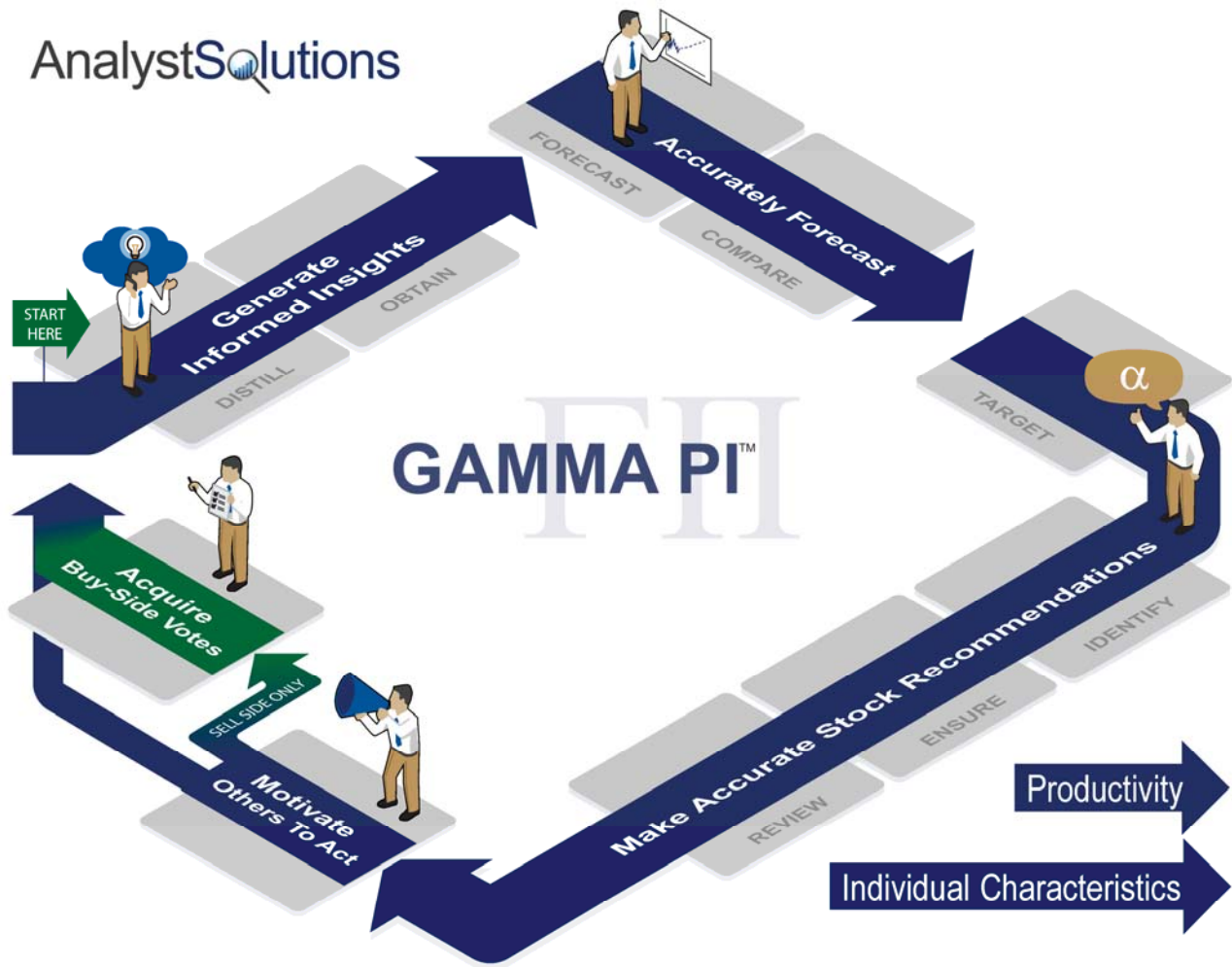


AnalystSolutions

AnalystSolutions

Part 1: Identify and Monitor a Stock's Critical Factors



EXERCISE: LIST EVERYTHING

OPENING CASE

The Best Stay Focused



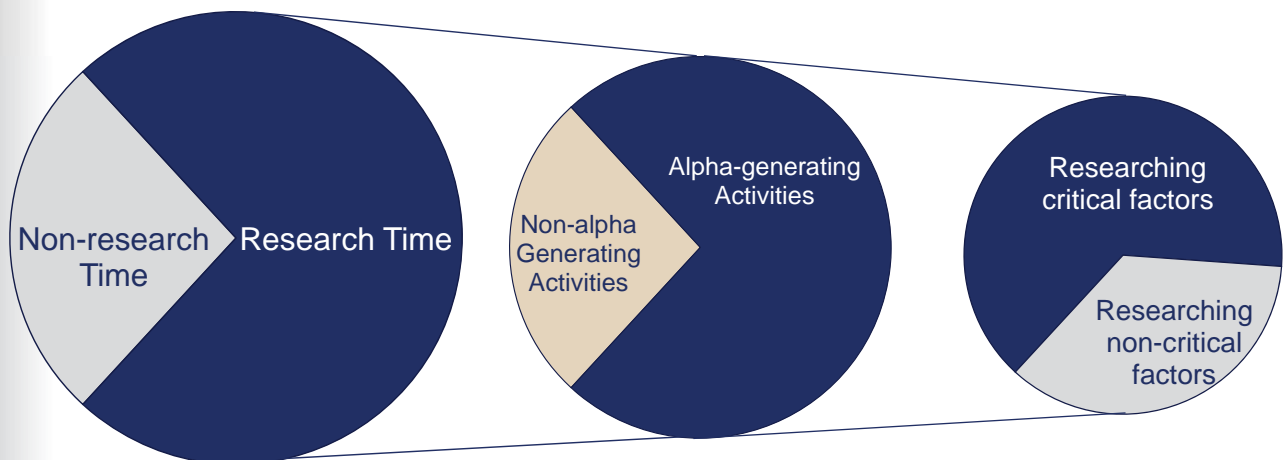
Identifying and monitoring critical factors helps *stock picking* by improving *time management*

Make the Alpha-Generating Time Matter

Total Work Time

Research Time

Alpha-Generating
Time

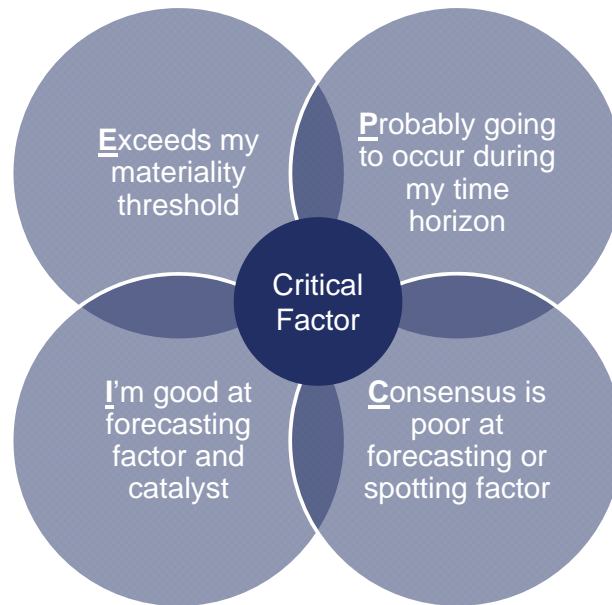




Fish Where There's Alpha



EPIC™ Stock Calls Require Critical Factors Meet All Four Criteria



11

Exceeds Materiality Threshold?

- Material changes in earnings or cash flow growth
- Material changes in returns
- Material changes in the probability:
 - The company makes an acquisition
 - The company is purchased by another entity
 - There is a change in senior management
- Material change in the volatility profile of the stock



12

Exceeds Materiality Threshold?

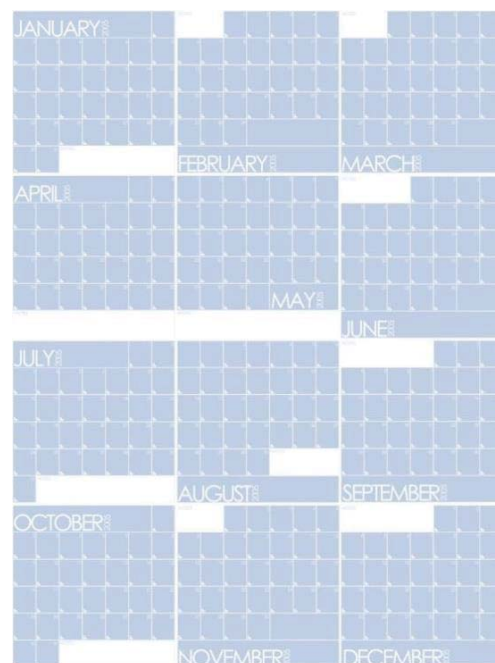
“Materiality” can mean different things to different people:

- A hedge fund that turns over its portfolio every month may need only a 5% relative move in a stock to make a trade
- A large long-only fund that builds large positions may need at least a 15% relative move to invest in a stock



Probably Going to Occur?

- Will likely occur during your investment time horizon
- What is your investment time horizon?



I'm Good at Forecasting?



- It's not just "guesstimating"
- Can we forecast most alpha-generating events?
 - Systematic vs.
 - Unsystematic
- What other element needs to be forecast, beyond financial estimates?

15

High Quality Catalyst(s)

- Why does a great stock call need a catalyst?
- Some of the more common places to expect catalysts include:
 - Company-sponsored analyst meetings and calls
 - Earnings releases
 - The company's annual pricing, volume, or earnings guidance or projection
 - Deadlines for new legislation, regulations, or court case outcomes
 - Prescheduled announcements by the company's customers, competitors, or suppliers
 - New product releases or significant product extensions
 - Interim sales data, for the company or the sector
 - Non-deal investor roadshows



An Analyst's Goal...

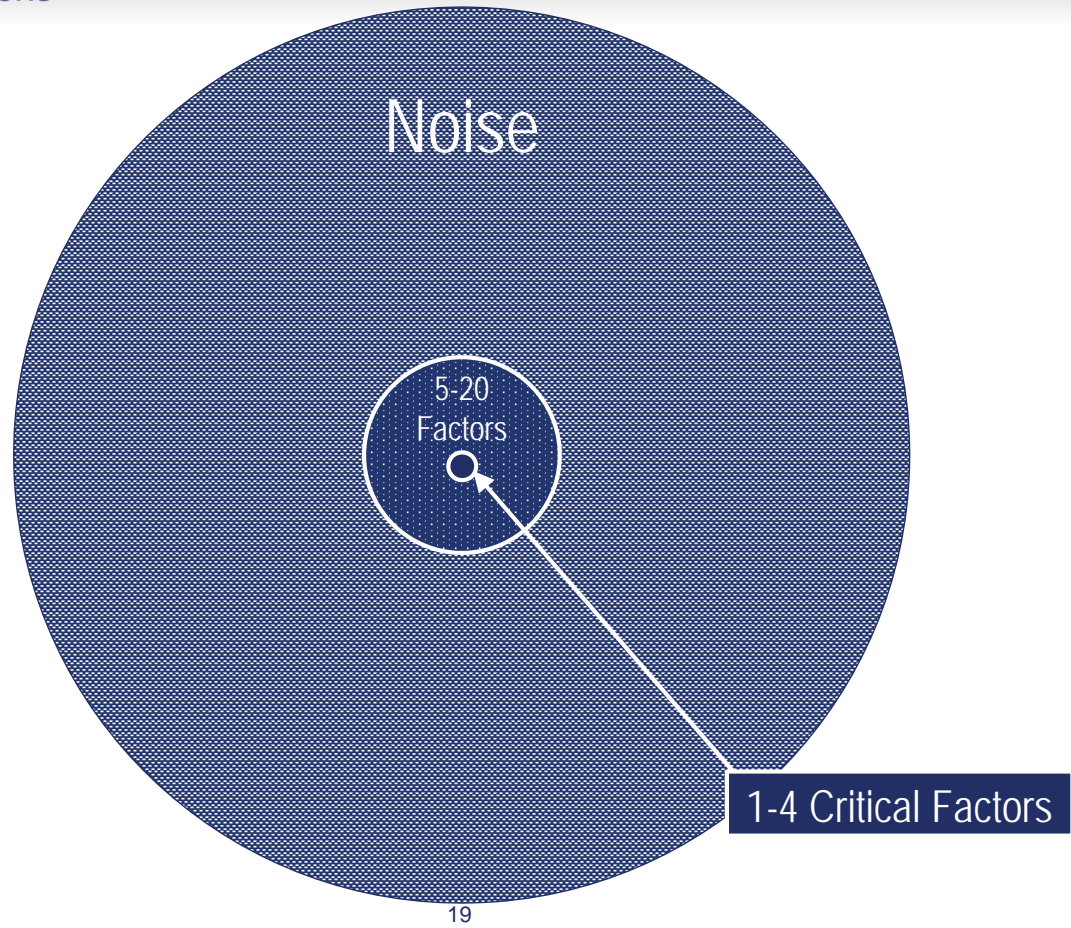
Identify where consensus is wrong

17

Consensus is Poor at Forecasting?

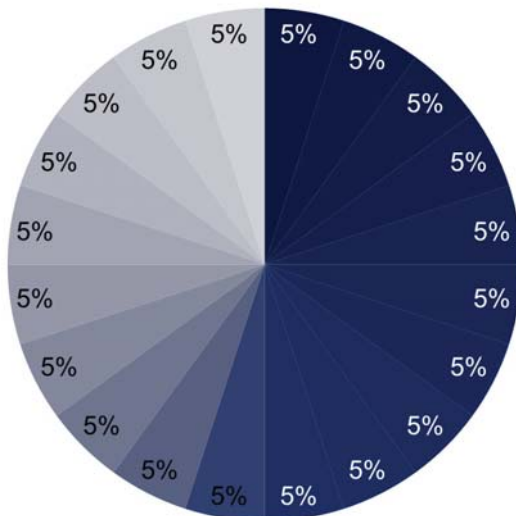
- Tough to generate alpha when others have done work in the same area
- Does consensus have the answer already...
- If not, why not?



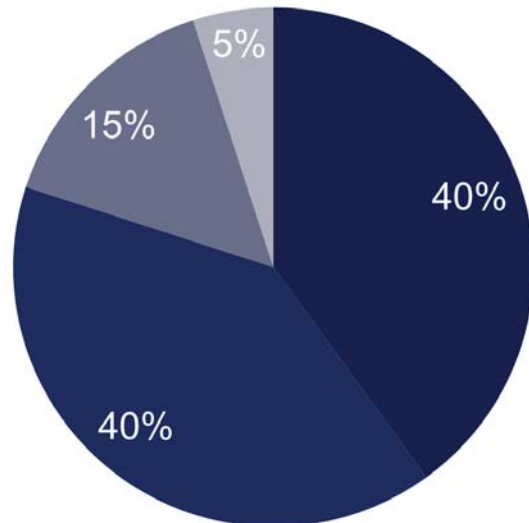


What Will Your Day Look Like?

