

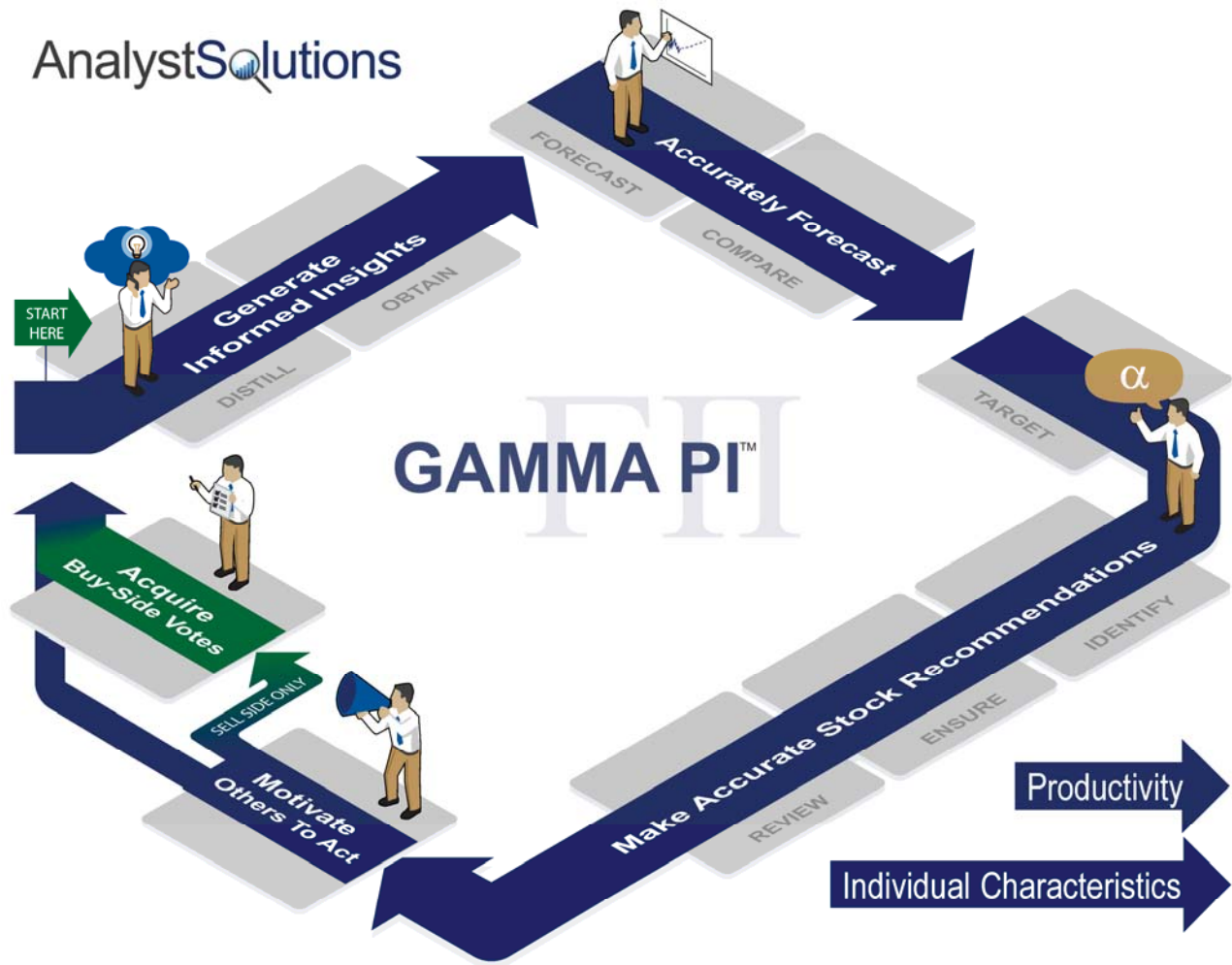
# AnalystSolutions

AnalystSolutions

## Identify and Monitor a Stock's Critical Factors

CE Qualified  
Activity  CFA Institute

For registered AnalystSolutions participants -- not to be re-distributed



# The Best Stay Focused



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

*“Time is what we want most, but what we use worst.”*

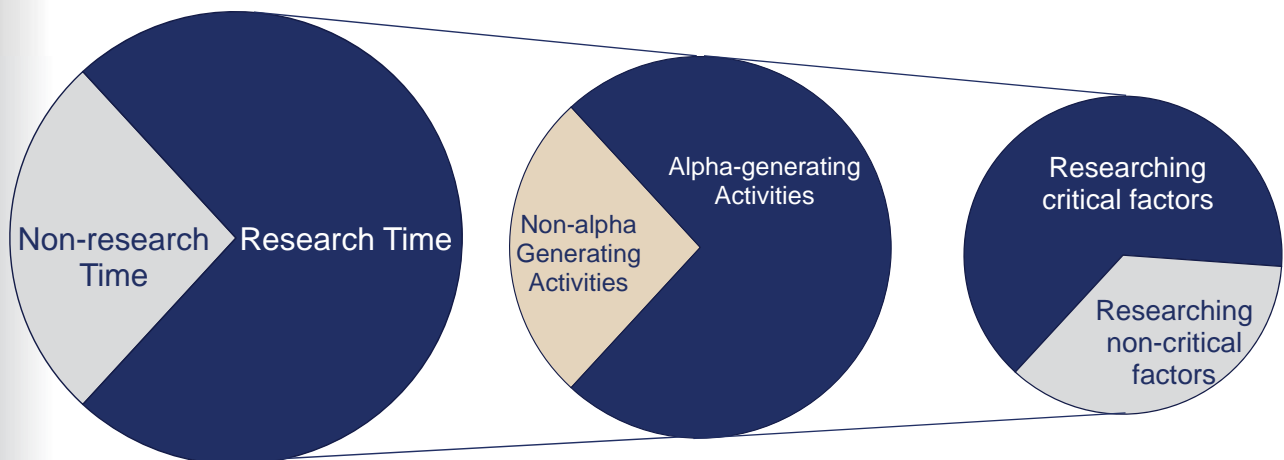
William Penn

## Make the Alpha-Generating Time Matter

Total Work Time

Research Time

Alpha-Generating Time





# Fish Where There's Alpha



## Is It a Critical Factor? (Scenario 1)



- The government just awarded a contract to Yellow Mobile Corp (YMC), a mobile telephone company, to exclusively provide service for all government employees in the country.
- Is it a critical factor for YMC?

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## Is It a Critical Factor? (Scenario 2)



- All unionized truckers who serve the largest port in the area are calling for a two-day strike.
- Is it a critical factor for Tortoise Trucking?

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## Scenario 1: YMC Telecom



