

No touts please, we're Veritas

Brokerage vows to be straightforward with investors

Barry Critchley, Financial Post

When **Michael Palmer** doesn't like a stock he says he'll tell you. So it's not surprising that the name of **Palmer's** new, independent research boutique is **Veritas Investment Research Co.** According to **Palmer**, **Veritas** (which means truth in Latin) will "raise the bar" on equity research.

The firm -- which he is forming with Al Rosen, a forensic accountant and professor at Toronto's York University -- is seeking registration as an investment advisor with the Ontario Securities Commission and will be open for business once the necessary regulatory approvals have been received.

"The only thing that we have to sell is our research," said **Palmer**, who has worked at a number of firms in the 20-plus years he has been in the investment business.

"We will be entirely dependent on the quality of our research," said **Palmer**, whose analyst career has also included running research departments at two firms, Sanwa McCarthy (which became Newcrest) and, most recently First Associates Investments. In the model being developed, **Veritas** won't have a corporate finance wing and its equity trading activities will be handled by Commission Direct. The firm intends to get paid, in cash, for its research product. "We want to get away from the soft-dollar field," said **Palmer**.

The motivation behind the new research-oriented firm is straightforward: "It's demonstrable that most analysis winds up with a positive opinion," **Palmer** says. "Quite frankly, a lot of analysis is intended to capture investment banking business rather than expressing the opinions of analysts," said **Palmer**, who, as expected, has strong views on the focus of some research reports.

One such example is EBITDA -- or earnings before interest, taxes, depreciation and amortization.

"EBITDA bears no relationship to cash flow. A lot of analysis is conducted as if EBITDA is the Holy Grail. It's not and can be manipulated as easily as any other number in the [annual financial] statements," said **Palmer**.

Instead, **Palmer** believes cash flow should be the prime focus. "Ultimately a company has to generate cash for its shareholders and for reinvestment," he said.

Accordingly, **Palmer** isn't a big fan of cash earnings, a performance measure used by some banks and some high-flying technology companies.

"Companies invented cash earnings because it allows them to report higher earnings," he said when noting that cash earnings don't reflect goodwill, an expensive item for a company that makes a lot of acquisitions.

Palmer plans to be busy, expecting "to put out as much research as the major houses." For **Palmer** the move to set up his own research boutique means a return to territory he occupied a few years ago. Then he formed Equity Research Associates, a specialist research firm.

This time it's different. "Then I didn't have anywhere near the support and technical expertise we have now," he said.

The move to start his own firm also builds on work that **Palmer** and Rosen, and two others -- Mark Rosen and **Anthony Scilipoti** -- have been doing for the past 15 months. That research was done through Private Financial Research Corp. and distributed through First Associates.

Palmer said the group has published 30 major reports in that period. Geac, Nortel, Seagram, Chapters, Leitch Technology and TLC Laser Eye Centers were all put under the microscope.

While **Palmer** and gang are launching a research boutique, Todd Coupland, a technology analyst at CIBC World Markets, is also embarking on a new path. In an unusual move for a Canada-based analyst, Coupland has been handed the responsibility to cover a sector of the U.S. market that will complement the coverage he provides for the Canadian sector.

That sector is the electronics manufacturing outsourcers. The U.S. companies include Solectron and SCI; the Canadian list is home to C-MAC, Celestica and Primetech Electronics.

Coupland aims to publish his first research report by the end of next month after he completes a series of company visits.

At Merrill Lynch, Tom Astle, the firm's highly regarded technology analyst, also covers a number of companies in the U.S. as well as the Canadian comparables.

bcritchley@nationalpost.com