

Staffers Leave First Horizon Unit To Form Own Stock-Research Firm

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June 19, 2006; Page C6

A group of research and support staffers have quit the FTN Midwest securities unit of **First Horizon Corp.** to start an independent stock-research firm, citing concerns about FTN's push into investment banking.

Eric Bosshard, a home-center and building-products analyst and former co-head of research at FTN Midwest, said he and colleague Chris Byke are launching Cleveland Research partly because of FTN's investment-banking business.

Mr. Bosshard, who will be chief executive and research director of Cleveland Research, said the new firm would "operate independent of any investment-banking or trading conflicts." Mr. Bosshard said 45 staffers are leaving; FTN put the number of resignations at 25.

During the stock-market bubble of the 1990s, Wall Street firms were accused of using the lure of favorable research to win investment-banking assignments from companies in mergers and stock and bond sales from companies. There is also concern that analysts might be influenced by their firms' trading activities. In 2003 major Wall Street firms paid \$1.4 billion to settle research bias charges by regulators.

William Bischoff, CEO of FTN Midwest, said the firm continues to believe in the traditional Wall Street model of combining banking, research and trading. That model, he said, makes it easier for investors to pay for research they get via commissions paid for their trades. He estimated the breakaway Cleveland group accounts for less than one-third of FTN's research analysts.

Mr. Bischoff said FTN, which acquired banking boutique Alterity Partners in September 2004, has a "Chinese wall" so banking can't influence research. First Horizon, FTN's corporate parent, is a regional bank based in Memphis, Tenn.

In one of FTN's recent banking forays, it was one of two underwriters that helped oversee and market a \$38 million initial public offering of Digital Music Group Inc. That IPO has been a flop with investors. Priced at \$9.75 a share on Feb. 2, DMG shares since have since fallen 44%, to \$5.50 in 4 p.m. Friday Nasdaq Stock Market composite trading

Mr. Bischoff said other IPOs in which FTN participated have been more successful, such as Citi Trends Inc., an urban-apparel retailer; its share price has more than tripled.

Cleveland's Mr. Bosshard noted that many professional investors are trading increasingly through electronic networks at commissions as low as a quarter of a cent per share, down from three to four cents a share, making it more difficult to charge for research via commissions. Cleveland plans to charge a minimum cash rate of \$250,000 annually to a smaller group of 125 clients.

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