

AnalystSolutions

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Overcoming the Challenges Research Analysts Face

James Valentine, CFA



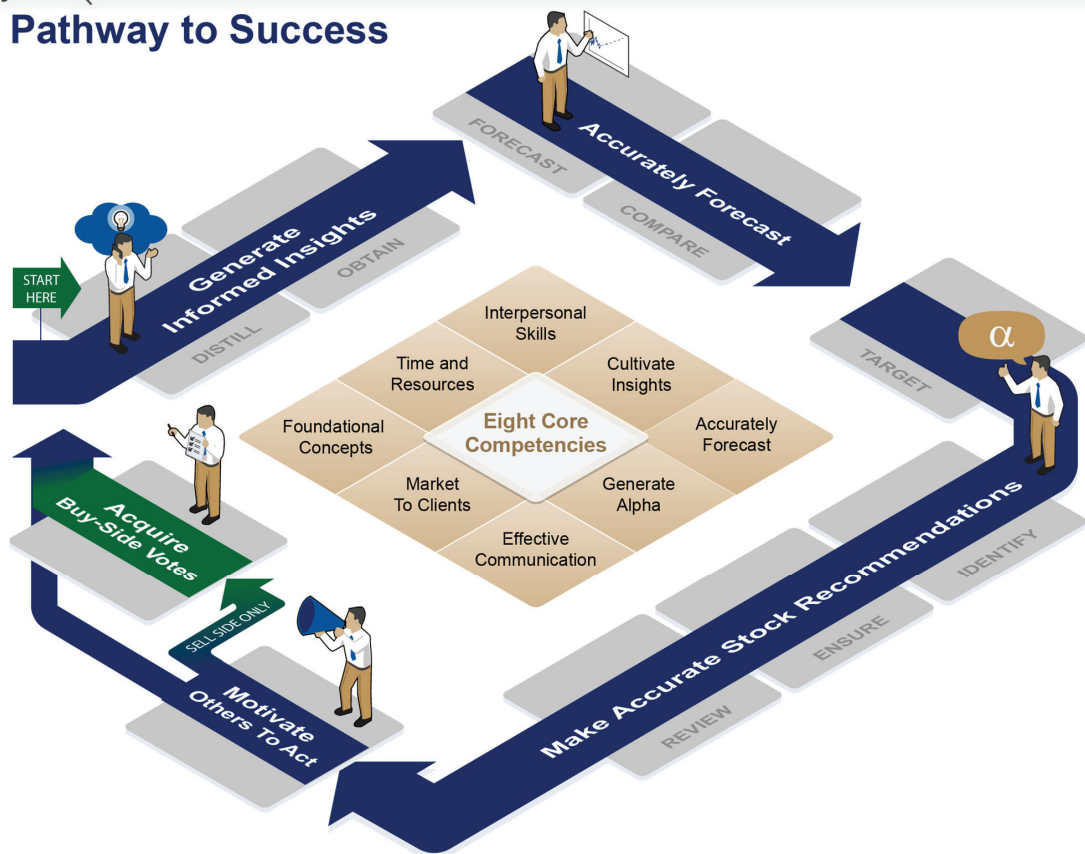


Service	Value-destruction (in Billions)
Long-only funds not generating alpha	\$ 300
Wealth management not achieving benchmark returns	\$ 250
Hedge funds falling short of target return	\$ 51
Sell-side and credit rating agencies' inaccuracies	\$ 459
Total	\$1,060

Source: "Financial Markets 2020" study conducted by IBM as reported by the *Financial Times*, April 3, 2011



Pathway to Success





Ten Greatest Challenges

Effectively managing time and information flow

Identifying the critical factors likely to drive a universe of stocks

Developing unique sources of content

Ensuring stock calls are differentiated from the consensus view

Deriving a price target more accurate than consensus

Timing stock calls to maximize alpha

Avoiding the most common psychological mistakes made by investors

Communicating unique stock calls successfully so others take action

Deriving useful insights and detecting deception from information sources

Forecasting more accurately than consensus

Greatest Challenge #1: Effectively managing time and information flow



#1. Effectively managing time and information flow

Some analysts play defense...



#1. Effectively managing time and information flow

While *great* analysts play offense...



