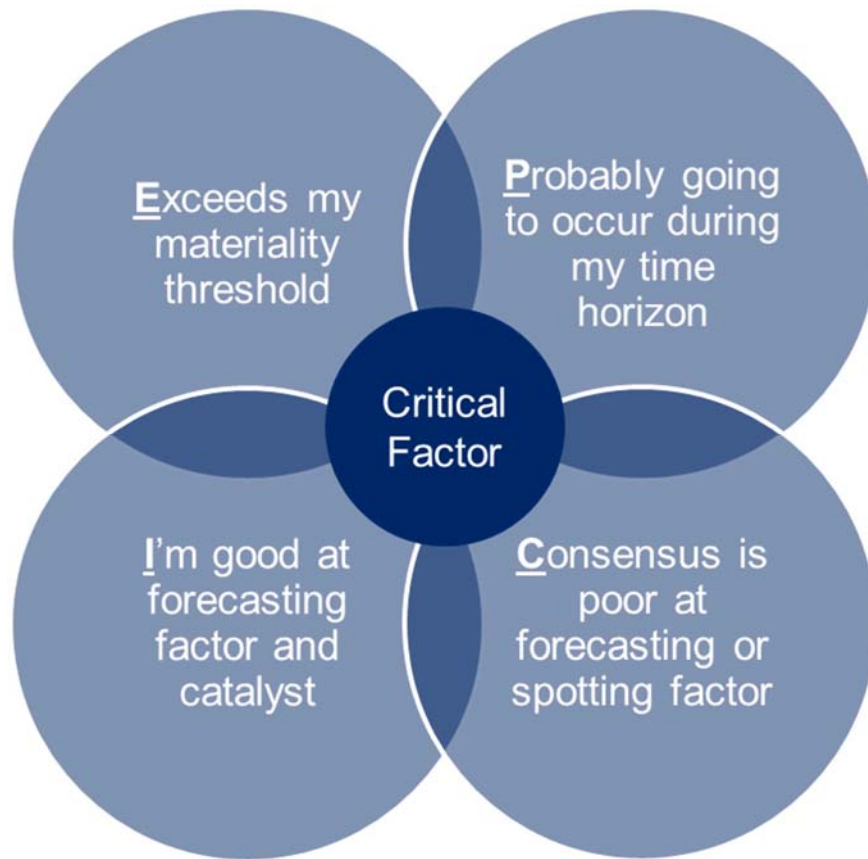


Quick Reference Card (QRC)

Identify and Monitor a Stock's Critical Factors (Summary)

Seek Factors that Meet All Four Criteria Below:



Use these Four Steps to Identify Critical Factors



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Quick Reference Card (QRC)

Information Sources Pros and Cons

Individual Conversation

Source for Information	Pros	Cons	Confirm or Refute Historical Factors*	Assess New or Emerging Critical Factors	Assess Market Psych.
Buy-side analyst or portfolio manager (as source for buy-side or sell-side)	Best place to gauge investor expectations	May not be representative of the larger investor base	<input type="checkbox"/>		■
Company's competitor (publically-traded or privately-held)	Knows the sector and the competitive dynamics	May not be familiar enough with other company's factors to speak with authority. May try to bash the competition	■	■	
Company's executives (including investor relations)	Usually forthcoming about opportunistic factors	Usually downplay or ignore potentially negative factors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Conference speaker or author of book/academic paper	Usually willing to speak with others	May not fully understand implications for company or stock	■	■	
Consultant, expert, or company retiree	Very close to the issue	Can be difficult to find	■	■	
Customer of, or supplier to, the company (publically-traded or privately-held)	First-hand knowledge of the company's value proposition	Contact may not be representative of the larger customer base	<input type="checkbox"/>	<input type="checkbox"/>	
Government officials or staffers	Often the closest to regulatory or legislative changes	Often won't speak on the topic. If so, may not provide accurate forecast	<input type="checkbox"/>	<input type="checkbox"/>	
Industry association or forecasting service representative	Understands complex industry issues	May be biased in the sector's favor and may not fully understand implications for company or stock	<input type="checkbox"/>	<input type="checkbox"/>	
Industry journalist/blogger	May understand complex issues and provide direction to other sources of information	May not fully understand implications for company or stock	■	■	
Sell-side analyst (for the buy-side) considered among top 3 in sector	May be the only place to gauge consensus thinking and to obtain proprietary research	Subjectivity or low-quality work can result in incorrect output	■	■	■
Sell-side salesperson (with deep knowledge of specific stock)	Close to many buy-side investors	Generalist salespeople may not have full understanding of any single stock	<input type="checkbox"/>		<input type="checkbox"/>
Trader of stock (with deep knowledge of specific stock)	Usually familiar with short-term psychology of stock	May not fully understand company or long-term issues	<input type="checkbox"/>		<input type="checkbox"/>

Legend: ■ = best first source, □ = good source

* Source must have been active with the stock/company at time of historical anomaly

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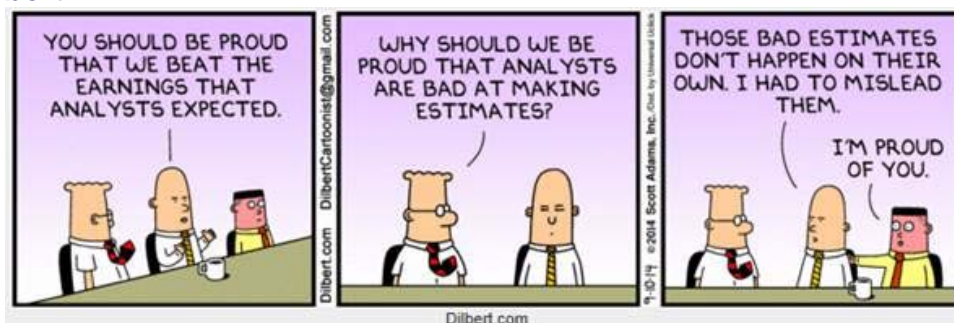
Quick Reference Card (QRC)

Information Sources Pros and Cons

Read Only

Source for Information	Pros	Cons
Company press releases and regulatory filings	Free. May be only source for certain information	Tends to be biased positively
Data service	Often the best at providing granular product or sector data	Not always provided in a timely manner. Can be expensive. Not proprietary
Economic data	Often reliable and relatively objective	Not company-specific. Past trends don't forecast the future
Financial press	Low cost and somewhat objective	May not fully understand implications for company or stock
Forecasting service	Often the best at forecasting trends for the factor	Not always provided in a timely manner. Can be expensive. Not proprietary
Industry trade journal, website, or blog	Low cost. Somewhat objective. Understands complex issues	May be biased in the sector's favor. May not fully understand implications for company or stock
Proprietary survey	Output is proprietary	Expensive and can take a significant amount of time
Sell-side report (for buy-side analysts)	Easy to access and search (if client)	May be biased by analyst's rating
Third-party research firm	The study answers your specific questions and you own the data	Expensive and can take a significant amount of time

A View from Dilbert...



Detailed Reference Card (DRC)

Questioning Techniques for Obtaining Insights Using the ICE™ Framework

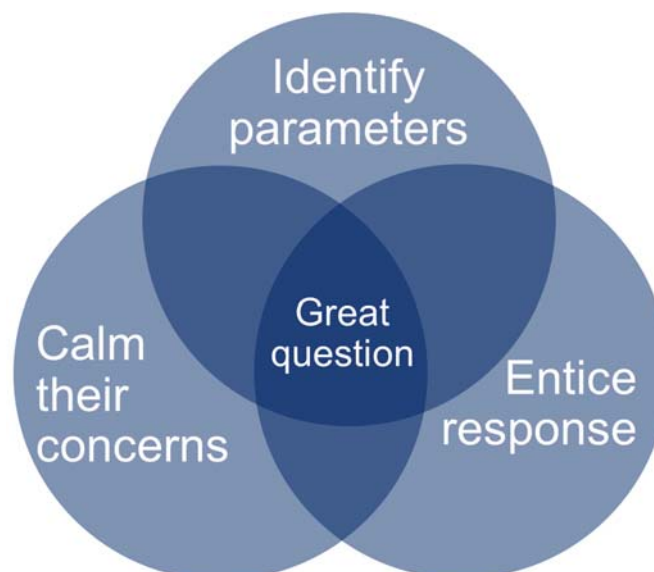
ICE™ Questioning Framework

The best interviews (or electronic exchange of information), by equity research analysts, journalists, authors, or any other interviewer, are the direct result of *thorough preparation*. It's critical to spend time preparing, usually well in advance of the exchange, in order to ensure the best insights are obtained for stock picking. Furthermore, when conducting an interview, 100% of your attention should be focused on the interviewee's verbal and non-verbal responses, rather than dedicating brain power asking yourself "what am I going to ask next?" which is another reason it's critically important to assemble questions well before the interview.

There are 3 key elements to a great interviewing, which makes up our ICE™ framework (as shown in the exhibit below):

1. **Identify parameters:** If your question (or lead-in to your question) references specific parameters (e.g. historical trends, consensus expectations, your forecast, etc.) you have a much higher likelihood of getting an insightful answer that will help in stock picking
2. **Calm their concerns:** None of the individuals you interview are required by law to provide answers to your questions and as such, it's imperative to put them in a mindset where they are comfortable responding. The more interviewees are put at ease, the more likely they will give full and helpful responses. (Conversely, if they feel defensive, your likelihood of getting helpful information is almost nonexistent.)
3. **Entice a thorough response:** Many interviewees will be reluctant to provide more than the basic answer to a question. A great question will evoke an emotion within the interviewee in a manner that makes them feel compelled to give you more than the basic answer. This can be a challenge because doing this successfully requires not violating the "calm their concerns" accomplished above

