



Optional Pre-work

- You have the option to use material from a public company you have researched or are currently researching
- If you choose this option, collect at least the first two pages of three reports specific to a stock of interest
- Preferably the reports:
 - Are those you authored on your own or with others, but feel free to use reports from other analysts
 - Will include the justification for an upgrade or downgrade of a stock, including a discussion of a price target (e.g. include the earnings estimate and valuation multiple)

Communicate Unique Stock Calls Successfully So Others Take Action

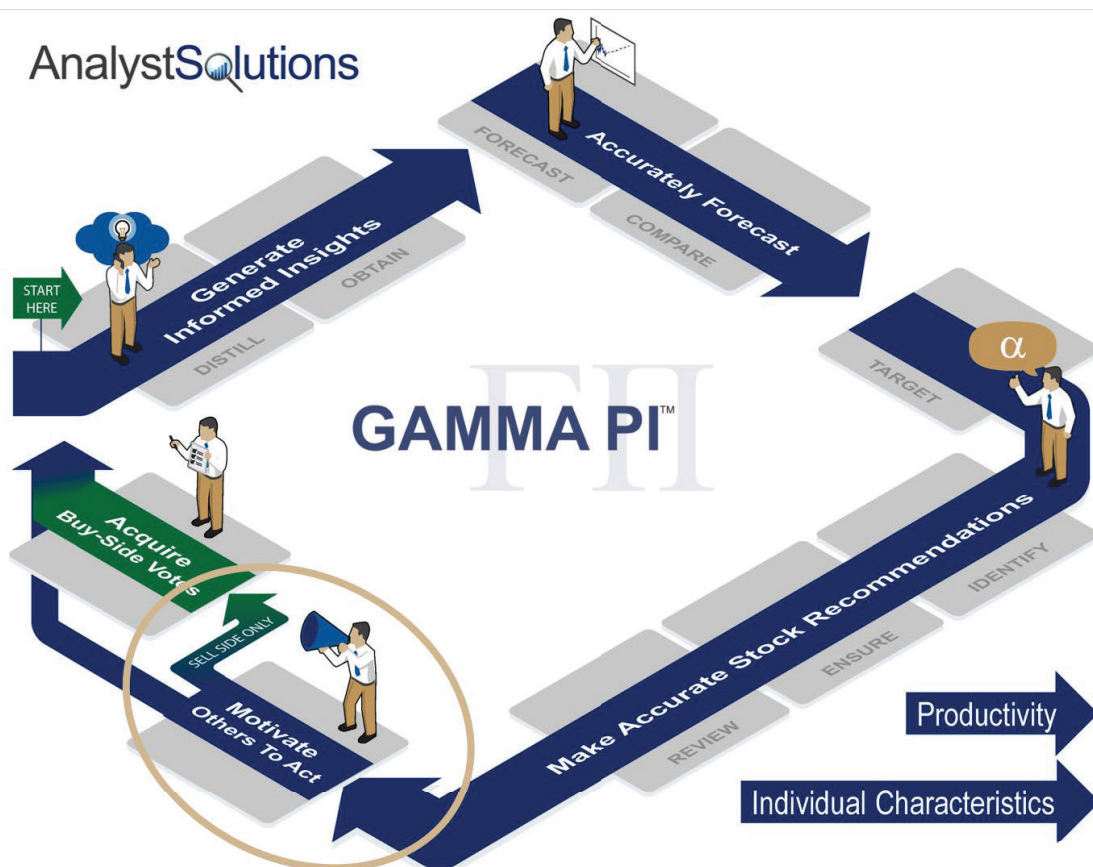
CE Qualified
Activity



CFA Institute

1894

James J. Valentine, CFA, DrBA



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

1896

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Portfolio Manager's Frustrations

- Over 80% of research is worthless
 - Not unique
 - Few to no insights
 - Backward looking
 - Lacks substance
 - Lacks conviction
- Research should focus on:
 - What's unique about the analyst's work?
 - What's the market missing?
 - Where do the supporting details come from?
 - What's new from the last update?

Tell me something that will generate alpha

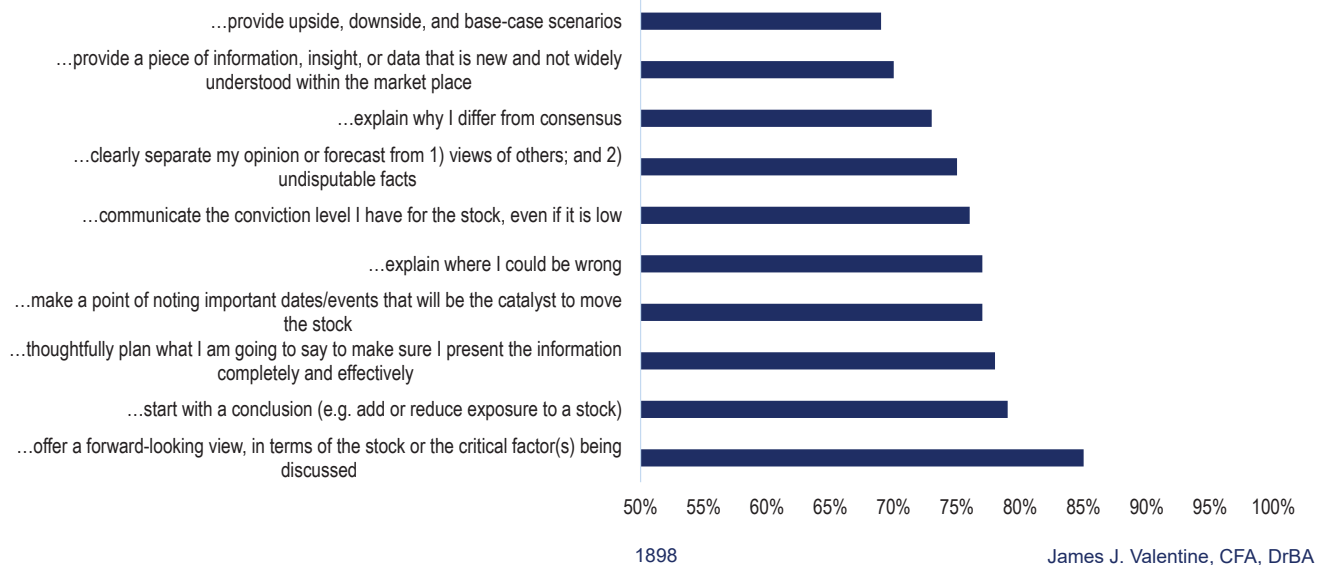


1897

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Survey Responses: Motivate Others to Act

When communicating a stock recommendation, I...



Opening case



Lucas, Attempt #1

ENTER™ Quality Checklist (to be used <u>before</u> starting the communication of a stock recommendation)	Yes/No/Not Clear
Expectational	
Does the analyst have a <u>forward-looking</u> view in terms of the stock and the critical factor(s) likely to move the stock?	Not clear: He has a forecast but it's not clear he's done any work on understanding the critical factor(s) that will drive his forecast.
Has the analyst identified the catalyst(s) likely to move his stock and important dates when the catalyst is most likely to cause the stock to move to his price target?	No: He's unsure as to what will move the stock.
Has the analyst framed company management's forecast in terms of his <u>independent</u> financial forecast (rather than just repeat management)?	Not clear: It appears as though he's just accepting management guidance.
Novel	
Does the analyst have a piece of information or insight that is new and not widely understood within the financial markets?	Not clear: He doesn't offer any unique insight based on research.
Has the analyst explained where his view falls within the FaVeS™ framework, in terms of identifying if he has a superior <u>F</u> inancial forecast, <u>V</u> aluation method/multiple, or unique view about market <u>S</u> entiment?	No: He has the same estimates as consensus and believes the stock will trade within its historical valuation multiple range.
Does the analyst know why the market does not have his view?	No: He says he hasn't spoken to anyone about his view.
Thorough	
For the critical factors that are key to the stock call, did the analyst research more than one source or confirm the insight with an independent source?	No: He only read regulatory filings, transcripts and met with management.
Did the analyst conduct detailed modeling in the area surrounding the critical factor(s)?	No: He mentioned his modeling is for better pricing, not volume growth due to the new models selling better than expected.
Does the analyst avoid using management guidance as the primary justification for the call?	No: It appears based primarily on management guidance.
Examinable	
Do you think the analyst has the following details that he could present to the committee?	No: It doesn't appear as though he has any unique data or a detailed financial forecast to support his view.
<ul style="list-style-type: none"> • Data or insights about the critical factor(s)? • Detailed financial forecast or valuation analysis, key to the investment thesis? 	
Revealing	
Has the analyst created upside, downside, and base-case scenarios to identify where the investment thesis could have flaws?	No: He doesn't have an answer when Alice asks him, "Where could you be wrong?"
Has the analyst identified specific risks beyond the macro?	Same as above
Has the analyst provided his conviction level to others, even if it is not strong?	No

1901

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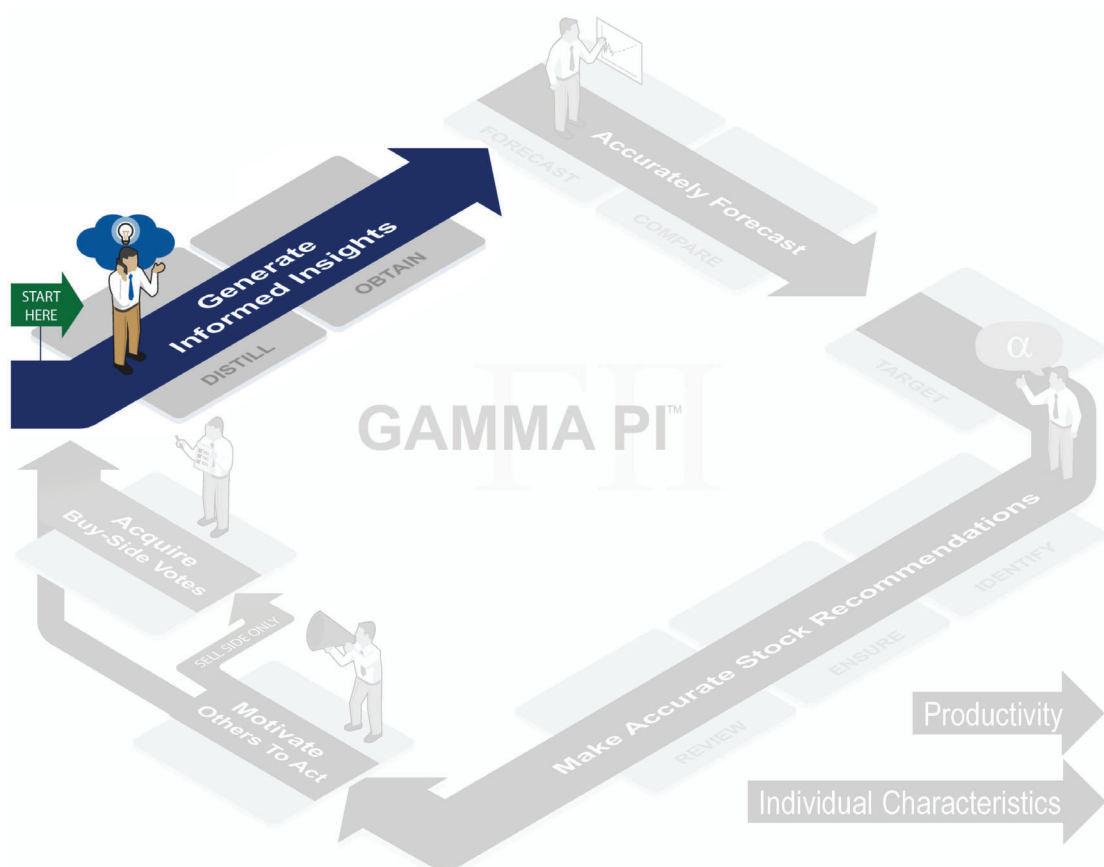
INTRODUCTION MODULE