#1. Effectively managing time and information flow

DEFENSE



#1. Effectively managing time and information flow

OFFENSE



See QRC: “Best Practices for Time Management”

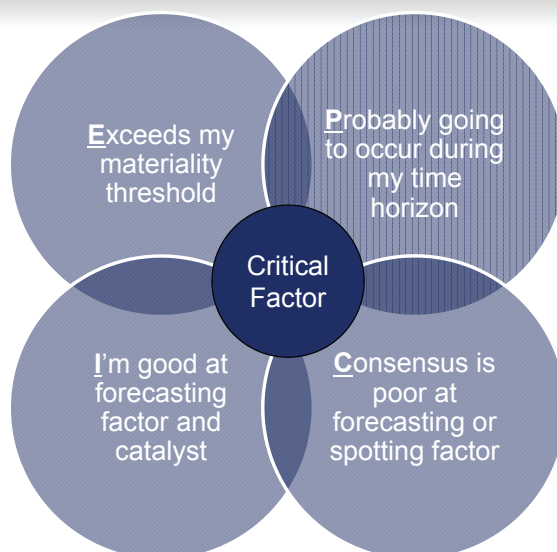
Analyst Solutions Time Management Matrix

		Generates Differentiated Insights Useful for Stock Picking	
		LOW	HIGH
Initiating vs. Responding	You INITIATE (Offense)	“Enabler” for Alpha Read portions of regulatory filing that pertain to critical factors and their catalysts	Generate Alpha Make 10 outgoing calls in one day to discuss assumptions for critical factors with proprietary sources of information
	You RESPOND (Defense)	IR contact from company you don't cover calls to tell you about an issue that has no importance to your assigned coverage Waste of Time?	Accept a last-minute one-on-one with management at investor conference Surprise Find

Greatest Challenge #2: Identifying the critical factors likely to drive a universe of stocks



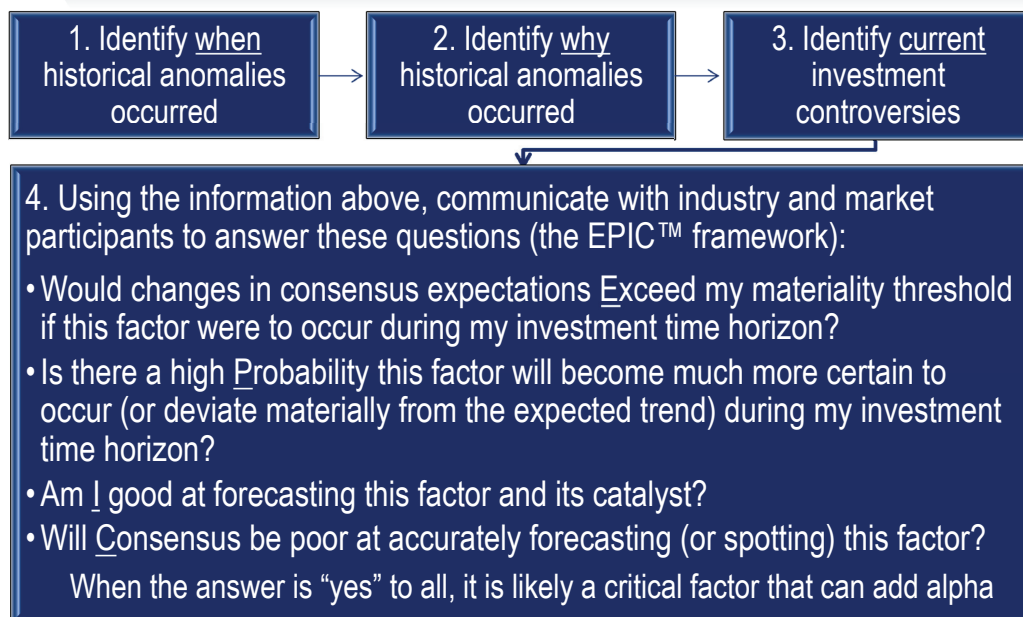
Greatest Challenge #2: Identifying the critical factors likely to drive a universe of stocks



EPIC™ stock calls include critical factors that meet all four criteria

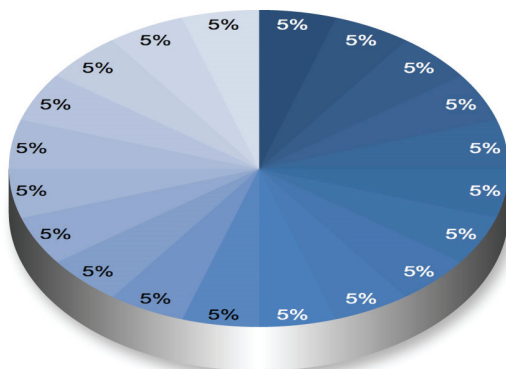
For CFA Society of the UK Participants

Greatest Challenge #2: Identifying the critical factors likely to drive a universe of stocks

