

Trading Slowdown Fuels Competition Among U.S. Equity Brokers

2016 Greenwich Leaders: U.S. Equities

Q2 2016

As brokers adjust their business strategies to cope with both the post-crisis regulatory framework and a slowdown in institutional trading activity, a top tier of U.S. bulge bracket firms last year established a solid claim as the leaders in U.S. cash equities.

In U.S. Equities Trading, J.P. Morgan is tied at the top of the market with Goldman Sachs, Bank of America

Merrill Lynch and Morgan Stanley, all with trading shares between 7.8%–8.3%. Credit Suisse rounds out the top five with a trading share of 7.0%. These firms are the 2016 Greenwich Leaders in U.S. Equity Trading Share.

“Depressed trading volumes have been a drag on revenues and earnings of all the global banks,” says Greenwich Associates consultant Jay Bennett. “In the

Greenwich Share Leaders — 2016



U.S. Equity Trading Share^{1,2}

Broker	Trading Share	Statistical Rank
J.P. Morgan	8.3%	1T
Goldman Sachs	8.2%	1T
Bank of America Merrill Lynch	8.0%	1T
Morgan Stanley	7.8%	1T
Credit Suisse	7.0%	5

U.S. Equity Research/Advisory Vote Share¹

Broker	Vote Share	Statistical Rank
J.P. Morgan	10.1%	1
Goldman Sachs	9.5%	2
Morgan Stanley	8.6%	3T
Bank of America Merrill Lynch	8.1%	3T
Credit Suisse	6.4%	5T
Barclays	6.2%	5T

U.S. Equity Algorithmic Trading Share³

Broker	Trading Share	Statistical Rank
Goldman Sachs	9.3%	1T
Credit Suisse	9.2%	1T
Bank of America Merrill Lynch	8.3%	3T
J.P. Morgan	7.6%	3T
Morgan Stanley	7.2%	5T
Sanford C. Bernstein	7.0%	5T

Portfolio Trading Share - North American Institutions⁴

Broker	Trading Share	Statistical Rank
Bank of America Merrill Lynch	10.3%	1T
Morgan Stanley	9.5%	1T
Goldman Sachs	8.2%	3T
Credit Suisse	7.7%	3T
J.P. Morgan	7.6%	3T
Citi	7.2%	3T

Note: Based on responses from 223 buy-side institutions for U.S. Equity Research/Advisory Vote Share and 321 for U.S. Equity Trading Share, both weighted by commission spend of accounts. ¹Greenwich Associates Research/Advisory Vote Share and Trading Share represent a broker's relative importance to the buy-side institutions within the Greenwich Associates universe. Scores are based upon the amount of business conducted with each respondent and the size of each responding institution based on commission spend with the sell-side community. ²Equity Trading encompasses sales trading, execution, sector trading, and electronic trading. ³Based on 290 respondents. Broker share is weighted by overall commission size of institutions and buy-side traders' allocation by rank. Algorithmic/SOR Trading share is weighted by overall Algorithmic/SOR commissions paid by institutions' and buy-side traders' allocation by rank. ⁴For the 77 respondents for North American Portfolio Trading Share, the results are weighted by notional portfolio trading dollar volume. Top five leading brokers are cited including ties. Source: Greenwich Associates 2016 U.S. Equity Investors Study

Greenwich Quality Leaders — 2016



U.S. Equity Research Product & Analyst Service Quality

Broker

J.P. Morgan
Morgan Stanley
Sanford C. Bernstein

U.S. Equity Sales & Corporate Access Quality

Broker

J.P. Morgan
Morgan Stanley

U.S. Equity Sales Trading & Execution Service Quality¹

Broker

Credit Suisse
Goldman Sachs
J.P. Morgan
Morgan Stanley

U.S. Equity Electronic Trading Quality²

Broker

J.P. Morgan
RBC Capital Markets
Sanford C. Bernstein

Overall Portfolio Trading Quality³

Broker

Bank of America Merrill Lynch
Credit Suisse
Morgan Stanley
Nomura/Instinet

Note: Based on 223 respondents for U.S. Equity Research Product & Analyst Service Quality (portfolio managers) and U.S. Equity Sales Quality, 321 for U.S. Equity Sales Trading Quality and 298 for U.S. Equity Electronic Trading Quality. Leading brokers are displayed in alphabetical order including ties.

¹Equity Trading encompasses sales trading, execution, sector trading, and electronic trading. ²Electronic Trading encompasses electronic trading, client service, sales and algorithmic product quality. ³Based on 77 respondents for Overall Portfolio Trading Quality.

Source: Greenwich Associates 2016 U.S. Equity Investors Study

resulting fierce competition for trading business, a “two-tier top-tier” profile exists, with the first tier doing 32% of the business and the second tier about 28%.”

In U.S. Equity Research/Advisory, J.P. Morgan is in the top spot with a 10.1% share of the commission-weighted institutional investor research/advisory vote, just ahead of an increasing Goldman Sachs at 9.5%. They are followed by Morgan Stanley and Bank of America Merrill Lynch, which are statistically tied at 8.1%–8.6%, and Credit Suisse and Barclays, which are tied at 6.2%–6.4%. These firms are the 2016 Greenwich Leaders in U.S. Equity Research/Advisory Vote Share.

As part of its 2016 U.S. Equity Investors Study, Greenwich Associates interviewed 223 institutional portfolio managers and 321 institutional traders about the brokers they use for U.S. equities. Study participants were asked

to name the brokers they use, to estimate the amount of business done with each firm, and to rate the brokers in a series of product and service categories. Firms that received client ratings that top those of competitors by a statistically significant margin were named Greenwich Quality LeadersSM.