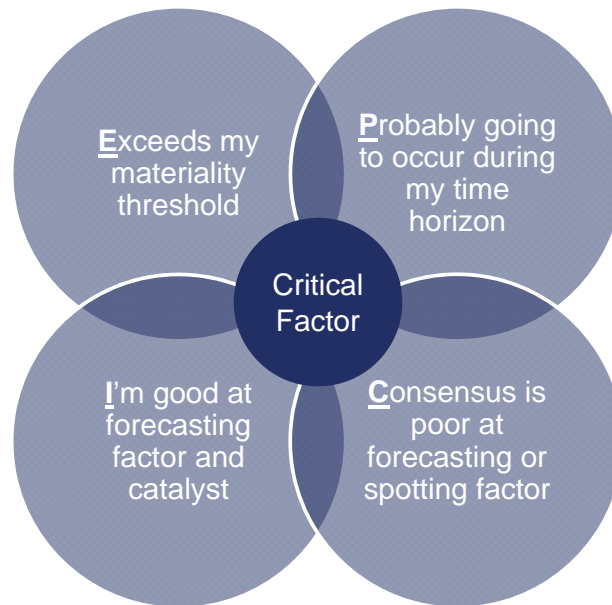
**Critical Factors
Not Defined**



**Critical Factors
Defined**



EPIC™ Stock Calls Require Critical Factors Meet All Four Criteria

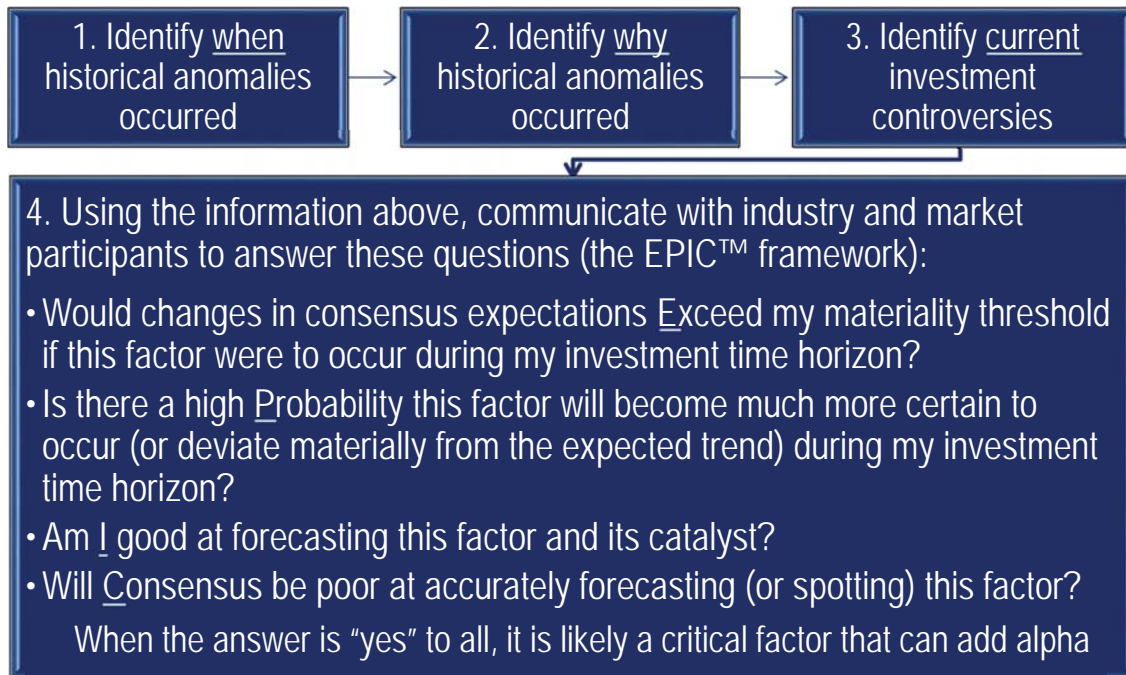


21

Examples of Critical Factors

Stock	Critical Factor
Amazon.com	Market share shift from traditional retailers
IBM	Migration to cloud-based solutions
Nike	Top line growth rate keeping up with historical trends
NVIDIA (graphics tech)	Growth of virtual reality as mainstream product
SolarCity	Growth of renewable energy revenue
The Gap	Apparel pricing deflation
Time Warner Cable	Growth of competing content providers such as Netflix, Amazon and HBO
T-Mobile	Competitive pricing among the wireless carriers
VMware (software)	Growth of Open Source software vs. traditional vendors
Walgreens (drug retailer)	Generic drug price inflation
Amazon.com	Market share shift from traditional retailers

Follow the 4 Steps to Identify Critical Factors

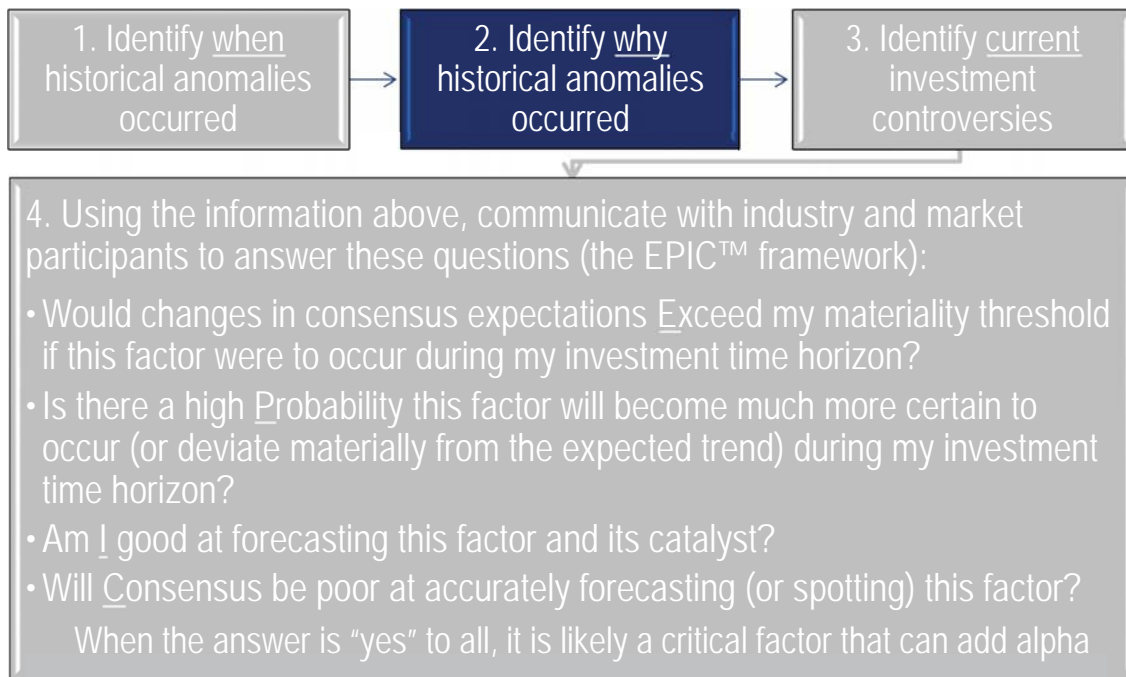


Review QRC: Identify and Monitor a Stock's Critical Factors

Quick Reference Card (QRC)

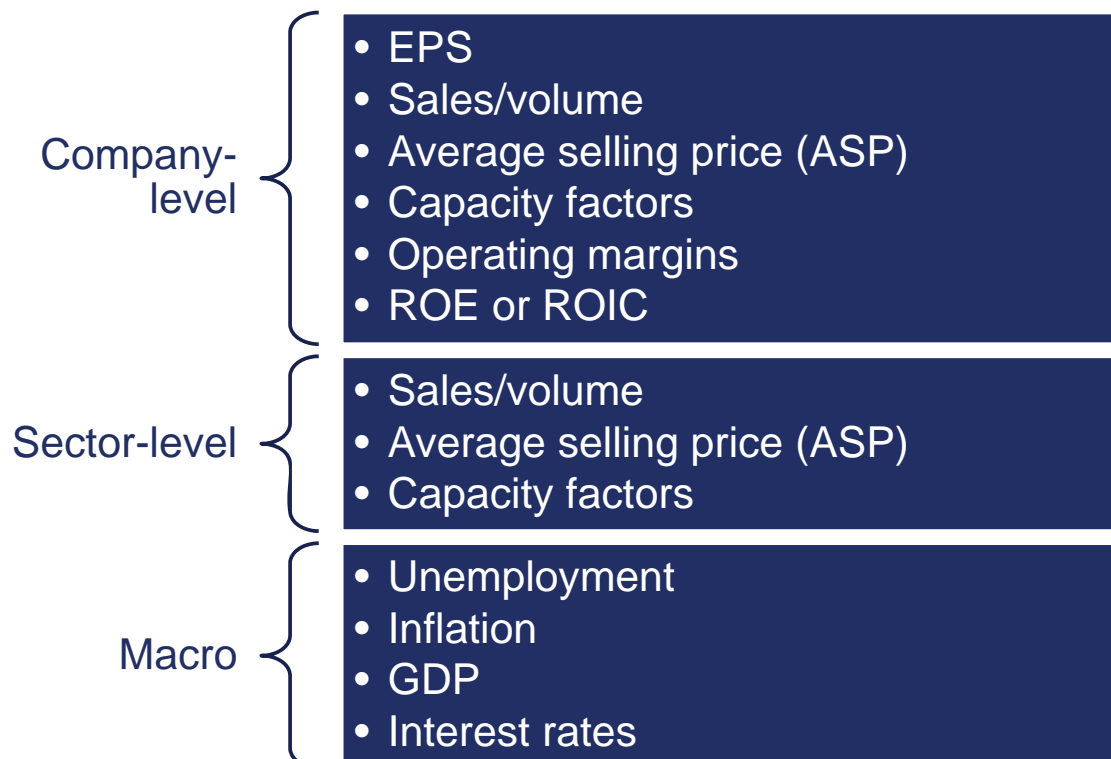
Identify and Monitor a Stock's Critical Factors