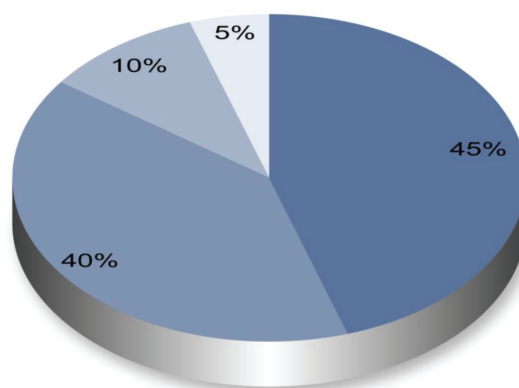


Greatest Challenge #2: Identifying the critical factors likely to drive a universe of stocks

**Critical Factors
Not Defined**



**Critical Factors
Defined**

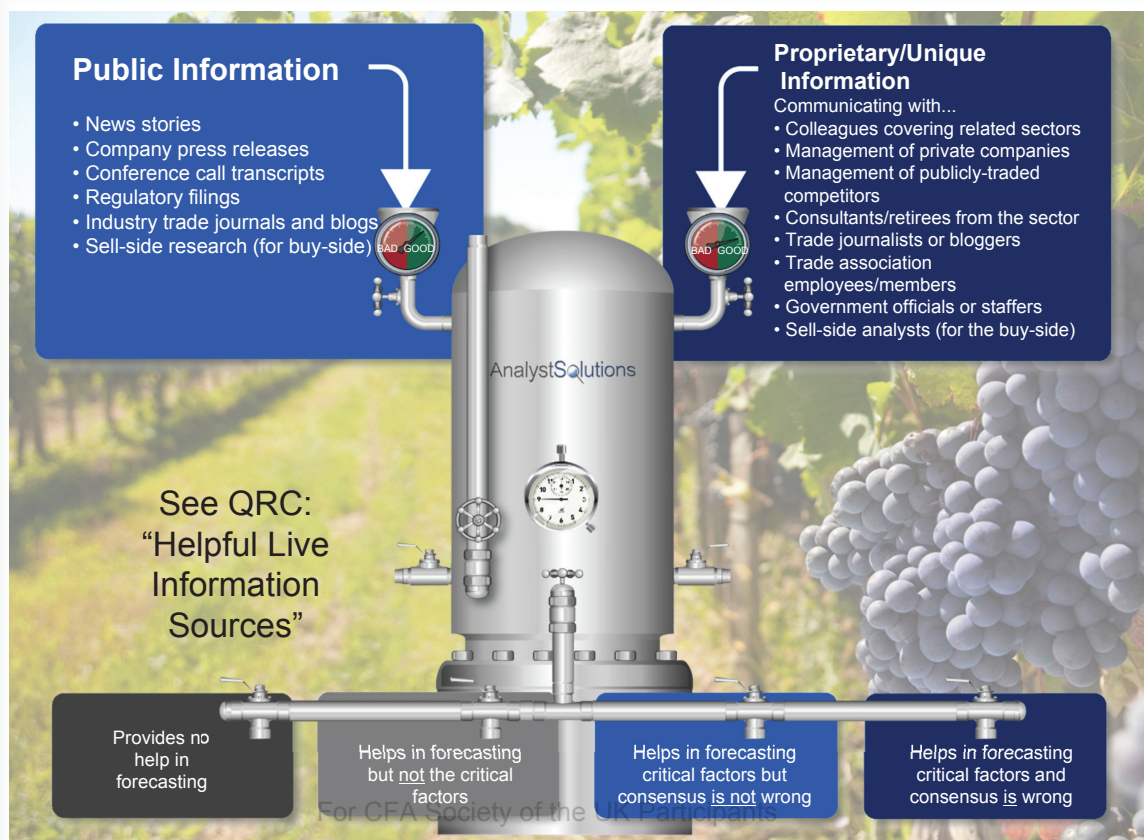


Greatest Challenge #3: Developing unique sources of content

Management of private companies
Trade journalists or bloggers
Colleagues covering related sectors
Trade association employees/members
Management of publicly-traded competitors
Consultants/retirees from the sector
GOVERNMENT OFFICIALS OR STAFFERS



Greatest Challenge #3: Developing unique sources of content



Greatest Challenge #4: Ensuring stock calls are differentiated from the consensus view



Ensure a Differentiated Stock Call with the FaVeS™ Framework

Forecast

- Financial forecast superior to the market (used at least 85%)