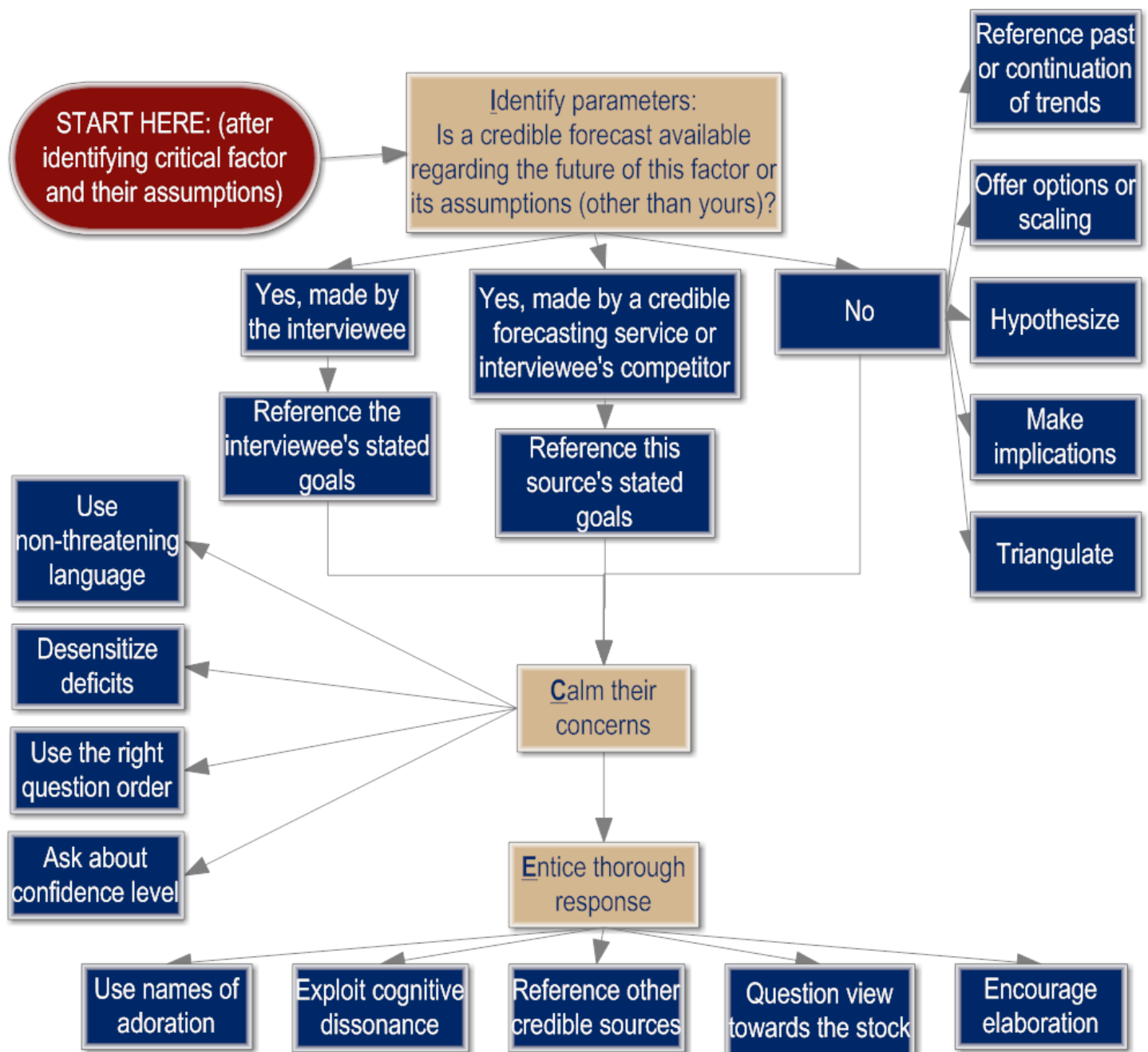
Exhibit 1: Elements of a great question



Detailed Reference Card (DRC)

Questioning Techniques for Obtaining Insights Using the ICE™ Framework

Exhibit 2: ICE™ Framework for Obtaining Insights



We explore each of the elements of the ICE™ framework in more detail in the sections that follow

Detailed Reference Card (DRC)

Questioning Techniques for Obtaining Insights Using the ICE™ Framework

Step 1: Research to Identify Parameters (“I” of ICE™ Questioning Framework)

Which question is more likely to evoke an answer that can be useful in analyzing a stock:

1. “So how are your labor costs going?”
2. “Was the 3% wage inflation in the quarter, which compares to only a 1% increase for the prior four quarters, because the company is beginning to lap its productivity initiatives from last year?”

Hopefully this illustrates that the more you know before the interview, the more you can narrow down the question (and thus the response) to get to the heart of the issue. The problem is that you don’t have endless hours to prepare for each interview, which is why it’s a best practice to focus only on the 1-4 *critical factors* for a stock (see Detailed Reference Card, “*Identify and Monitor a Stock’s Critical Factors*” to identify 1-4 critical factors for each stock being researched). For most elements of analyst’s role we encourage staying intensely focused only on the 1-4 critical factors for a stock, but if time allows, it can be helpful to discuss the next 3-4 factors on an analyst’s list, as they may evolve into critical factors over time.

Other than building rapport with the interviewee, all of your questions should help to *clarify assumptions around a stock’s critical factors*. (This is also the first step of our ASPIRE™ framework for generating unique insights.) If you have not identified the 1-4 critical factors for the stock(s) to be discussed, **STOP** here and do that work. This is the core foundation of every great interview – knowing the topics to discuss that will help generate alpha...and, more importantly, knowing which ones are a waste of time. Most topics are just noise, which takes time away from those that need answers. The QRC “*Potential Questions to Investigate When Researching a Company*” may prove helpful as a starting point for assembling your questions.

Furthermore, do not spend any time asking questions that can be easily answered by:

- Reviewing public documents (e.g. “In what countries does the company operate?” or “How many employees work for the company?”), unless you’re attempting to see if the interviewee is in agreement with the publicly-available information, such as a publically-available forecast
- Conducting a basic review of past data (e.g. “Is your business cyclical?” or “How does your stock react when interest rates rise?”)

When preparing your questions, ensure the interviewee has expertise or knowledge to thoroughly answer questions about the critical factor you are researching. This may sound obvious, but it’s surprising how often this gets missed, such as when the analyst asks the CFO a detailed marketing question. Also note, when interviewees are not among senior managers of a company or from the financial markets, they often do not understand your ultimate goal, which is to *forecast earnings or cash flows*. For example, a car dealership owner isn’t likely to have a full understanding of the automobile manufacturer’s quarterly earnings or even its quarterly production, but it’s plausible you can get an understanding of quality or regional pricing.

Detailed Reference Card (DRC)

Questioning Techniques for Obtaining Insights Using the ICE™ Framework

If you know your stock's critical factors and the interviewee's capacity to help answer assumptions that pertain to them, move onto creating great questions. The more specific the question, the greater the likelihood you'll receive a specific answer. In Exhibit 3 we provide question types that reference specific parameters, which should result in more specific answers from the interviewee.

Exhibit 3: Question Types That Reference Specific Parameters to Evoke Specific Answers

Questions Referencing Specify Parameters	Examples
Reference Interviewee's Stated Goals: Ensures response is reconciled with interviewee's goals	What is being done to achieve management's long-term goal of 1% labor cost inflation, given that it was up almost 3% in the recent quarter?
Reference Credible Third-party Forecast: Keeps interviewee within the parameters of this credible forecast	Do you believe the Global Aircraft Association's long-term forecast for 6% intra-Asia passenger traffic is realistic?
Reference Continuation of Past Trends: Frames future forecast using past trends which helps to keep interviewee's response more realistic	Should I assume that the lack of labor productivity improvement in the most recent quarter will continue?
Offer Options or Scaling: Keeps interviewee's response within a predefined range	Over the next 18 months, is it more realistic that labor inflation will return to the highs of 6%-7%, as seen 4-5 years ago, or potentially be flat, similar to a target set by your largest competitor?
Hypothesize (and then pause): Challenges interviewees to respond with their own hypothesis	I forecast the major productivity improvements of the prior year will slow to less than 1%, given the weak numbers in the most recent quarter. (you'll want to pause to see how the interviewee responds)
Make Implications: Uses your insights to build a well-constructed implication that will likely elicit a quantifiable response	Your largest competitor has stated one of its competitors has been dropping pricing and we see in your most recent quarter, your average selling price was down. Can I assume you are the company they're referencing?
Triangulate: Uses information from other related areas to narrow possible outcomes	I've heard management state it generates \$60 per unit from product sold in China. If your company sells 50,000 units per day in Shanghai and we've been told Shanghai is over 50% of your China revenue, the math suggests you generate \$1.4 billion per year in China. Are there any elements of my assumptions that appear off?
Ask for Estimate Around a Non-Material Topic (that helps to build the mosaic): Keeps the question focused on a quantifiable response for something relatively small so the interviewee is comfortable answering	Can you provide an estimate of the number of unionized employees you have in California?

Give the Interviewee Some Room...But Not Too Much

The goal for using the "options", "scaling" and "hypothesize" question types above is they allow the respondent some room to answer the question in a manner that makes them feel comfortable, while not avoiding the question altogether. Notice in the second example below, the analyst is making the assertion that the employees will unionize and so if the interviewee responds, he or she is not stating the employees are going to unionize:

Detailed Reference Card (DRC)

Questioning Techniques for Obtaining Insights Using the ICE™ Framework

- Avoid being this direct: “Are your California employees likely to unionize?”
- Instead, hypothesize: “I suspect your costs will increase if the unions are successful in unionizing your California operations”

Technically, the second bullet above isn’t a question, but the interviewee will likely respond with their input.

Interviewees are often more likely to answer your question if you provide “response scaling” such as: “Do you expect to add 30 or 35 planes to the fleet?” (Notice the presumptuous question type) rather than “How many planes do you expect to add?” If it turns out your 30-35 range is way off, management will usually try to correct. **Great managers thrive on being great “problem solvers” and so, by their very nature, they can't allow a problem (your incorrect range) to go by without being solved.** In another example, “How many days this quarter did you not meet your revenue target?” will not likely get an answer whereas, “Did you miss your target on at least 20 days this quarter?” gets under management's skin because it doesn’t want to be portrayed in the wrong light, which means it will be motivated to provide the right answer.

You may even throw out an absurd hypothesis so that management will put parameters around the real answer. If you suspect margins in Germany are slightly better than those in France, you could say, “I suspect your margins in Germany are twice as high as in France.” But don’t do this too often or the interviewee will see through it and stop providing insight.

Rather than seek a specific number, ask for an estimate or range of estimates:

- Avoid being this direct: “What is your R&D spending going to be next year?”
- Instead, ask for a range: “Can you give us some thoughts about the higher and lower ends of R&D spending likely for next year?”

Ask what could go wrong:

- Avoid being this direct: “Will you achieve your cost-cutting target this quarter?”
- Instead, ask what would cause a target from being achieved: “What would prevent your company from achieving its cost-cutting target this quarter?”