Step 2 of the 4-Step Process

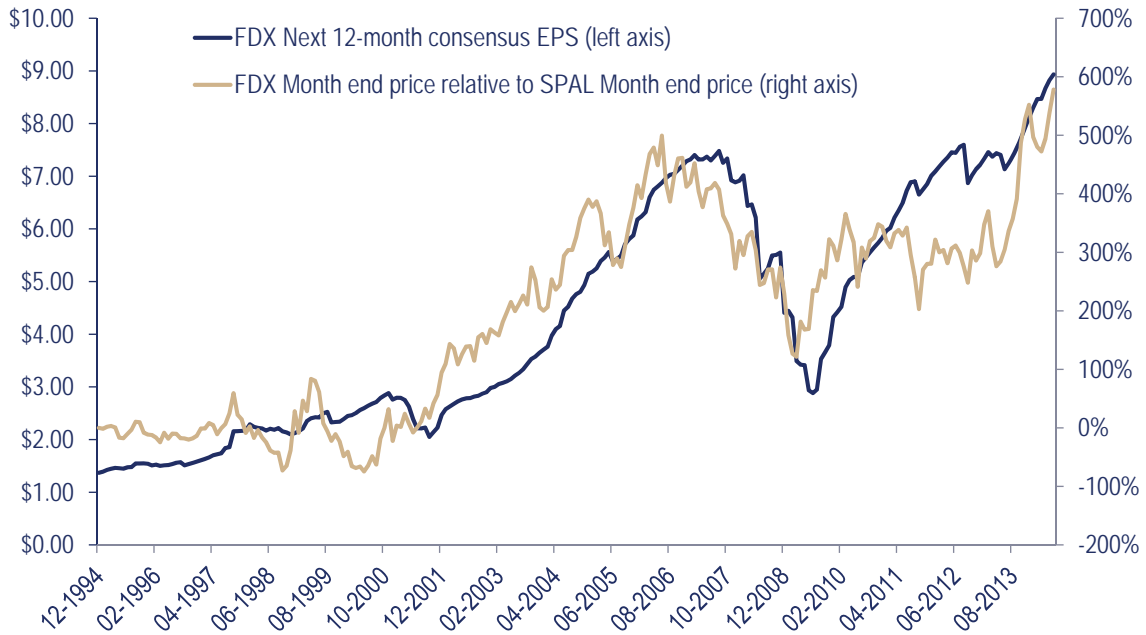


25

Data to Uncover Critical Factors

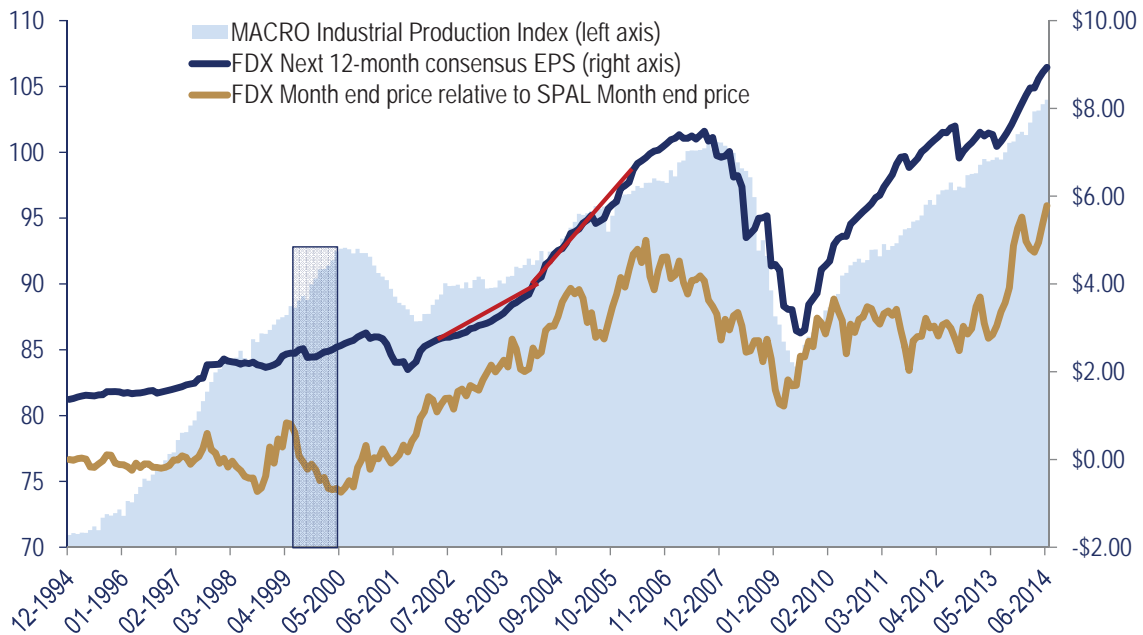


FDX Relative Performance and Consensus EPS



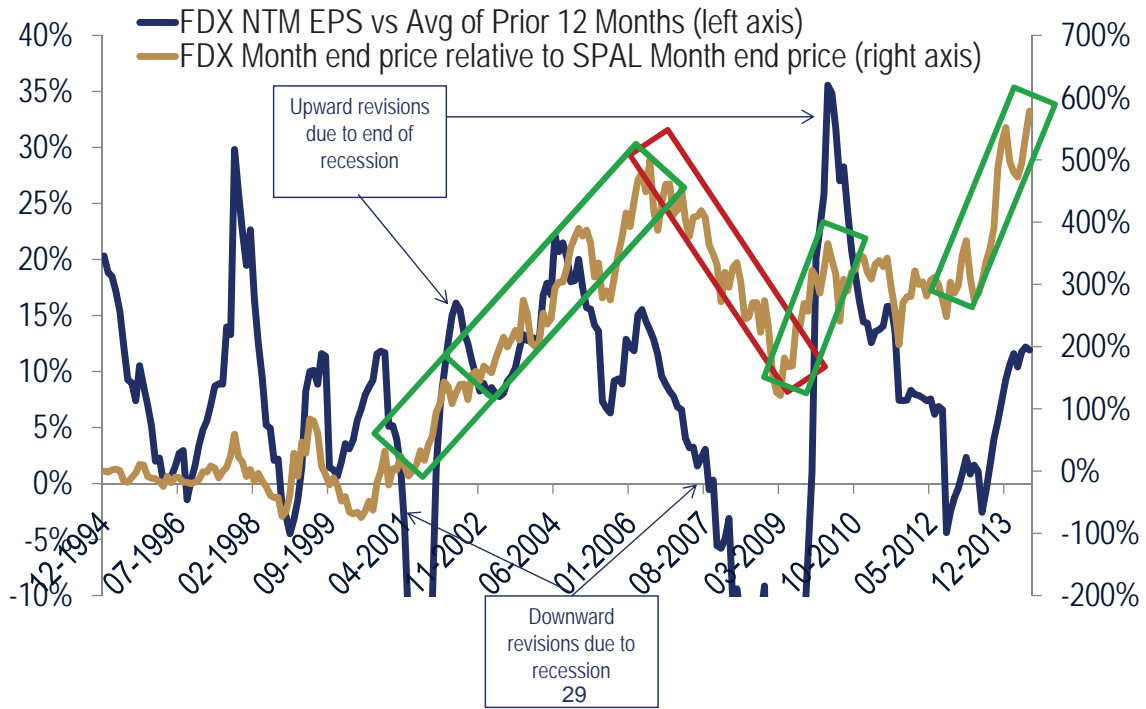
27

FDX Relative Performance, Consensus EPS and Industrial Production

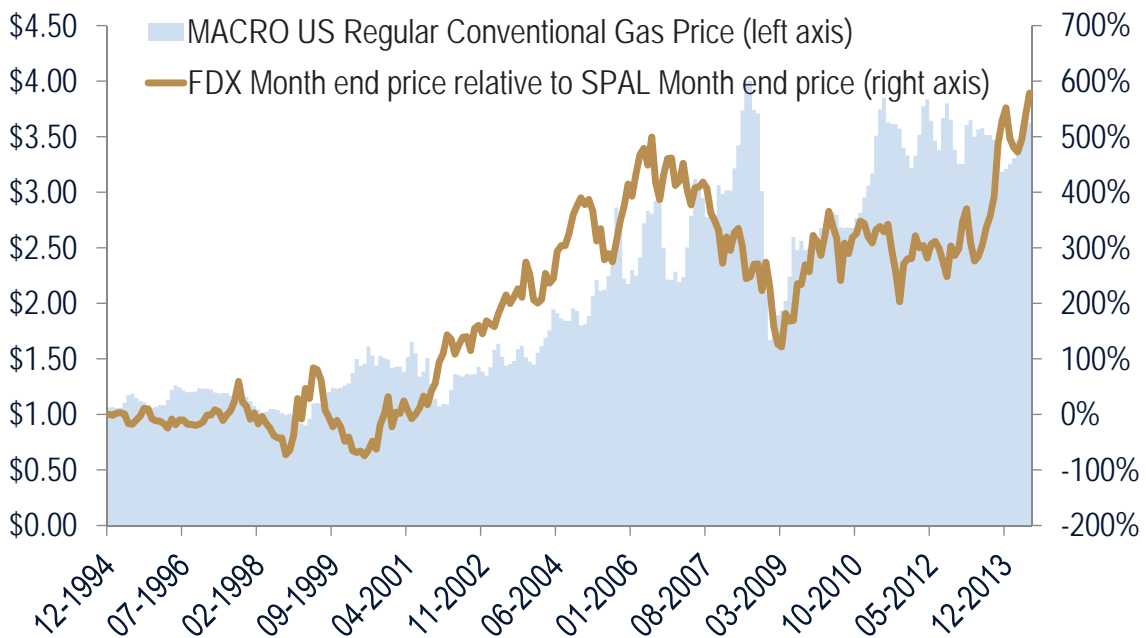


28

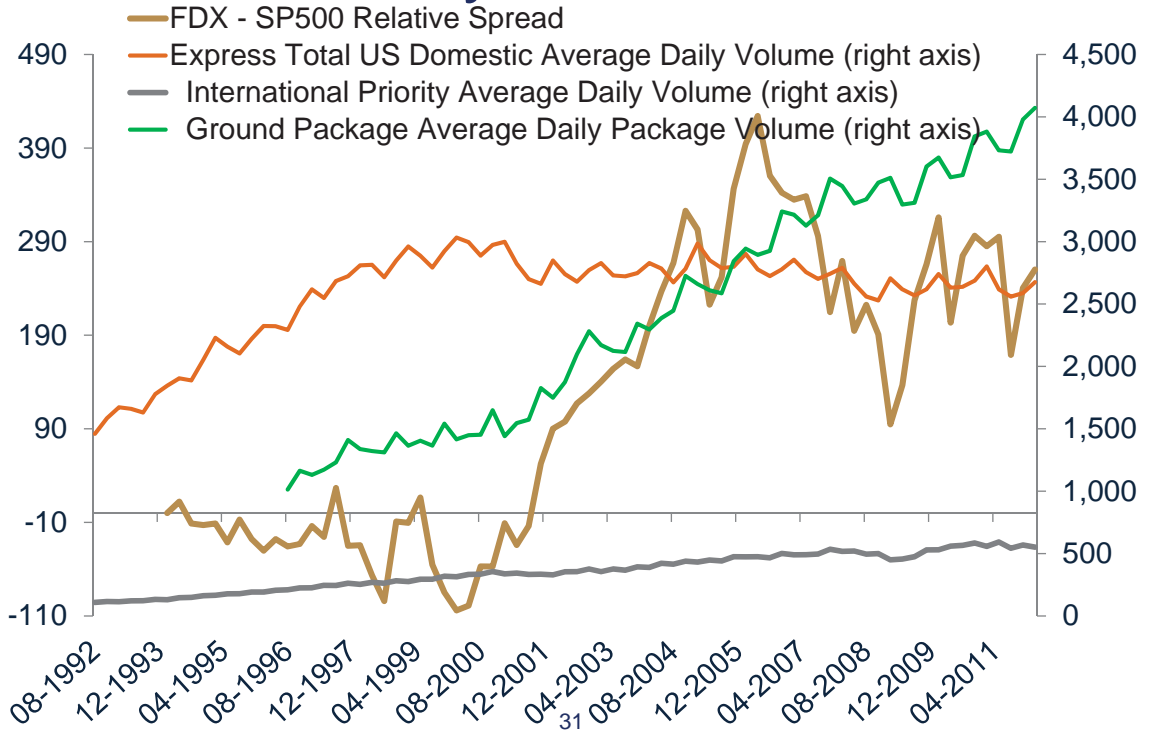
FDX Relative Performance and Consensus EPS Growth Rate



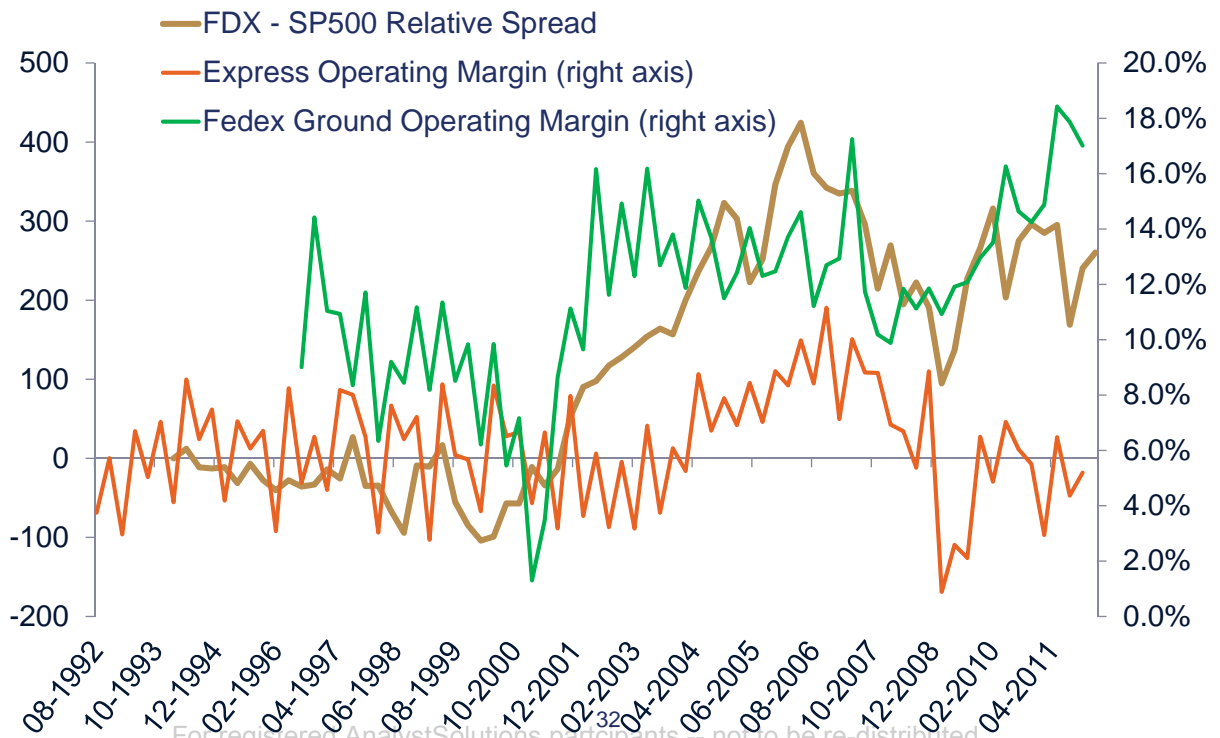
FDX Relative Performance and Gasoline Prices



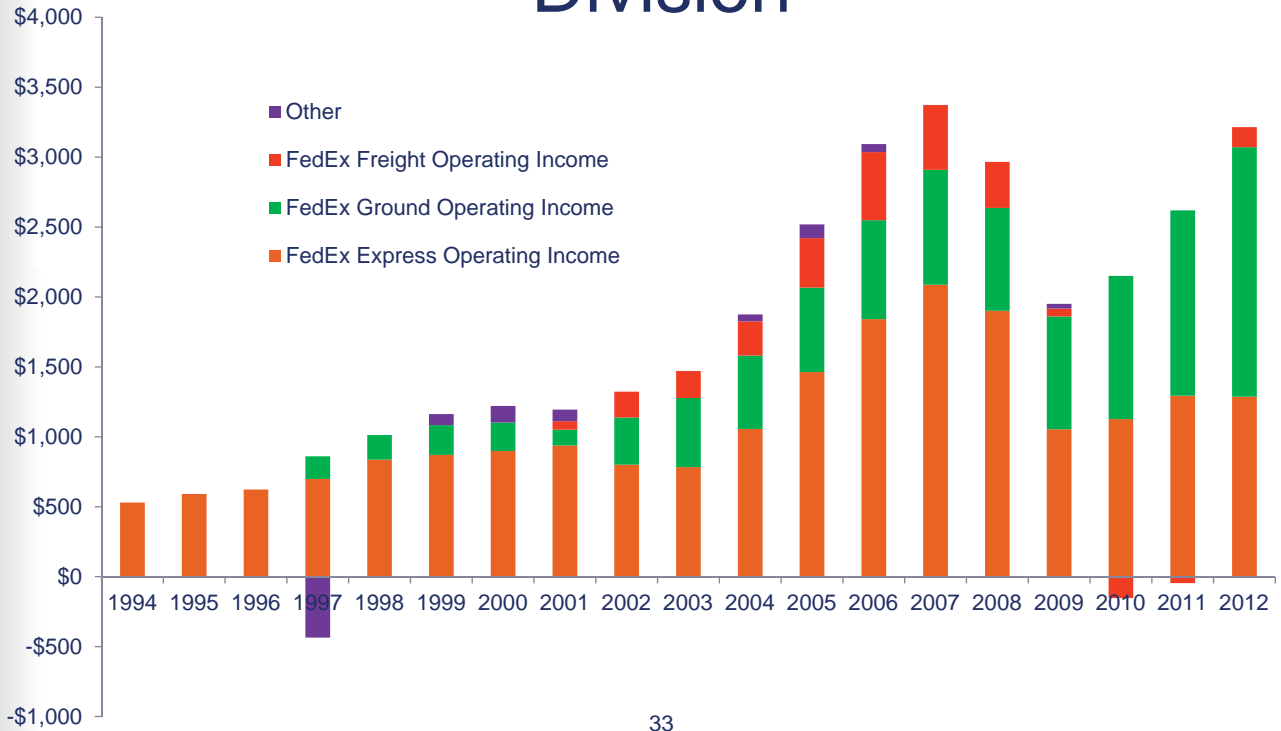
FedEx - S&P 500 and Daily Volumes



FedEx - S&P 500 and FedEx Margins



FedEx Operating Income by Division



Self-Assess Your Historical Tool Kit



Instructions for Assessing Your Historical Knowledge

- Evaluate each item on a scale of 1 to 5 with 5 as "strongly agree"
- If you are covering a sector that has not been in existence for at least 10 years, reduce the time period to when the sector formally developed

1. I possess the data that shows the primary factor(s) that cause ROIC to change for my sector for at least the past 10 years.	
2. I know the factor(s) that caused each of my <u>stocks</u> to substantially out- or under-perform their peers for at least the past 10 years.	
3. I know the factor(s) that caused each of my <u>sectors</u> to substantially out- or under-perform my broader benchmark for at least the past 10 years.	
4. I have industry-level data that provides a good gauge of supply/capacity and demand/units/revenue going back at least 10 years.	
5. I have built or could quickly build a comprehensive food chain analysis for my sector, showing the upstream and downstream players for the companies in my universe.	
6. When forecasting revenue for my individual companies I ensure their combined revenue growth is within a realistic industry growth rate based on historical trends.	
7. I know the high, low and mid-point of longer-term historical valuations ranges for each of my stocks for at least the past 10 years.	
Total:	

Create Tool to Compute Materiality

Create a template to help conceptualize “materiality” for the companies in your sector. It generally comes from 3 places:



- Change in revenue from volume (simplistically assuming margins remain constant)
- Change in revenue from pricing
- Change in expenses (without a corresponding change in revenues)

35

Your “Materiality” Threshold



To illustrate the concept, we use 5% as a starting point

- Earnings per share (EPS) or cash flow per share (CFPS) need to change by more than 5 percent

Example: Computing Materiality

Example Company	
Revenues	\$698
Expenses	\$593
EBIT margin	15%
EBIT	\$105
Int Exp, net (MM)	\$33
Pre-tax income	\$72
Tax rate	34%
Tax expense	\$24
Net Income	\$48
EPS	\$0.88
Share count	53.9

To cause EPS to move by 5%, what will need to occur on each of these line items (in isolation):

- Change in revenue from:
 - Volume
 - Pricing
- Change in expenses

Start by computing how much EBIT will need to change to cause a 5% change to EPS

37

Example: Computing Materiality

Example Company	
Revenues	\$698
Expenses	\$593
EBIT margin	15%
EBIT	\$105
Int Exp, net (MM)	\$33
Pre-tax income	\$72
Tax rate	34%
Tax expense	\$24
Net Income	\$48
EPS	\$0.88
Share count	53.9

1. Compute backwards, starting with 5% change to EPS:

$$\$0.88 \times 5\% = \$0.04$$

2. Compute net income impact:

$$\$0.04 \times 53.9 = \$2.4 \text{ million}$$

3. Convert after-tax to pre-tax:

$$\$2.4 \div (1 - 0.34) = \$3.6 \text{ million}$$

\$3.6 million is our threshold EBIT value that equates to a 5% change to EPS

Example: Computing Materiality

Example Company	
Revenues	\$698
Expenses	\$593
EBIT margin	15%
EBIT	\$105
Int Exp, net (MM)	\$33
Pre-tax income	\$72
Tax rate	34%
Tax expense	\$24
Net Income	\$48
EPS	\$0.88
Share count	53.9

1. Compute required change in revenue from volume (assumes no change in margins):

$$\$3.6\text{MM} \div 0.15 = \$24\text{MM}$$

2. Compute required change in revenue from pricing:

$$\$3.6\text{MM} \div \$698\text{MM} = 0.5\%$$

3. Compute required change in expenses:

$$\$3.6\text{MM}$$

39

Is It Worth Your Time?