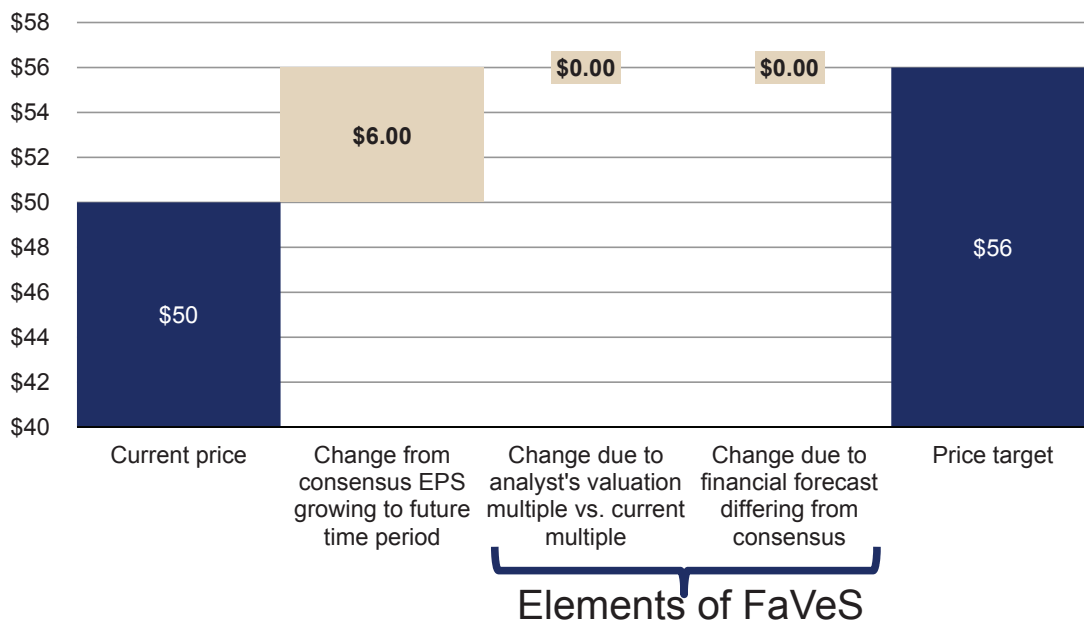
Valuation

- Valuation methodology or valuation multiple superior to the market

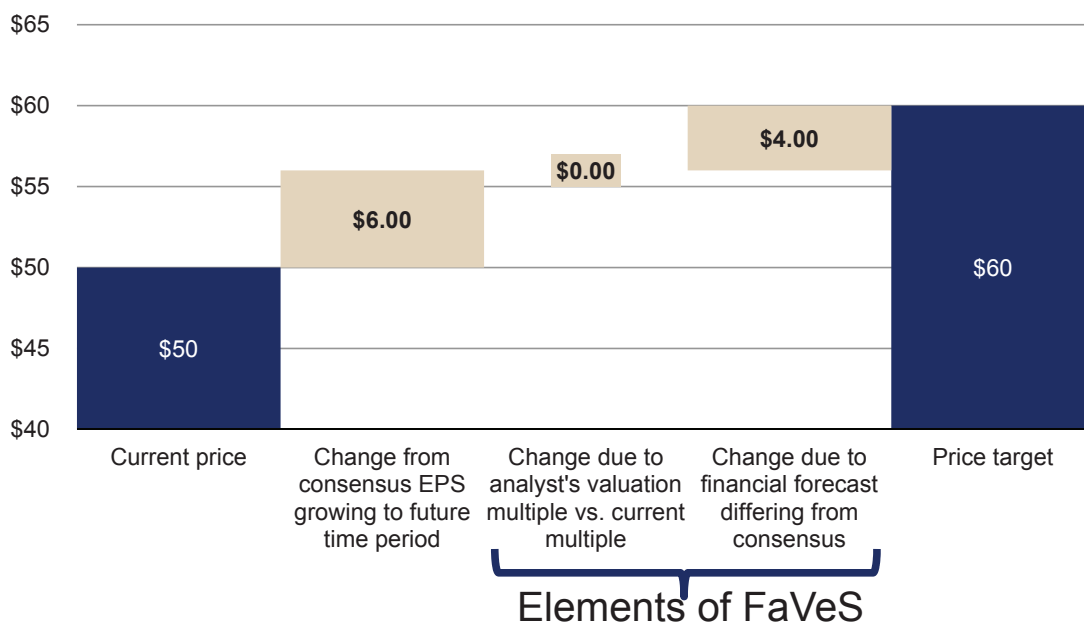
Sentiment

- Forecast of short-term investor sentiment superior to the market
- Most difficult among the three
- Assumes no immediate justifiable change to financial forecast or valuation method/multiple