Step 2: Calm Their Concerns (“C” of ICE™ Questioning Framework)

In situations when the interviewee has no restrictions on what can be said (such as senior management of a non-public company or industry consultant), this step has less importance, but when the interviewee is concerned about sharing too much, these tactics can help extract answers that will develop unique insights critical for stock picking.

Use Non-threatening Language and Terms

- Phrase questions positively; if you’re too forceful or negative, it will exert control over the interviewee, who will likely attempt to gain back control by being restrictive with the response
 - Avoid this: “Why has management allowed margins to drop to such disappointing levels?”

Detailed Reference Card (DRC)

Questioning Techniques for Obtaining Insights Using the ICE™ Framework

- Instead be more positive: “Can you help me understand why margins are 300-500 basis points lower than your competitors?”
- Use "and" rather than "but" to be less confrontational
 - Avoid: “As I understand it, the company saw the new expansion wasn't going well, but continued to do more marketing.”
 - Instead be less confrontational: “As I understand it, the company saw the new expansion wasn't going well and continued to do more marketing.”
- De-personalize sensitive questions, by avoiding the use of "you" and instead using "company" or “management.” Use “us” and “we” (instead of “I” or “me”) to show it's not just you that have a concern:
 - Avoid: “I would like to know why you had such poor holiday traffic.”
 - Instead be less confrontational: “Why did NewCo (the interviewee's company) have holiday traffic well below its competitors?”
- Avoid using words and phrases that will put the interviewee on the defensive. Examples of bad vs. good words include:

Bad	Better
• Missed the quarter	• Fell short of expectations
• Huge mistake	• Poor strategic decision
• Crash	• Collide/accident
• Tell me...	• Can you help us understand...
• Give me...	• How much would you estimate...
• What is...	
• How much did you...	

- Use terminology and vocabulary level that puts the interviewee at ease. If you're speaking to the manager of a coal mine, use mining terms that will be understood and avoid financial terms like “ROIC”, “EBITDA” or “DCF” which could cause anxiety
- For sensitive topics, refer to the past rather than ask for a forecast:
 - Avoid asking for a forecast: "Do you expect pricing to continue to drop?"
 - Instead reference the past: "Has pricing continued to decline?"
- Use passive voice (vs. active) to avoid putting the interviewee on the defensive. With the active voice the interviewee (person, manager, company, etc.) performed the action, whereas passive implies the action was performed on the interviewee. Here are examples:

Active (not recommended)	Passive (recommended)
"Did management invest too much into the new model handset?"	"Was too much invested into the new model handset?"
"Will your company likely achieve its growth target?"	"Will management's growth target likely be achieved?"

Desensitize Deficits

When probing management about its company's deficit areas:

- Blame criticism as coming from others..."I noticed Golden Bull Securities recently downgraded your stock over concerns your growth rate is slowing. Is their thesis warranted?"
- Focus the criticism on the numbers or performance, not the people:

Detailed Reference Card (DRC)

Questioning Techniques for Obtaining Insights Using the ICE™ Framework

- Poor practice: “Why did you so badly disappoint this past quarter?”
- Best practice: “Why were EPS 10% below consensus this past quarter?”
- When applicable, start the question with a lead-in to show the company is not an outlier. “Many companies didn't think they would be significantly hurt by the recession and yet every stock in the sector is down at least 20%. What are some things that could have been done at your company to soften the impact of this downturn?”

Use the Right Question Type and Order

- Start with easy questions first and then move on to more difficult ones; it will help the interviewee build confidence and feel less defensive, which is critical for getting insightful answers to some of the more sensitive topics
- Be careful not to use too many closed questions because they take control from interviewees (for example, “Which is your most profitable product line?”)
- Avoid these question types because they will not likely yield an answer that helps in stock picking:
 - **Rhetorical**: making an assertion or eliciting a response from the interviewee that the interviewee is unlikely to answer directly, such as “Why does the company seem to get beaten up so much by the sell-side?” (What value does the analyst gain in the response?...probably nothing and it ultimately wastes time that could have been focused on a much better question.)
 - **Complex or nested**: when multiple topics are covered in one question. For example: “When and where will the next generation of the software be introduced, and why has it not occurred in the original forecast timeframe?” The interviewee may choose to only answer the easiest part of the question, hoping the other elements are forgotten.
 - **Insulting**: delivered and received in a manner that is likely to be interpreted negatively by the interviewee. For example: “With all due respect, can you explain why your operating margins have been horrendous forever?” Instead, ask in a manner that will elicit a good response such as, “Can you help us understand why your margins are among the lowest in the industry?”

Ask About Confidence Level vs. Specifics

Although the goal is to get as specific answers as possible, sometimes you'll want to fish for a less specific answer such as when covering very sensitive topics (where specific answers won't be provided) or at the beginning of the interview when you're trying to put the interviewee at ease. This can be done by asking the interviewee's confidence level rather than a specific number:

- Avoid being this direct: “Will you achieve your cost-cutting target this quarter?”
- Instead ask for a confidence level: “How confident are you that the company can achieve its cost-cutting target this quarter?”

Detailed Reference Card (DRC)

Questioning Techniques for Obtaining Insights Using the ICE™ Framework

Step 3: Entice Thorough Response (“E” of ICE™ Questioning Framework)

Great interviewers utilize influencing skills in a manner that evokes the interviewee to want to fully answer the question in a non-threatening manner. Many of the tactics below can be used when assembling the questions before the interview, although some are used based on responsiveness of the interviewee during the interview.

Use Names and Adoration

- Starting the question with the interviewee’s name (said in a friendly tone), can help promote the ego and thus compel him or her to feel obligated to provide a response. For example: “Jerry, why has NewCo’s return on investment declined over the past two years?” Be careful not to overuse this tactic because it, if used repeatedly, can begin to appear disingenuous.
- Play up interviewee’s level of experience or role within their firms to make them feel like not responding would expose their lack of knowledge: “Based on your 20 years of experience, would it be better for revenue to grow at double digits or to see the firm's return on capital exceed 10%?”
- If the interviewee works for the company being discussed, attempt to work the company name into the more important questions because it suggests the company is a leader in the field, and so the implication is that management must have thoughts on the topic. For example if meeting with Delta Airlines management: “How many new aircraft do you expect Delta to purchase next year?”

Exploit Cognitive Dissonance

“Cognitive dissonance” is the discomfort for holding two contradictory beliefs, a condition that can be used to your advantage. First ask the interviewee about a belief the interviewee holds and then follow with a question about a specific related concern. Cognitive dissonance compels interviewees to show how their actions are consistent with their beliefs.

- For example start with, “Does management have a hurdle rate for investments?”
- Presumably, after the interviewee responds “yes”, follow it with this question: “Does management review completed projects to determine if they exceeded or fell short of the hurdle rate?”
- Presumably, after you receive another “yes” answer, follow it with this question:
 - “Why did the major oil sands project not generate the expected returns?”; or
 - “Which major projects have fallen short of the hurdle rate over the past two years?”
- Management will feel compelled to explain that its actions are consistent with its philosophy, which often leads to a more detailed answer than simply asking the last question in this example

Reference Other Credible Sources of Information

The interviewee often wants to be considered the smartest person in the world on the topic (which hopefully will be the case if you have great information contacts). With this in mind, bringing up the following can often lead the interviewee to provide a more detailed answer than if these other sources were not mentioned:

- **Competitor’s performance:** “Why does XYZ (competitor to company being interviewed) spend less capital as a percentage of sales than ABC (the interviewee’s company)?”

Detailed Reference Card (DRC)

Questioning Techniques for Obtaining Insights Using the ICE™ Framework

- **Competitor's disclosure:** State that a competitor of the company has shared a specific piece of information with the hopes that this management will divulge the same piece of information (or at least provide information about where they stand relative to the competition). "When I spoke with XYZ (competitor to company being interviewed) last week, I was told their production was running at 100% of capacity. Are you experiencing the same?"
- **Respected Expert:** Reference a respected expert's view to tease out management's forecast. For example, "Can you help explain why ABC (the interviewee's company) is more optimistic than McKinsey Consulting's report forecasting demand for this product to be relatively small for at least the next two years?"
- **Consensus:** Referencing consensus can be a powerful tool to extract insights. For example, "Consensus appears overly optimistic to assume ABC (the interviewee's company) can grow EPS faster next year than this year."
- **Your forecast:** If the above tactics are not applicable, reference your forecast. For example, "If I assume only modest growth in each of your divisions and average cost inflation, I arrive at EPS growth of 15% for each of the next three years, which is more conservative than management's guidance. Can you please help me better understand what I'm missing in my forecast?"

Question View Towards the Stock

- Mention your internal portfolio manager or external clients have a concern that needs to be addressed: "Many of the PMs/clients I speak with have trouble understanding how the company will achieve a double-digit growth rate."
- Suggest you cannot get more positive without a better answer: "I'm not sure I can get more constructive towards your stock unless I can get more comfortable with management succession plans."

Encourage Elaboration

- Encourage the interviewee with terms such as "I see," "Interesting..." or nodding (do not overuse the nodding or it will become disingenuous)
- Specifically encourage the interviewee to elaborate with phrases such as:
 - "Can you elaborate?"
 - "Please tell me more."
- Use silence. When interviewees haven't fully answered your question, pause for 5 seconds. Often they will feel the need to fill the awkward silence by elaborating further
- Restating the interviewee's answer will often result in receiving more detail (referred to as "echoing"). For example: "So the entire shortfall in the quarter was due to weather?"
- Taking it a step further, restating the interviewee's answer in terms of how it will play out in the future, often will result in a more thorough response. For example: "Just so I'm clear, the entire quarterly shortfall was due to weather and so next year, assuming normal weather, you should have an easy comparison?"
- Imply that the critical factor must not be important to the interviewee. If the interviewee stonewalls, ask a question that implies the critical factor being discussed isn't important to management. For

Detailed Reference Card (DRC)

Questioning Techniques for Obtaining Insights Using the ICE™ Framework

example, "So there isn't a strategy to defend market share losses in Asia?" or, "So it sounds like there's not much effort being put into this new product line?" This is one of the few exceptions where a negatively-worded question is appropriate.

Quick Reference Card (QRC)

Potential Questions to Investigate When Researching a Company

Potential Questions to Investigate

As we note in our ICE™ framework for questioning¹, when interviewing information sources about a company, attempt to focus only on the critical factors and make the questions as specific as possible. Given the idiosyncrasies that make each sector and stock unique, we cannot provide the universal list of questions that need answering when researching a company, but we can provide broad list that should be explored. As noted in the columns below, some of this information can be obtained before, or without the help of a live interviewee.