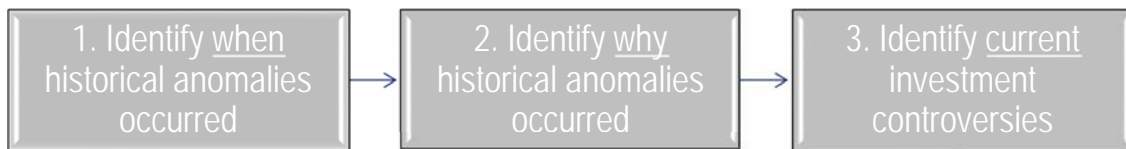
Compute level of materiality to determine if it's worth spending any more research time on this factor

Materiality Tool

Ticker	FDX	UPS	DAL	UNP
Period (year)	2015	2015	2015	2015
Amount EPS needs to change to be "material":	10%	10%	10%	10%
Step 1: Compute 10% of net income				
10% change to last fiscal year's EPS	0.95	0.54	0.47	0.54
Materiality threshold as measured in net income	\$274	\$493	\$376	\$468
Step 2: Convert to pre-tax EBIT				
Materiality threshold as measured in pre-tax EBIT	\$317	\$741	\$674	\$759
Step 3: Compute threshold for changes from pricing and expenses				
Materiality threshold as measured in changes to pricing	0.7%	1.3%	1.7%	3.5%
Materiality threshold as measured in changes in expenses	0.7%	1.5%	2.0%	5.5%
Step 4: Compute threshold for change in revenue from sales/volume				
Materiality threshold as measured in changes from sales/volume	\$3,316	\$5,542	\$4,171	\$2,095
As a percent of revenue	7.0%	9.5%	10.2%	9.6%

41

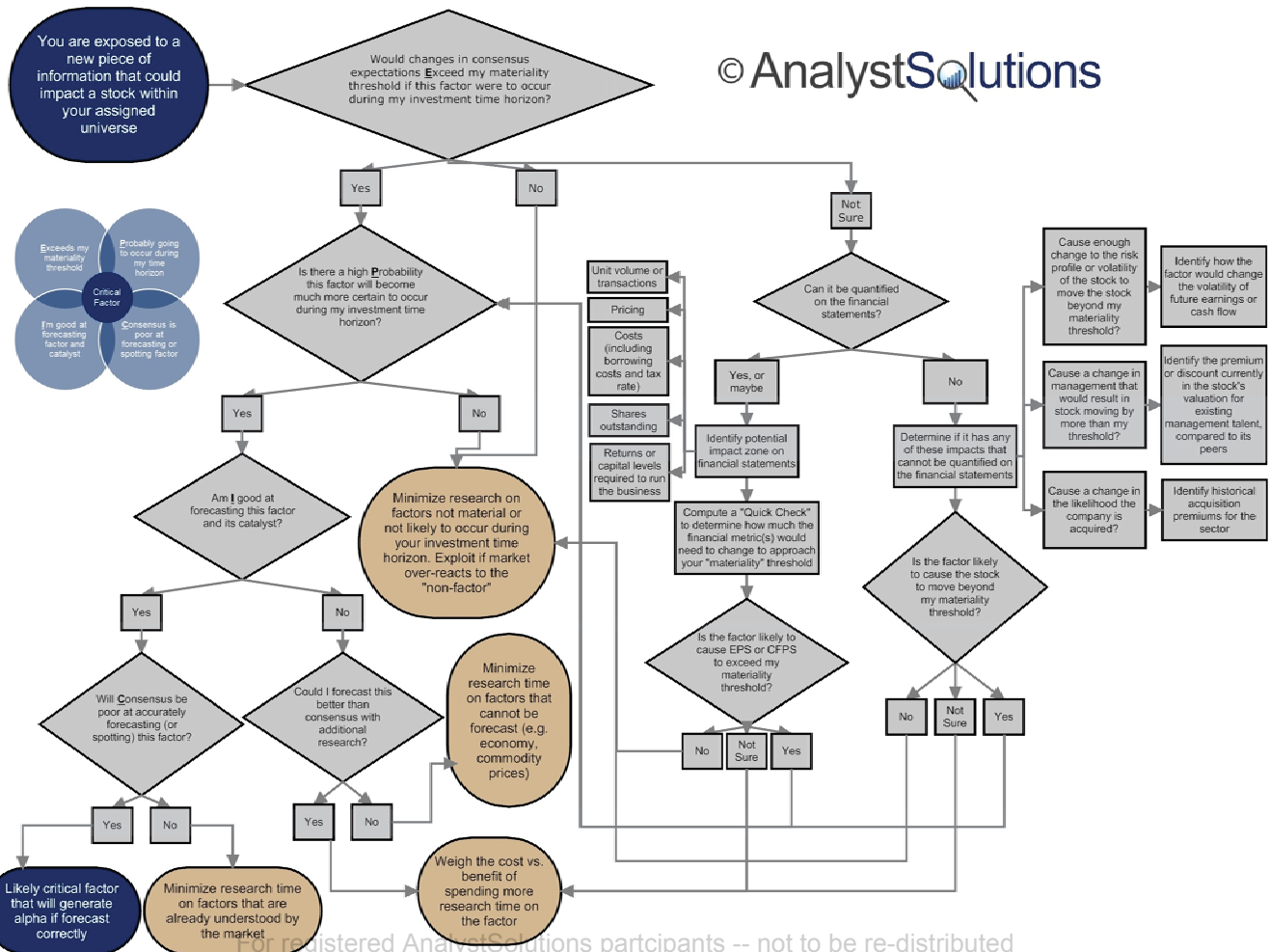
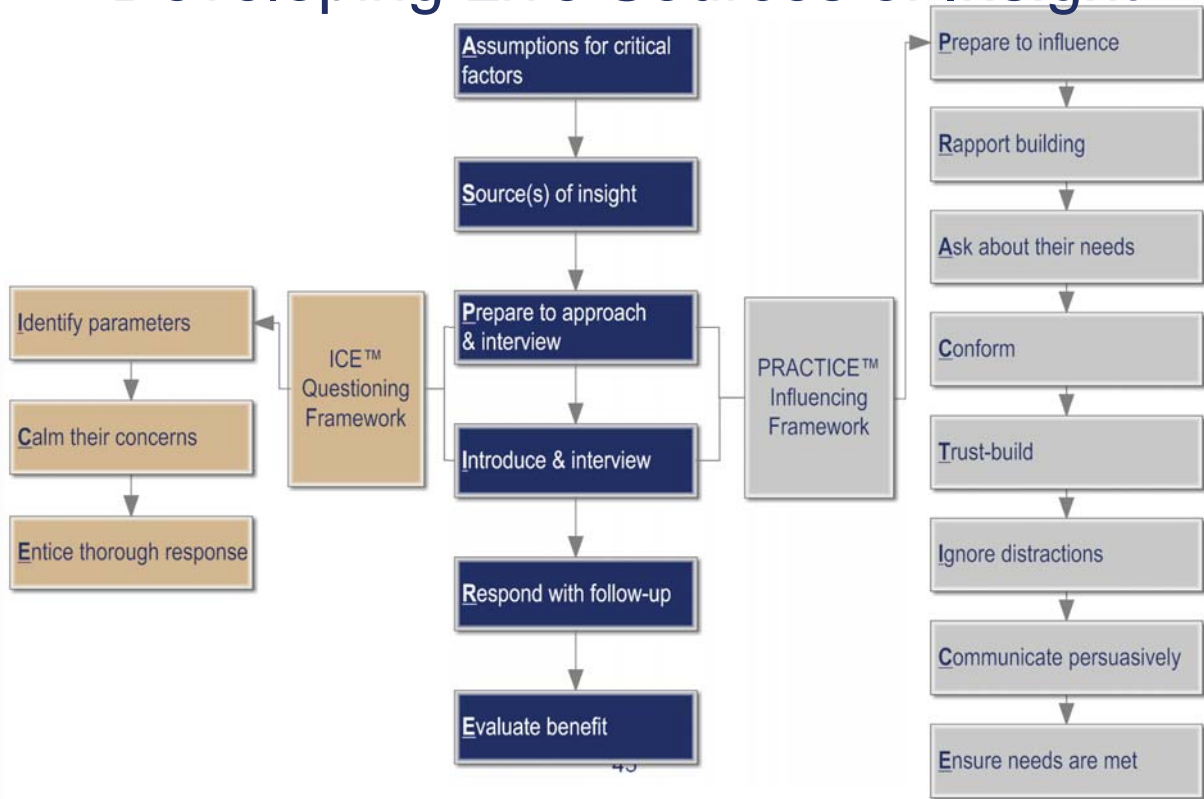
Module 4: Step 4 of the 4-Step Process

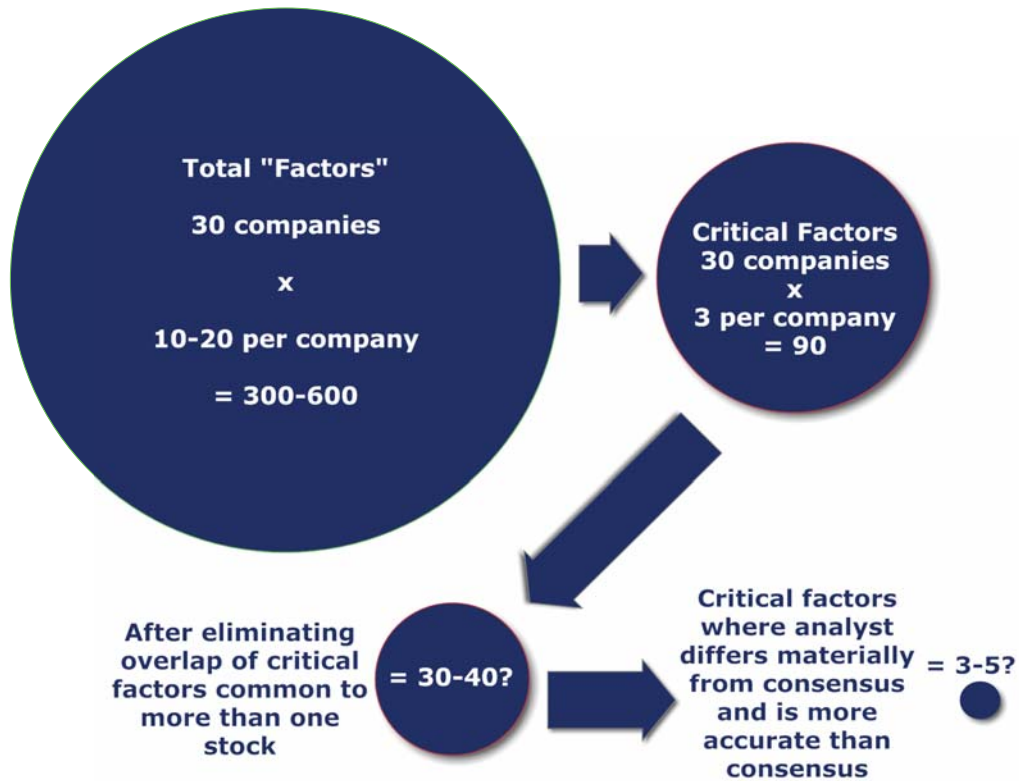


4. Using the information above, communicate with industry and market participants to answer these questions (the EPIC™ framework):
- Would changes in consensus expectations Exceed my materiality threshold if this factor were to occur during my investment time horizon?
 - Is there a high Probability this factor will become much more certain to occur (or deviate materially from the expected trend) during my investment time horizon?
 - Am I good at forecasting this factor and its catalyst?
 - Will Consensus be poor at accurately forecasting (or spotting) this factor?
- When the answer is "yes" to all, it is likely a critical factor that can add alpha

42

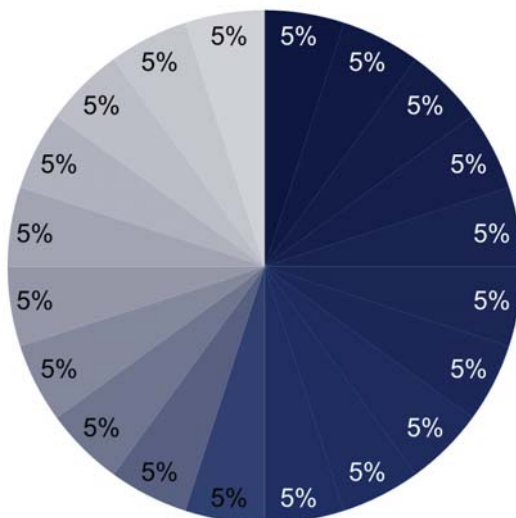
Key Frameworks Useful for Developing Live Sources of Insight



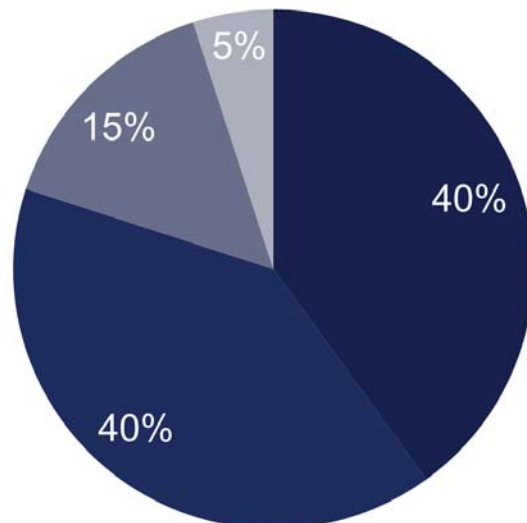


What Will Your Day Look Like?