1903

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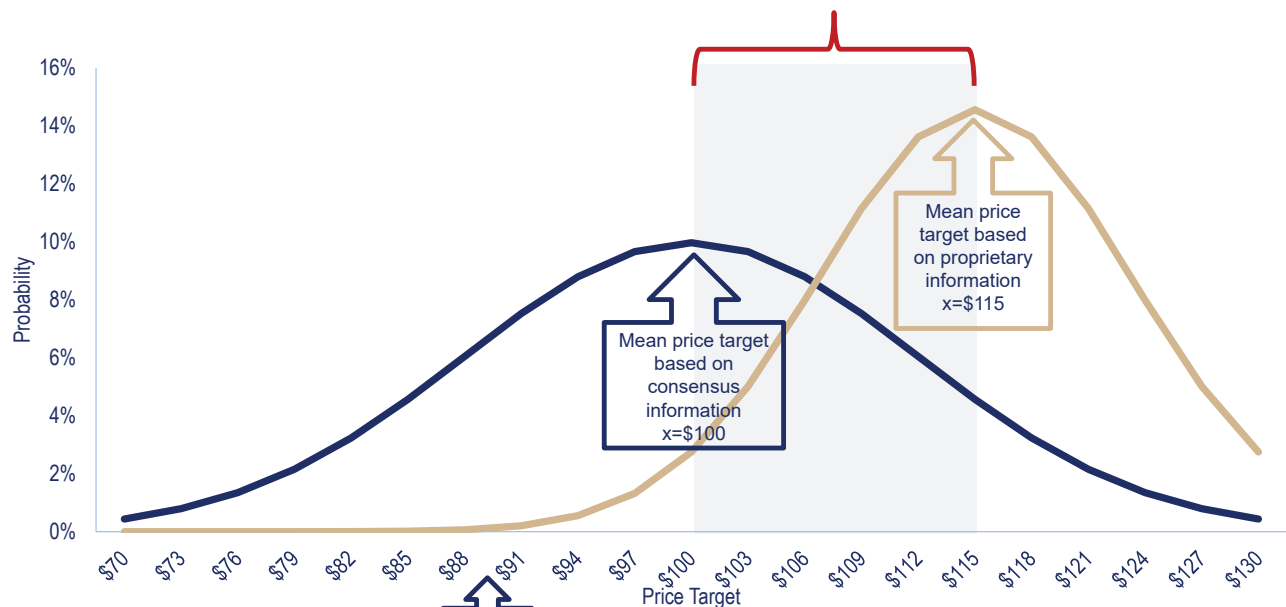


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, CFA, DrBA

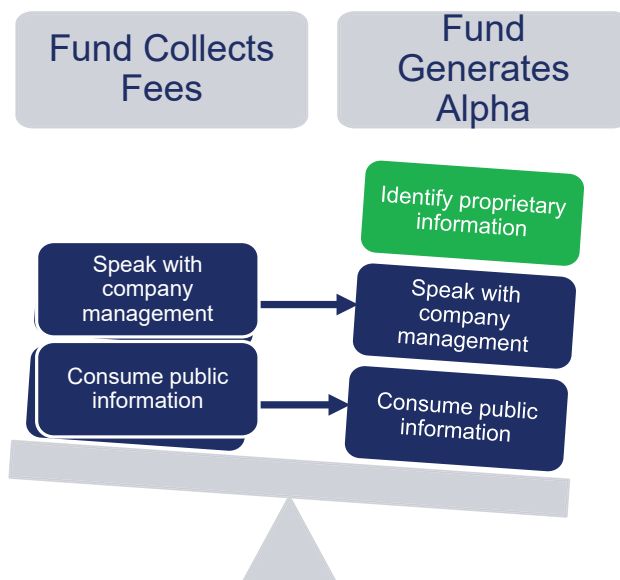
Information Asymmetry



1906

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Information Asymmetry = Alpha



1907

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EPIC™ Stock Calls Require Critical Factors Meet All Four Criteria



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HELP™ Framework for Identifying Critical Factors



Research Historical data & documents



Explore Emerging data & documents



Validate/refute assumptions with Live sources



Prioritize factors using EPIC™ framework

Example Critical Factors

Factors for: FedEx in the 2005-2006 time period, ranked by "Total" column

Factor	Exceeds my materiality threshold of 10%	Probably going to occur during my time horizon	I'm good at forecasting the factor and catalyst	Consensus is poor at forecasting or spotting factor	Total
Improved network efficiency	4	4	4	5	17
Change in ability to collect fuel surcharge	4	4	4	4	16
Change in ground package growth	3	4	4	4	15
Acquisitions	5	3	2	5	15

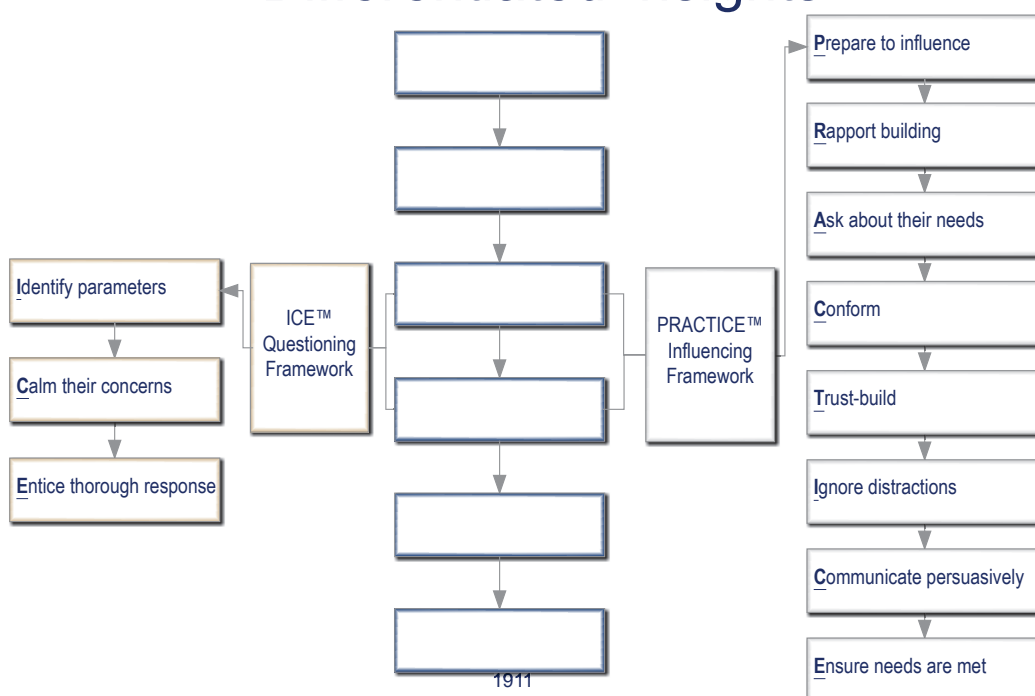
Growth in Asia-Pacific	2	2	4	3	11
Purchase of new aircraft	1	4	4	2	11
Change in purchased transportation cost trends	1	2	2	4	9
Change in depreciation rate	1	2	2	4	9
Major weather disruptions	2	3	2	2	9

From workshop: *Identify & Monitor a Stocks' Critical Factors*

1910

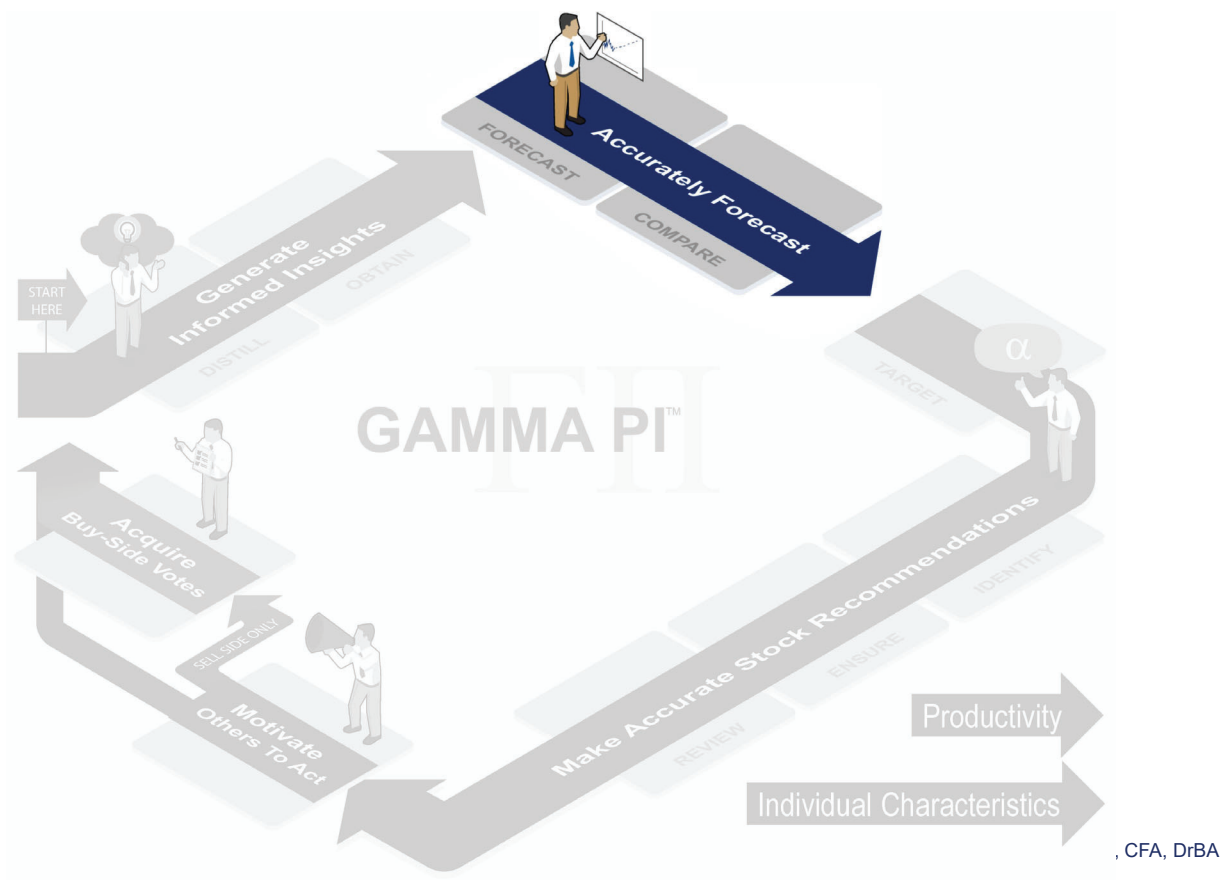
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Frameworks For Generating Differentiated Insights