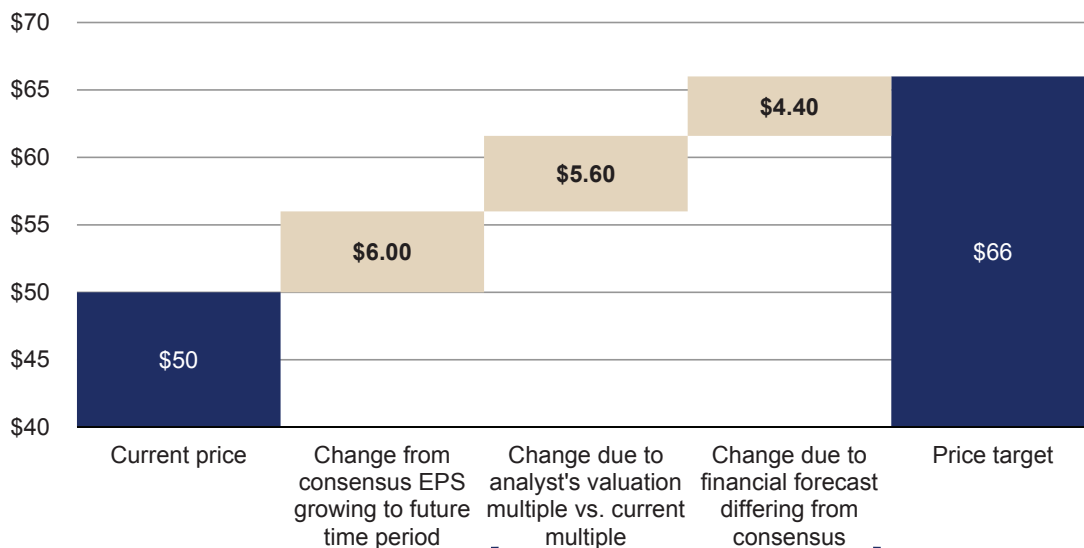
Dissect How You Differ (A)



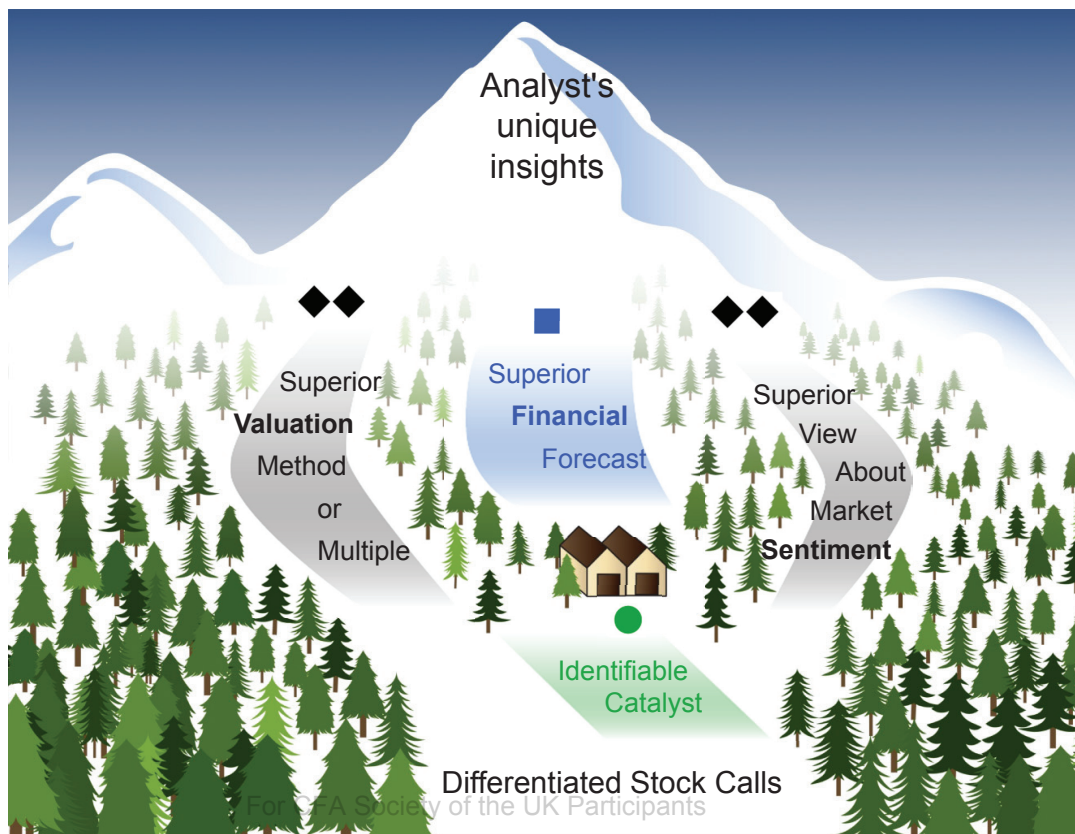
Dissect How You Differ (B)