Critical Factors Not Defined



Critical Factors Defined



Identifying & Monitoring Critical Factors Will Give You More Resources Than Your Competitors

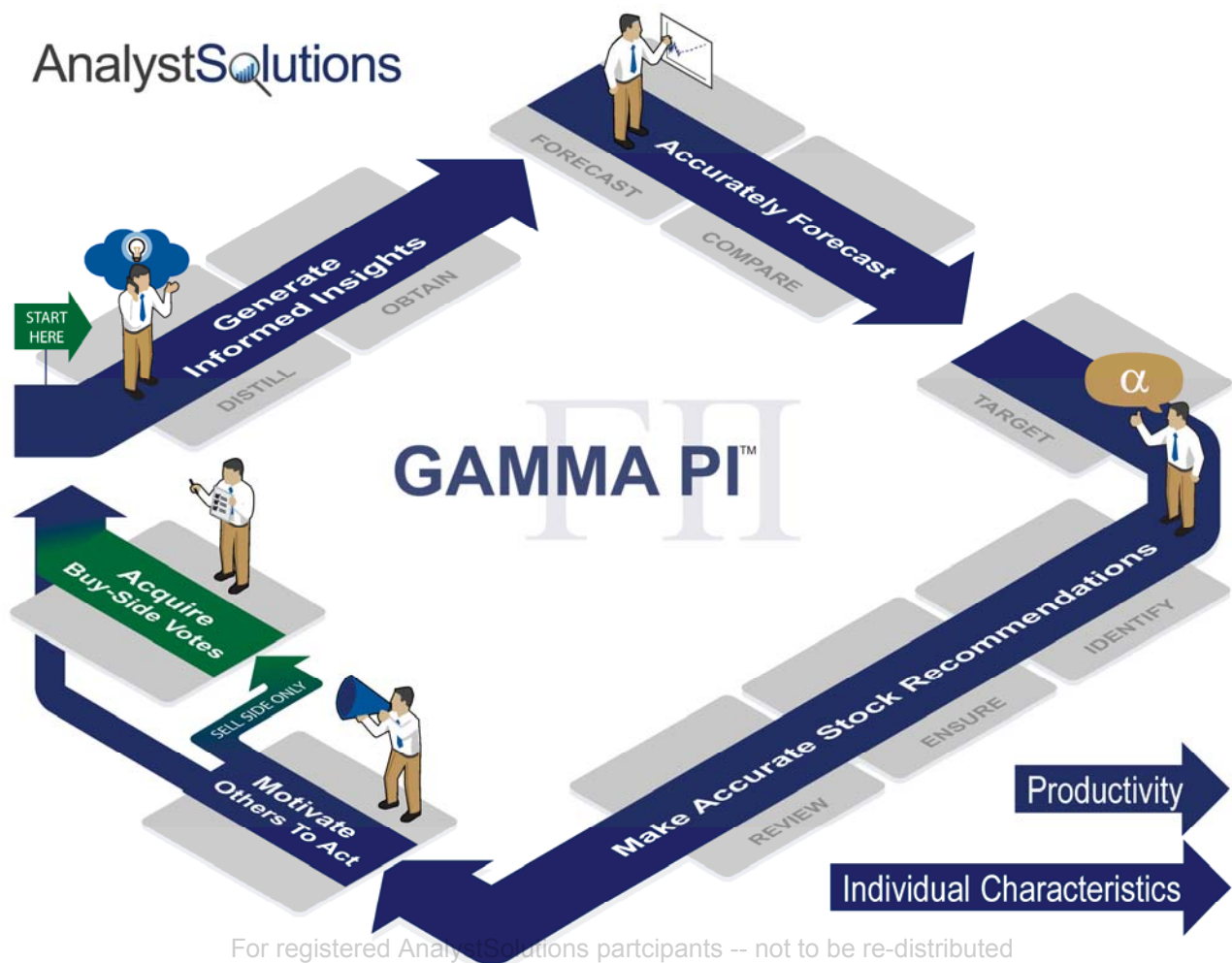


Identifying and monitoring critical factors helps **stock picking** by improving **time management**

EXERCISE: COMPLETE “LIST EVERYTHING”

Factor to Potentially Be Researched	Total	Total: With Half Weight for "I" and "C"	Total: "E"x"P" added to "I" and "C"
Cost management/productivity/Improved network efficiency	18	13.5	29
Level of fuel surcharge collected	17	13.0	28
Acquisition(s)	15	11.5	22
Ground package volume growth	15	11.0	20
Domestic Express package pricing/yield	14	10.5	19
Ground package pricing/yield	14	10.5	19
International Priority package pricing/yield	14	10.5	19
International Priority package volume growth	14	10.0	16
Service levels other than during the holiday season	14	9.5	15
Change in senior management	13	10.0	16
Electronic documents reducing need for overnight envelopes	13	9.5	15
GDP growth	13	10.5	20
Labor cost trends	13	9.5	16
Domestic Express package volume growth	12	8.5	13
Service levels at holiday season	12	8.0	12
Asia-Pacific volume growth	11	8.0	12
Change in level of tech shippers vs. non-tech shippers	11	8.5	13
Purchase of new aircraft	11	7.5	10
Level of major weather disruptions	10	7.0	9
Depreciation rate	9	6.0	8

Part 2: Generate Differentiated Insights Through Better Discovery, Questioning, and Influencing





Why Master This Skill?

- Proprietary insights are the key to great stock calls
- One-on-one interviews are often the only method to obtain proprietary insights
 - Most other information sources are widely disseminated and thus not proprietary
- Getting the insights for the best stock calls of your career will be the byproduct of asking the right question to the right person at the right time



ASPIRE™ to Gain Insight

CRITICAL FACTORS

Assumptions for critical factors



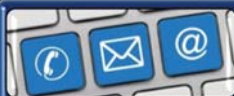
Source(s) of insight



Prepare to approach and interview



Introduce and interview



Respond with follow-up



Evaluate benefit

Module 1: “A” of ASPIRE™

CRITICAL FACTORS

Assumptions for critical factors



Source(s) of insight



Prepare to approach and interview



Introduce and interview



Respond with follow-up



Evaluate benefit

Seeking Insights Before Defining Critical Factors...

Is akin to setting
off on a journey
without a
destination

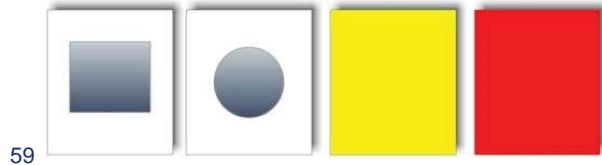


57

EXERCISE: QUALITY CONTROL INSPECTOR

Quality Control Inspector: Card Type #1

- **Undisputable fact:** one side of the card has a shape and the other side has a color
- **Rule:** *If a card has a circle on one side, then it must have the color yellow on the other side.*
- Based on these 4 cards alone, which do you need to turn over to see if the cards are defective?
- Identify the card(s) you need to turn over to confirm if this rule has been broken.



59

Quality Control Inspector: Card Type #2

- **Undisputable fact:** one side of the card has a letter and the other side has a number
- **Rule:** *If a card has the letter S on one side, then it has the number 3 on the other side.*
- Based on these 4 cards alone, which do you need to turn over to see if the cards are defective?
- Identify the card(s) you need to turn over to confirm if this rule has been broken.



60

Quality Control Inspector: Card Type #3

- **Undisputable fact:** one side of the card has the statement about a specific company's unique quality (green border) and the other side explains if the stock has outperformed or underperformed the market over the long-term (red border).
- **Rule:** *Companies with earnings growth rates faster than the market always outperform the market over the long term.*
- Based on these 4 cards alone, which do you need to turn over to see if the cards are defective?
- Identify the card(s) you need to turn over to confirm if this rule has been broken.



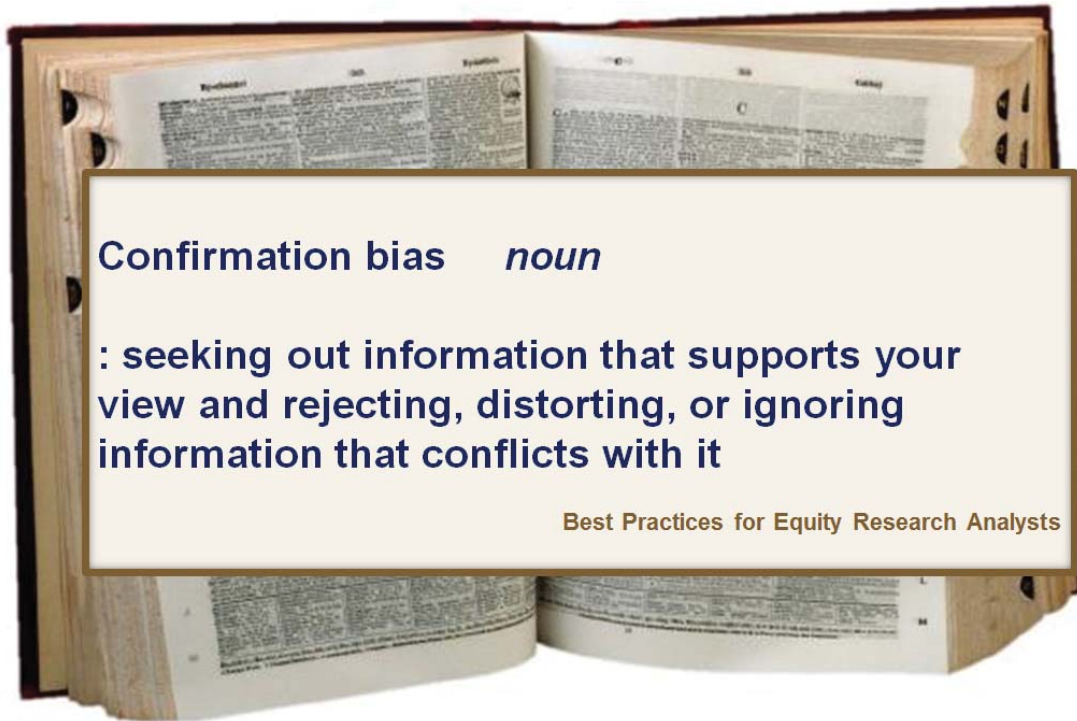
Amazon Search

The screenshot shows the Amazon product page for a smoke alarm. The top navigation bar includes the Amazon logo, Prime, and links for Today's Deals, Gift Cards, Sell, and Help. Below the navigation bar, there is a search bar with the text "Tools & Home Improvement" and a dropdown menu for "Shop by Department". The main content area features a section titled "Customer Reviews" for the product "Kidde KN-COSM-B Battery-Operated Combination Carbon Monoxide and Smoke Alarm with Talking Alarm". The reviews section displays a star rating of 4.5 out of 5, based on 683 customer reviews. A breakdown of the reviews is shown as follows:

Star Rating	Number of Reviews
5 star	440
4 star	132
3 star	36
2 star	18
1 star	57

The average customer review is 4.5 stars out of 5, based on 683 customer reviews. There is a button to "Create your own review" and a "Share your thoughts with other customers" link. On the right side, there is a "Questions" section with a "Who" dropdown and a "See" link.

Definition: Confirmation Bias



63

Confirmation Bias

Tell-tale signs of confirmation bias

- You under-react to unfavorable information in earnings reports
- You are closed-minded
- You show no interest in understanding the “other side of the trade”

Methods to avoid confirmation bias

- Conduct all of the necessary research before considering the rating
- Approach new information with an open mind
- Build upside, downside and base-case scenarios while doing research
- Make sure you know the opposing view of your recommendation

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
-

65

Assumptions Are Required

Do not proceed to the next step unless you have created a list of critical factors, and the associated assumptions, for a stock

- It takes substantial time to find and interview live information sources
- These are wasted efforts if the information source doesn't have insights that help to forecast a critical factor



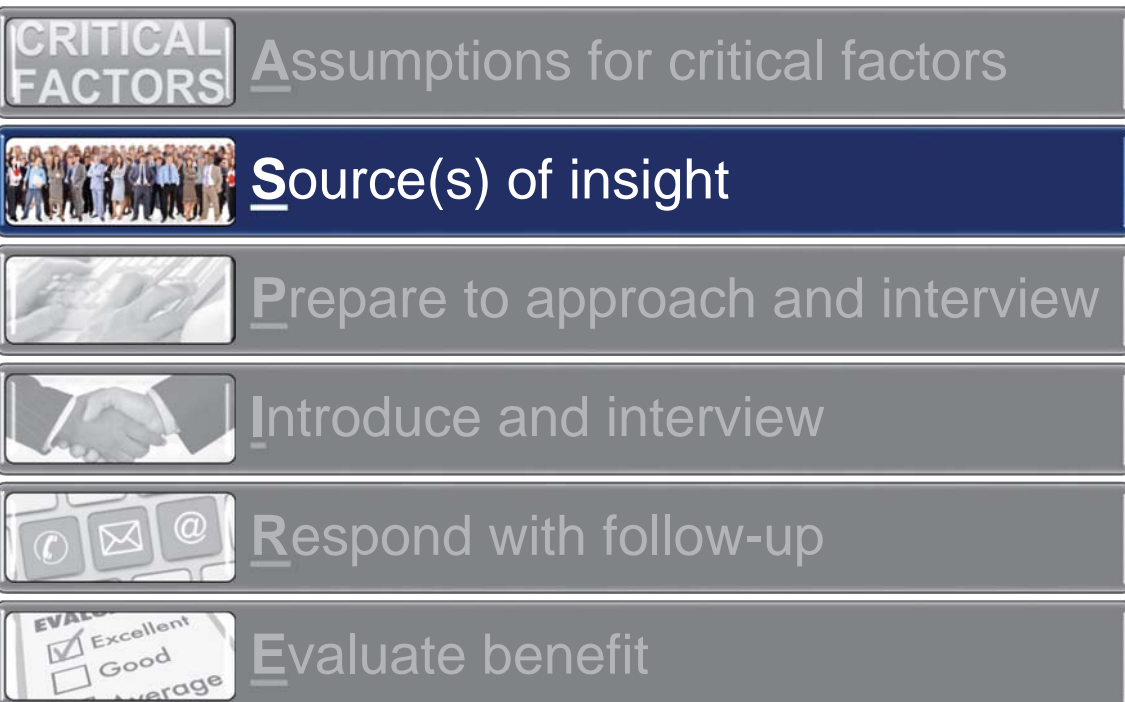
Review Opening Case for: Assumptions for Critical Factors

Lucas...

- Doesn't know the critical factors for his stocks or the key assumptions that drive those factors
- Goes to the conference with confirmation bias about trans-Pacific pricing is likely to increase

67

Module 2: "S" of ASPIRE™



68

Complete Your TAP

Section 3

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
-

69

Sources of Insight

- Live
 - Roles outside financial markets
 - Roles within financial markets
- “Read-only”
 - Data (including surveys)
 - News feeds/blogs
 - Company documents



Looking at Data in a Unique Manner



Apple's off-balance sheet commitments [are] a bullish indicator for June quarter revenue...

...these off-balance sheet commitments to acquire components and capital assets (including product tooling and manufacturing process equipment), and related to advertising and R&D are a good indicator of revenue with correlation of 98% since 2007.

71

Where Do I Find Sources?



72

Review QRC

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-	Best place to gauge investor expectations	May not be representative of the larger investor base	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

73

Scan Target-Rich Websites

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



Scan Content Creators



- Research 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)

75

Scan for High-Profile Authorities

- Conference speakers (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
- Search the internet for names of consulting firms that specialize in the sector (if the search doesn't come up with a quick answer, ask company management for the consultants they use)

Scan Aggregator of Names



- Industry, association and professional society websites
- Industry award winner lists (e.g. “top performers of the year”)
- 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)

77

Consider Expert Networks

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 entirely proprietary



Expert Networks

Examples:

- GLG
- AlphaSights
- Third Bridge
- Guidepoint Global
- ExpertView



AnalystSolutions does not endorse, or receive compensation from any firms listed above

Dedicated Research Firms

- You own the results
- Requires time and a sizeable budget
- Need to find the best firm for the project
- Integrity-research.com



AnalystSolutions does not endorse, or receive compensation from any firms recommended in its workshops
For registered AnalystSolutions participants -- not to be re-distributed

Dedicated Research Firm Examples

Dedicated Research Firm	Type	Product	Service
IMS Health	Scripts Data	Global Measures of Dispensing Activity	IMS Health captures elements of the prescription details recorded in retail pharmacies of all types—chain, independent, mail-order and specialty—in more than 15 countries around the world, on more than three billion prescription transactions a year.
Symphony Health Solutions	Scripts Data	Integrated Dataverse (IDV)	Symphony Health Solutions' Integrated Dataverse (IDV) [™] provides near-census point-of-sale prescription data with extensive prescription, medical, and hospital claims.
Guidepoint Global	Ongoing Survey	Tracker	Guidepoint Global is an expert network which includes over 225,000 professionals with particular strength in the technology and healthcare sectors. One way clients use GG's network is to conduct Surveys and Quick Polls.