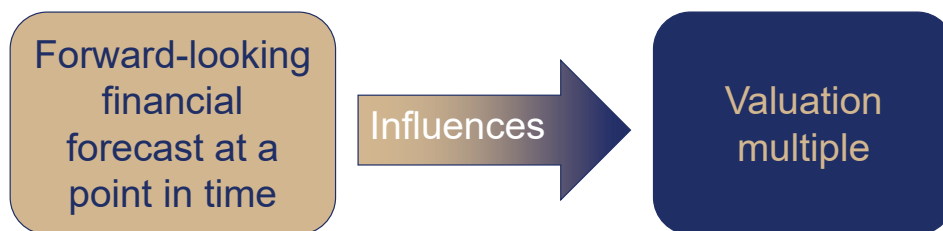


1911

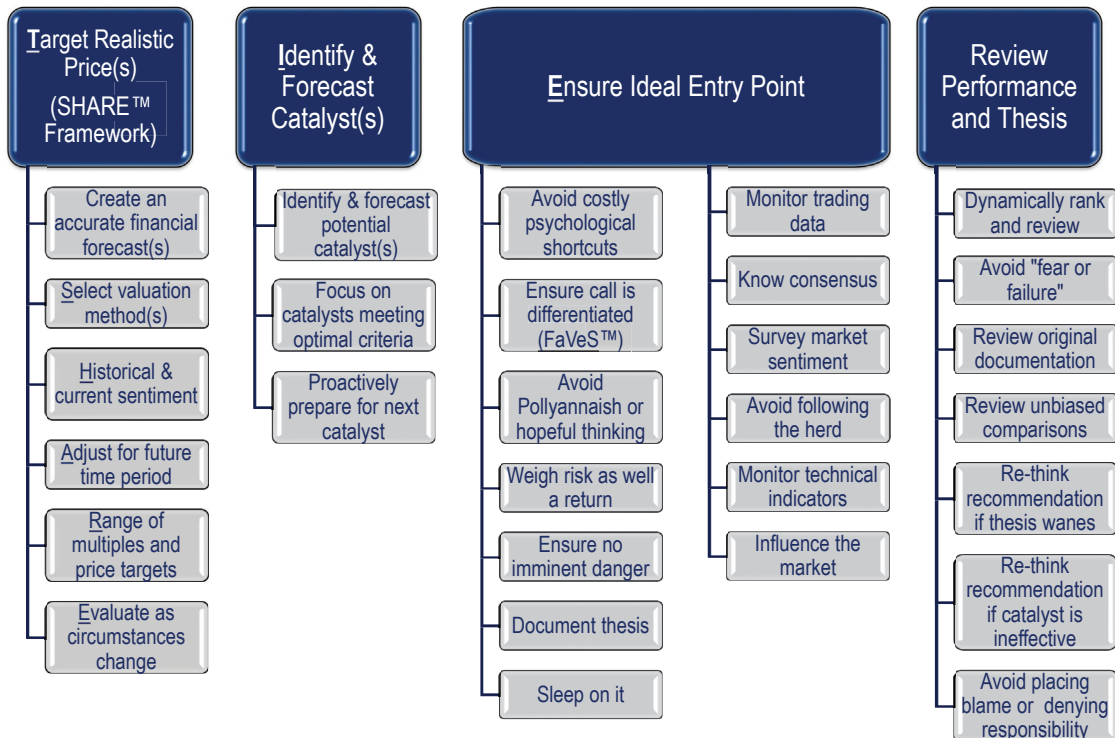
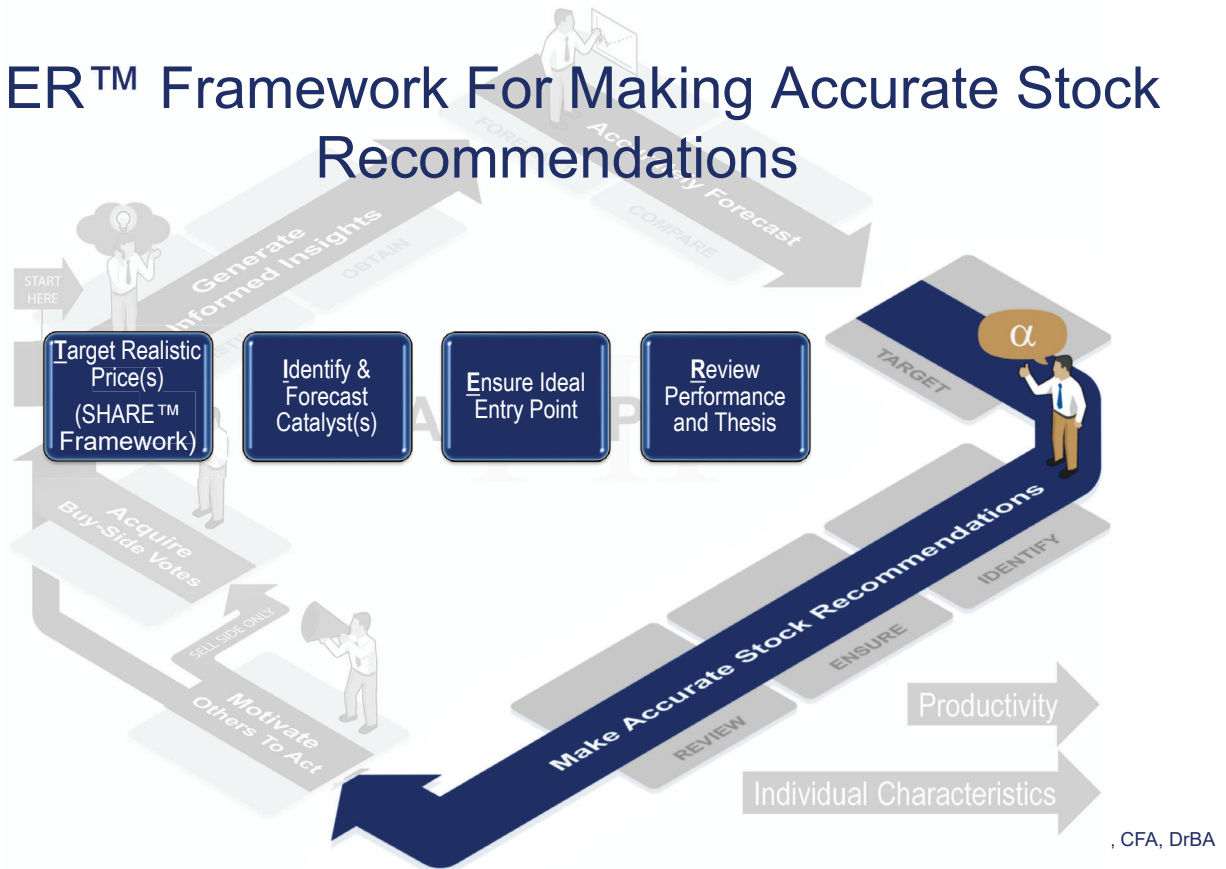
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Price Target in Its Simplest Terms



TIER™ Framework For Making Accurate Stock Recommendations



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

1916

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Module 1: Step 1



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

- Expectational
- Novel
- Thorough
- Examinable
- Revealing



STEP 2: UTILIZE THE OPTIMAL CHANNEL

- In-person conversation
- Telephone conversation
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- Presenting, five minutes or less
- Presenting, in-depth
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- Writing a report



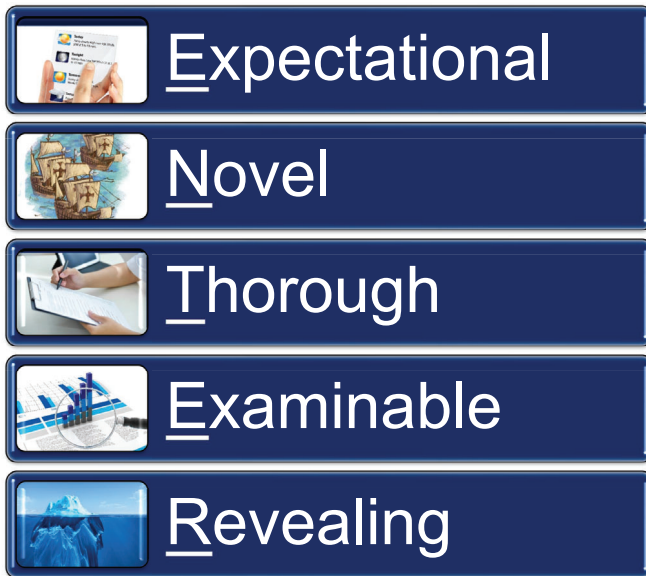
STEP 3: ENSURE MESSAGE HAS VALUE (ADVICE™ framework)

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

1917

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Key elements to ensure you are prepared to ENTER™ the investment debate...



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1918

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The First “E” in ENTER™ represents being Expectational



- Forward-looking view for the critical factors and their catalysts
- Identify important future dates
- If researching the past, it should be to help forecast the future

1919

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EXERCISE: BE EXPECTATIONAL IN YOUR APPROACH

1920

James J. Valentine, CFA, DrBA

The “N” in ENTER™ represents a Novel perspective

Novel research includes:



- Insights not already known by the broader market...
- Or explaining how widely-known information is being misinterpreted
- Providing new or unique insights to explain your out-of-consensus view...
 - Use the FaVeS™ framework

1921

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Ensure a Differentiated Stock Call with a Superior FaVeS™ Insight

Forecast

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

Valuation

- Valuation methodology or valuation multiple superior to the market

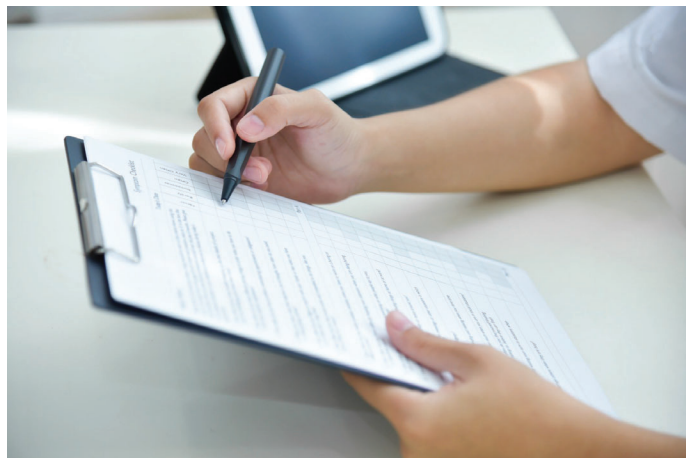
Sentiment

- Forecast of short-term investor sentiment superior to the market

EXERCISE: IS THE ANALYST'S RESEARCH EXPECTATIONAL AND NOVEL?

The “T” in ENTER™ represents Thorough

Thorough research:



- It's more than a “hunch” or “guestimate”
- Obtain insights to forecast critical factors better than consensus
- Have multiple sources to confirm out-of-consensus critical factor when imperative to stock call
- Thoroughness should be commensurate with potential impact on the stock's performance

1924

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The Second “E” in ENTER™ represents Examinable



Examinable research should:

- Provide decision-makers research you developed to draw conclusions
- Provide important data points so others can arrive at your conclusion for themselves
- Provide enough depth to allow others to examine your work
- Separate facts from opinions

1925

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The “R” in ENTER™ represents Revealing



- Identifies specific risks not in your base-case scenario (positive and negative)
- Shows an understanding of “the other side of the trade”
- Specifies your level of conviction about your out-of-consensus call

1926

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Can You Recall ENTER™?



1927

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Review QRCs

Quick Reference Card (QRC)

Ensure Content Has Value Using ENTER™ Quality Framework

Philosophy	Put into Action
Expectational: Always be thinking about the future, all in an effort to convey how your expectations differ from consensus, and resist the	<ul style="list-style-type: none"> • Ensure that you have a forward-looking view of the most important critical factors for each company. • Identify important dates or events that could be catalysts to cause the

ENTER™ Quality Checklist (to be used <u>before</u> starting the communication of a stock recommendation)		1=Always 5=Never
Expectational		
<ul style="list-style-type: none"> • I have a <u>forward-looking</u> view in terms of the stock and the critical factor(s) likely to move the stock • I have identified the catalyst(s) likely to move my stock and important dates when the 		

1928

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Apply the ENTER™ Framework

Expectational

Novel

Thorough

Examinable

Revealing

- Use one option below:
- Revisit opening Case

– <https://www.analystsolutions.com/cuscscotacase2/>

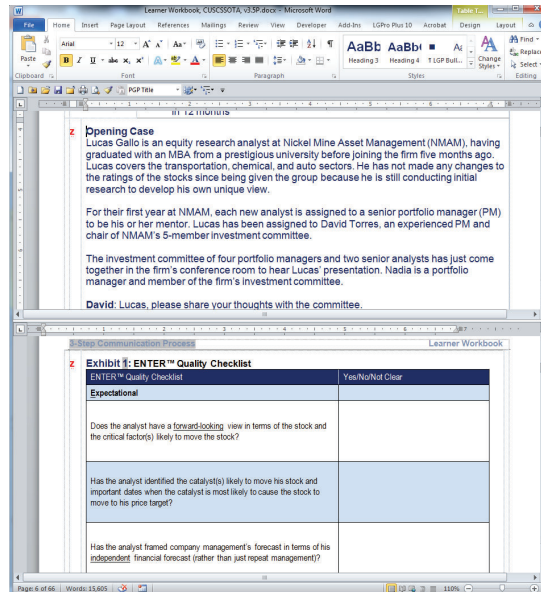


- Review your own research

1929

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Split Your Screen if Using Digital Version



1930

James J. Valentine, CFA, DrBA

Complete Your TAP

Section 1

Transformation Action Plan (TAP)



Instructions for the Transformation Action Plan (TAP):

- Throughout this workshop complete the TAP below
- Apply the key points after the workshop to help you improve your performance
- This will not be collected and so write in a manner that will help you utilize the concepts being learned