Dissect How You Differ (C)



Elements of FaVeS



Greatest Challenge #5: Deriving a price target more accurate than consensus



SHARE™ to Create a Price Target More Accurate than Consensus

S

• Select method(s)

H

• Historical & current data review

A

• Aadjust for future time period

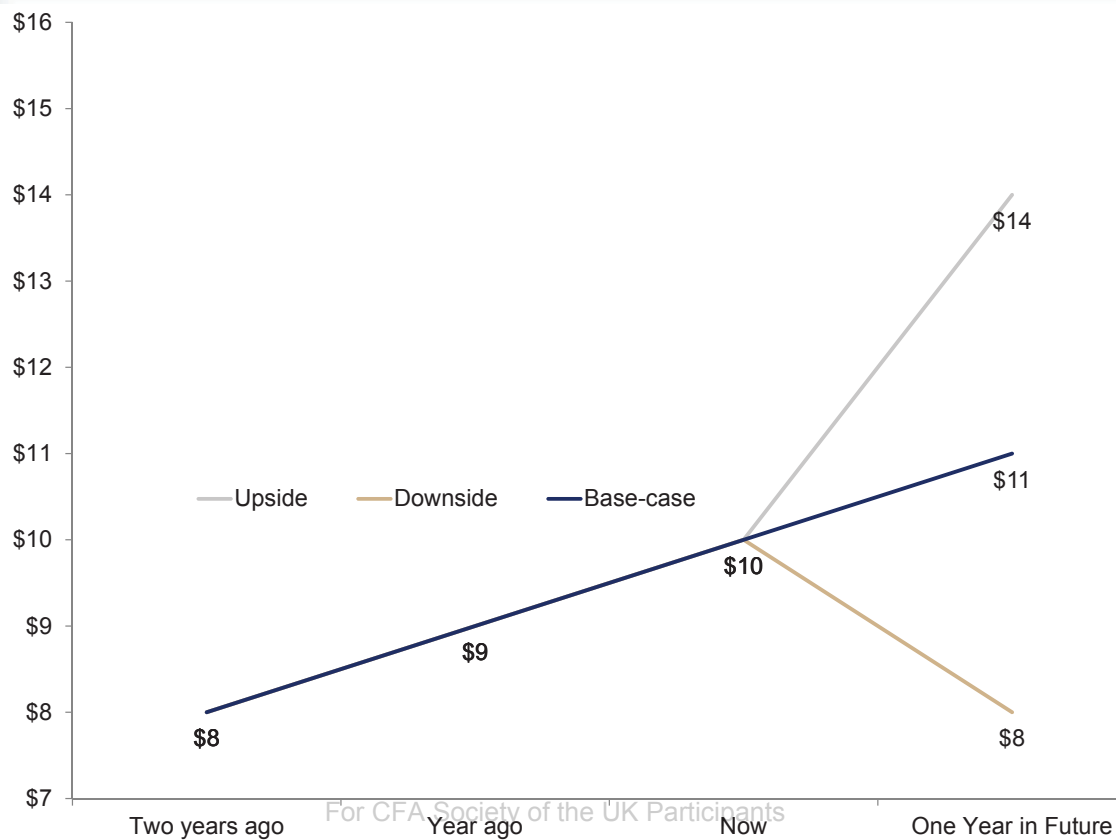
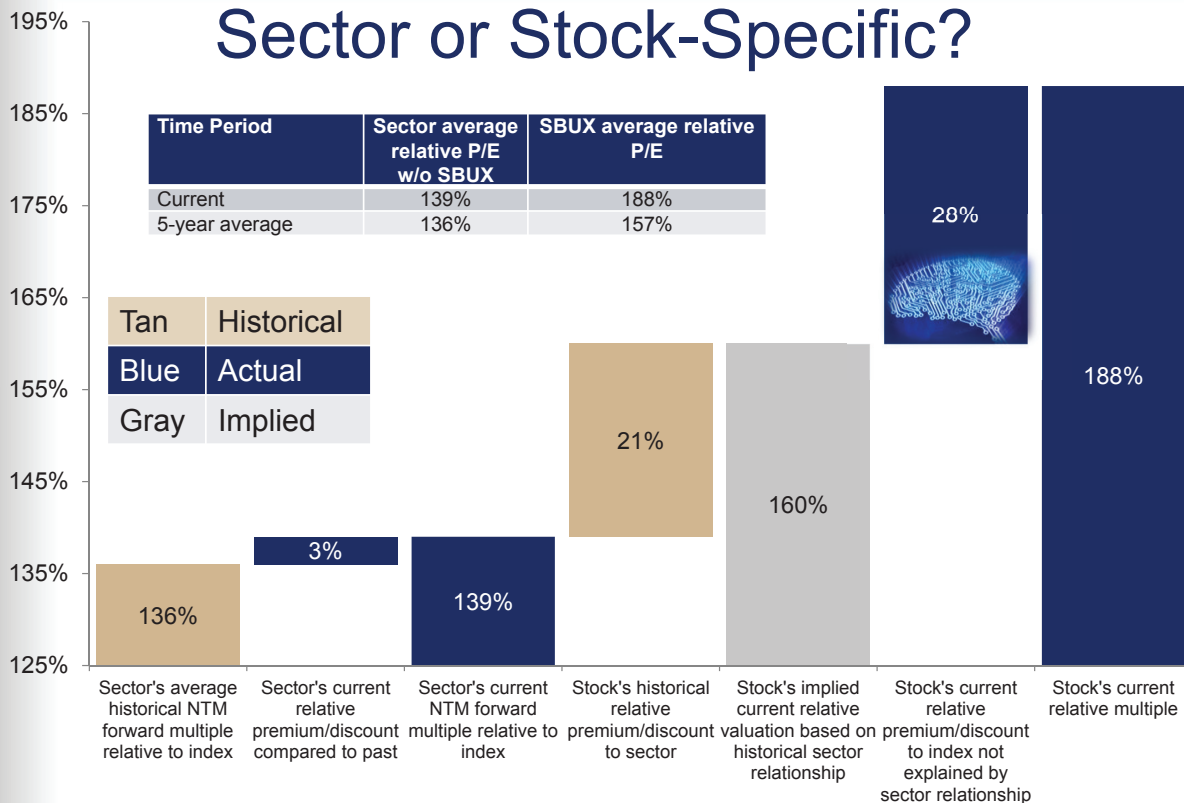
R