Source: Integrity Research

81

Limitations of Relying on Company Management

- Can't be objective
 - Exaggerate upside
 - Downplay downside
- Can't be source of key information not already widely-disseminated
- Unaware of their blind spots



Live Roles Within Financial Markets

- Buy-side analysts should forge relationships with:
 - Other smart buy-side analysts
 - Three sell-side analysts per sector
- Sell-side analysts should be continually surveying the smartest
 - Clients
 - Salespeople
 - Traders



83

Complete Your TAP

Section 4

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
-

EXERCISE: “NETWORKING SELF-ASSESSMENT”

Introverts Have Networking Strengths

"I have a confession to make. I am an introvert. If you are, too, that's fine— in many ways, we have an advantage over our more assertive colleagues. You may feel that, despite all your knowledge of networking, you are too shy to network successfully. The idea that networking is only for people with outgoing personalities is really false. Introverts have strengths that they can use with strategies that blend well with their personalities. Here are some real advantages that introverts have for networking:

- Introverts are usually great listeners. They would rather let another person do the talking, and that shows respect toward their colleague
- They remember details about their contacts, which others might miss. Because they are listening, they can take in more information about their contact
- They focus on the person they are talking to, making that person feel significant
- They build sound relationships and care for them because they are often helpful individuals who watch out for others
- They find the right time to speak— never interrupting or asserting their opinions
- They are helpful, which often makes others want to be helpful in return
- They network very well in situations where they can use their skill to help others."

- Andrea R. Nierenberg, Essential Business Networking: Tips, Tactics, and Tools You Can Use

Cultivating Sources of Insight



87

Read Relevant Content Creators



- Proactively read *relevant* industry trade blogs and journals that answer questions about critical factors
- If possible, have these automatically sent to you or set time aside each week to read

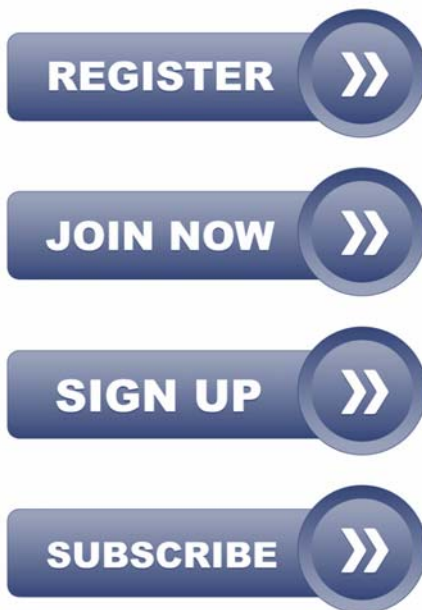
Participate in Industry Events

- Examples:
 - Conferences
 - Trade shows
 - Annual award banquets
- Prescreen
- Get an advanced list
- Approach good speakers after presentations
- Attend social events
- Connect with the senior event coordinator



89

Sign Up



- Join *relevant*:
 - On-line groups (LinkedIn, industry forums, user groups, etc.)
 - Industry trade groups
- Subscribe to relevant industry consulting firms' publications
- Participate at the industry-level

Don't Forget To...

- Ask contacts for:
 - Up-stream sources
 - Down-stream sources
- Periodically contact the information source to help them



91

Not Sure Where to Start?

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?

92

Complete Your TAP

Section 5

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

Review Opening Case for: Sources of Insight

Lucas...

- Doesn't have proprietary sources of insight and instead relies too heavily on publically-available information (news stories, sell-side reports and regulatory filings)
- Doesn't see the value in:
 - Going to conferences because he feels it takes too much time
 - Knowing the best industry events or groups that host them
 - Arriving to the conference in time to participate in the opening social event
 - Meeting with Sunil, because he's not a "top executive" even though Sunil may have insights or other contacts he can provide Lucas
 - Watching the panel of industry journalists/bloggers, to learn insights, and possibly meet the panelists afterwards to make new industry contacts
- Doesn't review the speaker list until he's on the plane, which limits his ability to do more research on who will be the best potential contacts to approach
- Doesn't ask the CEO or Sunil for names of other good industry contacts to speak with at the conference or afterwards
- Doesn't know there are consulting firms that specialize in forecasting critical factors for his sector
- Doesn't think to ask the conference organizers for a list of attendees in advance
- Doesn't ask his friend for names of individuals in ExpBitz that could help better understand airline pricing
- Incorrectly asserts Sunil is a valuable source of insight for trans-Pacific pricing

Module 3: “P” of ASPIRE™

**CRITICAL
FACTORS**

Assumptions for critical factors



Source(s) of insight



Prepare to approach and interview



Introduce and interview



Respond with follow-up



Evaluate benefit

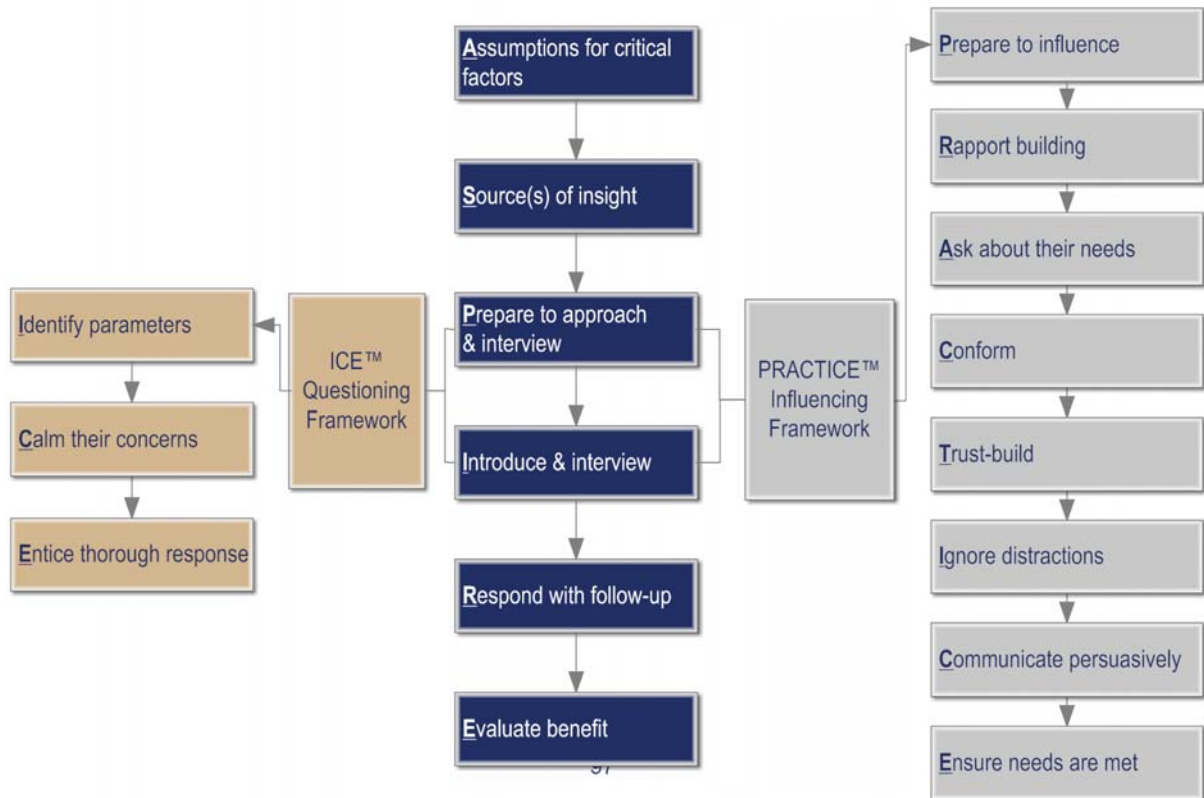
95

Why “Waste Time” Preparing?

- Maximizes interview time (which often is limited)
- Keeps focus on just critical factors
- Increases odds of getting a useful answer
- Builds your reputation, and avoids damaging it



Key Frameworks



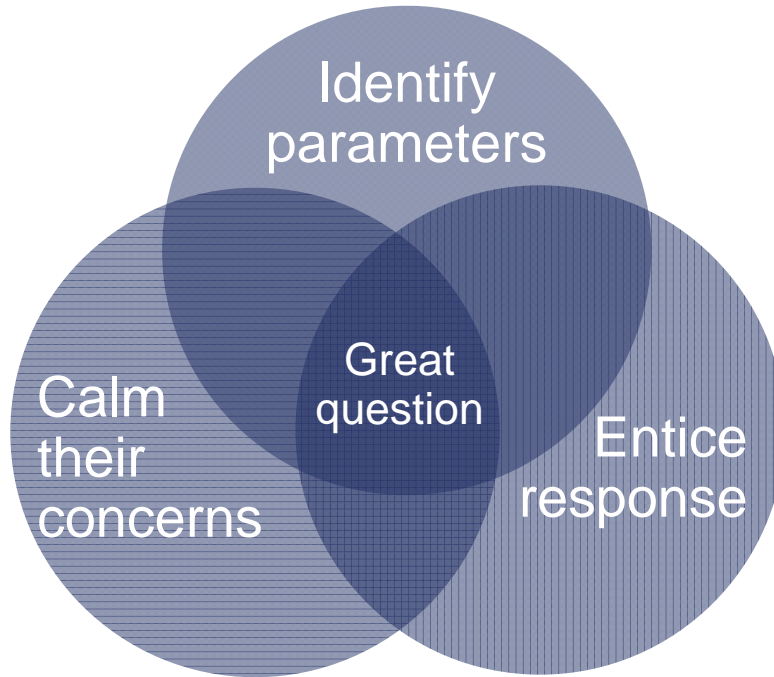
3 Most Common Mistakes When Analysts Question Others

Asking questions...

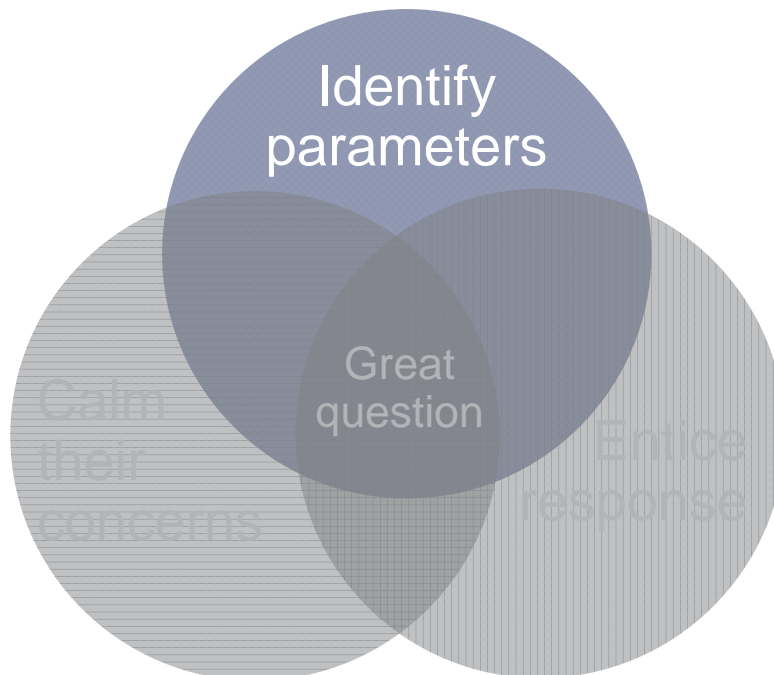
- Not focused on critical factor assumptions
- That can be answered using public documents
- To interviewees who are not qualified to provide accurate answers about the critical factor assumptions



ICE™ Framework



ICE™ Framework



Reference Interviewee's Stated Goals

Questioning Type	Reference Interviewee's Stated Goals
Benefit	Ensures response is reconciled with interviewee's goals
Example	"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?"

101

Reference Credible Third-party Forecast

Questioning Type	Reference Credible Third-party Forecast
Benefit	Keeps interviewee within the parameters of this credible forecast
Example	"Do you believe the Global Aircraft Association's long-term forecast for 6% intra-Asia passenger traffic is realistic?"

102

Reference

Continuation of Past Trends

Questioning Type	Reference Past or Continuation of Trends
Benefit	Frames future forecast using past trends which helps to keep interviewee's response more realistic
Example	"Should I assume that the lack of labor productivity improvement in the most recent quarter will continue?"

103

Options or Scaling

Questioning Type	Offer Options or Scaling
Benefit	Keeps interviewee's response within a predefined range
Example	"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?"

104

Hypothesize (and then pause)

Questioning Type	Hypothesize (and then pause)
Benefit	Challenges interviewees to respond with their own hypothesis
Example	“I forecast the major productivity improvements of the prior year to slow to less than 1%, given the weak numbers in the most recent quarter.”

105

Make Implications

Questioning Type	Make Implications
Benefit	Uses your insights to build a well-constructed implication that will likely elicit a quantifiable response
Example	“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?”

106

Triangulate

Questioning Type	Triangulate
Benefit	Uses information from other related areas to narrow possible outcomes
Example	“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?”

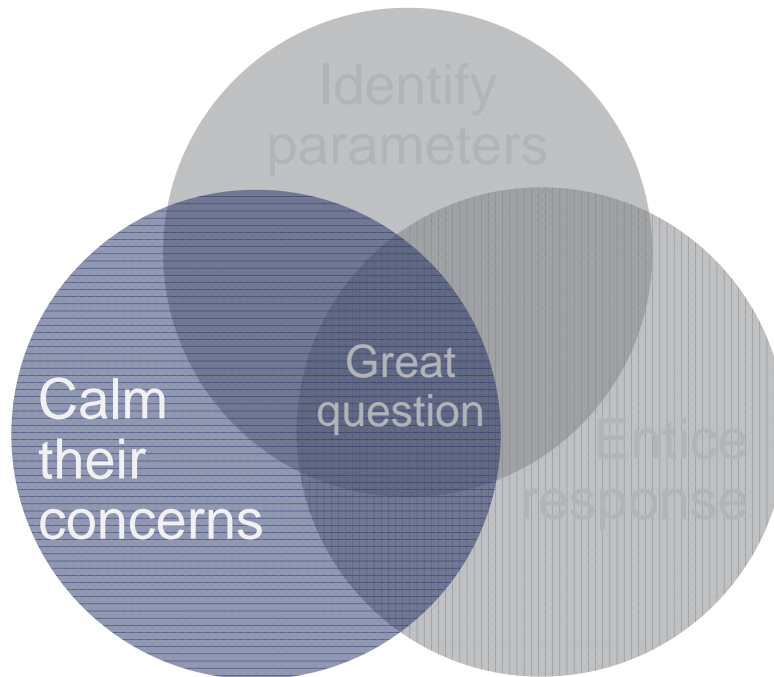
107

Ask for Estimates Around Non-Material Topics

Questioning Type	Ask for Estimate Around a Non-Material Topic (that helps to build the mosaic)
Benefit	Keeps the question focused on a quantifiable response for something relatively small, so the interviewee is comfortable answering
Example	“Can you provide an estimate of the number of unionized employees you have in California?”

