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RESEARCHFOCUS<sup>SM</sup>**

*INVESTMENT STRATEGY*

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## Executive Summary

One of the most crucial areas of investment research is investment strategy research, which provides portfolio-level recommendations as opposed to security-level analysis. When Integrity Research conducted a survey of investors in the second quarter of 2008, nearly half said they use research from independent investment strategy firms as a part of their investment process.

Reflecting the importance of investment strategy research, the number of independent strategy firms has quadrupled from 8 in 1988 to 37 in 2008. Strategy firms now use a variety of analytic techniques and are located around the globe. New entrants are also bringing new approaches and new business models into the mix. To help investors sift through the profusion of investment strategy choices, Integrity Research has developed this **ResearchFocus<sup>SM</sup>** review.

From its database of 1,900 research firms, Integrity has identified the 37 firms which specialize in investment strategy research. Investment strategy firms differ from the more numerous economic research firms by focusing on actionable advice rather than economic forecasts or commentary. The advice can take the form of allocation recommendations at the asset, geographic or sector levels.

Even though investment strategy firms are the minority, they are the most popular segment of economic research, based on spending by investors. Investment strategists comprise less than 25% of economic research firms in terms of the number of firms, yet they have the largest share of revenues for the economic research category. We estimate that 44% of the total amount spent on economic research goes toward investment strategy research.

The majority of investment strategy firms draw on macroeconomic analysis as the basis for their strategy recommendations. Of the 37 firms reviewed, 21 use macroeconomic methodologies. An increasing number of firms draw on alternative methodologies, including technical analysis, quantitative models, analysis of money flows, access to experts or even social networking. There are nine firms which use a hybrid of macroeconomic analysis and other techniques, and these firms have captured a significant share of the investment research spending.

One of the most highly valued aspects of investment research is thematic research, which focuses on recommending 'big picture' investment themes. In Integrity's survey of investors, thematic research was identified as the most valuable strategy component. Thematic research can be generated from a variety of sources and methodologies, including macroeconomic analysis, demographic trends, tax policy, geopolitical developments, inflation or even climate change.

Investment strategy firms have also diversified beyond the U.S. Nearly half of the firms reviewed are located outside the U.S. as 7 strategy firms are based in Europe, 7 in Asia and 2 in Canada. There is also a greater degree of geographic specialization, with strategy firms focusing on recommendations for allocations within specific regions, whether Europe, Asia or the emerging markets.

For this review, Integrity surveyed hedge funds and long only investors to better understand how they use investment strategy, which strategy firms they prefer, and why. We used the survey to help us evaluate the firms, and also to understand the dynamics of the investment strategy segment itself. Investment strategy is a relatively mature category which benefits from the increasing value placed on macro-level analysis as a result of the liquidity and credit crisis of 2008. One proxy for this is the relative outperformance of macro-oriented investment funds. Nevertheless, the post-crisis outlook for investment research generally is challenging, with declining commissions spending, fewer asset management clients (particularly hedge funds) and fewer buy side analysts.

The 37 investment strategy firms reviewed in this **ResearchFocus**<sup>SM</sup> were evaluated on 5 different metrics: customer satisfaction, analytical resources, cost versus satisfaction, popularity, and Integrity's qualitative assessment of the research produced by each firm. Based on these evaluations, Integrity selected *2008 Top Picks for Investment Strategy*. Each Top Pick is chosen from a specific type of investment strategy: Macro, Hybrid, Alternative-Based, and Thematic. In some cases, firms were eligible to be selected in more than one category. This report also highlights new and interesting firms which have developed novel approaches to investment strategy, or are firms to watch.

This edition of **ResearchFocus**<sup>SM</sup> begins with an overview of the investment strategy segment which discusses the strategy sector generally and outlines best practices. The second section discusses the industry dynamics and how investors use investment strategy research. The third section provides a comparative analysis of the different investment strategy firms, examining their customer satisfaction, cost effectiveness, quality of their research, analytic strength and additional services provided. From this analysis, we select the *2008 Top Picks for Investment Strategy*, with the *Runner-Up* firms and honorable mentions. We also include other notable firms to consider, based on their technology, business model or other factors. Profiles of each of the 37 firms analyzed in this review are included in the final section.