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Finance fallout boosts local firm

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A small Santa Barbara investment research firm could earn up to \$50 million over the next five years helping to keep Wall Street honest.

Sabrient Systems, with offices on Micheltorena Street, has been chosen to provide independent stock research to clients of some of the nation's top investment banks and brokers.

The choice of Sabrient comes in the wake of last year's \$1 billion-plus settlement between the Securities and Exchange Commission and 10 top investment firms which were accused of major conflicts of interest between the research and investment sides of their businesses.

The companies fingered by the SEC were Bear Stearns, Credit Suisse First Boston, Goldman Sachs, Lehman Brothers, J.P. Morgan, Merrill Lynch, Morgan Stanley, Citigroup Global Markets (formerly Salomon Smith Barney), UBS Warburg and U.S. Bancorp Piper Jaffray.

In addition to the monetary penalties, the firms were required to dramatically reform future practices, including how research is reviewed and supervised, and making independent research available to investors.

Sabrient's chief market strategist, David Brown, said under the terms of the settlement \$450 million was set aside to fund independent research to clients of those firms over the next five years.

He said so long as Sabrient continues performing as well as it has been over that time, it can expect to receive between \$25 million and \$50 million from the settlement fund.

Mr. Brown describes Sabrient as a "quantitative" research firm which has developed dynamic stock selection methods through processing and filtering huge quantities of publicly available data reported by 3,600 companies.

Company computers are constantly updating, filtering and mining 30 years worth of such data, weighing about 300 different factors for each stock. According to Sabrient's Web site, these systems "deliver regular rankings of best-positioned stocks for all leading investing styles."

Sabrient adds a few key ingredients of its own and the results, tailored to value, growth, small cap and large cap investments, basically provide an analysis of risk and reward, coupled with entry and exit strategies.

Five of the Wall Street firms caught in the SEC net contracted with BNY Jaywalk, a Bank of New York company, to find independent researchers. Sabrient was among those chosen by BNY and the Santa Barbara firm is waiting to hear which, if not all, of those five it will be working with.

"Our performance got us noticed in the first place," says Sabrient co-founder Sandra Bentley. "BNY had been tracking us for a year." She said Sabrient has consistently outperformed the Standard & Poor's 500 and Small Cap 600 indices by between 12 and 30 percent.

Up to this point Sabrient has been working exclusively with asset managers and hedge funds. However, under the deal with Wall Street it will begin offering its services to individual investors and is planning to expand further into that market.

Founded in 2000, Sabrient has 12 staff, nine in Santa Barbara and others working from their homes in Houston, Hawaii and Ventura. The team includes two UCSB graduates, Joshua Anderson and Neil Gibeau.

Ms. Bentley said as a result of the New York contracts and expected growth through servicing individual investors, the company will likely add up to another 10 people over the next couple of years.

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