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Best on the Street (A Special Report): 2008 Analysts Survey Finding the Way In Rough Seas --- New faces move quickly to seize opportunities created by up-and-down market

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Call it the year of the newcomer.

More than half of the winners in The Wall Street Journal's 16th annual Best on the Street analysts survey are appearing in the rankings for the first time.

Some are young, like 28-year-old Erik B. Kolb at McGraw-Hill Cos.' Standard & Poor's Corp., who rode to the top in the broadcasting and entertainment sector in 2007. Others are older, like 60-year-old Tony Davis of Stifel, Nicolaus & Co., a unit of Stifel Financial Corp., who placed third among analysts in the thrifts sector. Some work for big investment-banking firms like Goldman Sachs Group Inc., while others ply their trade at small research shops like CJS Securities Inc.

What they have in common is that in a turbulent year for the stock market, they made recommendations that would have made investors money -- or allowed them to lose less than they would have otherwise.

Stocks took a roller-coaster ride before ending last year with modest gains. Major indexes set records but then plummeted amid worries about risky lending and declining home prices. The second half of the year was particularly volatile as credit markets tightened and the U.S. economy weakened. The Dow Jones Industrial Average finished 2007 up 6.4%, despite a 4.5% decline in the fourth quarter.

In this unsettled environment, the top analysts managed to navigate the markets to find stocks that outperformed, even for part of the year, and others that were best to avoid. "Original anticipatory thinking" is among the most important attributes for a research analyst, says Candace Browning, president of global research at Merrill Lynch & Co. "Price anomalies do create opportunities, and you need to jump on those quickly."

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Some of the best calls last year were sell recommendations, especially in the hard-hit financial and housing-related sectors.

Take David Konrad at Keefe, Bruyette & Woods Inc., a first-time winner who urged investors to stay away from regional banks with rising loan defaults. His sell recommendation on Cleveland-based National City Corp. helped propel him into the No. 1 spot among bank analysts. In the home construction and furnishings group, **Paul Puryear** of Raymond James & Associates rose to the top with a sell rating on Dominion Homes Inc. as the shares slid more than 93%.

But there also were some spectacular buy recommendations. Newcomer Jesse W. Pichel of Piper Jaffray & Co. earned a more than 300% return in just seven months last year by recommending Hoku Scientific Inc., a maker of fuel-cell membranes and solar-power systems. That put him in the No. 1 spot in electronic and electrical equipment. He also scored in the semiconductor-equipment manufacturing group, one of five analysts this year to win more than one award.

"Stock selection has become much more important," says Laura Conigliaro, co-head of Americas research at Goldman Sachs. "In the past, you might have been able to find, in some instances, that you could buy sectors or sell sectors, but now, even within groups, there is much more dispersion."

She should know. One of this year's winners is Ms. Conigliaro herself, a computer-industry analyst who is making her seventh appearance in these rankings.

Goldman Sachs had 14 winners among this year's Best on the Street analysts, putting it at the top of the list of 72 firms appearing in the survey. A year ago, Goldman was No. 48 out of 85 firms, with just two awards.

Morgan Stanley snagged the No. 2 spot, with 12 awards, up from just three a year ago, when it was No. 32. Merrill Lynch, the No. 1 firm a year ago, is in the No. 3 spot this year.

Picking the Winners

For this ranking of analysts, Thomson Reuters Corp. surveyed more than 4,000 analysts at more than 260 firms. The winners were drawn from 1,713 individuals who met the survey's eligibility criteria. The 220 Best on the Street analysts in 45 industry groups are featured in the articles and listings in this edition of The Journal Report.

Although there are many ways to rank analysts, this survey is strictly quantitative and based solely on stock-picking skill. The data were compiled, verified and reviewed by Thomson Reuters, using a scale that gives credit for timely buy and sell recommendations. Every analyst had to meet the same requirements and was subject to the same standards.

The industry groups were derived using the Industry Classification Benchmark, a classification structure that is a product of Dow Jones Indexes and FTSE Group. Dow Jones Indexes is a unit of Dow Jones & Co., a News Corp. company and publisher of The Wall Street Journal.

While Goldman, Morgan Stanley and Merrill Lynch top the list of firms winning awards, that partly reflects a greater number of eligible analysts at the big firms.