### New information...

The government just awarded a contract to Yellow Mobile Corp (YMC), a mobile telephone company, to exclusively provide service for all government employees in the country

### Is it a critical factor?

Potentially yes, if the company...

- Priced the service at reasonable margins
- Has capacity to accommodate the additional demand

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## Scenario 2: Tortoise Trucking

### New information...

All unionized truckers who serve the largest port in the area are calling for a two-day strike

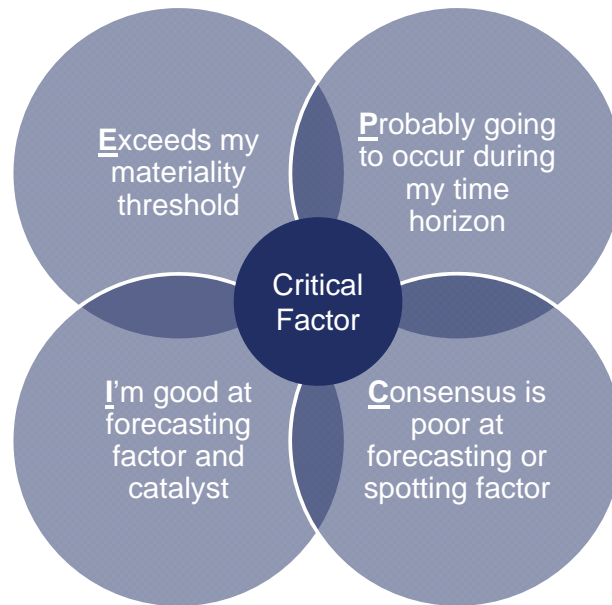


### Is it a critical factor?

Potentially yes, if the...

- Strike will have an impact beyond two days; and
- TT's employees are unionized (part of the strike); and
- TT has significant exposure to the port

# EPIC™ Stock Calls Require Critical Factors Meet All Four Criteria



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## 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



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## Exceeds Materiality Threshold?