1932

James J. Valentine, CFA, DrBA

Module 2: Step 2



CUSC550TA

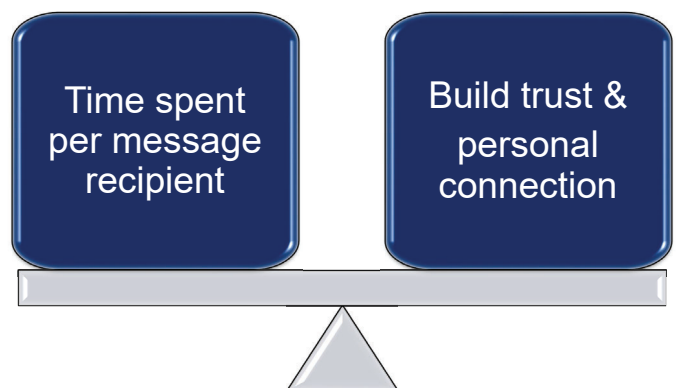
1933

James J. Valentine, CFA, DrBA

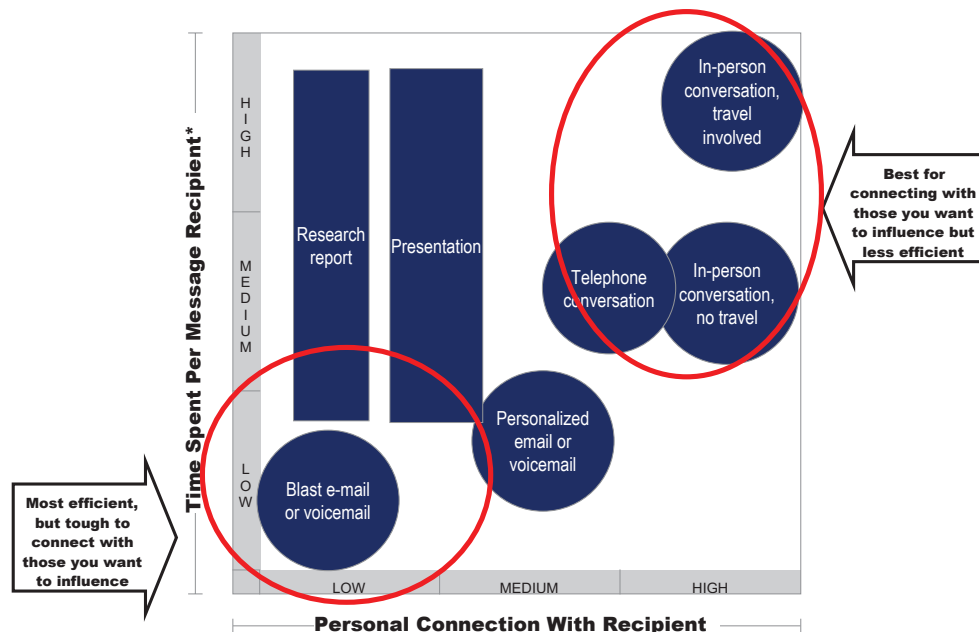
Every Communications Channel Has Pros & Cons

There are trade-offs to every option:

- In-person conversation
- Telephone conversation
- Leaving voicemail
- Presenting
 - Brief
 - In-depth
- Sending an email or text message
- Writing a report



Trade-Offs of Every Channel



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* Time spent includes preparation of the communication

1935

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Key Influencing Skills Required for Successful Equity Research

- Network Building
- Understanding Others' Needs
- Adaptability
- Self-awareness
- Credibility
- Communications Skills



1936

James J. Valentine, CFA, DrBA

Complete Your TAP

Section 2

Transformation Action Plan (TAP)



Instructions for the Transformation Action Plan (TAP):

- Throughout this workshop complete the TAP below
- Apply the key points after the workshop to help you improve your performance
- This will not be collected and so write in a manner that will help you utilize the concepts being learned

1937

James J. Valentine, CFA, DrBA

Module 3: Step 3



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)

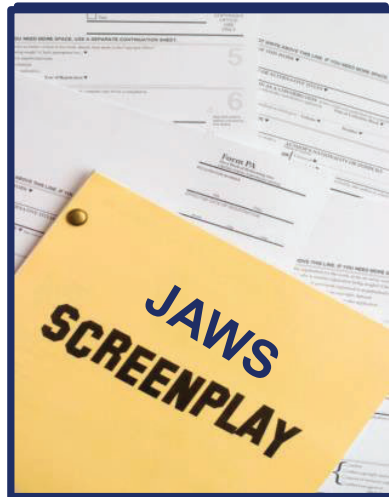
- Aware
- Differentiated
- Validated
- Conclusion-oriented
- Easy-to-consume

1938

James J. Valentine, CFA, DrBA

Content vs. Message Example

**Screenplay/Script =
Content / Research**



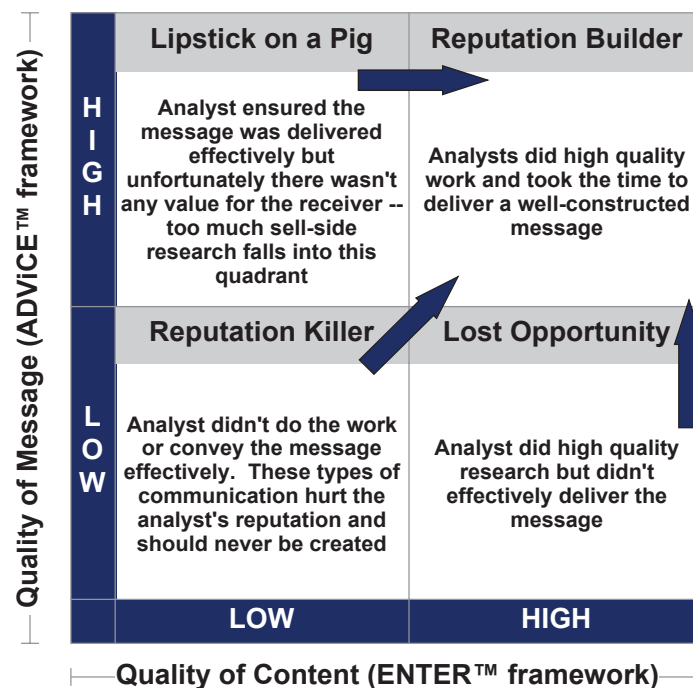
1939

**Movie on Screen =
Message / Delivery**



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Both content and message matter



1940

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ADViCE™ Framework



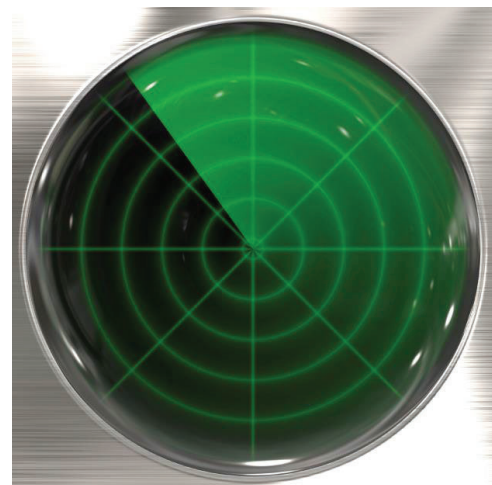
1941

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“A” in ADViCE™ Represents Being “Aware”

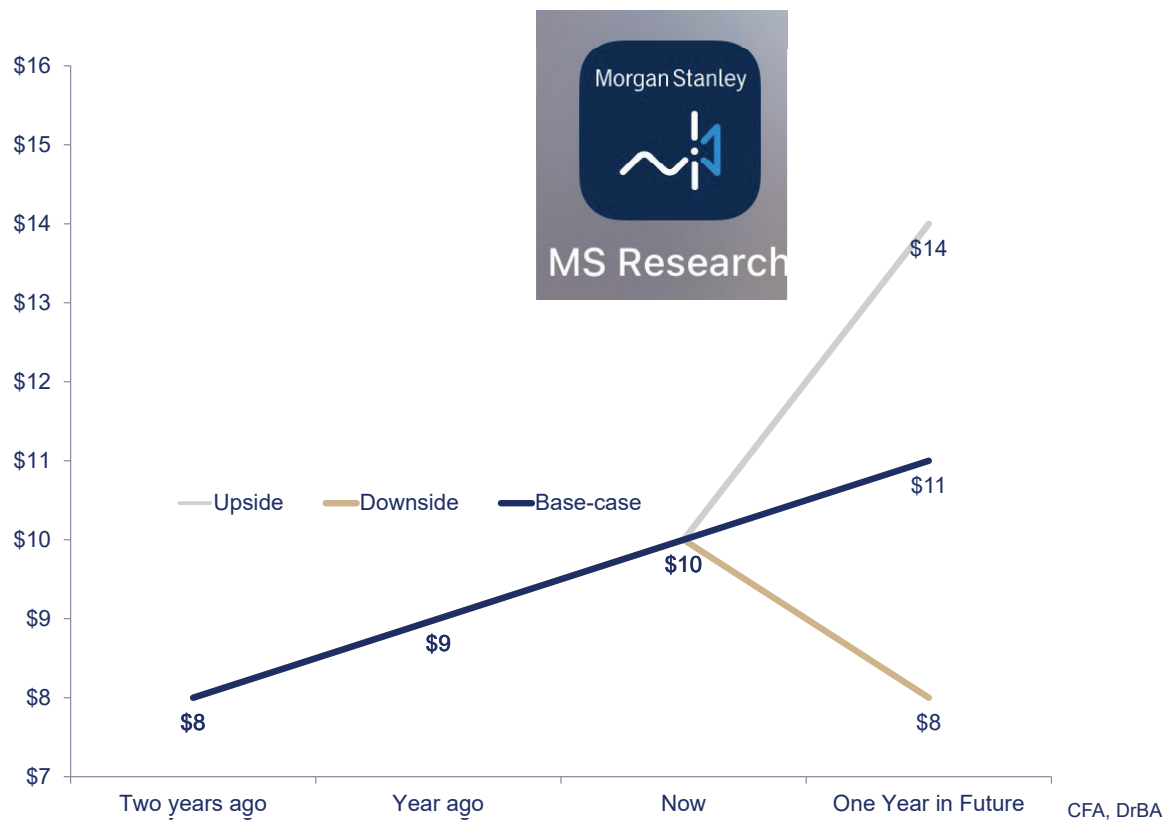
This is about exposing elements that might not be easy or comfortable:

- Provide alternative scenarios in the form of base-case, upside- and downside scenarios to show where you could be wrong
- Demonstrate you’re not oblivious to the other side of your recommendation by addressing why there are alternative views
- Disclose when you make adjustments to your thesis
- Convey your conviction level, even if it’s not high



1942

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Morgan Stanley | RESEARCH

Risk Reward – McDonald's Corporation (MCD.N)

Competitive moats widen vs peers; EPS growth to normalize longer term

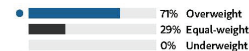
RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



■ Refranchising to 95% mostly complete, with operating margins in the mid-40% range, improved FCF and lower earnings volatility.

■ Defensive stock, both in terms of fundamentals and low stock price volatility; better positioned for uncertain demand environment.

Consensus Rating Distribution



MS Rating

Source: Thomson Reuters, Morgan Stanley Research

BULL CASE

\$235.00

Assumes a 29x multiple on bull case EPS of \$8.26

Big 'n Tasty: Our bull case is based on scenario analysis incorporates incremental cost saves and even stronger comp momentum and a more robust recovery from Covid-19 back to roughly normalized earnings. We apply a 29x multiple, which would be at the higher end of the historic range for large cap QSR peers.

BASE CASE

\$189.00

Assumes a 26x multiple on base case EPS of \$7.25

Value Combo: US SSS of ~9% in 2021E on the back of EOTF momentum and Covid-19 recovery along with International ~30% recovering from 2020. Store margins expand as cost saves are implemented and refranchising leaves MCD with a more profitable store portfolio. Defensive qualities of MCD also support multiple closer to pre-Covid levels.

BEAR CASE

\$120.00

Assumes a 19x multiple on bear case EPS of \$6.31

Unhappy Meal: Major market comps positive with some Covid recovery but not as strong, reflecting ongoing recessionary environment; segment margins remain soft, and G&A cuts are not realized. Multiple contracts to recessionary level, reflecting lack of system sales growth and margin progress.