The list of winning firms also includes tiny independents like Greenwich Consultants LLC in Rumson, N.J., and Roe Equity Research in Dorset, Vt., each with a single analyst who scored No. 1 in his sector -- Greenwich's Michael Judd in chemicals and Roe Equity's Kevin Roe in mobile telecommunications. Baltimore-based Garp Research & Securities Co. has never appeared in these rankings before. Its Alastair Mackay is the No. 1 biotechnology analyst this year.

Many of the independent analysts "are actually veterans of the bigger traditional houses," says Michael Thompson, managing director in the research group at Thomson Reuters. "It's not surprising that there are more of them . . . . Anybody who can actually go out on their own and do it without the big name behind them has got to be pretty decent."

That so many of this year's winners are newcomers, or are appearing only for the second or third time, is evidence that an analyst who knows what to look for can succeed despite a relatively short track record, Mr. Thompson says. "It goes a little against intuition," he says. "It shows the big shops are not afraid to put fresher people up there and have them carrying their banner."

The number of newcomers in this year's rankings also reflects a smaller number of longtime winners. Of the 220 winning analysts this year, only 16 have won awards in five or more years of the 16 years of Journal rankings -- including Jeffrey Logsdon of BMO Financial Group Inc.'s BMO Capital Markets, the No. 1 analyst in hotels and casinos, who is returning for his eighth year. Only one, Alice Beebe Longley of Buckingham Research, qualifies for the Analysts' Hall of Fame, appearing for the 10th time in 16 years. She is No. 4 in the household and personal products sector.

Goldman's Ms. Conigliaro says there was greater collaboration than in the past among analysts covering a specific sector and between analysts and big-picture market strategists. She says her firm is using more rigorous models for choosing stocks, geared toward finding companies with the ability to generate returns that exceed the average for the rest of the industry, or the entire market.

In years past, fundamental analysis was thought of as "companies first and stocks second," says Margaret Mager, a former Goldman Sachs analyst who resigned early this year to run a retail consulting firm, and a Best on the Street winner for her picks in the clothing and accessories sector in 2007. Now, she says, analysts "cover stocks first and companies second."

As an example, she cites her decision to downgrade Lululemon Athletica Inc., a maker of yoga-inspired workout apparel that she had identified as an up-and-coming stock, when it hit her target price in October. In years past, Ms. Mager says, she might have held her buy rating longer because of the greater emphasis on the company's story, compared with the current emphasis on price targets and market value relative to expected earnings.

"It got to the point where even as much as I like it," she says, "I can't justify materially higher earnings than what I think is [already] baked into the stock."

Indeed, a willingness to downgrade stocks after big gains was the key to success for many of this year's winners. Rich Church, who works for the U.S. arm of U.K. brokerage firm Collins Stewart PLC, was the top-ranked analyst in the telecommunications-equipment sector. He held a buy rating on Israel's Ceragon Networks Ltd., for much of the year, but switched to sell in October, getting credit for both a nearly 300% return when he rated it a buy and the 42% decline in the stock price at the end of the year.

Shawn McLoughlin, chief executive at Collins Stewart in North America, wants to see more of that type of thinking as he expands the firm's business. "The easiest thing you can do is sit with a hold on 28 stocks for the year and wish for the best," he says. "But your job is to go out there and make a statement and have an opinion."

The top analysts did just that. Many oil and oil-services companies posted stellar returns in 2007. But Mark Flannery of Credit Suisse, a unit of Credit Suisse Group, and Doug Leggate of Citigroup Inc. ranked first and second, respectively, in the oil and gas sector with recommendations on Hess Corp., which is often ignored in favor of giants such as Exxon Mobil Corp.

Not every top-performing analyst this year was faced with navigating through a minefield. Some were lucky enough to ride a wave, such as the top analysts in the computers and office-equipment industry, who collected accolades by jumping aboard Apple Inc. and watching the stock rally 134% for the year.

But all of them did their homework. In the aerospace and defense sector, Michael Lewis of BB&T Corp.'s BB&T Capital Markets combed through the Pentagon's spending plans for the year. Suneet Kamath of Sanford C. Bernstein & Co., a unit of AllianceBernstein LP, dug deep into the investment portfolios of the life insurers he follows, looking for exposure to risky mortgages.

There undoubtedly will be new challenges in 2008. Some of last year's hot stocks have been bouncing up and down, and financial stocks lately have staged something of a rebound.

Ms. Conigliaro at Goldman isn't resting on her laurels. "I'd like to establish a track record that goes beyond one year," she says, "before we can start to stand at the top of the hill and feel really great."

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