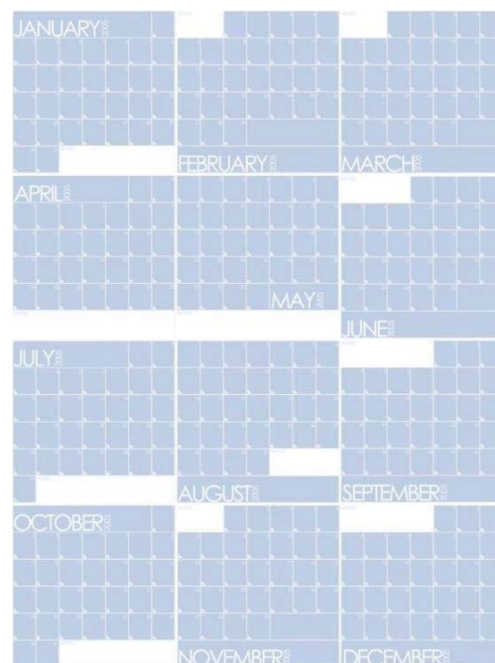
“Materiality” can mean different things to different people:

- 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?





# Materiality vs. Probability

		Materiality	
		LOW	HIGH
Probability	HIGH	Potential Time Drain	Potential Critical Factor
		<ul style="list-style-type: none"> <li>Company may enter new market that is very small</li> <li>Company is likely to discontinue a product that isn't generating material profit or losses</li> </ul>	<ul style="list-style-type: none"> <li>New subscriber growth likely to be 10% versus 6% historical trend</li> <li>Merger synergy not likely to be realized</li> </ul>
	LOW	<ul style="list-style-type: none"> <li>Company could lose frivolous lawsuit</li> <li>Dissident shareholder proposal has been made to limit the company's ability to spend on political activities</li> </ul>	<ul style="list-style-type: none"> <li>Company could win away major contract from competitor that doesn't expire for 3 years</li> <li>Non-union employees of well-run company may decide to unionize at some point in the future</li> </ul>
		Easy to Avoid	Evaluate if Monitoring Required

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## 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?

## 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



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## An Analyst's Goal...

Identify where  
consensus is wrong

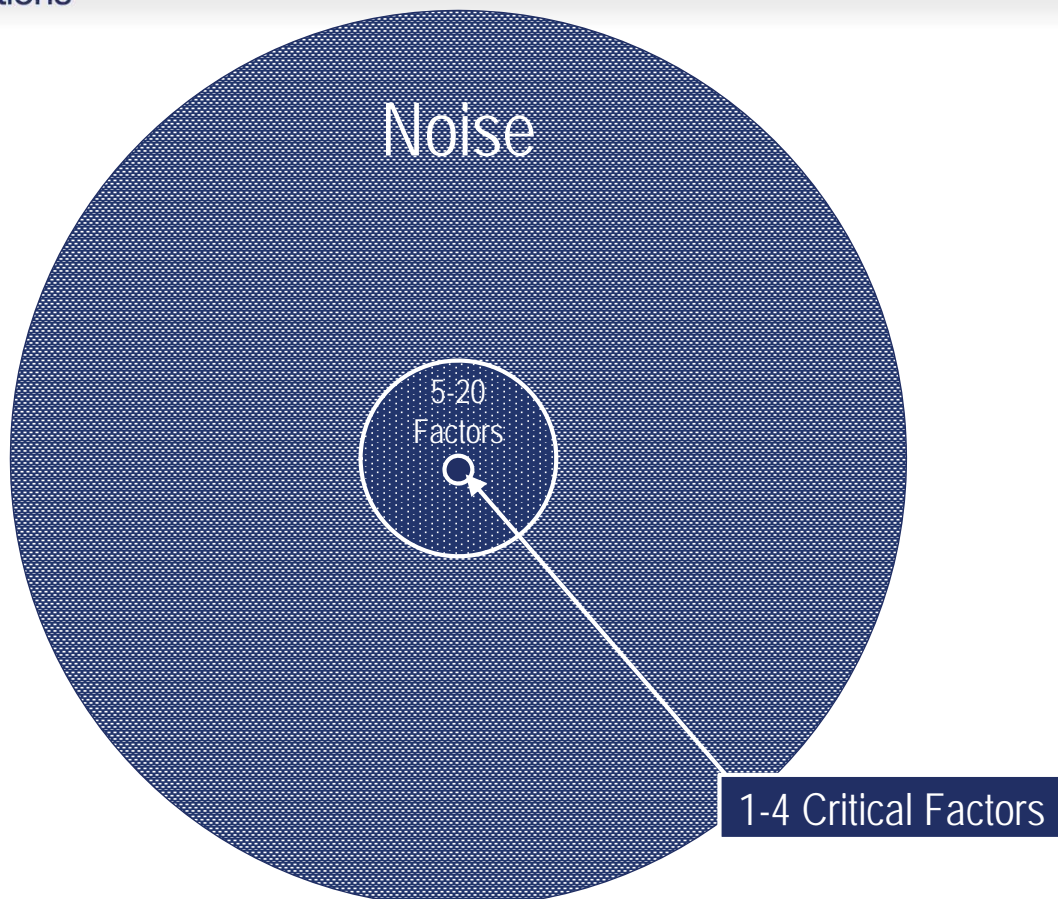
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# Consensus is Poor at Forecasting?