Topic	Questions to be investigated	Company documents, data and web site	Market data & news	Industry trade journal or web site	Economic data	Company Investor Relations Contact	Sell-side report or model (for buy-side analysts)	Customer of or supplier to the company	Information from forecasting service	Consultant, expert or company retiree	Sell-side analyst (for the buy-side)	Appropriate to ask executives at meeting
Strategy (CEO-level)	How does the company create value for its customers and shareholders?	•				•		•		•	•	
	What is the company's competitive advantage?	•				•		•		•	•	•
	What are the risks to the company maintaining its competitive advantage/returns?					•		•		•	•	•
	How does the company's strategy differ from its competitors?		•			•		•		•	•	•
	Which lines of business are the most and least valuable?	•				•				•	•	
	Which lines of business are seasonal, cyclical, defensive or growth?	•			•	•			•	•	•	
	Which lines of the business are going through transition?	•	•			•	•	•		•	•	•
	Where are the best areas of investment outside of the company's core business?	•				•				•	•	•
	Is management a good capital allocator (does the company earn its COC over a cycle)?	•									•	
	What are the biggest mistakes being made by the competition?			•		•		•		•	•	•
	Are there any material regulatory or legal risks that could impact margins or growth rates?											
Financial	Why have key financial metrics changed materially over the recent past (e.g. 2-3 years)*?	•				•	•				•	
	What are the key assumptions for the company to achieve consensus expectations?	•				•	•				•	•
	Has the company made, or intend to make, any changes to its accounting policies?	•				•	•				•	•
	How will the company finance future capital needs?	•				•	•				•	•

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Quick Reference Card (QRC)

Potential Questions to Investigate When Researching a Company

Topic	Questions to be investigated	Company documents, data and web site	Market data & news	Industry trade journal or web site	Economic data	Company Investor Relations Contact	Sell-side report or model (for buy-side analysis)	Customer of or supplier to the company	Information from forecasting services	Consultant, expert or company ratings	Sell-side analyst (for the buy-side)	Appropriate to ask about future at meeting
Revenue	Does the company or its competitors have pricing power?	•				•		•		•	•	
	How does the company set pricing?					•		•		•	•	•
	Have there been any major wins or losses recently?			•		•		•		•	•	•
	Which factors are most likely to cause a material change in demand?					•	•	•	•	•	•	•
	Where will growth come from (economic, market share gains or new markets)?			•		•	•	•	•	•	•	•
	How is the company positioned in the highest and lowest margin market segments?			•		•	•	•		•	•	•
Costs	Are there likely to be any changes to the company's cost structure beyond typical inflation?					•	•	•		•	•	•
	Are there any major productivity initiatives? For publicly-stated targets, are they net of inflation?	•				•					•	•
	Where is the company making its major investments?	•				•	•		•	•	•	•
	How is management compensated and is it likely to change?	•				•					•	•
Mgmt	How does the quality of this management team compare to its competition?							•		•	•	
Valuation	How does the company's valuation differ from the past as well as currently from its peers?		•				•					
	Is there anything misunderstood by the market that is distorting the company's valuation?					•	•				•	•
	Are there any catalysts likely to impact valuation over a typical investment time horizon?					•	•				•	•

* Such as growth rates of EPS, FCF and revenue, as well as material changes in margins, ROIC and ROE

ⁱ See AnalystSolutions' DRC, Questioning Techniques for Obtaining Insights Using the ICE™ Framework

Detailed Reference Card (DRC)

Utilize the PRACTICE™ Framework to Influence Others

PRACTICE™ Framework for Influencing Others



* What's in it for them?

Use the PRACTICE™ framework to influence others in these situations:

- Obtaining insights from information sources (see Exhibit 1)
- Sell-side analysts attempting to win over institutional buy-side clients (see Exhibit 3)
- Buy-side analysts attempting to win over their internal portfolio managers (see Exhibit 4)

We also have the following stand-alone detailed reference cards that utilize the PRACTICE™ framework in related areas:

- *Generating Sustainable Sources of Insight with ASPIRE™ Framework*
- *Questioning Techniques for Obtaining Insights Using the ICE™ Framework*

Detailed Reference Card (DRC)

Utilize the PRACTICE™ Framework to Influence Others

Exhibit 1: Influence Information Sources Using PRACTICE™

Step of PRACTICE™	Steps to Influence Others
<u>P</u> repare to influence (1 of 2): <ul style="list-style-type: none"> • “What’s in it for them?” (WIIFT) • “How can I conform?” 	<ol style="list-style-type: none"> 1. Research “what’s in it for them?” (see Exhibit 2) to ensure you know what will motivate them to have a conversation with you <ul style="list-style-type: none"> • Search for the person on Google, LinkedIn, Bloomberg, Facebook, Twitter, etc. to help identify potential needs (notoriety, knowledge, friendship, etc.) • If you’ve been provided the contact’s name via a colleague, ask about the contact’s motivations 2. Research their background so you know how best to conform to “their ways” (as discussed in the “C” of PRACTICE™ below). This isn’t to say you automatically adopt their way of thinking and style, but know it so you are prepared.
<u>P</u> repare to influence (2 of 2): <ul style="list-style-type: none"> • Self-awareness 	Self-assess by honestly answering these questions (resolve deficits where possible): <ul style="list-style-type: none"> • Will you be credible to this person? (Ensure you know the critical factors for a stock) • Do you have strong communication skills? • Are you a good listener? (most people over-estimate their ability) • Are you empathetic? • Do you adapt well? • Do you have a large network of contacts to potentially share as “currency” with this contact?
<u>R</u> apport building	<ul style="list-style-type: none"> • Be the first to say “hello” and thank the interviewee for his/her time • Ask questions to get to know them, in a sincere and genuine manner, which will build the all-important trust (work towards answering WIIFT) • Show reverence to the person by noting why you have reached out to him or her • Mention if you were referred to the person by someone they know • <u>Listen attentively -- at all costs, do not interrupt</u> – it shows a lack of respect and may convey an over-sized ego. When others want to speak, let them do 95% of the talking for the first conversation – it’s all about them • Establish common ground by agreeing with points they make – don’t have a debate during your first conversation • Be confident (but not arrogant) by having researched the topic and practicing the questions to be asked (using the ICE™ framework). Individuals are more likely to respond to a confident person than someone who is unsure or hesitant • Offer to provide something to meet their needs (the “rule of reciprocity” will likely lead them to offer you something)
<u>A</u> sk about needs (WIIFT)	If you haven’t already learned the interviewee’s “WIIFT” during your research in the “Prepare” step above, start the conversation by getting this answered (see Exhibit 2)
<u>C</u> onform	<ul style="list-style-type: none"> • Avoid passing judgment if the information source says something you disagree with (you won’t build trust if you start by disagreeing with the person) • Use terms or jargon that show you know the topic, but not those that may not be understood by the information source (e.g. “ROIC”, “PEG ratio”) • If in-person, dress in a manner that will help connect with the person • Embrace “their ways” by showing interest in something unique to their profession, personal background or geographic region
<u>T</u> rustworthy (build credibility)	<ul style="list-style-type: none"> • To illustrate your expertise, show or send the information source some of your insights, if allowed (in advance of the first meeting/conversation if possible) • Be honest about capabilities and deliverables, and follow through on commitments and promises (take notes during meetings and then review afterwards) • Proactively explain that you will maintain their confidentiality • Treat everyone with respect (e.g. even the information source’s assistant or receptionist)

Detailed Reference Card (DRC)

Utilize the PRACTICE™ Framework to Influence Others

Step of PRACTICE™	Steps to Influence Others
<u>I</u> gnore distractions (external and internal)	<ul style="list-style-type: none"> • “Be in the moment” with the person by avoiding distractions such as emails, phone calls, texts, etc. (turn it all off or to “do not disturb” mode) • As discussed in our ASPIRE™ framework, for in-person interviews, try to find a location conducive to a conversation - and potentially note-taking (not a loud coffee shop or convention banquet table) • Ignore internal distractions such as: <ul style="list-style-type: none"> ○ Inattention ○ Self-absorption (which can include mentally preparing for your next question before the current question has been answered) ○ Misinterpretation ○ Personal biases
<u>C</u> ommunicate persuasively	<ul style="list-style-type: none"> • Use a comforting non-threatening tone, timing, pace and volume that will appeal to the listener (A person who feels attacked, rushed or doesn’t understand your question isn’t likely to provide open and honest answers) • Convey body language that shows you are interested in the conversation: <ul style="list-style-type: none"> ○ Good eye contact, posture and facing the other person ○ Smiling ○ Energetic ○ No crossed arms or legs ○ No scanning smartphone ○ Avoid skepticism in facial expressions and tone ○ Lean forward to show interest • Ask the interviewee’s opinion on topics • Use these strategies below, which can be found in the QRC “Utilizing Weapons of Influence for Equity Research” <ul style="list-style-type: none"> ○ Reciprocation ○ Commitment and consistency ○ Social proof ○ Liking ○ Authority ○ Scarcity
<u>E</u> nsure needs are met (WIIFT)	<p>These are discussed in detail in the “R” portion of the ASPIRE™ framework. Some of the most effective best practices include:</p> <ul style="list-style-type: none"> • Satisfy all reasonable direct requests in a timely manner (e.g. send them information they requested or connect them with another industry contact) • Offer to include the information source in a proprietary event such as a private monthly conference call with 5-6 other experts • If allowed by your firm, offer to send the information source your research • Periodically contact the information source to offer help, not just when you need information

Detailed Reference Card (DRC)

Utilize the PRACTICE™ Framework to Influence Others

A key element of the PRACTICE™ framework is to ensure you determine “what’s in it for them”, preferably well before your first conversation or email. The following exhibit includes typical needs of good information sources and non-monetary methods to fulfill those needs.