• Range of multiples and price targets

E

• Evaluate as circumstances change

Sector or Stock-Specific?



Greatest Challenge #6: Timing stock calls to maximize alpha

Validate Your View



Assess and Influence the Market's View



Greatest Challenge #6: Timing stock calls to maximize alpha

Validate Your View

Resist predetermining the rating

Validate heuristics

Ensure call is differentiated (FaVeS™)

Weigh risk as well as return

Ensure no imminent danger

Document thesis

Sleep on it

Assess and Influence the Market's View

Monitor trading data

Know consensus

Survey market sentiment

Monitor technical indicators

Influence the market

Greatest Challenge #7: Avoiding the most common psychological mistakes made by investors



Signs You Are Ignoring a Bias

Being close-minded about new information

Seeing only one side of the trade

Disinterested in assessing the downside or risk

Failing to completely analyze/research important factor

Allowing emotions to govern decisions despite the facts

Refusing to accept responsibility while blaming others

Taking shortcuts that are not built on solid research

Going with what is easiest or most comfortable, rather than what is best

Reacting to short-term fluctuation without a long-term view

Eliminating Psychological Biases from Your Stock Calls

- Document your thought process and review it periodically
- Document changes to your financial forecasts, then look for inconsistencies
- Ask trusted colleagues (or investment committee) to alert you to blind spots in your investment thesis
- Create automatic stop-loss triggers and mechanical sell disciplines
- Accept mistakes as valuable opportunities to learn
- Complete thorough research before making a stock recommendation

Greatest Challenge #8: Communicating unique stock calls successfully so others take action



How Do Analysts Differ from Sector (or “Beat”) Journalists?