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

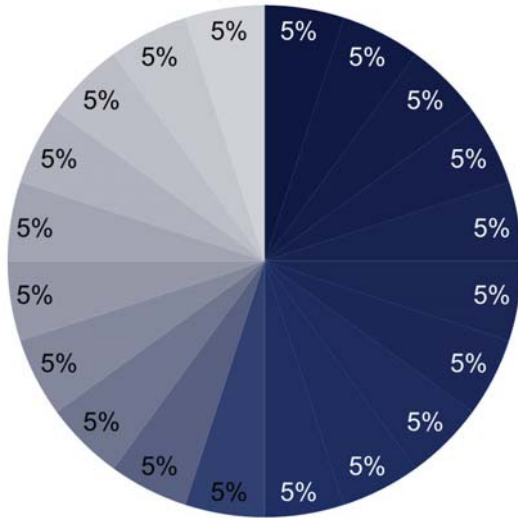


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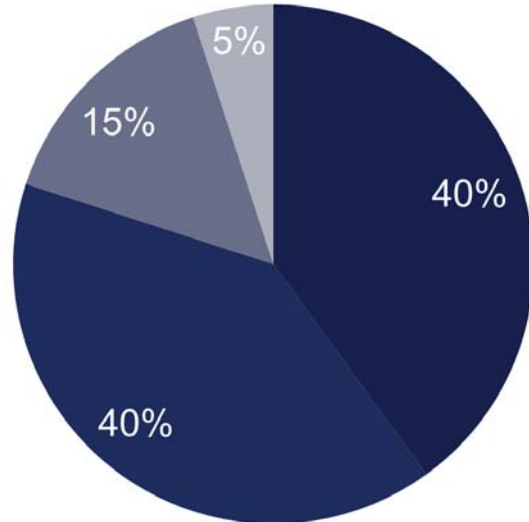


# What Will Your Day Look Like?

**Critical Factors  
Not Defined**



**Critical Factors  
Defined**



# EPIC™ Stock Calls Require Critical Factors Meet All Four Criteria

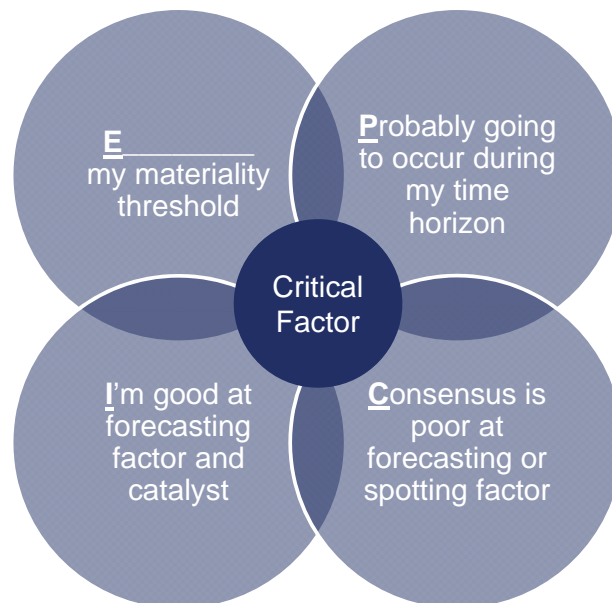


# Examples of Critical Factors

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
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