Exhibit 2: What's In It For Them (WIIFT) Examples for Information Sources

Their Primary Need (WIIFT)	Their Specific Need (WIIFT)	Fulfill Their Needs
Information	Access to insights from senior management of companies within the industry	<ul style="list-style-type: none">• Provide them insights after participating in calls or meetings with senior management of the companies in your universe• Forward key quotes from a quarterly call transcript when relevant
Information	Understanding of their company and its stock price	<ul style="list-style-type: none">• Provide an explanation about their company's stock valuation relative to the past and their peers• Provide an update on days when their stock is volatile or company is in the news
Information	Understanding of the industry trends or their company's competitors	<ul style="list-style-type: none">• Forward insights you come across when researching (including blogs, journals, webcasts, etc.):<ul style="list-style-type: none">○ Major industry developments○ Their company's competitors• Provide access to your research (if allowed by your firm)• Explain the critical factors on the minds of investors• Forward them information about relevant industry events they may want to attend
Information	Access to other experts	<ul style="list-style-type: none">• Introduce them to your other relevant information sources• Invite more than one information contact to an event as an opportunity to meet one another• Forward them information about relevant industry events they may want to attend
Emotional	To be recognized as an industry thought leader	<ul style="list-style-type: none">• Forward requests from the press to them that you receive• Recommend them to speak at conferences or private dinners you host (in conjunction with a conference or seminar where you can gather a group of experts)• In your post-interview thank you email, mention how you intend to give them recognition with others as the industry thought-leader
Emotional	Ego boost (some overlap with WIIFT directly above)	<ul style="list-style-type: none">• Explain to the individual why he/she is considered the best expert to speak with and during the interview, frequently note how appreciative you are to be getting such insightful information from an industry guru• In your post-interview thank you email, acknowledge their talents and how they are one of the few people in the industry that is so knowledgeable
Emotional	Desire to honor request from colleague or friend who referred you to the information source	<ul style="list-style-type: none">• Often an information source will be flattered that their colleague or friend referred you to them. If this is the case, let the information source know that you will thank that colleague/friend because the introduction was so worthwhile
Emotional	Develop more friendships within the industry	<ul style="list-style-type: none">• Dedicate time with them during industry social events such as conference and annual award dinners• Take to lunch or dinner when you're in the same town• In your post-interview thank you email, mention how you appreciate making the personal connection

Detailed Reference Card (DRC)

Utilize the PRACTICE™ Framework to Influence Others

Exhibit 3: Influence Institutional Buy-Side Clients Using PRACTICE™

Step of PRACTICE™	Steps to Influence Others
<u>P</u> repare to influence (1 of 3): <ul style="list-style-type: none"> Target only key clients 	Target to influence buy-side counterparts working at your firm's most profitable accounts (avoid investing time building relationships with clients that are not likely to add to your bottom line). These include: <ul style="list-style-type: none"> Key counterpart at those firms deemed a "priority" by your firm Seasoned buy-side analysts who can provide a window into real-time buy-side market psychology
<u>P</u> repare to influence (2 of 3): <ul style="list-style-type: none"> "What's in it for them?" (WIIFT) 	Speak to your firm's salesperson to get the following answered before your first conversation with a new client: <ul style="list-style-type: none"> Client's entire assigned universe of stocks Firm/fund characteristics (value, GARP, event-driven, etc.) Analyst's approach to research (detailed vs. big picture) Analyst's demeanor (See details found in our QRC " <i>Know Your Client</i> ")
<u>P</u> repare to influence (3 of 3): <ul style="list-style-type: none"> Self-awareness 	Self-assess by honestly answering these questions (fix deficits where possible): <ul style="list-style-type: none"> Are you an expert on the critical factors for this conversation? <ul style="list-style-type: none"> Ensure you know the critical factors for a stock Ensure your research meets the ENTER™ quality framework Do you have strong communication skills? Are you a good listener? (most people over-estimate their ability) Are you empathetic? Do you adapt well? Will you be credible to client?
<u>R</u> apport building	<ul style="list-style-type: none"> Reach out to make the initial introduction (don't wait for a new client to call you) Show respect to the client even if he/she has less experience within the sector or fewer years as an analyst Build common bridges by mentioning the names of other individuals you work with or have worked with at the client's firm (but not in a boastful tone) Listen attentively -- at all costs, do not interrupt -- it shows a lack of respect and may convey an over-sized ego. If clients want to speak, let them do 95% of the talking -- it's all about them. Be confident (but not arrogant) by ensuring you know the topic when answering a question. (You are better to say "I'll need to get back to you" when answering a question than to provide an incorrect answer.) Offer to provide something to meet the client's needs (the "rule of reciprocity" may lead them to accept your calls more quickly) It may seem obvious, but always thank clients for spending time with you -- they have alternatives
<u>A</u> sk about needs (WIIFT)	If you haven't already learned the client's "WIIFT" during your research in the "Prepare" step above, start this step by discovering it. Buy-side clients are often motivated to speak with sell-side analysts because they want: <ul style="list-style-type: none"> Help identifying and forecasting critical factors as well as the associated risks and opportunities for the assigned universe of stocks Greater access to company management via the sell-side analyst To assess the market psychology about a stock (by asking sell-side analysts about conversations they're having with other buy-side clients) Association/friendship with a high-profile analyst in their sector

Detailed Reference Card (DRC)

Utilize the PRACTICE™ Framework to Influence Others

Step of PRACTICE™	Steps to Influence Others
<u>C</u> onform	<ul style="list-style-type: none"> • Think in their style of investing (if the client is at a value shop, think “value” before starting a conversation) • Embrace “their ways” by showing interest in something unique to their firm, personal background or geographic region • Match your presentation style with the client’s preference (formal vs. casual, cynical vs. open-minded, judicious vs. relaxed with time, loud vs. quiet, etc.) • Begin the discussion by asking questions to understand their perspective. When clients say something you disagree with, ask them to expand so you better understand before providing your view • Avoid using terms or jargon that the client may not understand
<u>T</u> rustworthy (build credibility)	<ul style="list-style-type: none"> • To illustrate your expertise, show or send the client your best thought-leading work (in advance of the first meeting/conversation if possible) • Be honest about capabilities and deliverables. (Say “I’ll need to get back to you” if you don’t have the answer to a question.) • Follow through on commitments to send follow-up info (take notes during meetings and then review afterwards) • Show the client you have thought about where you could be wrong • Treat everyone with respect (including the client’s assistant, receptionist, mailroom clerk, etc.)
<u>I</u> gnore distractions (external and internal)	<ul style="list-style-type: none"> • “Be in the moment” with the client by avoiding distractions such as emails, phone calls, texts, etc. (turn it all off or to “do not disturb” mode) • Ignore internal distractions such as mentally preparing to pitch an idea before the client has finished explaining his/her perspective or asking a question • When possible, choose a location conducive to a conversation and potentially a presentation. (A “lunch meeting” isn’t as good as it sounds if it’s in a crowded restaurant.)
<u>C</u> ommunicate persuasively	<ul style="list-style-type: none"> • Use a comforting tone, timing, pace and volume that will appeal to the client • Convey body language that shows you are interested in the conversation: <ul style="list-style-type: none"> ○ Good eye contact, posture and facing the other person ○ Smiling ○ Energetic ○ No crossed arms or legs ○ No scanning smartphone ○ Avoid skepticism in facial expressions and tone ○ Lean forward to show interest • Use metaphors, stories and analogies when conveying your views to help the client remember both you and your views • Link and build (i.e. start with one of the client’s strong views and build to yours) • Use visioning (i.e. vividly show how the future will look if your stock call plays out as expected) • Ask the client’s opinion on topics where it is warranted • Use these strategies which can be found in the QRC “<i>Utilizing Weapons of Influence for Equity Research</i>” <ul style="list-style-type: none"> ○ Reciprocation ○ Commitment and consistency ○ Social proof ○ Liking ○ Authority ○ Scarcity

Detailed Reference Card (DRC)

Utilize the PRACTICE™ Framework to Influence Others

Step of PRACTICE™	Steps to Influence Others
<u>E</u> nsure needs are met (WIIFT)	<ul style="list-style-type: none">• Satisfy all reasonable direct requests ASAP (e.g. send them information they requested)• Offer to invite key clients to special events that may help in their areas of interest• Ensure clients are receiving the desired information on their respective universe in a desired manner (e.g. via email, voicemail, personal calls, etc.)• Proactively reach out to clients when new insights are found on topics of interest (keep a database of client needs) and seek new areas of need• Offer to conduct bespoke research on a topic of interest if it will also help your franchise

Detailed Reference Card (DRC)

Utilize the PRACTICE™ Framework to Influence Others

Exhibit 4: Influence Internal Portfolio Managers Using PRACTICE™

Step of PRACTICE™	Steps to Influence Others
<u>P</u> repare to influence (1 of 3): <ul style="list-style-type: none"> Target the key decision makers 	Target the PMs who likely have interest in the stock being discussed: <ul style="list-style-type: none"> PM with authority to make final investment decision, responsible for a fund with an investment style suitable for the stock being recommended
<u>P</u> repare to influence (2 of 3): <ul style="list-style-type: none"> "What's in it for them?" (WIIFT) 	Utilize internal colleagues to get these questions answered before your first conversation: <ul style="list-style-type: none"> What is the PM's mandate and style? Are there similar stocks currently in the portfolio? Has the stock been in the portfolio in the past – if so, why was it sold? Which portions of the portfolio have been performing the best/worst YTD or over the past 12 months?
<u>P</u> repare to influence (3 of 3): <ul style="list-style-type: none"> Be self-aware of your strengths and weaknesses 	Self-assess by honestly answering these questions (fix deficits where possible): <ul style="list-style-type: none"> Are you an expert on the critical factors for this conversation? Do you have strong communication skills? Are you a good listener? (most people over-estimate their ability) Are you empathetic? Do you adapt well? Will you be credible to the PM?
<u>R</u> apport building	<ul style="list-style-type: none"> Use every opportunity to get to know your firm's PMs. The more you know, the faster you can influence. Show respect to the PM even if he/she asks basic questions about the sector or stock Compliment the PM on stocks that have performed well recently Listen attentively -- at all costs, do not interrupt – it shows a lack of respect and may convey an over-sized ego. If PMs want to speak, let them do 95% of the talking – it's all about them. Be confident (but not arrogant) by ensuring you know the topic when answering a question. (You are better to say "I'll need to get back to you" when answering a question than to provide an incorrect answer.) Offer to do more than requested for the PM such as following up on unanswered questions or scheduling a call with an information source (the "rule of reciprocity" may lead them to be more receptive to your future calls) Thank the PM for his/her time
<u>A</u> sk about needs (WIIFT)	If you haven't already learned the PM's "WIIFT" during your research in the "Prepare" step above, start this step by discovering it. PMs are often motivated to speak with their analysts because they need to know if a recommended stock will: <ul style="list-style-type: none"> Act very similar or different than stocks already in the portfolio Add or reduce exposure to key themes Outperform the other stocks in the sector Look like an intelligent choice to the fund's clients Unexpectedly blow up