“D” in ADViCE™ Represents Being “Differentiated”



- Minimize communicating when the message is not differentiated from consensus
- Using the FaVeS™ framework, quantify how you materially differ from the consensus thinking. To have a valid stock call, you must have a superior and materially-different view to the market in one of these areas:
 - Financial forecast
 - Valuation method/multiple
 - Short-term Sentiment of the market
- Explain how your view of the catalyst(s) that will drive your thesis differs from the consensus thinking

1946

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Price Target Components for Relative P/E Ratio Valuation



\$1.00	14	Market multiple	\$14.00
\$1.00	14	10%	\$15.40
\$1.00	14	-10%	\$12.60

1947

James J. Valentine, CFA, DrBA

Ensure a Differentiated Stock Call with a Superior FaVeS™ Insight

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

1948

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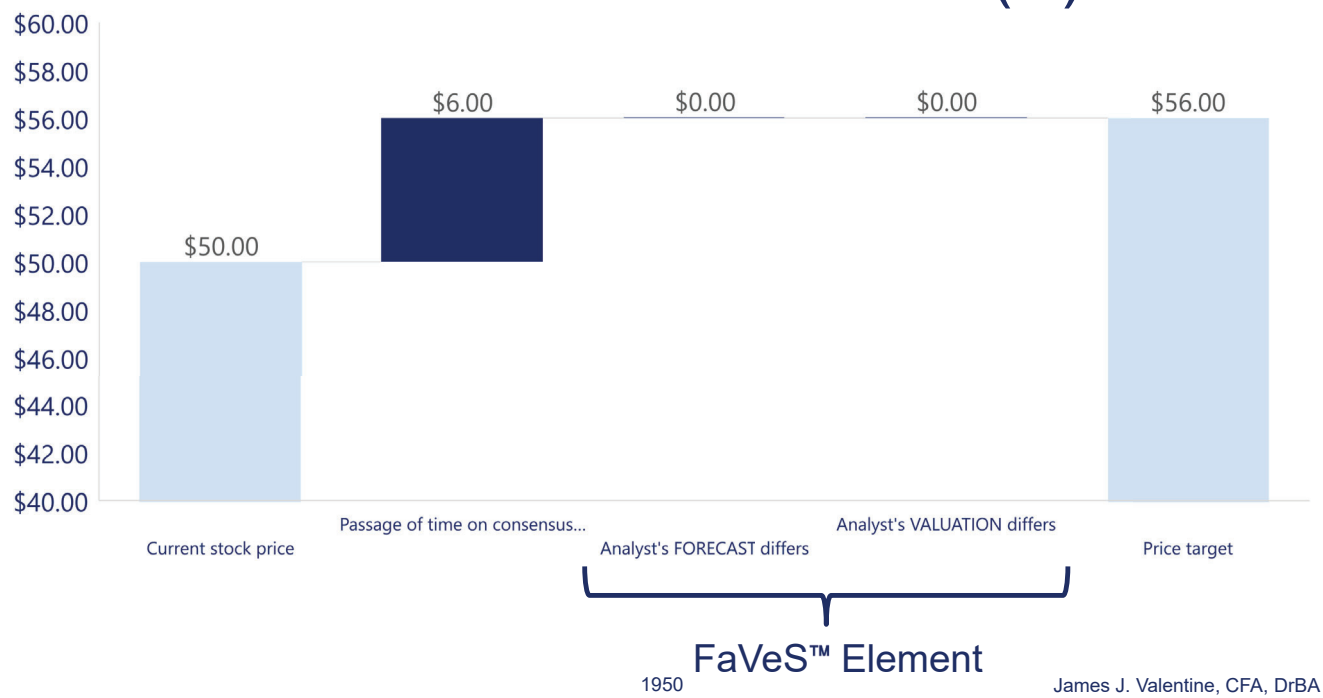
Quantify “How Do You Differ?”

	Scenario			
	A	B	C	D
1. Current data				
Current stock price	\$50.00	\$50.00	\$50.00	\$50.00
Next 12-month (“NTM”) consensus EPS forecast at present (we call this “Year 1”)	\$5.00	\$5.00	\$5.00	\$5.00
Stock’s current valuation multiple based on Year 1 EPS	10.0	10.0	10.0	10.0
Current market multiple	15.0	15.0	15.0	15.0
Stock’s current premium or discount to the market multiple	-33%	-33%	-33%	-33%
2. Change from consensus EPS between Year 1 and Year 2				
NTM consensus in Year 2 (i.e. forecast at beginning of Year 2 for Year 2)	\$5.60	\$5.60	\$5.60	\$5.60
Difference between Year 2 and Year 1 consensus forecasts	12%	12%	12%	12%
Item #2 above is due to passage of time while #3 and #4 below are influenced by the analyst				
3. Change due to analyst’s financial forecast differing from consensus				
Analyst’s NTM EPS forecast in one year (i.e. forecast for Year 2)	\$5.60	\$6.00	\$6.00	\$6.60
Premium or discount of analyst’s EPS estimate in Year 2 compared to consensus’	0%	7%	7%	18%
4. Change due to analyst’s future valuation multiple differing from current multiple				
Analyst’s estimate of market multiple at beginning of Year 2 (typically keep same as present)	15.0	15.0	15.0	15.0
Analyst’s estimate of stock’s premium or discount to market multiple at beginning of Year 2	-33%	-33%	-27%	-20%
Valuation multiple used for price target at beginning of Year 2	10.0	10.0	11.0	12.0
Difference between analyst’s future multiple and stock’s current multiple				
5. Price target	\$56.00	\$60.00	\$65.70	\$79.20
Change from current price	12%	20%	31%	58%

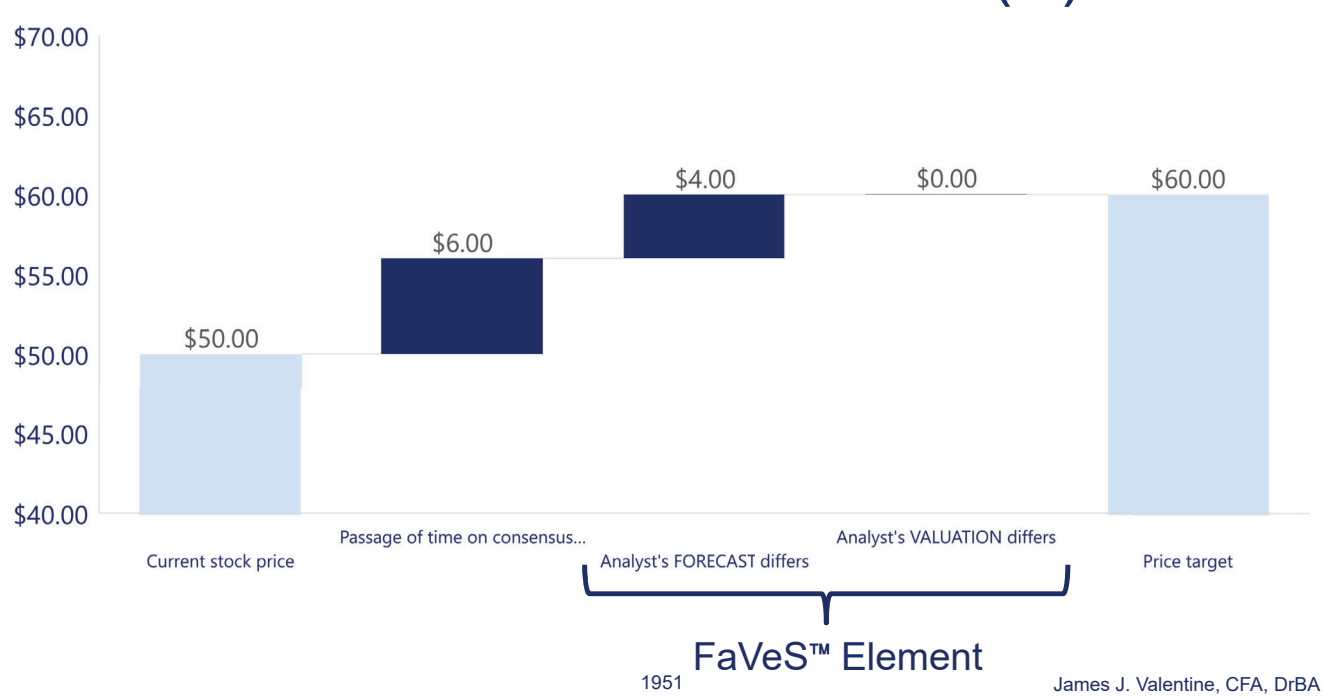
1949

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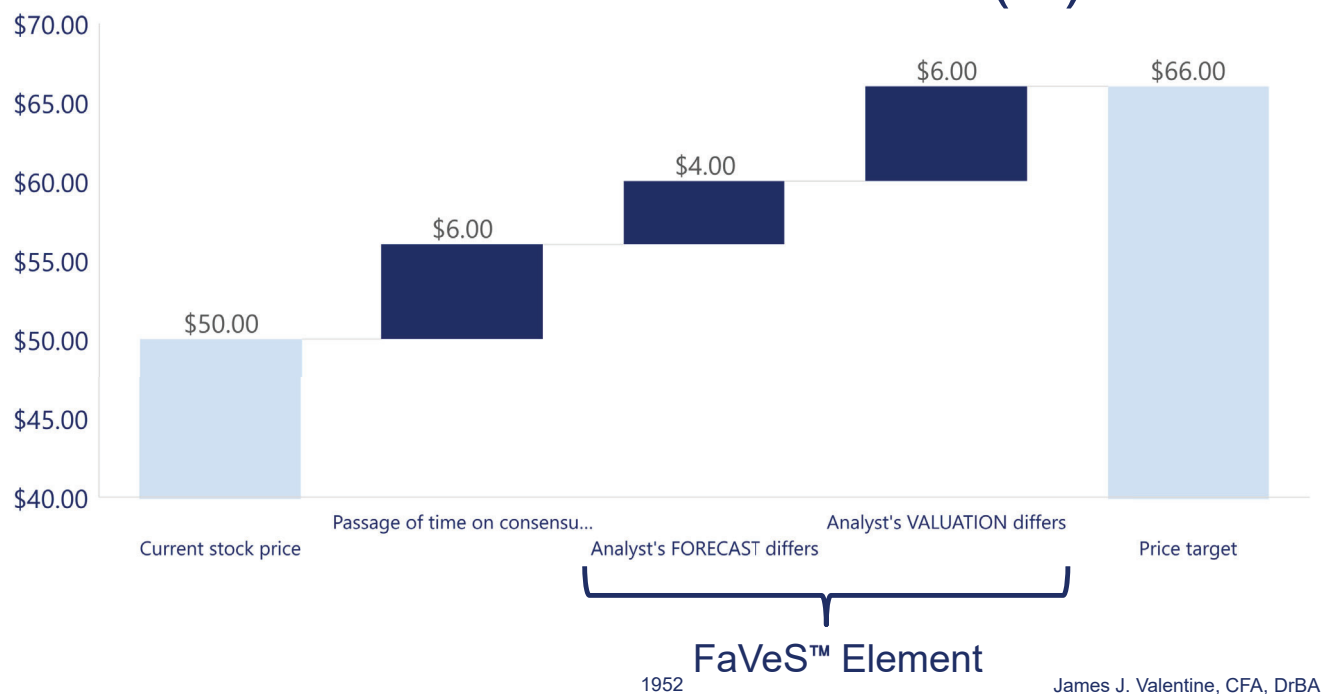
Dissect How You Differ (A)



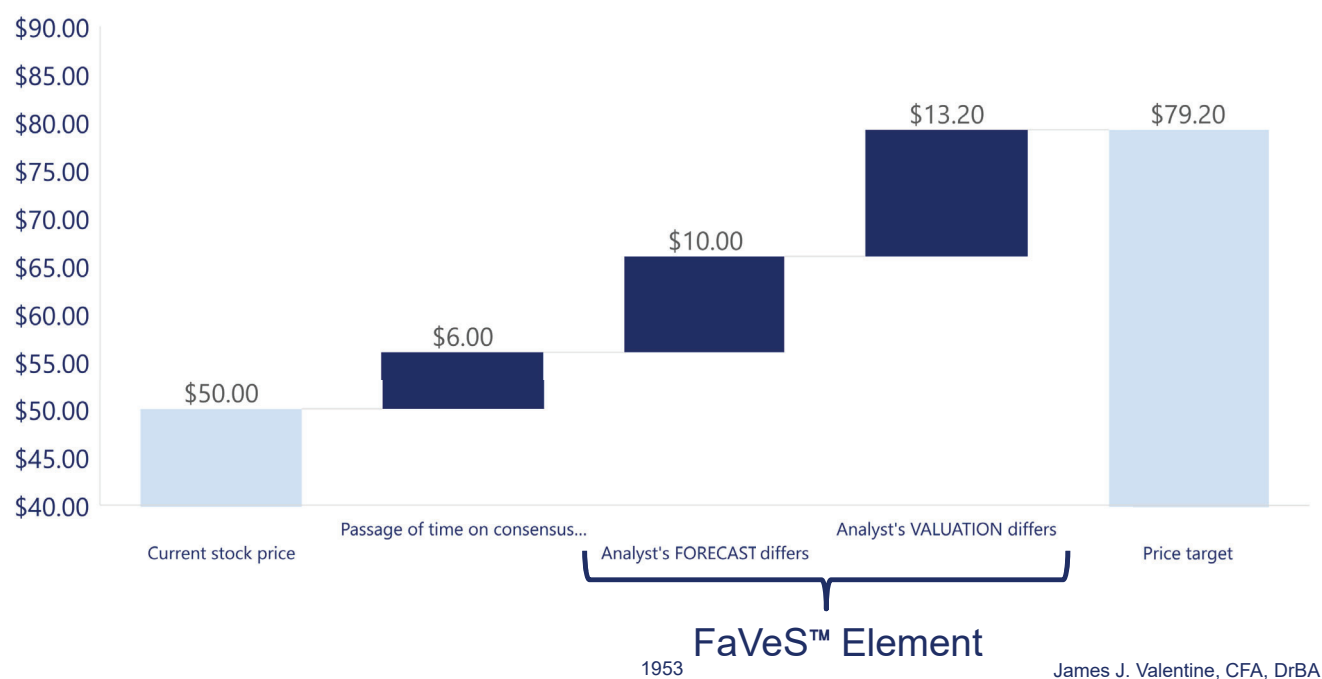
Dissect How You Differ (B)



