

# THE FUTURE OF ANALYSIS

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It is quite entertaining and enlightening to observe the conduct of unscrupulous corporate bigwigs, moronic courts, and shady investment firms. It is eerily reminiscent of watching a Discovery Channel episode on hyenas, vultures or some other scavenger. For example, this past month we have been exposed to another nausea-inducing situation between Morgan Stanley and French luxury-goods maker LVMH Moët Hennessy Louis Vuitton. Choose your poison folks, I don't have any idea who the good guys are in this one.

LVMH alleges that Morgan Stanley's luxury-goods analyst Claire Kent went out of her way to portray LVMH in a negative light. In most cases we have diligently pointed out here in the newsletter, equity analysts never portray any company in a bad light. Investment firms compete over lucrative investment banking deals, to upset a potential client with an honest sell recommendation would hurt the firm's ability to win those coveted merger and acquisition fees or a secondary offering. This case has a unique twist. LVMH claims equity analyst Claire Kent knocked LVMH from 1999-2002 to garner favors from their current investment-banking client Gucci Group. Ironically, at the same time LVMH and Gucci were in a rough takeover battle. Morgan Stanley says that LVMH is, in essence, a scorned lover motivated by a lasting enmity over Morgan's 1999 role in aiding Gucci evade a LVMH takeover.

A Paris court has ordered Morgan Stanley to pay \$38.5 million in damages based upon a lawsuit stating that Morgan Stanley published biased research, which was detrimental to LVMH's image. The court also ruled that much of Morgan's research had "considerably prejudiced" LVMH's activities and reputation. Morgan Stanley has maintained throughout this ruckus that it is innocent of any wrongdoing and would appeal (*now, where have I heard that before?*). Patrick Ponsolle, chairman of Morgan Stanley in France states "It's a terrifying and absurd decision." He added that if the judgment were allowed to stand, "I don't think we'll have much critical analysis in the future."

Sorry Pat, but your full of it! The fact that any genuine critical analysis is actually produced by Morgan Stanley equity analysts or from any of their colleagues is quite the stretch. We have been covering the many follies of equity analysts for years and the underlying truth is that market reality is bought and sold by the highest bidder. Morgan Stanley wants us to believe that this case is somehow different from the hundreds of puff pieces they have written about before. Sell stupid somewhere else, because I am not buying it.

When taking a close look at the actual Morgan Stanley report on LVMH written by analyst Claire Kent I was shocked. First, she stated that LVMH's financial results had been surprisingly good and she expected the share price would rise 24% within 18 months. That sounds like a pretty darn good assessment to me. The only negative aspect of the report was that analyst Claire Kent reduced her recommendation by 10% because "*management has destroyed value*" in the past. Morgan Stanley forecasted a tremendous gain for LVMH but it wasn't good enough for LVMH or the French court.

Does this now mean that any time a corporation receives a rating they don't like they have the right to run off to a French court and sue? This precedent being set by the Paris Court could have terrible implications when it comes to research.

This spurned lover story belongs in divorce court or on an episode of *Will & Grace*. Unfortunately, this case could set a precedent that would ultimately leave investors in the dark once again. In fact, no sooner did the ink on this case dry, the *Financial Times* reported that

Sodexo Alliance, a French catering group, has called on the Paris market watchdog to investigate a drop in its share price that it claims was triggered by "incorrect information" published by Smith Barney. This case is going to establish how Europe deals with conflict-of-interest issues involving stock analysts. Do not be surprised to see American companies filing claims in foreign courts very soon. This case scares the hell out of me. Not only are stock analysts pressured from their firms to keep ratings up but also now the fear of litigation will press them further. The whole system is getting worse instead of better.

More to come in 2004!