

Official Launch of the Investorside Research Association  
Remarks of Scott Cleland, Chairman of the Investorside Research Association  
National Press Club, July 24, 2002

Welcome and thank you for coming.

- I am Scott Cleland, Chairman of the Investorside Research Association and CEO of the Precursor Group, and this is John Eade, Vice Chairman of the Association and President of Argus Research.

On behalf of the Founding Members of the Association, the Precursor Group, Argus Research, John Meserve, President of BNY Jaywalk, Jack Hidary, President of Vista Research, and David Hines, Principal of Avalon Research who was unable to join us today, we welcome you all to the official launch of the Investorside Research Association.

We're all here today because there is an obvious and serious problem of investor distrust towards investment research.

- President Bush recently called investment banking research "a flat out conflict of interest."
- The SEC and NASD just implemented rules to try to improve the objectivity of investment research analysts.
- Congress is near completion of financial markets reform legislation, which addresses analyst conflicts of interest, and soon will be the law of the land.
- And this afternoon, the SEC is addressing the question if analysts should certify whether or not they were pressured in making their investment conclusions.

It is unfortunate and unacceptable that the investment research industry failed miserably in warning investors early of deep problems at Enron, WorldCom, Global Crossing, Adelphia and others.

The problem with investment research is glaring.

- Investors are seething and rightly so -- they have been badly served.

We believe that part of the solution is obvious – get more investment research working for investors.

- We estimate that 95% of the investment research market is dominated by company-side or investment banking firms whose primary business is raising capital for companies, "a flat out conflict of interest."
- Should it be any surprise why investors have been so badly blindsided?

The Association's mission is to promote investor trust in capital markets through the use of investment research, which is aligned with investor interests.

- We are taking a leadership role to help restore investor trust in investment research.
- It's common sense: encourage alignment of interests, and discourage conflicts of interest.
- The current system tempts the worst in human nature, and distrust results.
- Competitive checks and balances and the disciplining mechanism of the market can and must work better.

We want to make a very important point: if competitive Investorside research providers don't serve investor interests -- they'll go out of business.

- Investorside providers are purely performance based, singularly focused on serving and protecting investors.
  - We don't have dual loyalties.

- We're not juggling competing interests.
  - We do not have a hidden agenda or an ulterior financial motive.
  - We don't have companies subsidizing our research behind the scenes.
- The old adage is true: "you get what you pay for."
    - If research is free – it's advertising and should be treated as such.

We strongly believe in competition and may the most useful research to investors succeed.

- We are entrepreneurs who only succeed if our investor clients succeed.
- We are a private sector, investor oriented solution that has the best chance of lasting success.
- The best way to correct this conflict of interest problem is for Investorside to compete away investment banking's dominant research market share.

Our solution has three basic parts.

1. **BECOME AWARE.** Investors and pensioners will continue to be ill served until they can readily identify which research is working for them and which is working for companies.
2. **GET ALIGNED.** Investors have the power to fix the problem; they should:
  - Look for and use research with the Investorside certified provider seal;
  - Encourage research providers to get certified; and
  - Encourage investor-oriented websites to have a weblink to [www.investorside.org](http://www.investorside.org) so that investors can more easily find research aligned with their interests.
3. **FOLLOW THE MONEY.** This conflict of interest problem is unlikely to get better until investors and government overseers learn and track what portion of the commissions generated by their 401K and pension assets pay for research that is aligned with investor and pensioner interests.
  - This problem continues to persist because the money exchange is largely subterranean and out of the plain view of investors.
  - No one has quantified the payment mechanism or insisted on transparency and accountability for research commissions.

As I conclude, where did the idea for the Association come from?

- Well, as the first outside expert to testify before Congress on Enron, I argued that the Enron bankruptcy could have been averted if only the system's normal checks and balances and internal controls were not so badly degraded by rampant conflicts of interest.
- In January, I conceived the idea of Investorside as a long term mechanism to make the hidden conflicts much more transparent and accountable.

Now I'd like to introduce our other speakers:

- The Vice Chairman of the Association, John Eade of Argus Research will now explain the certification process and the use of the Seal.
- Then founding member John Meserve, President of BNY Jaywalk will show how independent research can better serve investors.
- Then we will hear from another founding member Jack Hidary, President of Vista Research who will provide some perspective on the importance of alignment with investor interests.
- Finally we will hear from Frank Torres, representing the Consumers Union on how Investorside can help investors become better consumers of investment research.
- After these remarks we will go to Q&A.