108

ICE™ Framework



109

Be Positive

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?"
- Instead be more positive: "Can you help me understand why margins are 300-500 basis points lower than your competitors?"



“And” Not “But”

~~BUT~~
AND

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.”

111

Avoid “You”, “I” and “Me”

- De-personalize sensitive questions, by avoiding the use of "you" and instead use "company" or "management" when referencing the problem
- Use “us” and “we” (instead of “I” or “me”) to show it’s not just you that have a concern:
 - Avoid: “Tell me why you had such poor holiday traffic.”
 - Instead be less confrontational: “Why did NewCo (the interviewee’s company) experience holiday traffic well below its competitors?”



Avoid Sensitive Words

Avoid using words and phrases that will put the interviewee on the defensive

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...	

113

Avoid Speaking Over Their Head

- 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



Past vs. Forecast



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?"

115

Passive vs. Active

- 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

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?"

When Probing a Deficit

- 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:
 - 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?"

117

Right Question Type and Order

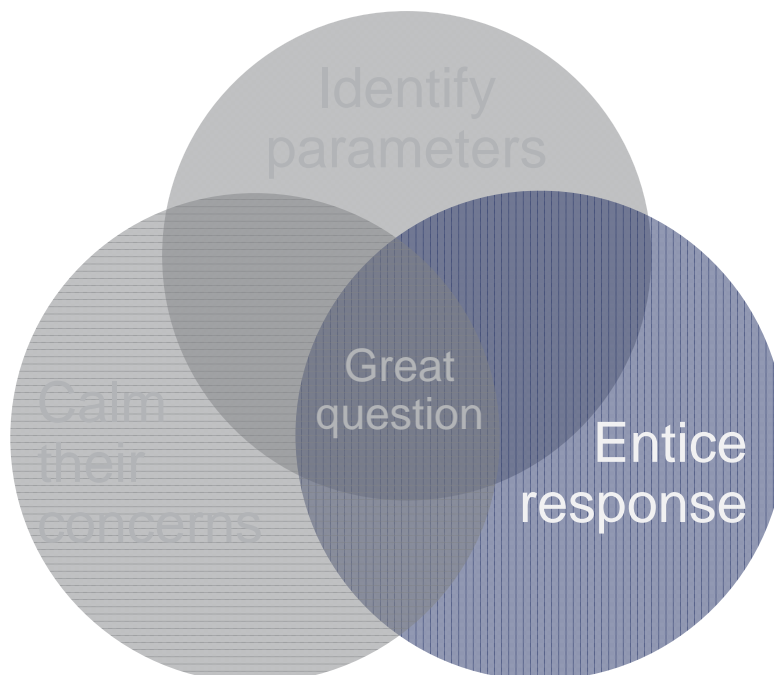
- Start easy
- Don't use too many closed questions
- Avoid:
 - Rhetorical
 - Complex/nested
 - Insulting



Ask About Confidence Level

Too Direct	More Likely to Get Answered
<p>Avoid being this direct: “Will you achieve your cost-cutting target this quarter?”</p>	<p>Instead ask for a confidence level: “How confident are you that the company can achieve its cost-cutting target this quarter?”</p>

ICE™ Framework



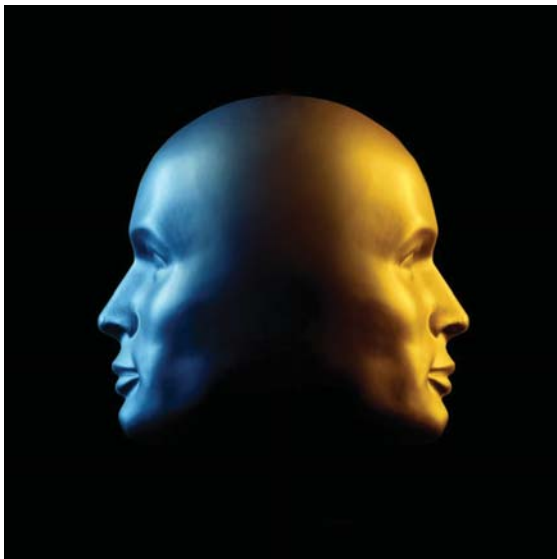
Use Names and Adoration

- Use interviewee's name
- Play up interviewee's experience
- Refer to the company name as an industry leader



121

Exploit Cognitive Dissonance



- Humans can't hold two contradictory beliefs
- Get agreement on basic belief
- Probe in an area where the belief appears inconsistent with actions

Reference Other Credible Sources of Information

- Competitor's performance
- Competitor's disclosure
- Respected expert
- Consensus
- Your forecast



123

Question View Towards Stock

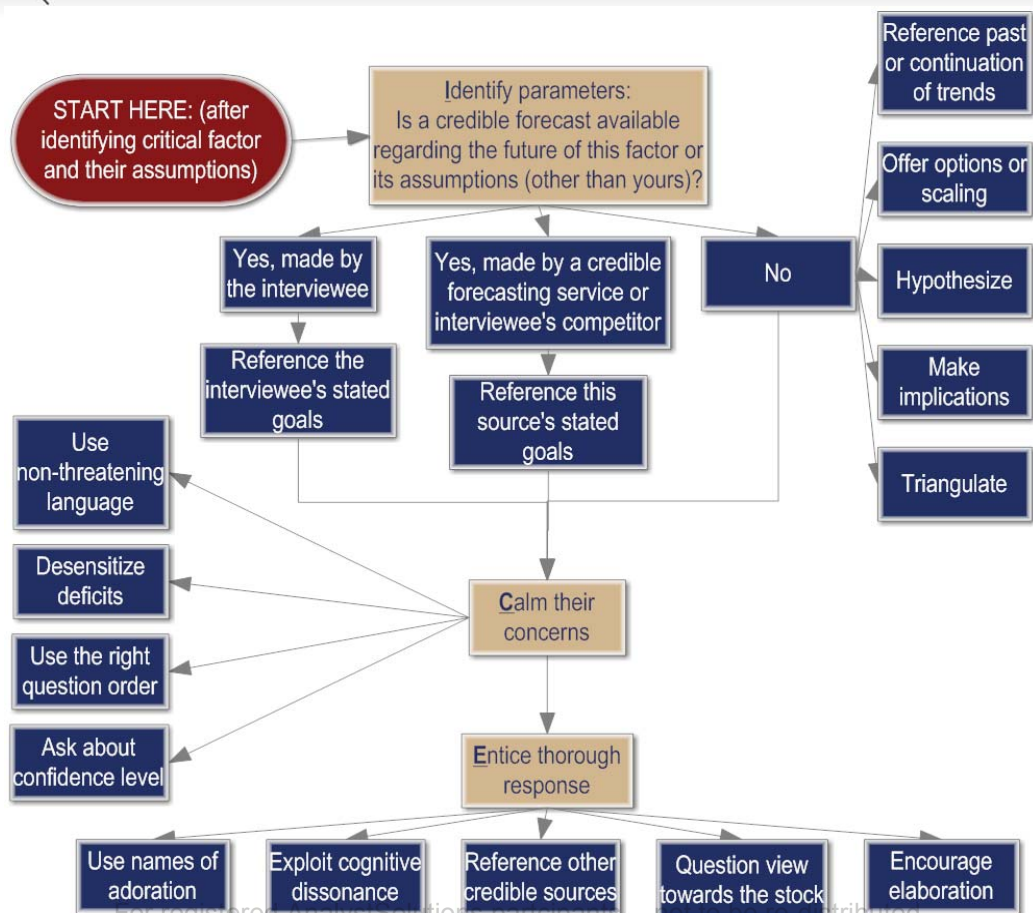


- “Many of the PMs/clients I speak with have trouble understanding how the company will achieve a double-digit growth rate”
- “I'm not sure we can get more constructive towards your stock unless I can get more comfortable with management succession plans”

Encourage Elaboration

- Use phrases:
 - “I see” or “Interesting...”
 - “Can you elaborate”
- Use silence
- Echoing
- Restate answer to question plausibility

125



Review DRC

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,

Review QRC

Quick Reference Card (QRC)

Potential Questions to Investigate When Researching a Company

Potential Questions to Investigate

As we note in our ICE™ framework for questioning (see *AnalystSolutions' DRC, Questioning*

Complete Your TAP

Section 6

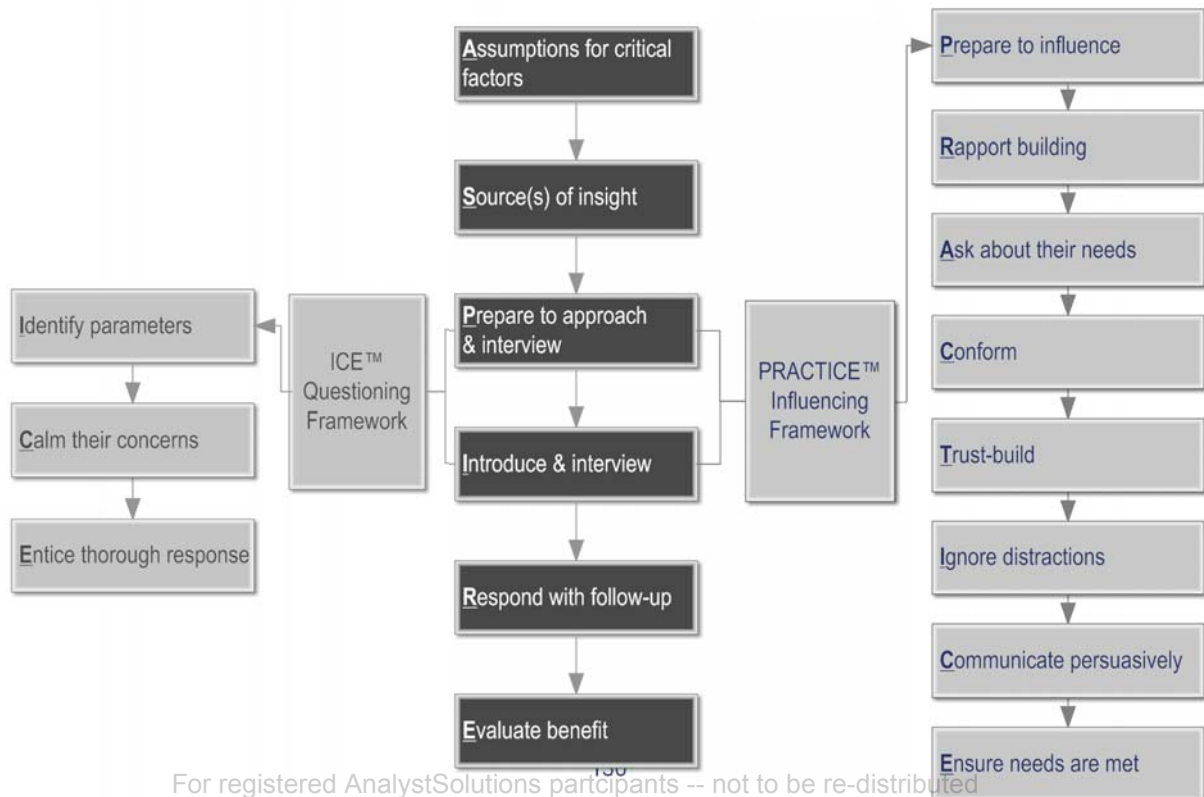
Transformation Action Plan (TAP)



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

Key Frameworks



“P” of PRACTICE™ Framework

- Prepare to influence by answering “What’s In it for Them?”
 - 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
- Research their background to better conform when meeting



131

Typical “WIIFT”

- Access to insights from senior management of companies within the industry
- Understanding of their company and its stock price
- Understanding of the industry trends or their company’s competitors
- Access to other experts
- To be recognized as an industry thought leader
- Ego boost
- Desire to honor request from colleague or friend who referred you to the information source
- Develop more friendships within the industry

132

“P” of PRACTICE™ Framework for Influencing Others

- Prepare to influence includes self-assessment
- Honestly answering these questions (resolve deficits where possible):
 - 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?
 - Are you empathetic?
 - Do you adapt well?
 - Do you have a large network of contacts to potentially share as “currency” with this contact?



133

Review DRC

Detailed Reference Card (DRC)

Utilize the PRACTICE™ Framework to Influence Others

PRACTICE™ Framework for Influencing Others



134

Complete Your TAP

Section 7

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
-

135

Live Interview Logistics

- Avoid
 - Noisy restaurants
 - Meeting outdoors
 - Activities that restrict note taking
 - Impersonal spaces (e.g. hotel conference ballroom)
- Eliminate distractions
 - External
 - Internal
- Conference calls
 - Everyone should have details in advance

136

Review Opening Case for Prepare to Approach & Interview

Lucas...

- Doesn't stay at the conference hotel which creates more logistical challenges for him to participate, and suggests to attendees he isn't conforming to their ways (which hurts his ability to influence)
- Asks a question:
 - With too much jargon that may intimidate the interviewee
 - In a manner that likely put the interviewees on the defensive (does not "calm their concerns")
 - That cannot be legally answered and thus puts the interviewee on the defensive (does not "calm their concerns")
 - With no parameters that can be answered with minimal research
 - About a topic where the interviewee is not qualified to provide an accurate answer
- Does not conform with Sunil's disinterest for alcohol (which hurts his ability to influence by violating the "conform" principle)
- Fails to "entice thorough response" by suggesting the CEO's company is too small
- Hasn't conducted research on the CEO he approaches, even though he has been listed as they keynote speaker for over six months
- Plans for the interview to take place in a noisy bar (difficult to hear) where there is no place to sit (difficult to take notes)
- Wastes valuable time in his hotel room before meeting Sunil that could have been spent researching Sunil and his company in order to develop good questions that had parameters

137

Module 4: "I" of ASPIRE™

	<u>A</u> ssumptions for critical factors
	<u>S</u> ource(s) of insight
	<u>P</u> repare to approach and interview
	<u>I</u> ntroduce and interview
	<u>R</u> espond with follow-up
	<u>E</u> valuate benefit

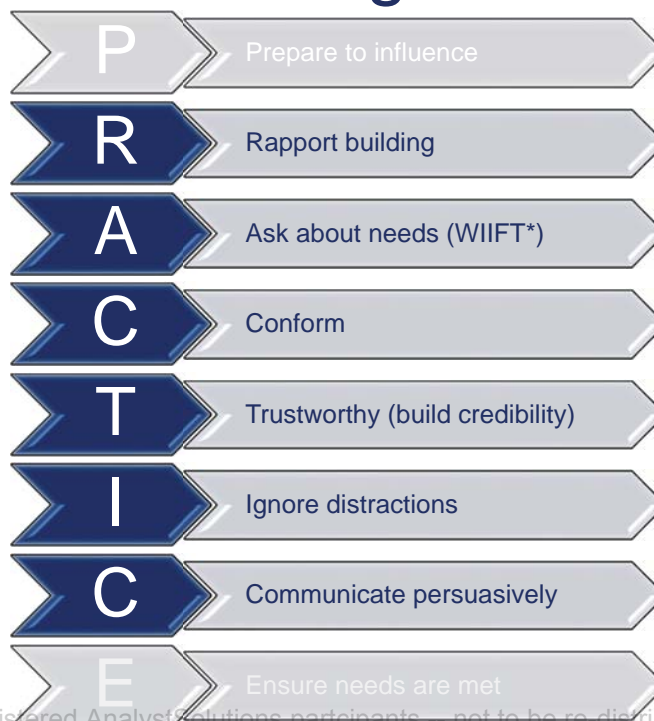
138

Key Concepts

- Check ego at the door
- Demonstrate you are knowledgeable
- Explain you will not quote
- Qualify the interviewee
- Focus on one topic at a time
- Don't allow interviewee to take control
- Too much jargon is a red flag

139

PRACTICE™ Framework for Influencing Others



“R” of PRACTICE™

Rapport Building

- Be the first to say “hello”
- Get to know them
- Show reverence
- Reference referral
- Listen attentively
- Establish common ground
- Be confident (but not arrogant)
- Provide something to meet their needs



141

“A” of PRACTICE™

Ask 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

WIIFT?