	Equity Research Analysts	Experienced Sector Journalists
Understand industry fundamentals	Y	Y
Listen to company conference calls	Y	Y
Read company press releases	Y	Y
Review company regulatory filings	Y	Y
Cultivate a list of insightful industry contacts	Y	Y
Interview industry experts to identify changes in the industry	Y	Y
Speak with company management	Y	Y
Write about developments within a company and across the industry	Y	Y

3 Steps For Communicating Stock Recommendations



STEP 1: ENSURE CONTENT HAS VALUE (ENTER™ framework)

- Expectational
- Novel
- Thorough
- Examinable
- Revealing



STEP 2: UTILIZE THE OPTIMAL CHANNEL

- In-person conversation
- Telephone conversation
- Leaving voicemail
- Presenting, five minutes or less
- Presenting, in-depth
- Sending an email or text message
- Writing a report



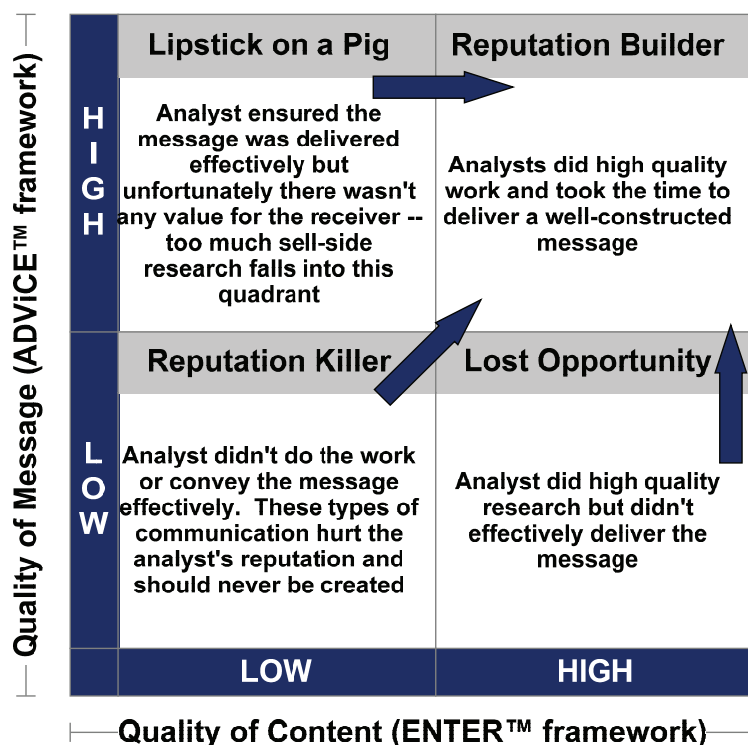
STEP 3: ENSURE MESSAGE HAS VALUE (ADVice™ framework)

- Aware
- Differentiated
- Validated
- Conclusion-oriented
- Easy-to-consume

See QRCs for utilizing ENTER™ and ADVice™

For CFA Society of the UK Participants

Both content and message matter



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Workshops that Address Universal Needs

- Maximize Your Time for Alpha Generation
- Identify & Monitor a Stock's Critical Factors
- Master the Stock Call Techniques of Highly Experienced Analysts
- Communicate Unique Stock Calls Successfully So Others Take Action
- Identify Benefits & Limitations of Commonly Used Valuation Methods
- Eliminate Psychological Biases From Your Stock Calls
- Influence Others to Accumulate Insights and Be Heard

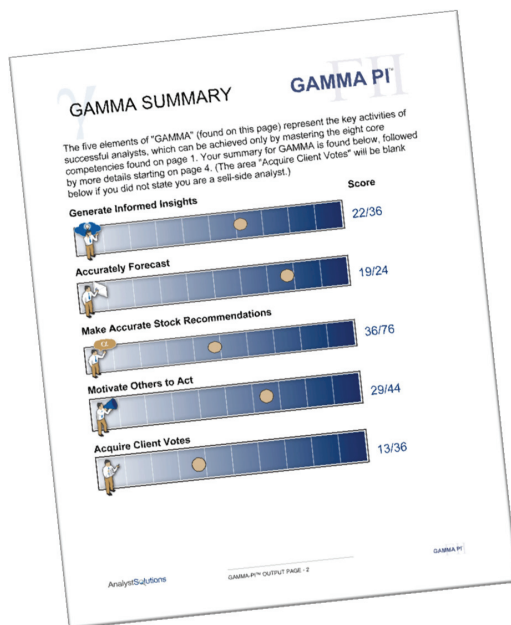


Coaching Accelerates Learning



- Improving existing behaviors, such as:
 - More thorough and focused research
 - Communicating more effectively
- Developing new skills such as identifying factors most likely to move a stock
- Increasing self-awareness for professional development such as the cause of failed stock calls

Assess Needs Before Developing the Solutions



134 questions assessing the following areas:

- **Generate informed insights**
- **Accurately forecast**
- **Make accurate stock recommendations**
- **Motivate others to act (communications)**
- **Acquire buy-side votes (sell-side only)**
- **Productivity**
- **Individual characteristics**

Q&A









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