Analyse the analysts

Many market experts say one thing on the media, but do the exact opposite. There are rules to check such behaviour, but they need more purpose and bite

Ban analysts from giving stock-specific advice during market hours and impose higher fines

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About a year ago, market regulator Sebi (Securities and Exchange Board of India) passed a path-breaking order against an analyst. Sebi found this analyst had, over a period of six months, bought stocks, given a 'buy' recommendation on those very stocks in the media, only to sell them in the immediate aftermath. In essence, he was saying one thing, but doing the opposite.

The only possible ulterior motive for his actions was to make unfair gains for himself, usually at the cost of small investors. Significantly, while making the recommendations, the analyst hadn't disclosed, as required by Sebi regulations, his holdings or that of his family members in the stocks concerned. That order was a first. A year on, it's still the only one, and there lies a problem.

It's all talk

The experts are still handing out stock recommendations on TV and in publications -- and, I suspect, not always with the purest of intentions. I have always wondered what motivates such people to use their working hours to give free advice. Are they philanthropists, wanting general good? Or, are they simply using the media to further their interests, ethics be damned?

In order to alert the public to the possible duplicity of such entities, Sebi has mandated that whenever market intermediaries or their employees give out advice on a stock, they have to disclose their positions in the stock concerned. However, more often than not, this regulation is flouted. With impunity.

Since the law is not watertight, it makes such disclosures meaningless. So, analysts disclose their personal positions, but they don't reveal the shares held by them in the names of front entities, dummy entities or even relatives who are not covered by the definition of family/relatives. Analysts also brush this away by stating that they have "insignificant holdings" (insignificant, in what context?). Analysts can also disclose their current holdings, but stay mum about the stock they sold before putting a 'sell' recommendation on it in the hope that it would fall and they would buy it again at lower levels.

It's impossible to investigate each and every analyst's recommendations. Moreover, such investigation might not even always nail the unscrupulous, as an analyst could have traded in the name of a front entity.

Rule of law

The order passed by Sebi a year ago highlighted its concern that small investors could be misled by experts voicing views in the media, more so in a market like this that can make every pick look good. But the concern doesn't seem to be backed by action -- neither have the regulations been strengthened nor have any more analysts been punished. There is clearly a need for enacting a specific regulation for investment advisers and for the media. Here's what, I feel, such a regulation should include:

- Sebi laws presently cover only regulated entities and their representatives. Since unregulated entities are also affecting a market that is regulated by Sebi, the regulations should cover every one offering stock-specific advice through any media. All such persons should be registered with Sebi individually, and not just as a representative of a registered firm.
- Punishments should be substantive to serve as a deterrent. In the above-cited case, Sebi fined the analyst Rs 20 lakh, but didn't ban him from the market. In my view, that was a light let-off, and not enough of a deterrent.
- Stock-specific advice during market hours should be banned.
- The media, with its visibility and persuasive appeal, has a responsibility to the investing public at large to disseminate truthful and fair information. It should exercise due care and diligence to ensure that only persons with proven credentials of giving fair and truthful analysis are allowed to give advise on their channels. Sebi had earlier issued letters to TV channels in this regard. Since it's not working, have regulations instead. TV channels and other media entities should ask analysts for a detailed disclosure on their holdings and display it prominently before the analyst gives the advice.

That's what the law needs to do. There's something you can do too: homework. Most market experts are not Gods and their word is not the last word in investing. Nor should you paint them in the same brush. There are good analysts, there are bad analysts. There are ethical analysts, there are unethical analysts. Listen to them, but make your own decisions and take responsibility for it, especially till such time as regulations strengthen the checks and balances in the system