Hedge Your Blogs

If information is the currency, who owns the market?

In a recent interview with AlwaysOn, Paul Deninger, Chairman of Jefferies Broadview, expounded on the role of information in institutional banking.

AlwaysOn: At the very beginning you said that the only action is in the Internet and digital media and entertainment space, is that what you were saying?

Paul Deninger: No, what I said was the number of public companies are shrinking in every market other than that market. There are a few Internet deals bought. There were two companies supposed to go public, IDN and Web Clients, they didn't. Overall, the health of that market from an IPO standpoint is better than from the M&A market and there are fewer public companies getting bought. Although there have been quite a few.

AlwaysOn: Reberg is buying some stuff.

Deninger: There is definitely a land grab. If you look at the deals—I think we should give you the chart—but if you look at the deals over $200 million, 35 percent of the deals are in the Internet. Like there is one deal over $200 million, in semiconductors I think, in the last 18 months. A few of the companies got public in the last cycle. Sig Matell, Surf, et cetera.

AlwaysOn: I'm drunk on this stuff which I call "the open media movement" and the bottom line is that the world has a fixed amount of time that it can consume content and that mind share is being eaten away by consumer-generated content. So now that we're all on the Web, we're all sharing and experts in different areas are popping out of nowhere and people are saying I'd rather go hear that expert blogger than read the *New York Times.* I believe in this kind of environment the smarter ideas have a greater chance of rising to the top because I believe it's more merit driven. When we did this at Always On, we had 50,000 people from 135 countries watch our Stanford show, archived or live, because we webcast it. People are more conditioned at this point to enjoy video over the Internet.

Deninger: It also showed they may be conditioned to think automatically about time shifting. Like if I'm in my car and I miss something on the radio, I'm really pissed off I can't replay it.

AlwaysOn: Exactly. Again, half of our viewers come in on an on demand basis probably when they're awake. We had some big hits. We had the Skype guy on.

What I'm trying to do is make the case that on the one hand the analyst side of investment banking was always a really important element—because if you ask the average CEO why he would go with a particular investment bank, he would say they have the best analyst. But on the other hand that whole community has been tarnished, and if you're Goldman you have to go down with a lawyer to talk to the analyst, et cetera. So what I'm saying is Wall Street should become blog street. In other words, if you want to build a reputation as thought leaders and understanding segments and being the best guys that understand about the horses in each sector, that you get a bunch of guys who would basically create blog sites where they create discussions. You could have a situation where you could control who gets to comment and even really gets to see those blog sites. It is applying open media techniques. Part of that I believe is that journalists and analysts would have to change their attitudes—they need to be more humble and understand that it is a dynamic game and they are being paid to give it their best shot. But they should be open for input coming from various people and see it as more of an inexact science than they're used to and that goes for both journalism and Wall Street analysts. I was wondering what you thought of that idea?

Deninger: I think its very intriguing. I think the Wall Street model is definitely broken and it is always a question of what replaces it, not whether it will be replaced. The question is how, and there is definitely a movement that suggests that a community is better than an individual for having an opinion. If you look at the best analysts, they pull together a community opinion. They do channel checks, they talk to people in the industry. They synthesize information. That's what an analyst does. Having a window on that base data is logical. It is going to change, I don't know how exactly it is going to change, but it could definitely be that route you just described.

AlwaysOn: What do you think about just the whole insider trading—I mean what about information? Information is the currency of Wall Street. I'll give you a loose analogy. You can no longer have a totalitarian regime—the totalitarian regime can no longer control people's access to information like the Soviet Union used to do. Is the Internet blowing the information fiefdoms on Wall Street open at all?

Deninger: I don't know. I don't think inside information is as important as it used to be. In fact, it may be having the reverse effect because hedge funds have the resources to scour everything on the Internet, and the average investor doesn't. You could argue the reverse. That the mass of information over the Internet aids the hedge funds that have the ability to scour the Internet better than anybody else, more of a totalitarian movement. In other words, what analysts did is they aggregated data and they became a central choke point and everyone had the same information. When everybody can aggregate on their own is the best decision. The average individual can't do that unless other people come out to be reaggregation sources. Hedge funds can't end reaggregation. I don't know. I could make an argument equally of going the other way . . .

This is the third of three excerpts from an AlwaysOn interview with Mr. Deninger.
Part One: The Wal-Marting of Finance
Part Two: Financial Brand-Awareness