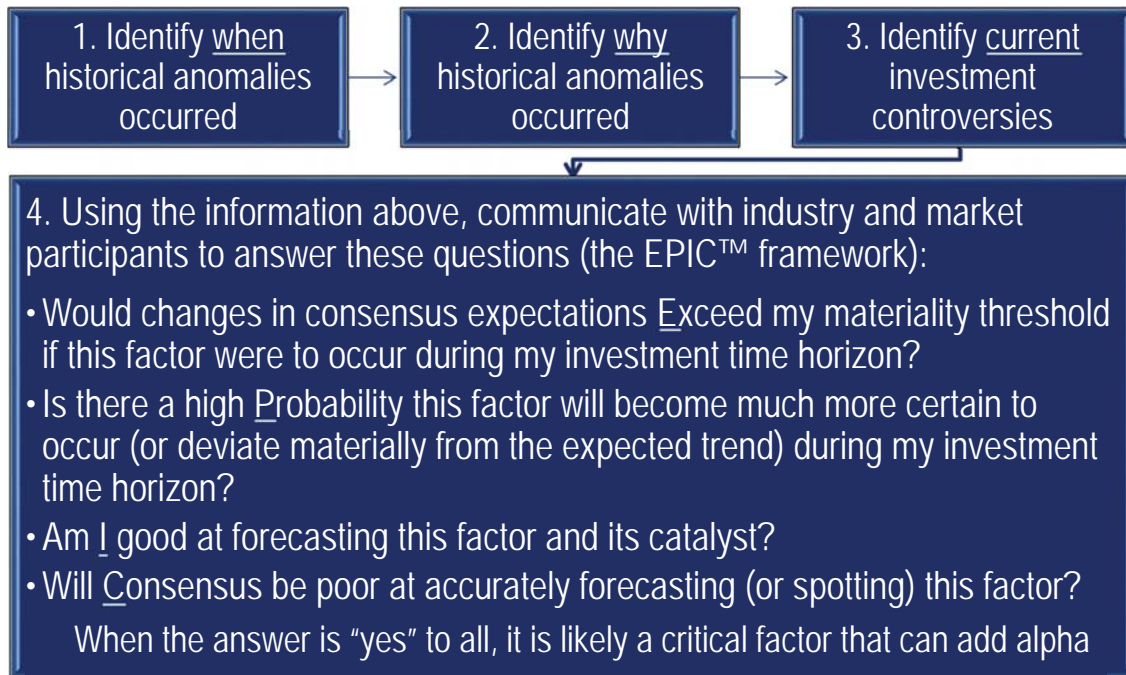
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# Test Your Knowledge



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# Follow the 4 Steps to Identify Critical Factors



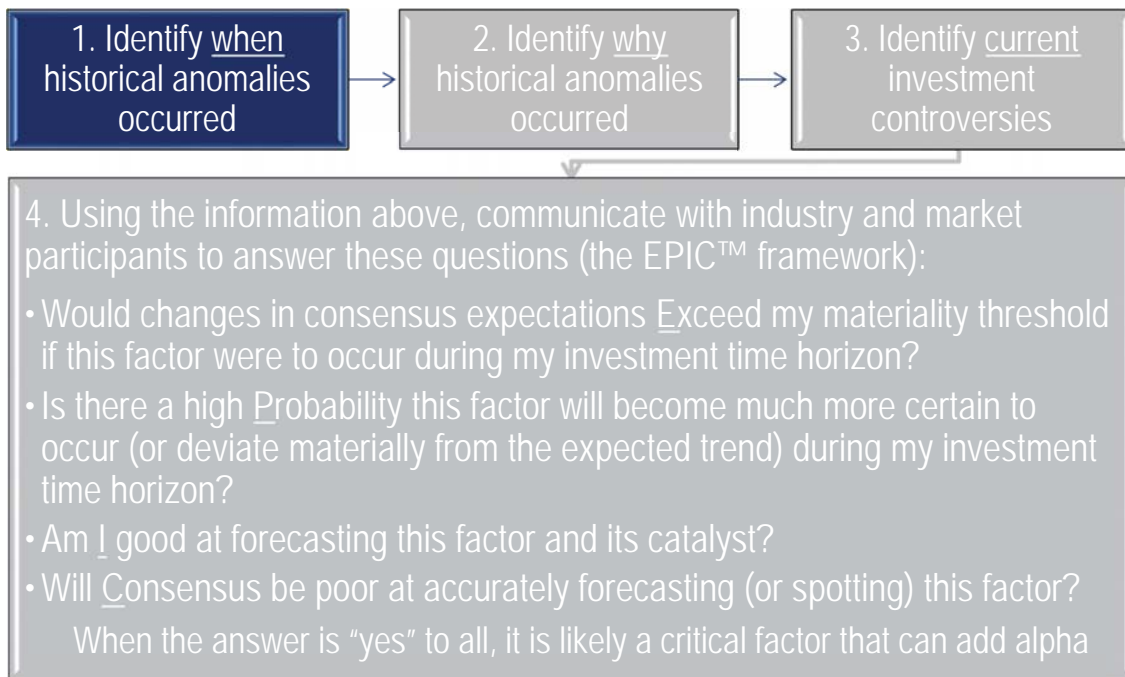
## Review QRC: Identify and Monitor a Stock's Critical Factors