Dissect How You Differ (C)



Dissect How You Differ (D)



“V” in ADViCE™ Represents Having a “Validated View”



- Without divulging proprietary sources, provide information/data from at least one informed, independent, and reliable source (preferably two or more if it's critical to your call) to validate your out-of-consensus thesis
- Quantify as much as possible, including the materiality of your out-of-consensus view
- Rely sparingly on company management for insights

1955

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“C” in ADViCE™ represents “Conclusion-oriented”

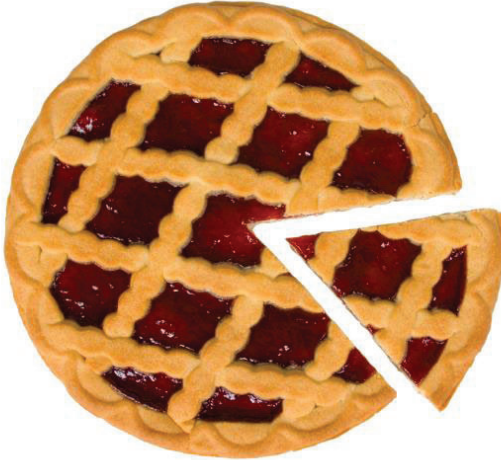


- Start your stock communications with conclusions about:
 - At least one stock (are you upgrading, downgrading, or just becoming more/less positive)
 - The catalyst(s) likely to move consensus to your way of thinking
- A stock should be mentioned no later than the second sentence of your communication
- Mention a stock and its rating in the headline for reports and subject lines for emails
- Provide a price target and upside/downside vs. the prior day's close

1956

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“E” in ADViCE™ represents “Easy to Consume”



- Quickly convey all of the key elements of the ADViCE™ framework
- Include supportive anecdotes and stories
- Be concise
- Quantify insights whenever possible, but don't overwhelm with too much raw data
- Avoid too much jargon and acronyms

1957

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ADViCE™ Framework



Aware



Differentiated



Validated



Conclusion-oriented

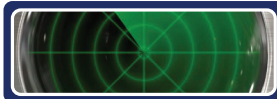


Easy-to-consume

1958

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ADViCE™ Framework



A?



D?



V?



C?



E?

1959

James J. Valentine, CFA, DrBA

Review QRCs

Quick Reference Card (QRC)

Utilize ADViCE™ Framework to Maximize Message Delivery Impact

Element	Put Into Action	Example
	This is about exposing elements that might not be easy or comfortable:	We're downgrading XYZ to underweight, and lowering our EPS from \$2.00 to \$1.75, which is

Quick Reference Card (QRC)

Utilize ADViCE™ Template to Maximize Message Delivery Impact

Answer the following questions before proceeding to the "Level 1" Exhibit

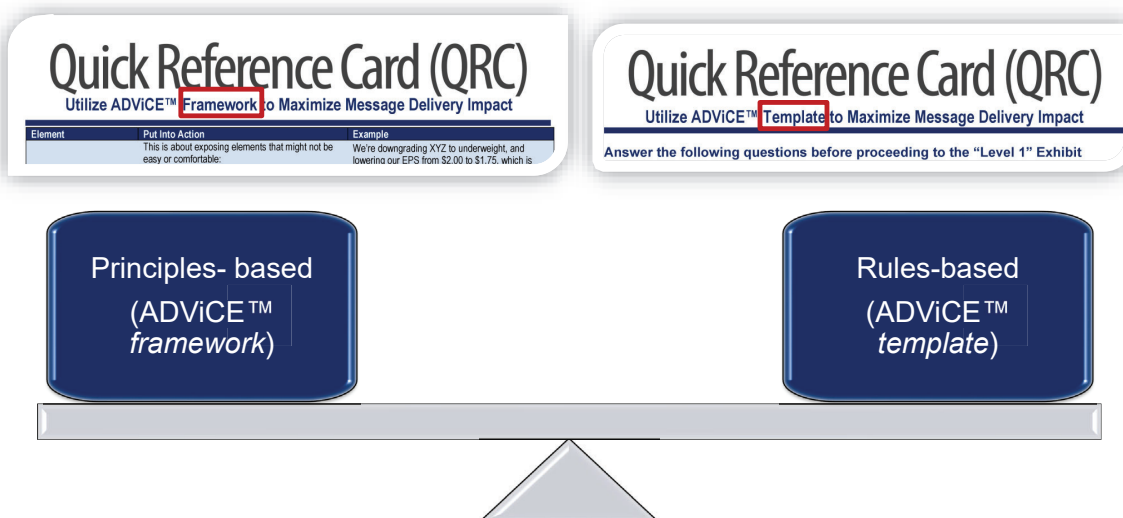
1960

James J. Valentine, CFA, DrBA

Stylistic Considerations

Recommendation	Examples	Why
Speak in the active voice rather than passive, and be specific when possible	Passive: "Expectations are not likely to be met this quarter." Active: "We don't expect the company to meet our \$0.40 EPS for the quarter."	It strengthens your message, and shows you've done the work
Don't pretend to have a level of precision that doesn't exist	"We expect XYZ to earn \$7.03 in 2013 by achieving operating margins of 8.37%"	It conveys the image you rely too much on your financial model output, without thinking through the big picture
Avoid media-based words or phrases that appear sensationalistic	"The stock is poised for a break-out due to a revolutionary new product" or "This never-before-seen turnaround by management makes this stock a screaming buy"	It will send a signal to the consumer of your message that you're inexperienced, which may cause them to question your judgment and the quality of your work
If you're referencing management's view, always include your view first	"We expect the company's margins to reach 10% next year, which compares to management's guidance of 9.5%"	It shows you're a thought leader by highlighting how management's views compare with yours
When referring to your view, try to use words that convey research has been done, rather than just conjecture: <ul style="list-style-type: none"> Best: "We forecast..." Acceptable: "We expect..." or "We believe..." Poor: "We think..." 	"We forecast the company's earnings to grow 10% next year" is more confident than "We think the company's earnings will grow 10% next year."	"Think" is used for informal situations more than the others. You might say, "I think I'll go out with friends tonight." But you wouldn't say, "I forecast I'll go out with friends tonight."
If working on a team refer to yourself in your work as "we" and "our" rather than "I" or "my"	"We believe the stock is overvalued, because our work suggests consensus EPS is 10% too high next year"	It sounds humbler. You likely haven't arrived at the conclusion solely on your own. At a minimum, you've had training from others to understand how to conduct your job.
Refer to companies and management as "it", rather than "they".	"Management held its quarterly call where it debuted its new outlook"	This is an industry standard
Use bullets or a table where there are multiple numbers in a paragraph	Create a table such as the one below instead of "We are raising our 2017 EPS forecast for NDT from \$1.00 to \$1.20 which compares to consensus at \$1.00 and raising our 2018 estimate from \$1.15 to \$1.30 which compares to consensus of \$1.12."	Easier for others to understand

Two Options to Master the ADViCE™ Framework



7 Stages of ADViCE™ Template

- Brief Conclusion
- Price target math
- FaVeS™ element that is being changed (be brief)
- Research to support unique FaVeS™ element
- Quantify unique FaVeS™ element
- When and why will consensus adopt your view?
- What could go wrong?

1964

James J. Valentine, CFA, DrBA

ADViCE™ Framework: Element #1

Element	Wording	Why important	Portion of ADViCE™ framework
Level 1 (email, page 1 of report, slides for brief presentation or voicemail script)			
Brief Conclusion	<p>We are or I am...</p> <ul style="list-style-type: none"> • recommending the purchase of... • upgrading/downgrading... • more bullish/more bearish towards... • raising/lowering our estimate/price target for... • reinforcing/revisiting our positive/negative view towards... <p>[AND]</p> <p>...[stock name(s) followed by ticker(s)] because...</p> <ul style="list-style-type: none"> • our work shows/suggests... • we can now conclude... • we have discovered... <p>[AND]</p> <p>...[the critical factor(s)] is/will likely...</p> <ul style="list-style-type: none"> • be better/worse than consensus/we expected • not in consensus expectations • occur sooner/later than consensus/we expected 	Allows others to decide if they want to spend more time consuming your message	Conclusion-oriented

1965

James J. Valentine, CFA, DrBA

ADViCE™ Framework: Element #2

Element	Wording	Why important	Portion of ADViCE™ framework
Level 1 (email, page 1 of report, slides for brief presentation or voicemail script)			
Price target math	<p>We/I derive a one-year price target of \$XX, which is XX% above/below yesterday's close by...</p> <p>1. [When using an absolute or relative valuation multiple] ...applying a X [valuation multiple] multiple on our/my XX.00 [EPS, CFPS, BV] estimate for 20XX [time period] [OR] ...applying a X% premium/discount to the market's multiple on our/my XX.00 [EPS, CFPS, BV] estimate for 20XX [time period] [AND/OR]</p> <p>2. [When using an intrinsic valuation method such as DCF, EVA, RI, etc.] ...using a [DCF, EVA, RI, etc.] analysis with the following assumptions: [state assumptions for key variables such as long-term revenue growth, changes to margins, the risk-free rate, equity risk premium, cost of equity, WACC, terminal value and years of forecast before terminal value is reached]</p>	Provides the elements of your price target and return	<u>C</u> onclusion-oriented

1966

James J. Valentine, CFA, DrBA

ADViCE™ Framework: Element #3

Element	Wording	Why important	Portion of ADViCE™ framework
Level 1 (email, page 1 of report, slides for brief presentation or voicemail script)			
FaVeS™ element that is being changed (be brief)	<p>Our/my view about [critical factor(s)] compels/allows/motivates us/me to... [here is where you <u>briefly</u> discuss your superior view, as defined by <u>at least one</u> of the following]</p> <p>1. [Superior forecast: when your forecast differs materially from consensus]</p> <ul style="list-style-type: none"> ...raise/lower/initiate coverage with our/my EPS/CFPS/growth rate forecast for this year/next year, putting us/me XX% higher/lower than consensus <p>[AND/OR]</p> <p>2. [Superior valuation: when your valuation assumptions are different from current consensus]</p> <ul style="list-style-type: none"> ...justify a valuation multiple of XX, which is XX% above/below its current/historical level. <p>[AND/OR]</p> <ul style="list-style-type: none"> ...justify using a [new valuation method not used by consensus] because [explain why this valuation method provides a more accurate price target than the conventional method] 	Briefly highlights your a) superior forecast (vs. consensus); and/or b) superior valuation method/multiple; and/or c) superior read on short-term sentiment towards the stock	<u>A</u> ware (if you are disclosing a change in thinking) <u>D</u> ifferentiated

1967

James J. Valentine, CFA, DrBA

ADViCE™ Framework: Element #4

Element	Wording	Why important	Portion of ADViCE™ framework
Level 1 (email, page 1 of report, slides for brief presentation or voicemail script)			
Research to support unique FaVeS™ element	<p>[If there is more than one critical factor driving the story, you may want to communicate this element and the one directly below for each critical factor at a time]</p> <p>Our/my conclusion/above/below-consensus estimate is based on...</p> <ul style="list-style-type: none"> our/my analysis of... discussions with... data we/I collected from... our/my unique modeling of... 	Validates view based on fundamental research and not just a hunch or guesstimate	<p><u>D</u>ifferentiated</p> <p><u>V</u>alidated</p>