Detailed Reference Card (DRC)

Utilize the PRACTICE™ Framework to Influence Others

Step of PRACTICE™	Steps to Influence Others
<u>C</u> onform	<ul style="list-style-type: none"> • Think in their style of investing (if the PM manages a value fund, think “value” before starting a conversation) • Embrace “their ways” by showing interest in their investment performance (a great call or sector that’s doing well) • Match your presentation style with the PMs preference (formal vs. casual, cynical vs. open-minded, judicious vs. relaxed with time, loud vs. quiet, etc.) • Avoid using terms or jargon that the PM may not understand • If in-person, follow standards or customs expected by someone of their generation. (Even though you may not be required to wear a tie at work, you might want to have one on the day you meet with the PM.)
<u>T</u> rustworthy (build credibility)	<ul style="list-style-type: none"> • Research topics thoroughly before presenting to PMs. (They’re not looking for a guess or hunch, but rather better information than can be found in the general marketplace.) • Be honest about capabilities and deliverables. (Say “I’ll need to get back to you” if you don’t have the answer to a question.) • Follow through on commitments to get answers to questions (take notes during meetings and then review afterwards) • Show the PM you have thought about where you could be wrong • Treat everyone with respect (including the PM’s assistant, receptionist, etc.)
<u>I</u> gnore distractions (external and internal)	<ul style="list-style-type: none"> • “Be in the moment” with the PM by avoiding distractions such as emails, phone calls, texts, etc. (turn it all off or to “do not disturb” mode) • Ignore internal distractions such as mentally preparing to pitch an idea before the PM has finished addressing other concerns • If possible, choose a location conducive to a conversation and potentially a presentation. (The PM’s office is likely better than the trading floor or morning meeting room.)
<u>C</u> ommunicate persuasively	<ul style="list-style-type: none"> • Use a comforting tone, timing, pace and volume that will appeal to the PM • Convey body language that shows you are interested in the conversation: <ul style="list-style-type: none"> ○ Good eye contact, posture and facing the other person ○ Smiling ○ Energetic ○ No crossed arms or legs ○ No scanning smartphone ○ Avoid skepticism in facial expressions and tone ○ Lean forward to show interest • Use metaphors, stories and analogies to help the PM remember your views • Link and build (i.e. start with one of the PMs strong views and build to yours) • Use visioning (i.e. vividly show how the future will look if your stock call plays out as expected) • Ask the PM’s opinion on topics where it is warranted (e.g. “have you owned this stock in the past?”) • Use these strategies which can be found in the QRC “<i>Utilizing Weapons of Influence for Equity Research</i>” <ul style="list-style-type: none"> ○ Reciprocation ○ Commitment and consistency ○ Social proof ○ Liking ○ Authority ○ Scarcity

Detailed Reference Card (DRC)

Utilize the PRACTICE™ Framework to Influence Others

Step of PRACTICE™	Steps to Influence Others
<u>E</u> nsure needs are met (WIIFT)	<ul style="list-style-type: none">• Satisfy all reasonable direct requests immediately (e.g. follow-up with answers to their questions)• Ensure PMs are receiving the desired information on their favorite stocks in a timely manner• Proactively reach out to PMs when new insights are found on topics of interest, including those that may not directly impact your universe of stocks. (Think of the PM's "big picture" rather than just your universe of stocks.)

Detailed Reference Card (DRC)

Generating Sustainable Sources of Insight with ASPIRE™ Framework

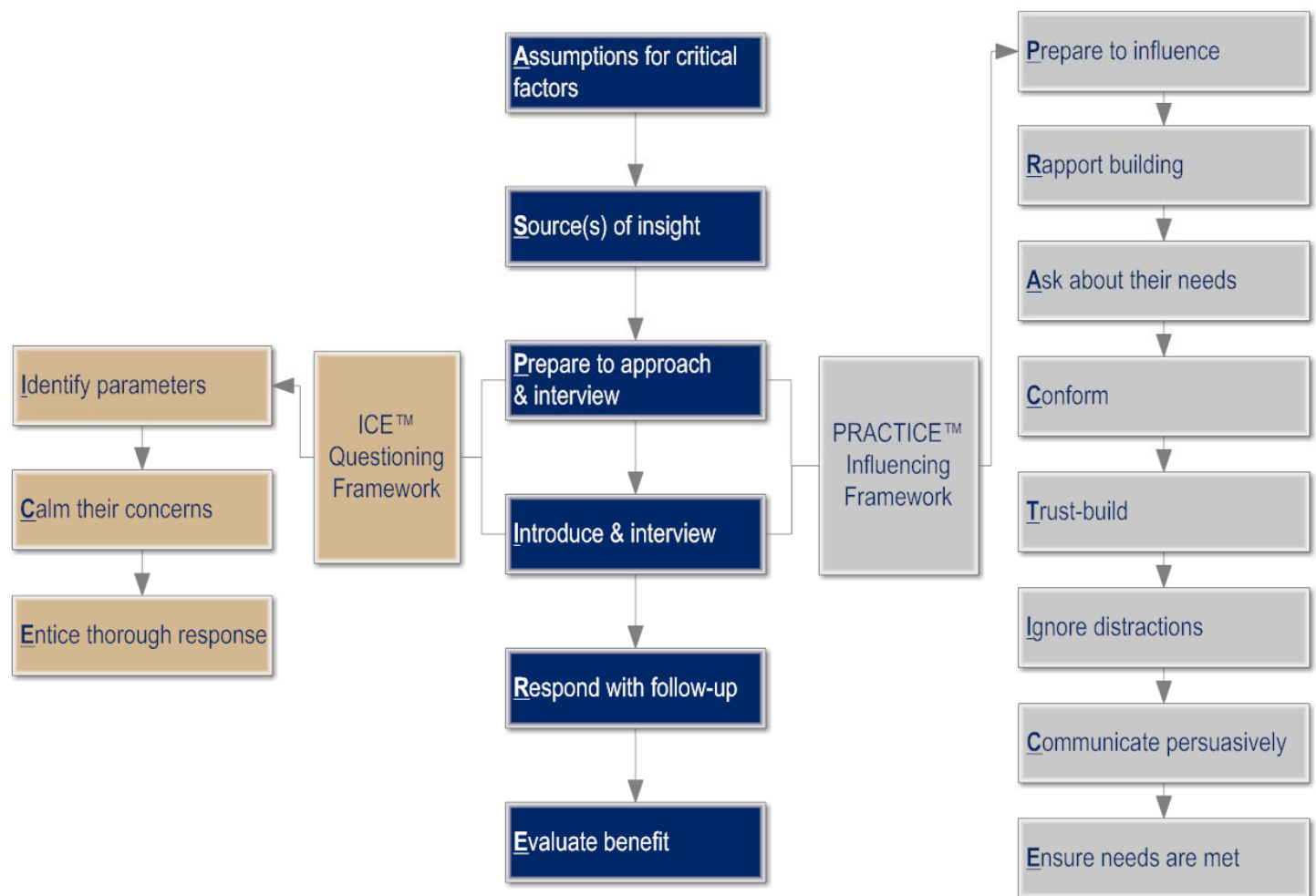
Introduction

The basic ingredient to great stock calls is an out-of-consensus insight, which by definition isn't widely available to the financial markets. This Detailed Reference Card reviews our ASPIRE™ framework, which is a compilation of the best practices used by analysts to find insightful live sources of information, as well as methods to extract useful insights. As shown in Exhibit 1, our 6-step ASPIRE™ framework relies on two additional frameworks, which cover skills necessary for successfully *questioning* and *influencing* information sources (each is reviewed separately in its own Detailed Reference Card):

- ICE™ Questioning Framework
- PRACTICE™ Influencing Framework

Note: when an information source is financially compensated, such as would be the case when using expert networks, much of the framework below is not required because less concern is placed on *enticing* the interviewee to help.

Exhibit 1: ASPIRE™, ICE™ and PRACTICE™ Frameworks



Detailed Reference Card (DRC)

Generating Sustainable Sources of Insight with ASPIRE™ Framework

Step 1. Assumptions for Critical Factors

- Focus on identifying only the key assumptions that *must be answered to forecast* the materiality and probability of the critical factors (see Detailed Reference Card, “*Identify and Monitor a Stock’s Critical Factors*” to identify 1-4 critical factors for each stock being researched)
 - For example, if the critical factor for a mobile phone handset manufacturer is the amount of growth from emerging markets, the assumption to be answered is “what will drive handset growth above or below consensus’ expectations in emerging markets?”
- For most aspects of an analyst’s role, including seeking insights from others, we encourage staying intensely focused only on the 1-4 critical factors for a stock, but if time allows, it can be helpful to discuss the next 3-4 factors on an analyst’s list, as they may evolve into critical factors over time
- Do not proceed to the next step unless you have created a list of critical factors for a stock because it takes substantial time to find and interview live information sources, all of which is a waste of time if the information source doesn’t have insights that help to forecast a critical factor. (To request a template spreadsheet, email us at Info@AnalystSolutions.com and put “IMSCF Excel template” in the subject line)

Step 2. Sources of Insight

- The majority of insights useful for stock picking are obtained from “live” sources but occasionally insights can be gleaned from “read only” sources (e.g. industry blogs, company documents, proprietary databases). For the remainder of this DRC, we will focus on live sources.
- Using the Quick Reference Card, “*Information Sources Pros and Cons*”, select the *roles* of individuals who can help provide objective insights (the less biased the better) about the assumptions required to forecast each critical factor. Note there are two distinct types of live information sources:
 - Those with roles outside of the financial markets, who often can provide *industry or company expertise*
 - Those with roles within the financial markets, who often can provide background to understand the *historical or current market psychology surrounding a stock*

Roles Outside the Financial Markets

- To find live sources of information that hold roles *outside* of the financial markets, research the following sources, looking for names of individuals who are not employed by company being researched, because management is often biased and likely muzzled (Remember, this step is to just *find* the individuals, not how to connect with them, which will be discussed in the next step):
 - Use online sites such as those below to find individuals formerly employed by the company, currently employed by a competitor (preferably a privately-held competitor) or an expert on the critical factor(s) you’re researching:
 - On-line networking groups such as LinkedIn, alumni networks, etc.
 - On-line job boards such as Monster.com and Upwork

Detailed Reference Card (DRC)

Generating Sustainable Sources of Insight with ASPIRE™ Framework

- Topical blogs, which can be found using www.google.com/blogsearch (to find names of the blogger and those who are mentioned or quoted)
- News stories (to find names of the journalist and those being quoted)
 - General press, when the story has a focus on your sector(s)
 - Trade journals focused on your sector(s)
- Industry award winner lists (e.g. “top salesperson of the year”)
- Speakers at conferences (even those you don’t attend) focused on the critical factor(s)
- Authors of papers, books and presentations
 - Conduct a Google “Advanced Search” and ensure the “file type” is PDF or PowerPoint
 - For books use: <http://www.worldcat.org/>
 - For papers use: <http://www.ssrn.com/en/> or <http://www.ebscohost.com/> (subscription based)
 - You may want to research YouTube, but unless the topic pertains to companies only, you may get too many search results to quickly analyze
- Industry, association and professional society websites
- Databases or lists that contain the names of the largest privately-held companies in your sector (it can be an industry associate directory, or use a service such as Hoovers)
- Search the internet for names of consulting firms that specialize in the sector (if the search doesn’t come up with a quick answer, wait until a later step to ask company management)
- You may want to utilize expert networks (if allowed by your firm), but understand the best contacts are probably already speaking to others in the financial community and so they won’t be proprietary to your efforts
- If you have access to a budget for third-party research, there are thousands of firms with expertise in conducting research in specialized areas. Integrity Research (integrity-research.com/) is a good starting point for identifying the best third-party research firms for a given project.