J.P. Morgan is the only broker to win a designation as a Greenwich Quality Leader in all three categories considered by Greenwich Associates. The 2016 Greenwich Quality Leaders in U.S. Equity Research Product & Analyst Quality are J.P. Morgan, Morgan Stanley and Sanford C. Bernstein. In addition, J.P. Morgan and Morgan Stanley claim the title of 2016 Greenwich Quality Leaders in U.S. Equity Sales & Corporate Access, while J.P. Morgan joins Credit Suisse, Goldman Sachs and Morgan Stanley as 2016 Greenwich Quality Leaders in U.S. Equity Sales Trading & Execution Services.

Greenwich Share and Quality Leaders — 2016



U.S. Small/Mid-Cap Research/Advisory Penetration

Broker	Market Penetration	Statistical Rank
Robert W. Baird	84%	1
Raymond James	78%	2
J.P. Morgan	69%	3T
KeyBanc/Pacific Crest	69%	3T
Stifel Nicolaus	69%	3T

U.S. Small/Mid-Cap Equity Sales & Corporate Access Quality

Broker
Raymond James
Robert W. Baird
William Blair

U.S. Small/Mid-Cap Equity Research Product & Analyst Service Quality

Broker
Raymond James
Robert W. Baird
William Blair

Note: Based on interviews with 96 institutions. U.S. Small- and Mid-Cap Research/Advisory Penetration represents proportion of investors citing each broker as one of their 15 most important research/advisory firms. Share leaders are based on top five brokers including ties. Quality leaders are cited in alphabetical order including ties. Source: Greenwich Associates 2016 U.S. Equity Investors Study

Electronic Trading

“Low-touch” electronic trades make up about 55% of U.S. equity trading volume for larger accounts and about 27% of the annual commission pool. Goldman Sachs and Credit Suisse share the No. 1 spot as leading brokers in U.S. Equity Algorithmic Trading with algo commission-weighted trading shares of 9.2–9.3%. Bank of America and J.P. Morgan are next with statistically tied shares of 7.6–8.3%, followed by Morgan Stanley and Sanford C. Bernstein in fifth place, with scores of 7.0–7.2%. These firms are the 2016 Greenwich LeadersSM in U.S. Equity Algorithmic Trading Share.

The 2016 Greenwich Share Leaders in Portfolio Trading for North American institutions are Bank of America Merrill Lynch, with a 10.3% volume-weighted trading share, followed by Morgan Stanley, with a share of 9.5%, and Goldman Sachs, Credit Suisse, J.P. Morgan and Citi, which are tied with shares of 7.2%–8.2%.

The 2016 Greenwich Quality Leaders in U.S. Electronic Trading are J.P. Morgan, RBC Capital Markets and Sanford C. Bernstein. In Portfolio Trading, this year’s

Greenwich Quality Leaders are Bank of America Merrill Lynch, Credit Suisse, Morgan Stanley and Nomura/Instinet.

Small/Mid-Cap Stocks

Robert W. Baird maintained its position last year as the most widely used broker for U.S. small/mid-cap equities. Among U.S. institutional investors active in small-cap stocks, 84% use Robert W. Baird as a broker, followed by Raymond James in second place with a market penetration score of 78%. Rounding out the top five are J.P. Morgan, KeyBanc/Pacific Crest and Stifel Nicolaus, which are tied with penetration scores of 69%. These firms are the 2016 Greenwich Share Leaders in U.S. Small/Mid-Cap Research/Advisory Penetration. The 2016 Greenwich Quality Leaders in both U.S. Small/Mid-Cap Equity Sales & Corporate Access and U.S. Small/Mid-Cap Equity Research Product & Analyst Service are Raymond James, Robert W. Baird and William Blair.

Consultants Jay Bennett, John Colon, John Feng, Richard Johnson, Kevin Kozlowski, and David Stryker advise on institutional equity markets globally.

METHODOLOGY

Between December 2015 and February 2016, Greenwich Associates interviewed 223 U.S. generalist equity portfolio managers, 96 small/mid-cap fund managers and 321 U.S. equity traders at buy-side institutions. The study participants were asked to evaluate the sales, research and trading services they receive from their equity brokers and to report on important market practices and trends.

The findings reported in this document reflect solely the views reported to Greenwich Associates by the research participants. They do not represent opinions or endorsements by Greenwich Associates or its staff. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Greenwich Associates compiles the data received, conducts statistical analysis and reviews for presentation purposes in order to produce the final results.

© 2016 Greenwich Associates, LLC. All rights reserved. Javelin Strategy & Research is a subsidiary of Greenwich Associates. No portion of these materials may be copied, reproduced, distributed or transmitted, electronically or otherwise, to external parties or publicly without the permission of Greenwich Associates, LLC. Greenwich Associates', Competitive Challenges', Greenwich Quality Index', Greenwich ACCESS™, and Greenwich Reports' are registered marks of Greenwich Associates, LLC. Greenwich Associates may also have rights in certain other marks used in these materials.

The Greenwich Quality LeaderSM and Greenwich Share LeaderSM designations are determined entirely by the results of the interviews described above and do not represent opinions or endorsements by Greenwich Associates or its staff. Such designations are a product of numerical scores in Greenwich Associates' proprietary studies that are generated from the study interviews and are based on a statistical significance confidence level of at least 80%. No advertising, promotional or other commercial use can be made of any name, mark or logo of Greenwich Associates without the express prior written consent of Greenwich Associates.