1968

James J. Valentine, CFA, DrBA

ADViCE™ Framework: Element #5

Element	Wording	Why important	Portion of ADViCE™ framework
Level 1 (email, page 1 of report, slides for brief presentation or voicemail script)			
Quantify unique FaVeS™ element	<p>Specifically, we/I believe this results in \$XX/XX%...</p> <ul style="list-style-type: none"> higher/lower EPS/CF/BV... faster/slower EPS/CF growth rate... <p>...for 20XX [time period] than...</p> <ul style="list-style-type: none"> current consensus expectations** our/my prior estimate <p>AND/OR</p> <ul style="list-style-type: none"> expansion/contraction of the stock's relative/absolute valuation multiple from X to Y 	Answers "materiality" question by quantifying how your view differs from consensus	<p><u>D</u>ifferentiated</p> <p><u>C</u>onclusion-oriented</p>

1969

James J. Valentine, CFA, DrBA

ADViCE™ Framework: Element #6

Element	Wording	Why important	Portion of ADViCE™ framework
Level 1 (email, page 1 of report, slides for brief presentation or voicemail script)			
When and why will consensus adopt your view?	We/I believe consensus does not reflect our view because [put your rationale here and avoid repeating your research above (instead focus on why consensus hasn't come around to your way of thinking yet)]. We believe the consensus/market will adopt/understand our/my view by [specific quarter or time of year] due to [catalyst that will drive the market to your way of thinking].	Explains how view of the catalyst(s) differs from the consensus thinking and when it will become clear to the market	<u>D</u> ifferentiated <u>C</u> onclusion-oriented

1970

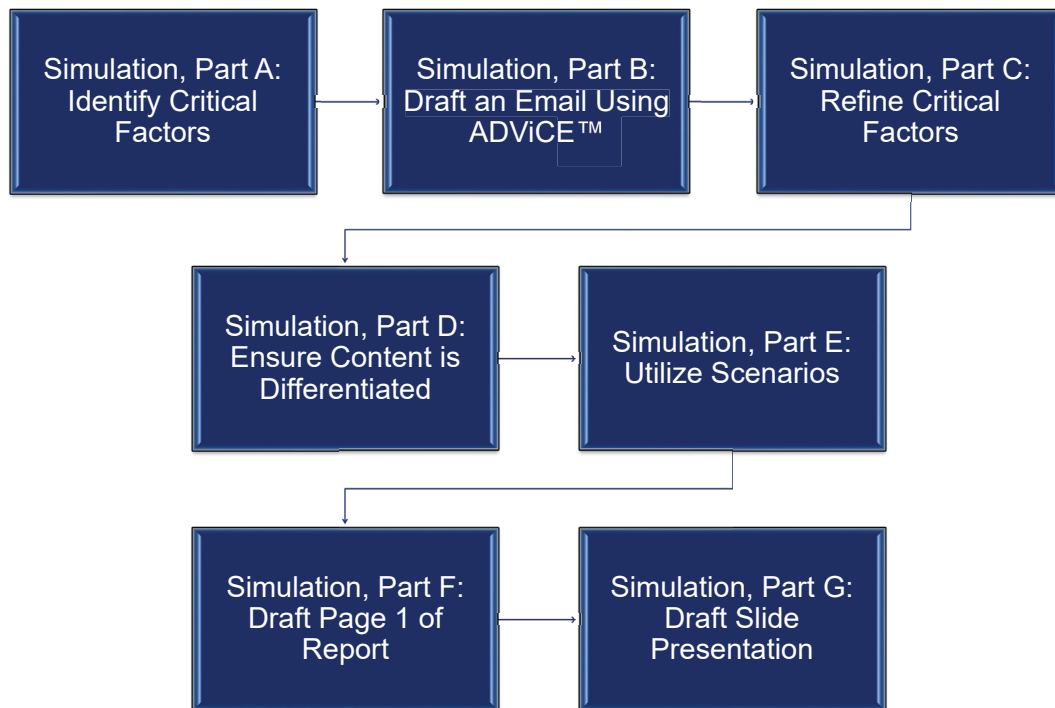
James J. Valentine, CFA, DrBA

ADViCE™ Framework: Element #7

Element	Wording	Why important	Portion of ADViCE™ framework
Level 1 (email, page 1 of report, slides for brief presentation or voicemail script)			
What could go wrong?	We/I have a high/low/modest degree of conviction/confidence in our/my call because [explain why your analysis above is valid or uncertain]. Our/my downside scenario results in a stock price of XX (XX% below yesterday's close), and our/my upside scenario is XX (XX% above yesterday's close).	Conveys your conviction level and provides alternative scenarios to demonstrate you're not oblivious to where you could be wrong	<u>A</u> ware

1971

James J. Valentine, CFA, DrBA



1973

James J. Valentine, CFA, DrBA

MODULE 4: SIMULATION

1974

James J. Valentine, CFA, DrBA

Part A: Identify Critical Factors



1975

James J. Valentine, CFA, DrBA

After Reading Part A...

- Which are the two most ideal factors where Lucas should spend his time conducting further research and communicating to his PM? (Exhibit 8)
- We would focus more time and communications with Alice on the following two factors:
 - Factor #3 (railroad pricing): It's high on 3 of the 4 criteria and your suspicion is that it's high on the 4th criteria as well, which makes it a perfect critical factor that will generate alpha
 - Factor #2 (NDT geographic expansion): it's material and not likely in consensus. If you can validate with another source, it will likely be high on the two other criteria.
- Here are why the other factors did not make our "top 2" list:
 - For #1 (new truck regulations): even if you verified it to be likely, it's not material to these stocks and so don't spend another second on it. Pass along to fellow colleagues if they cover stocks that would be impacted.
 - For #4 (RFID): it's not clear when it would impact the carriers or even if it would impact them (recall the interviewee said it's likely to help the carrier's customers).
 - For #5 (economic growth): it's helpful to know for forecasting earnings and pass along in a communication to PMs and colleagues (especially for economically-sensitive stocks), but given that you don't make a living forecasting the economy; it's too macro to make it the primary rationale for your stock recommendation. (There's not much value in upgrading a specific stock solely because you've heard the economy is getting better.)

1976

James J. Valentine, CFA, DrBA

Part B: Draft an Email Using ADViCE™



1977

James J. Valentine, CFA, DrBA

Review QRC

Quick Reference Card (QRC)

Best Practices for Leaving Voicemails

Quick Reference Card (QRC)

Best Practices for Creating E-mails and Text Messages

1978

James J. Valentine, CFA, DrBA

Part C: Refine Critical Factors



1979

James J. Valentine, CFA, DrBA

Quick Reference Card (QRC)

Utilize ADVICE™ Template to Maximize Message Delivery Impact

Answer the following questions before proceeding to “Level 1” of the table on page 2

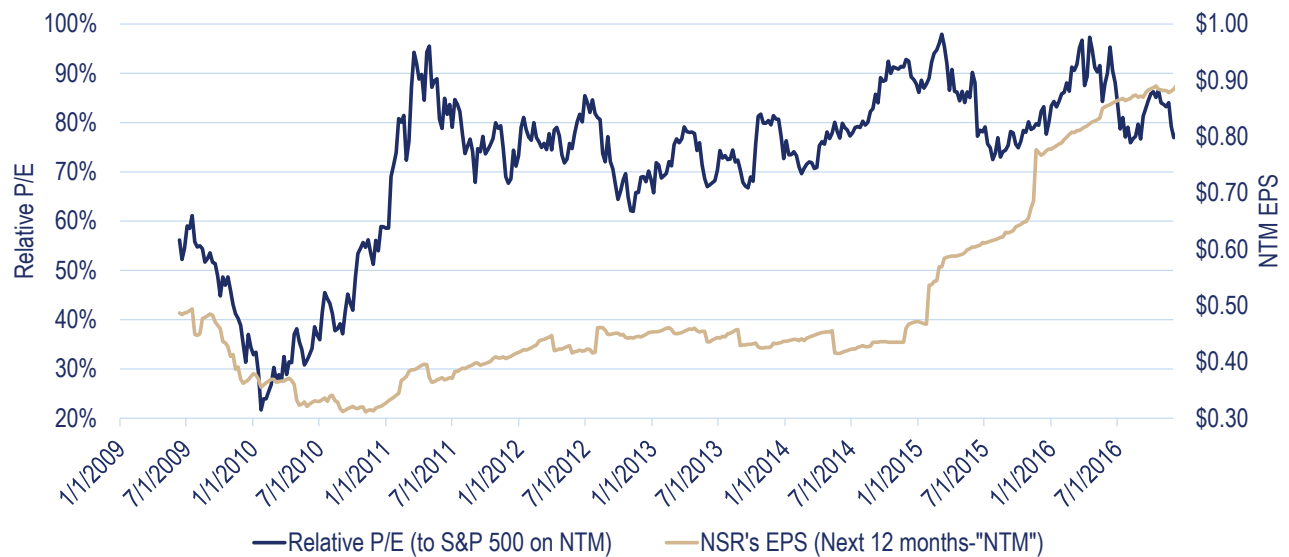
1. Do you have a price target for the stock? If so, proceed to the next step. If not, ask how your intended communication will add value to investment professionals seeking to generate alpha.
2. Complete the table below to illustrate the unique elements of your price target (based on the FaVeS™ framework):

	Example	Your Stock	Item #
1. Current data			
Current stock price	\$96.00		A
Next 12-month (“NTM”) consensus EPS forecast at present (we call this “Year 1”)	\$5.80		B
Stock’s current valuation multiple based on Year 1 EPS (divide row A by row B)	16.6		C
Current market multiple (for the broad market such as the S&P 500)	15.0		D
Stock’s current premium or discount to the market multiple	10%		E
2. Change from consensus EPS between Year 1 and Year 2			
NTM consensus in Year 2 (i.e. forecast at beginning of Year 2 for Year 2)	\$6.20		F
Difference between Year 2 and Year 1 consensus forecasts (divide row F by row B)	7%		G
Item #2 above is due to passage of time while #3 and #4 below are influenced by the analyst			
3. Change due to analyst’s financial forecast differing from consensus			
Analyst’s NTM EPS forecast in one year (i.e. forecast for Year 2)	\$7.00		H
Premium or discount of analyst’s EPS estimate in Year 2 compared to consensus* (divide row H by row F)	13%		J
4. Change due to analyst’s future valuation multiple differing from current multiple			
Analyst’s estimate of market multiple at beginning of Year 2 (typically keep same as present)	15.0		K
Analyst’s estimate of stock’s premium or discount to market multiple at beginning of Year 2	10%		L
Valuation multiple used for price target at beginning of Year 2 (multiply row K x (1+row L))	16.6		M
Difference between analyst’s future multiple and stock’s current multiple (row M ÷ row C)	0%		N
5. Price target			
Change from current price (row O ÷ row A)	21%		P