Note: the suggestions above do not recommend relying on the management of the company you are researching as an information source, because it’s usually not in a position to offer proprietary insights in an ethical and legal manner. This may not hold true in some less-developed financial markets, where management is legally allowed to selectively disseminate information.

Roles Within the Financial Markets

- To find sources of information that hold roles within the *financial markets*:
 - Buy-side analysts should make an effort to:
 - Meet other buy-side analysts when attending industry or company events, as they are often helpful in assessing “what’s in consensus?” If you don’t know the current consensus thinking about a stock, it’s almost impossible to determine if your stock call is out-of-consensus (which is required for almost all successful stock calls)
 - Have at least 3 sell-side analysts per sector in order to assess historical and current critical factors as well as to assess the market psychology surrounding a stock

Detailed Reference Card (DRC)

Generating Sustainable Sources of Insight with ASPIRE™ Framework

- Sell-side analysts should ensure they have an open channel of communications with the most active buy-side analysts as well as internal salespeople and traders who have the greatest interest in their universe of stocks. They are often the best sources of assessing market psychology surrounding a stock and can be helpful in assessing historical and current critical factors

Cultivating Sources of Insight

Great analysts are continually looking for new sources of insight, which doesn't occur on its own. There are activities that can help analysts make new connections (e.g. attending a target-rich conference), or at a minimum, bring the names of industry thought leaders to the analyst's attention (e.g. reading an insightful industry blog). For all of the methods below, focus on those where your involvement will help gain insights that clarify *the assumptions surrounding your stocks' critical factors* (the first step of the ASPIRE™ framework). Reading an industry blog or attending a conference that offer contacts with no expertise surrounding your stock's critical factors is a waste of time.

- Proactively read relevant industry trade blogs and journals (if possible, have these automatically sent to you or set time aside each week to read). Start by throwing the net wide by subscribing to everything that might be a good source (use "trial subscriptions" when possible) and quickly drop any that are clearly not focused on the 1-4 critical factors for each of your stocks. If you notice insights that may help another analyst within your firm, make sure to pass them along, because that's a key step to getting other analysts to pass insights your way in the future.
- To continually cultivate new information sources, participate in industry events attended by key decision makers, such as conferences, trade shows and annual award banquets, but make sure to:
 - Prescreen to ensure you don't waste your time at an event that doesn't have key decision makers or focus on the assumptions for your critical factor(s)
 - Try to get an advanced list of speakers and attendees to set up meetings with contacts before the event and for emailing them afterward
 - Approach good speakers after their presentations -- they are usually looking to network
 - Attend social events if there's the opportunity to work the crowd (attending a conference's standard evening entertainment for 90 minutes may be fun, but isn't likely to yield as many insights and having one-on-one conversations)
 - If appropriate, find the senior event coordinator and offer to speak at the next upcoming event to provide the financial community's perspective of the industry (this makes the advanced list of attendees, mentioned above, much easier to get)
- Join relevant on-line groups (LinkedIn, industry forums, user groups, etc.)
- Join relevant industry trade groups (you may need to join as an "associate" or "affiliated" member because you're not in the business of selling products or services in that sector)
- Subscribe to relevant industry consulting firms that publish industry reports and white papers
- If you are very specialized and cover only one or two sectors, participate in industry task forces, committees or philanthropies that are likely to include key decision makers (you can often find these via industry associations)

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- If you're not sure where to start on the lists above, contact the Investor Relations managers of two to three of the companies that are major players in the sector(s) and ask the following questions:
 - Which trade journals do the company's managers subscribe to?
 - Which trade associations does the company belong to and which are the most powerful in lobbying for regulatory change?
 - Which conferences are attended by company management and the financial community?
 - Which industry task forces do company management belong to?
 - Which industry consultants produce the most insightful reports?
- Google the names of the COO, Chief Marketing Officer and other senior executives to see if they are quoted by a blogger or speaking at a public event
- It's also helpful to ask for industry contact names from other analysts within your firm, including those who cover sectors that are further up- or down-stream as the sector being researched (e.g. the analyst covering the pharmaceutical sector may find benefit in asking for contacts from the analyst covering the healthcare sector)
- As discussed in our Detailed Reference Card, "*Utilize the PRACTICE™ Framework to Influence Others*", the "E" of the framework ("Ensuring needs are met") recommends periodically contacting the information source to offer to help, not just when you need information

Step 3. Prepare to Approach and Interview Information Sources

There are three dimensions to this critical step, which covers *preparation before* conducting an interview:

1. Tactics for creating questions that will yield insights (using our ICE™ framework)
2. Tactics to ensure you are prepared to influence the interviewee (using our PRACTICE™ framework)
3. Logistics to ensure the interview is a success

We recommend reviewing the entire ICE™ framework and "P" of our PRACTICE™ framework (which are found as separate DRCs) before moving to Step 4 of this DRC. We can also provide a QRC "Potential Questions to Investigate When Researching a Company" that may prove helpful as a starting point for assembling your questions.

In addition, follow the best practices for planning the logistics of the interview, which are found below. Note that we use the terms "interview" and "interviewee", which suggests your interaction with information sources will be face-to-face or over the phone, but most of the best practices are also applicable for email exchanges.

Logistics

Follow these best practices when preparing the logistics of your interview:

- Phone calls are efficient, which is a good thing, but the benefits of in-person meetings are: 1) easier to build rapport and trust; and; 2) more difficult for the interviewee to deceive in-person than over the phone or email (especially useful for meetings with company management). These

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benefits must be weighted with the significant time required for travel. Therefore, if travel is required, attempt to meet multiple contacts.

- For in-person meetings, choose an ideal location. Normally you won't have much choice, but if you do:
 - **Avoid noisy restaurants:** If you've been offered a lunch or dinner meeting, pre-reserve a private room or quiet corner. When possible, get a table that has at least 20 percent more room than the size of your party so there is plenty of room for taking notes.
 - **Avoid meeting outdoors:** The weather is unpredictable and you're more likely to be disturbed by noise.
 - **Avoid activities that restrict note taking:** Playing a round of golf with a C-suite executive is a great way to build rapport, but you may not come away with any details beyond what you can write on your scorecard using a three-inch pencil.
 - **Avoid impersonal spaces** (e.g. hotel conference ballroom): If you've been given a one-on-one with management during a sell-side conference, ask for a small room so that your interview will feel more personable. If you're given the Grand Ballroom, try to get a private room through the hotel or find a quiet coffee shop.
- Prepare for important conversations by proactively eliminating external and internal distractions:
 - **External:**
 - Climate, such as room temperature
 - Background noise or activity
 - Interruptions (your phone)
 - **Internal:**
 - Time constraints (book your return flight so you're not focused on missing your flight or needing to catch an earlier one)
 - Create a list of questions (using the ICE™ framework) in advance to:
 - (1) Avoid being distracted during the interview over concern of what to say next
 - (2) Reduce concerns about characterizing something incorrectly
 - Reduce concerns about anything that needs to occur immediately after the conversation has ended (such as where to go for your next meeting)
 - Try to avoid thinking about personal matters that may be causing underlying anxiety
- For conference calls, ensure everyone has the dial-in number and passcode days in advance. Preferably, send out a calendar invitation that includes the details in the event so that it's on everyone's calendars (in their time zones) and available on mobile devices. Use a speakerphone in a quiet room or wear a headset so as to have your hands free to take notes.
- If internal colleagues from other offices are dialing into a conference room where you'll be interviewing management, ask the colleague to take detailed notes (instead of you) which serves two purposes:
 - Management will feel less threatened if they don't see you writing everything down during the interview (but have a notepad available to show you have interest)
 - It allows you to be more focused on leading the interview

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- Make sure to get your colleague's notes immediately after the interview and update with any thoughts that are not in the notes
- In preparing questions for an interview to explore critical factors impacting a company in your assigned universe:
 - Attempt to have at least one question covering a critical factor for every 3 minutes of interview time (i.e. create 10 questions for a 30-minute interview)
 - It can take 3 hours to 3 days to identify the 1-4 critical factors for a stock and so invest the time *before* your first meeting so that your line of questioning is in areas likely to impact the stock price
 - If interviewing multiple individuals in one day (such as when visiting a company or conference), approach critical factors from multiple angles by asking each interviewee his or her individual perspective (if at a company, check to see if responses are aligned or appear to be based on separate agendas)
 - Ensure to ask questions that will help understand how the interviewee thinks about the critical factors, in addition to the specific answers about the assumptions (the individual may have an entirely different philosophy about the factor that you and the market miss)
 - Do not include questions that can be answered by reviewing public documents
- If you're on the sell-side:
 - For company visits, try to bring clients (the more assets the client controls the better); this can result in more senior management in the lineup and better responses to your questions
 - Make your question list available to buy-side clients just before the meeting or call begins (not any earlier because the list could make its way into the hands of management, which will allow it to rehearse answers and potentially cause their responses to be less transparent). As a value-added element, make the questions available in the future to other clients who are interviewing the same management.