First “C” of PRACTICE™



Conform

- Avoid passing judgment
- Use known jargon and avoid unknown
- Dress to connect with the person
- Embrace “their ways”

143

“T” of PRACTICE™

Trustworthy (build credibility)

- Show or send your insights
- Be honest about capabilities and deliverables
- Follow through
- Proactively explain confidentiality
- Treat everyone involved with respect



“I” of PRACTICE™



Ignore distractions (external and internal)

- Avoid distractions
- Ignore internal distractions such as:
 - Inattention
 - Self-absorption
 - Misinterpretation
- Personal biases

145

Second “C” of PRACTICE™

Communicate persuasively

- Non-threatening tone, timing, pace and volume that will appeal to the listener
- Convey right body language
 - 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



Persuasive Language Tactics

- Use linking and building
- Use metaphors, stories and analogies
- Use visioning



Weapons of Influence

- Reciprocation
- Commitment & Consistency
- Social proof
- Liking
- Authority
- Scarcity

Quick Reference Card (QRC)

Utilizing Weapons of Influence for Equity Research

Weapons of influence* and their application to equity research	Use with information source	Use with PM (or client for sell-side)
Reciprocation: offer to do something for the individual in hopes of getting what you need in return	This can be used with an information source by offering to send them something they need or answering questions they have about the industry, their company or stock prices.	Sending a PM/client something they would likely find valuable even if they didn't ask for it
Commitment and consistency: Asking for a small commitment on their part so they are more open to the next exchange	When speaking with a new information source, ask for something very small, such as "would it be okay if I call you in 2 weeks?" When you make that call in 2 weeks, start "I want to thank you for agreeing to let me call you today ..." because it will reinforce with them that they agreed to this conversation.	Asking a PM/client "if I do some additional work in this area would it be of value to you?" When you return with the additional work, remind them, "Based on our previous conversation, I followed through with this additional research" because it will reinforce that they asked you for this.
Social proof: to get others to act, suggesting it's common practice or in high demand	This can be helpful if calling an information source who may not be sure if he/she can speak to financial analysts. Start by saying, "I speak with a number of industry experts like you, but I never ask directly about their companies because that's often prohibited." This serves two purposes. First, it builds the image in their mind that they are not the only person doing this. Secondly, it shows that you are staying ethical with your actions and looking out for their interests.	Highlighting to a PM/client "a number of other PMs/clients have been asking me about this issue" will likely influence them to look into your work more intensely.

Ending With Purpose

- 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."
- 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?"
- Hand off to another contact: "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."
- Explain next steps: "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?"

149

Non-verbal Communications

- 65%-93% of the message can be nonverbal
- Reading body language to detect deception is VERY difficult
 - Body gestures
 - Manipulation
 - Mouth
 - Face
 - Eyes

150

DRC Covers Non-Verbal Communications

Detailed Reference Card (DRC)

Generating Sustainable Sources of Insight with ASPIRE™ Framework

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

151

Review Opening Case for Introduce & Interview

Lucas...

- Doesn't:
 - Demonstrate any level of expertise in his questioning
 - Explain that he won't quote Sunil and he'll keep Sunil's name anonymous
 - Ignore distractions such as his phone and the bar TV
 - Thank the CEO or Sunil for agreeing to have a conversation
 - Try to get to know the CEO or Sunil or WIIFT
 - Use any of the "Weapons of Influence"
- He's under-dressed which suggests he's not attempting to conform to the interviewee's ways
- Shows up late to meeting with Sunil which hurts his ability to build trust
- Interrupts Sunil which hurts his ability to influence
- Passes judgement by suggesting the failed acquisition attempt was a mistake and the A380 aircraft order is a gamble
- His blunt questions probably hurt his ability to be trusted (which is key to influencing others)
- His body language probably suggests to Sunil he isn't interested in the conversation which hurts his ability to be trusted (which is key to influencing others)

Complete Your TAP

Section 8

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

153

Module 5: “R” & “E” of ASPIRE™

CRITICAL FACTORS

Assumptions for critical factors



Source(s) of insight



Prepare to approach and interview



Introduce and interview



Respond with follow-up



Evaluate benefit

154

“R” of ASPIRE™

Respond with follow-up

- Post interview follow-up:
 - Add to contact list
 - Create follow-up reminders
- Satisfy WIIFT in a timely manner
 - Send relevant information
 - Connect with another industry contact
 - Invite to proprietary events
 - Send your research
- Periodically contact to offer help, not just when you need information
- Treat them like you would a client



155

“E” of ASPIRE™

Evaluate Benefits From Interv

- Likely to help forecast assumptions driving critical factors?
- If not, thank and ask for other potential leads



Complete Your TAP

Section 9

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
-

157

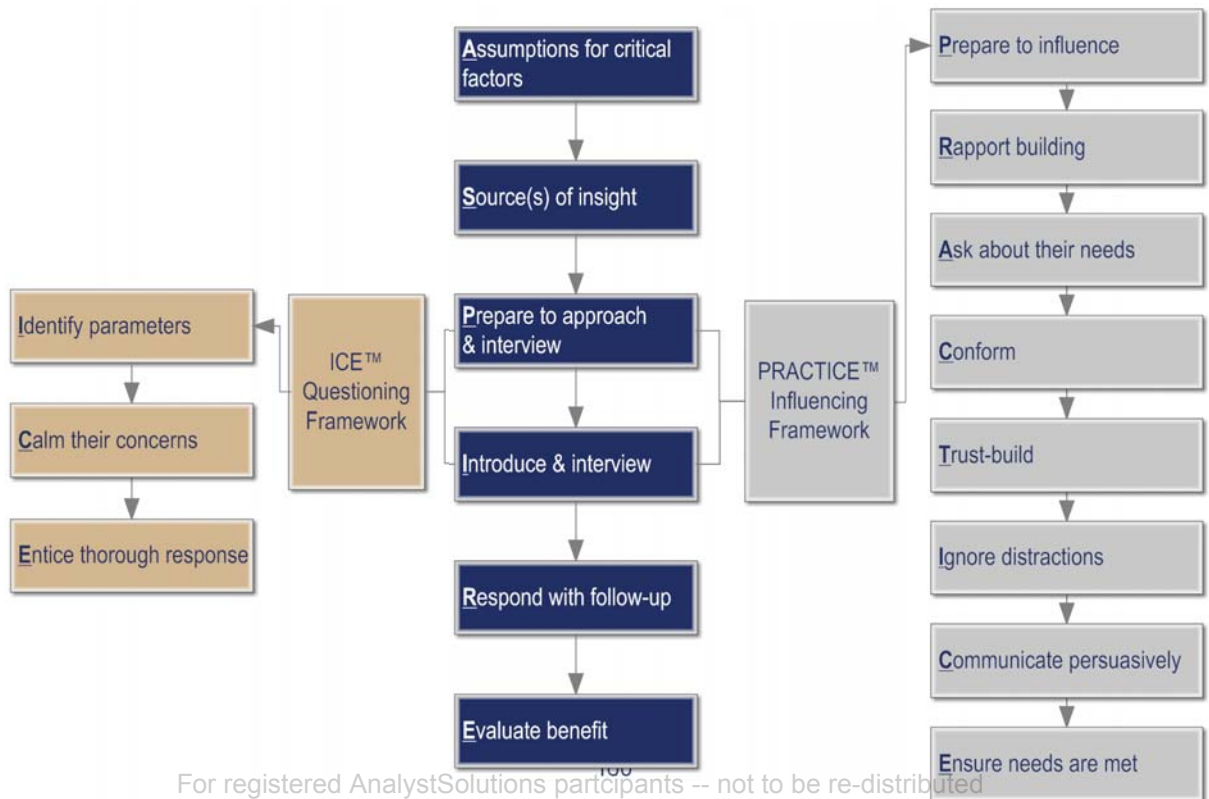
Review Opening Case for Respond With Follow-up and Evaluate Benefit

Lucas doesn't...

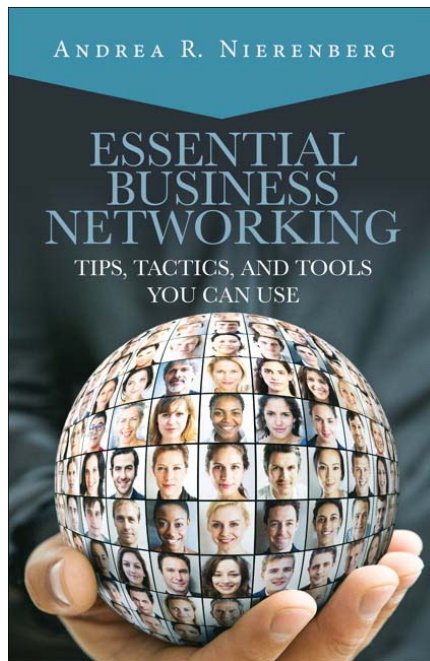
- Appear to add the CEO or Sunil to his contact list
- Attempt to fulfill the “what’s in it for them?” need after the interviews (partly because he didn’t probe for these)
- Follow up with the CEO or Sunil with a “thank you” email
- Evaluate the benefit of speaking with his college friend, which is a waste of time for the purpose of stock picking
- Tell his internal colleague about the issues with the aircraft flaws that could impact the colleague’s stocks

CONCLUSION

Key Frameworks for Generating Insights



Networking Resource

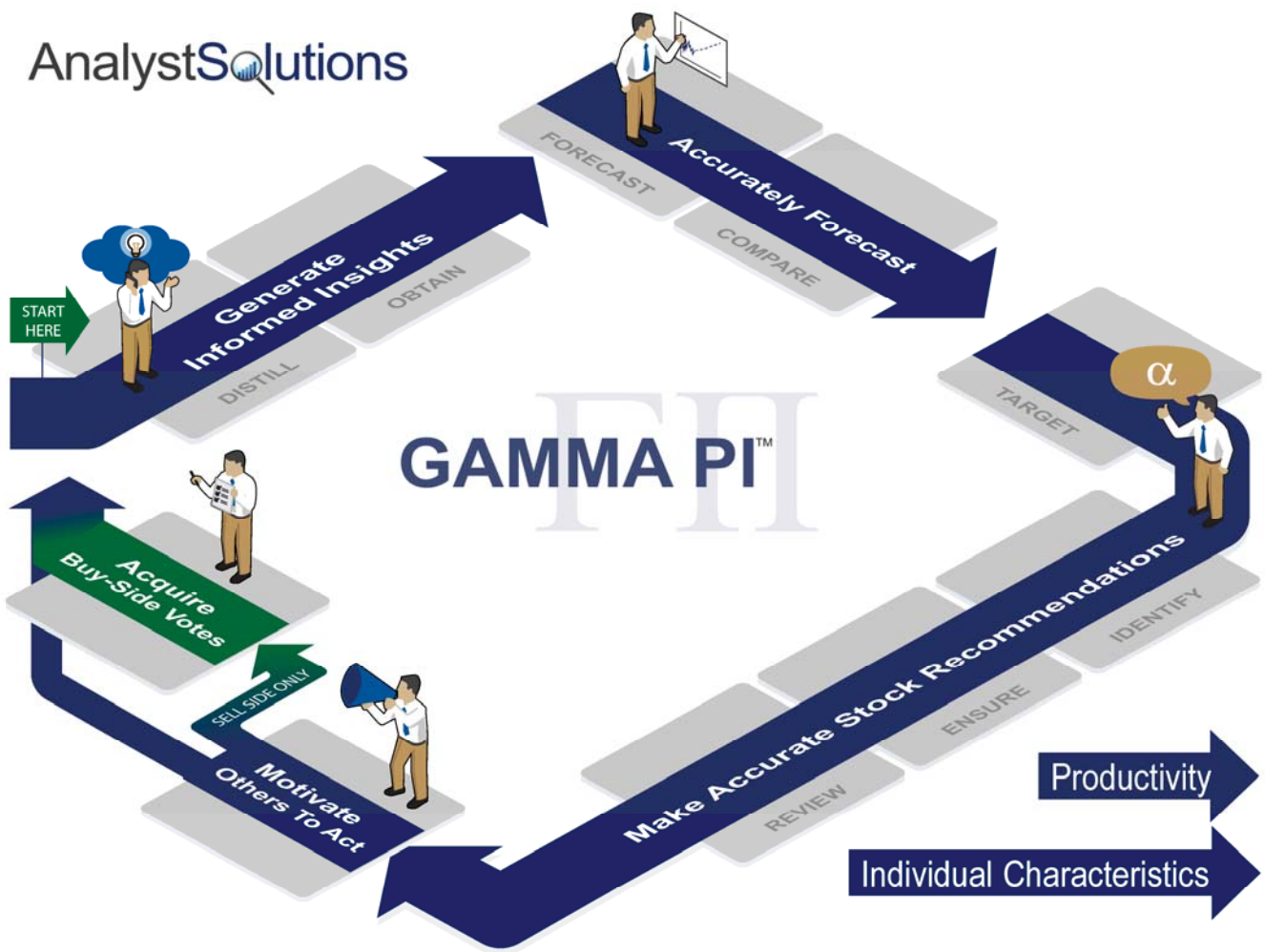


161

ABC's of Networking*

- | | |
|---|--|
| A. Take action with a positive attitude | N. Niceness pays |
| B. Belong to groups. Build your brand | O. Ask open-ended questions. Take opportunities |
| C. Connect with your contacts consistently and cultivate a relationship | P. Professionalism pays. Practice it |
| D. Deliver above expectations | Q. Set your own quota |
| E. Engage, evolve, and empathize | R. Be a resource and do your research |
| F. Take a friendly approach | S. Be strategic and wear a smile |
| G. Set goals. "Go for it." Show gratitude. Be giving | T. Timing is everything. Trust is key |
| H. Humor and help go hand in hand | U. Understand others |
| I. Be interested and have integrity | V. Be versatile |
| J. Join and get involved | W. Write letters and cards |
| K. Keep in touch and be kind | X. Do it with love, XOXO (or at least like) |
| L. Listen and learn | Y. Focus on "you"— meaning the other person you are connecting with |
| M. Motivate yourself | Z. Have a zeal for the possibilities of new and nurtured relationships |

* Source: Andrea R. Nierenberg, *Essential Business Networking*



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

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 >](#)

Questions and Feedback