1980

James J. Valentine, CFA, DrBA

NSR's Relative P/E Ratio and Next 12 Month EPS



1981

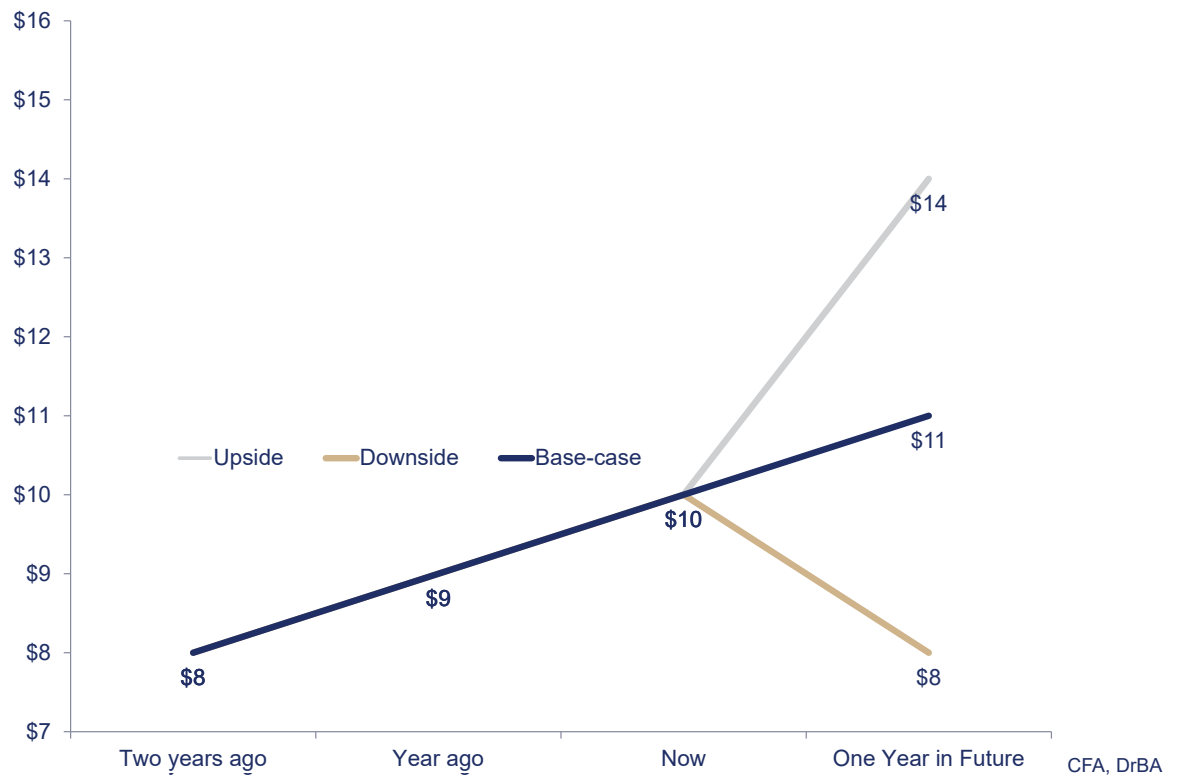
James J. Valentine, CFA, DrBA

Part D: Ensure Content is Differentiated

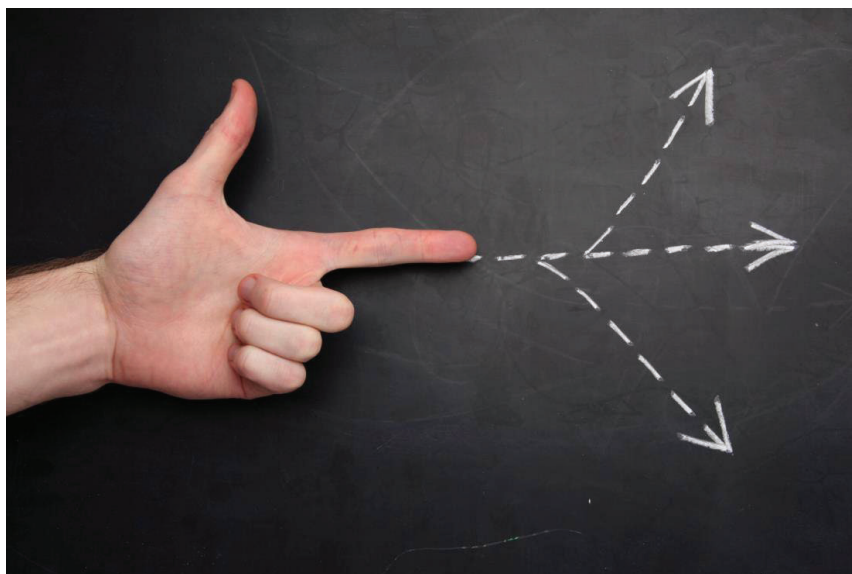


1982

James J. Valentine, CFA, DrBA



Part E: Utilize Scenarios



Review QRC

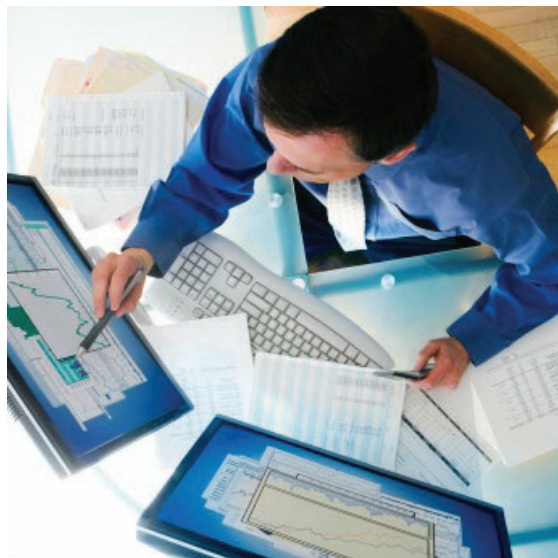
Quick Reference Card (QRC)

Best Practices for Writing Research Reports

1985

James J. Valentine, CFA, DrBA

Part F: Draft Page 1 of Report



1986

James J. Valentine, CFA, DrBA

Review QRCs

Quick Reference Card (QRC)

Best Practices for Presenting to Others

Quick Reference Card (QRC)

Best Practices for Slide Presentations

1987

James J. Valentine, CFA, DrBA

Part G: Draft Slide Presentation



1988

James J. Valentine, CFA, DrBA

Recommend Purchasing Next Day Trucking (Slide 1 of 5)

- Recommending purchase of Next Day Trucking (NDT)
- Potential expansion to another 25% of country not in expectations
- Raising next year's EPS from \$1.00 to \$1.20 (consensus is at \$1.00)
- \$17 one-year price target is 20% above yesterday's close, based on market multiple on \$1.20 estimate

Brief conclusion

FaVeS element being changed (forecast)

Price target math and upside

1989

James J. Valentine, CFA, DrBA

Recommend Purchasing Next Day Trucking (2 of 5)

- NDT customers tell us it's asking them if they need service in markets it doesn't currently serve
- We've learned NDT is looking for new terminal space in a location it doesn't serve
- NDT is ordering more trucks next year than a normal replacement cycle

Research to support FaVeS™ element

1990

James J. Valentine, CFA, DrBA

Recommend Purchasing Next Day Trucking (Slide 3 of 5)

- During prior expansions NDT had incremental EPS growth similar to its geographic expansion
- Based on our estimate of 25% expansion, we conservatively assume our EPS estimates need to rise by 20%

My Estimate vs. Consensus

Company	My Former Estimate for 2017	My New Estimate for 2017	Change in My Estimate	Current Consensus for 2017	My New Estimate vs. Consensus for 2017
NDT	\$1.00	\$1.20	20%	\$1.00	20%

1991

James J. Valentine, CFA, DrBA

Recommend Purchasing Next Day Trucking (Slide 4 of 5)

Timing and Catalyst

- Announcement likely by 2Q of this year
- Benefit EPS by early next year
- Not in consensus expectations for next year

1992

James J. Valentine, CFA, DrBA

Recommend Purchasing Next Day Trucking (Slide 5 of 5)

Potential Risks

- Timing
- Magnitude of expansion
- Competitive responses
- Scenarios:

Scenario	EPS	Stock Price	% Change from Yesterday's Close
Upside-scenario	\$1.30	\$18.20	28%
Base-case	\$1.20	\$17.00	20%
Downside-scenario	\$1.00	\$14.00	0%

1993

James J. Valentine, CFA, DrBA

MODULE 5: CONCLUSION

1994

James J. Valentine, CFA, DrBA

Review QRCs

Quick Reference Card (QRC)

10 Questions to Ask Before Communicating a Stock Call*

Quick Reference Card (QRC)

Checklist for Communicating Stock Calls Successfully

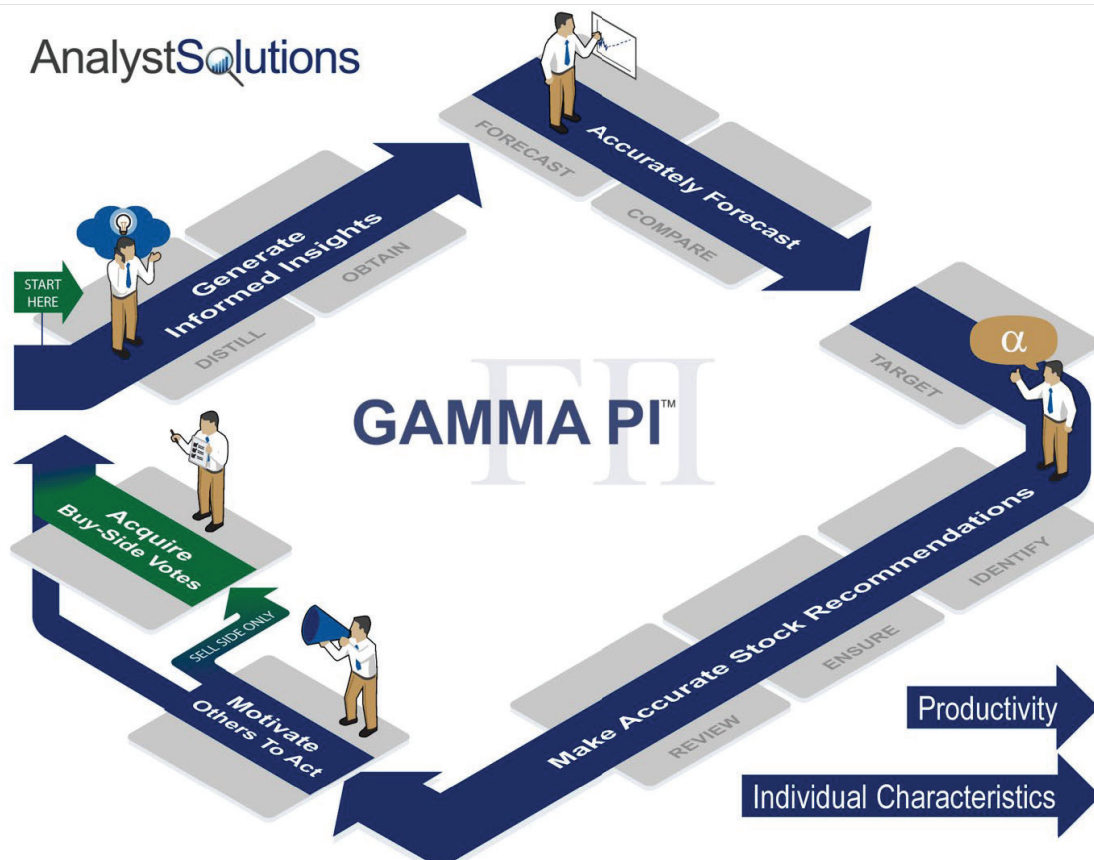
1995

James J. Valentine, CFA, DrBA

Evaluate Your Own Work

- Recall ADViCE™ can be used to improve:
 - Reports
 - Slide presentations
 - Emails
 - Voicemails
 - Face-to-face conversations
- Why didn't the RFID factor show up in Lucas' communications?





Linked
L

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

Follow through by continually practicing these three steps...



Our Tools



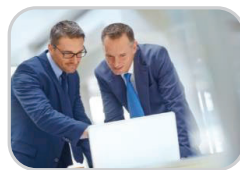
Workshops



One-on-one
coaching



Assessments



Consulting



Keynote/offsite
presentations

Workshops that Address Universal Analyst Needs

	Identify & Monitor a Stock's Critical Factors
	Generate Differentiated Insights Through Better Discovery, Questioning and Influencing
	Apply Practical Valuation Techniques For More Accurate Price Targets
	Master the Stock Call Techniques of Highly Experienced Analysts
	Communicate Unique Stock Calls Successfully So Others Take Action
	Maximize Your Time for Alpha Generation
	Develop and Deploy a Marketing Strategy that Maximizes Wallet-Share

2001

James J. Valentine, CFA, DrBA

Best Practices Bulletins

10 Steps for Equity Research Analysts to Perform Better



According to Reuters, one of its sister companies, Lipper, finds that roughly 85% of active large-cap stock funds are lagging their benchmarks year-to-date through late November. Investors are voting with their feet as shown by the \$206 billion of inflows into ETFs through the first 10 months of 2014 vs. only \$36 billion for the...

Portfolio Managers' #1 Frustration With Equity Research Analysts



While I was studying the Japanese language during college, I initially didn't take notice that the word "chigau" (ちがう) is used to convey both "different" and "wrong." But after moving to Tokyo and learning the importance of conforming to the group, I developed a newfound appreciation for why these two English words require only one...

[Read the Entire Bulletin >](#)

2002

James J. Valentine, CFA, DrBA

Thank You for Participating!



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Info@AnalystSolutions.com

2003

CE Qualified
Activity



CFA Institute

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