



**THE BUY SIDE'S LATEST "BEST IDEA"**  
***Invest in Small-Cap Company Sponsored Research***

***Sidoti & Company is a Leading Provider of Company Sponsored Research***

Recently, a friend sent me a *Bloomberg* article dated November 14, 2017 entitled "***Hedge Fund Urges Small-Caps to Pay for Research After MiFID.***"<sup>1</sup> In that article, several money managers basically stated that as coverage for small-caps wanes—as is very much an accelerating trend—management teams will need to ensure that investors possess sufficient independent research coverage to provide the buy-side with enough information to invest. The article went on to suggest that the solution might lie in Company Sponsored Research ("CSR"). Among the most compelling commentary by the investment community in support of the company sponsored model:

Re: The Overall Impact of Declining Coverage.

Losing analyst coverage will result in "a lack of liquidity in a company's stock and discourage investors from investing," and "...has the potential to be devastating..." — Toscafund Asset Management (\$3.5 billion AUM)

Re: The Impact on Market Capitalizations

In the U.S., a study of small-caps this year found those with no analyst coverage tend to underperform the overall stock universe by 4.2 percent annually — 2017 Jefferies Study

Re: The Potential to be Caught in A "Value Trap"<sup>2</sup>

"You can be exposed to a company that's doing fantastically and growing its earnings -- but until there is a reason to draw the market's attention to it, then that company can quite happily de-rate," getting cheaper relative to its earnings,....."You could end up in a value trap for longer." — Andrew Neville, head of Allianz Global Investors's global small-cap focused funds in London.

Re: The Importance of Research to Enhance Liquidity and Prompt Quantitative Trading

Stocks in the FTSE SmallCap Index covered by 10 analysts or more post a 30-day average trading volume that's almost 12 times that of companies with no coverage—Bloomberg.

Quantitative funds may not bother generating the liquidity in certain stocks that they do today without analysts' estimates as a catalyst in their trading models—Steven DeSanctis, an equity strategist at Jefferies LLC.

The Conclusion

"The onus is likely to fall more on the C-suite of the businesses themselves to raise their profiles, undertake their own roadshows and proactively engage with their shareholders or potential shareholders to keep their share prices healthy and improve news flow,"—Richard Philbin, CIO, Wellian Investment Solutions, which helps clients invest about 1 billion pounds (\$1.3 billion).

While paying for research "will lead to a moderate expense for you, we are firmly of the opinion that the increased visibility will deliver a stronger and better informed shareholder base." — Toscafund Asset Management (\$3.5 billion AUM)

Sidoti currently covers a select group of corporations on a Company Sponsored Research basis and to-date we believe they, by and large, have experienced the benefits of CSR. Please contact me directly to see if Sidoti can be helpful in enhancing your corporate visibility through CSR. Peter T. Sidoti, CEO, [psidoti@sidoti.com](mailto:psidoti@sidoti.com), 212-453-7000

<sup>1</sup> <https://www.bloomberg.com/news/articles/2017-11-14/hedge-fund-pleads-for-small-caps-to-pay-for-research-after-mifid>. All statements referring to the article herein are qualified in their entirety by reference to the article.

<sup>2</sup> Value traps refer to stocks that are cheap when compared to the profits they generate and their competitors and stay that way.