpful than he thought. Let us see what Satyajit Das says about this:

"Analysts are not there to provide research to clients, if they come up with something of value, then the firm's trading desks use it to price and trade. What is distributed to clients is advertising but what clients really want is inside information. They believe that the analyst may know something that no other person knows. "

Lest we forget, we need to remind ourselves that every rising market is driven by a new paradigm – "this time it is different" and every crash "was statistically impossible to predict before it happened".

Customers of banks should join forces and demand that the analysts be fired and the subsequent savings to be used to lower interest rates and fees . . .

Jón Sch. Thorsteinsson

MD of Advisory Arev Securities