Step 4. Introduce and Interview

This step covers approaching your interviewee and conducting the interview in a manner that will yield the most insights. Before continuing, review the remaining portions of the PRACTICE™ framework and ensure you are comfortable with the ICE™ framework, *which make up a good portion of this step* because they cover influencing skills and questioning tactics. Beyond these frameworks, there are a few additional considerations for this step:

- First and foremost, check your ego at the door. The biggest problem with interviews led by equity research analysts occurs when they suffer from “I’m the smartest person in the room” syndrome. If you approach the interview convinced you know more (or are smarter) than the interviewee, you will likely not put them at ease, and in fact may put them on the defensive, which will not yield helpful answers.
- Research shows interviewees accept being led by questions more readily when the interviewer is perceived as an expert or knowledgeable. With this in mind, somewhere early in the exchange, after building rapport, without trying to suggest you’re “the smartest person in the room”, ask a

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question that demonstrates you hold sector or company insights the interviewee doesn't have or isn't widely known; it doesn't need to be a material piece of information.

- This prevents interviewees from exaggerating or embellishing for the rest of the interview, because they know you have a good command of the topic
- The interviewee may be more forthcoming because you are “worthy” of higher quality answers
- Explain you will not quote or attribute their thoughts (unless that's what they want). Mid- to low-level managers of publically-traded companies, as well as many other information sources, are concerned they will be “quoted in the press” (they often don't distinguish between an analyst and journalist). If this occurs when approaching an information source, put their concerns to rest by starting the conversation with, “I won't attribute anything you say unless you want me to.” (Sell-side analysts should make sure to put in their notes “do not publish” so they don't forget later.)
- Start by introducing yourself in a polite and transparent manner in the first sentence or two of your conversation or email (this best practice takes elements from “Rapport” building of the PRACTICE™ framework):
 - Your name and firm
 - Role and responsibility
 - Who referred you (can be *incredibly* powerful to mention the name of someone whom the contact knows)
 - If approaching the contact without a pre-arranged appointment (e.g. phone call, email, approaching after they make a presentation at a conference, etc.), start by asking “Can you help me *or know of someone who might be able to help?*” This offers two benefits:
 - It de-risks the exchange because they think you are looking for a *source of information* (which most people will gladly provide) rather than information that they may be reluctant to provide
 - It gives them the sense “If I refer this analyst to someone else, it suggests I don't have the answer.” Very often, they'll feel obligated to help you to show you don't need to turn to another expert because they have the answer
 - Reassure the individual that you:
 - Are not selling anything
 - Will keep his/her name anonymous if preferred
 - Here is an example that uses the best practices above and from our PRACTICE™ framework for influencing: “Hello, my name is Lucas Gallo. I work for Golden Bull Securities as an equity research analyst responsible for researching the pollution control industry. I was referred to you by John Smith (or “...I read your quote in Pollution Control Today”) and was hoping you could help me or point me in the direction of someone who is an expert on this topic. I'm not selling anything and not looking for a quote...I'm just seeking an industry expert's view to help me with my research, which I'll gladly keep confidential.”
- Qualify the interviewee as quickly as possible, without losing your ability to positively influence
 - It's important to know:
 - Does this interviewee have a full command of the critical factor(s) you are researching?

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- Is the interviewee in a position to forecast the materiality or probability for the assumptions that drive the critical factor(s)?
- If you determine the interviewee cannot help with the elements above, work through a strategy to graciously thank them for their time and move to the next interview candidate
- Focus on one topic at a time
- Don't allow the interviewee to take full control of the interview:
 - In situations when the interviewee may not want to provide answers (such as when interviewing hostile company management):
 - Some interviewees will drag out answers so they don't get more questions from you. After using the tactics found in the ICE™ framework, if it becomes clear they will not answer a question, move onto the next unless you detect deception and think probing will help with your research.
 - If they start to ask you questions, it may be a form of influencing -- they're trying to boost your ego to show your view matters, sometimes with the hope that you're not going to be so tough on them. It also reduces the amount of time you have to ask them questions.
 - Are the comments consistent with other available data (e.g. public presentations and regulatory filings)?
- Note when interviewees appear to be using too much jargon, they may be hiding insecurity because they don't know the subject well. If you hear too much jargon or acronyms you don't understand, stop the interviewee and ask for an explanation. Don't continue until you're comfortable with the answer.
- When conducting an interview at a company being analyzed, if there's an on-site tour of its operation, observe the intangibles:
 - Are the executive offices:
 - Opulent or run-down?
 - Near the operations or very distant?
 - Do employees take pride in their workspace (desk or factory floor) and show respect for one another?
 - Is the warehouse empty or over-filled?
 - Are assets being fully utilized?

Ending with Purpose

When it comes time to wrap up the conversation, always thank the interviewee and try to add accolades such as “You are the most knowledgeable expert on pollution control I’ve met.” Try to also use at least one the following tactics below to ensure you can harvest additional insights.

- Ask for a referral: “You are such an expert in this area. Do you know of anyone else [at this event] who holds such expertise?”
- Get a commitment on accepting a follow-up conversation: “I found your insights to be incredibly helpful. Would it be okay if I reach out to you early next week to get a copy of the slides you mentioned?”

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- If the meeting didn't have a scheduled end time (such as meeting someone at a conference), explain why it's imperative you exit now, such as "It's been a pleasure meeting with you. I hope you don't mind, but I need to speak to one other individual before they leave this event."
- Hand off to another contact, in person or after the interview: "This has been a great exchange for me. I'd like you to meet another professional who has interest in this same area, who I suspect you'll find quite interesting."

Be Mindful of Non-verbal Communications (i.e. Body Language)

- Research shows 65% to 93% of the message being delivered can be nonverbal, and so for in-person interviews, don't miss these cues (this is another reason why in-person interviews are superior to phone or email exchanges, but they require more time which is why they're aren't always the best option)
- When asking interviewees questions, note their verbal and non-verbal responses. If they quickly and confidently downplay your concerns, you can feel more confident with the answer than if they appear concerned or, worse yet, avoid answering the question.
- There is significant subjectivity involved in reading body language and much practice is required to master these skills. As you'll see below, for every cue there is a qualifier that says you can't rely on it 100% of the time. Further complicating matters, very often the cue must be identified within a split second of introducing the stimulus (e.g., asking the person a question), which leaves opportunity for error.
 - Body gestures: One of the best indicators to watch is the interviewee's demeanor during a meeting. Do they appear happy you're there, or aggravated and on the defensive? If your line of questioning is accusatory (which should be avoided), you might be the cause of the reaction rather than their intent to deceive. These are signs of possible deception:
 - The interviewee not aligning with you, such as leaning away from you, stretched legs toward you, or abnormal distance given the circumstances
 - Blocking moves such as crossed arms and legs
 - Placing obstacles between you, such as a glass of water or a book
 - Conducting diversionary activities, such as playing with an object, clearing off their desk, or fixing their hair while talking
 - A complete lack of normal body movement during the interview, such as no typical gestures to show emphasis
 - Manipulation: Some people are masters of deception and may use techniques to influence you to overlook their deception:
 - Touching you briefly on the shoulder or arm, which is used by restaurant wait staff seeking a bigger tip
 - Mimicking your body movements, such as crossing arms after you do so
 - Mouth:
 - A dry mouth can be sign of deception, which can manifest itself in the form of a person licking lips, clearing throat, making hard swallows, or a cracking voice

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- If a smile is held too long, appears tight, doesn't include eyebrow movement, or the expression looks forced, it could be a sign of deception
- When lips appear tight in response to a question, there could be deception, especially if this hasn't been characteristic of the person during other parts of the interview
- Face:
 - When interviewees cover their mouth, touch their nose, or look down, it may indicate lack of belief in what the speaker is saying (at least for Americans), but it could also be a stress-reliever, which is simply a sign that the person is uncomfortable and isn't necessarily linked to deception
 - If the head is nodding up and down (a typical gesture for yes) and the person is saying no to the question (or vice versa), there could be deception
- Eyes:
 - When the eye pupils are dilated or there is inappropriate closing of the eyes or squinting, it can indicate deception. If you know you're about to ask a controversial question that could lead to deception, stay focused on the eyes to see if pupils dilate or the interviewee squints
 - If the person won't look you in the eyes, you should be on guard for possible deception, but some experts say it only indicates the speaker is having a problem (e.g., trying to form a thought more clearly without distraction)
 - Increased eye blinking can also be a sign that a person is troubled, but once again, not necessarily because of deception
 - Prolonged eye contact may be a trick to convince you of the speaker's sincerity or an attempt to dominate you

Some of the best practices found in the "Non-verbal Communications" section above come from:

- Gordon, Nathan J. and William L. Fleisher, *Effective Interviewing and Interrogation Techniques*, Amsterdam: Elsevier Academic, Press, 2006
- Navarro, Joe, and Marvin Karlins, *What Every Body Is Saying: An Ex-FBI, Agent's Guide to Speed-Reading People*, New York: HarperCollins, 2008

Step 5. Respond with Follow-up

- Immediately after the interview:
 - If you find value in the exchange, immediately add the interviewee's details to your contact list because if you don't do it then, it won't get done and you won't have their details when you need insights required for a big stock call
 - Create follow-up reminders for important activities such as such as telling firm colleagues or valuable industry contacts about insights you learned that may impact their companies
- Taking from our PRACTICE™ framework for influencing, a great way to cultivate a long-term information source is to ensure you have satisfied the "what's in it for them" (WIIFT) after the interview. This may include sending them information they've requested, which will in turn build trust and give them a sense they should reciprocate by sending you information in the future. If they've asked for something during the interview, follow up immediately (don't wait to do this or it's not likely to get done). Within the PRACTICE™ framework detailed reference card, review the table titled "What's In It For Them (WIIFT) Examples for Information Sources"

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- In short, treat them like you would a client, because that's what they are...they're not paying you a fee like a typical client but they're giving you valuable insights. Routinely, proactively reach out to your most insightful contacts to see how you can fulfill their needs, similar to the way someone tends to a garden to yield a harvest. If the relationship simply becomes you calling for information, it will likely die on the vine

Step 6. Evaluate Benefits from Interviewee

When you make personal connections with information sources, determine quickly how their expertise can help forecast the assumptions that drive the critical factors for your universe of stocks. If it becomes clear they don't have this expertise, see if they have connections to those who can help. If not, be polite but don't spend further time cultivating the relationship as it will consume valuable time you could be spending with better information sources.