# Quick Reference Card (QRC)

Identify and Monitor a Stock's Critical Factors

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## Module 1: Step 1 of the 4-Step Process



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## Company and Industry Research

- Work backwards based on factors most likely to move stocks
- May need to “un-learn” existing processes



# Agree or Disagree?

“Most of the factors that drive stock prices in the current market place are similar to factors in the past”



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## Tomorrow's Critical Factors May Resemble Critical Factors of the Past

- Most applicable for companies in an industry with a long trading history
- Review relative performance for at least the past 10 years
- Go back even further (20-30 years) to explore how the stock performs at the trough and peak of multiple cycles



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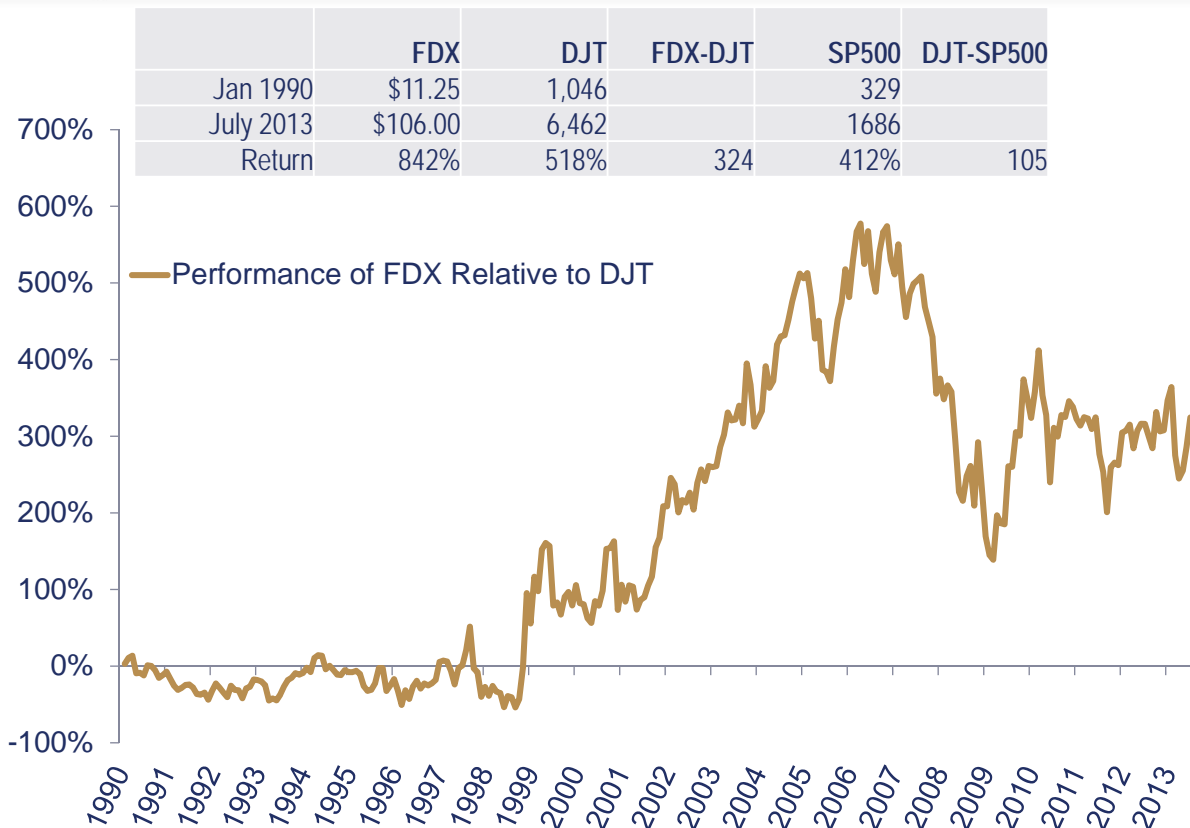


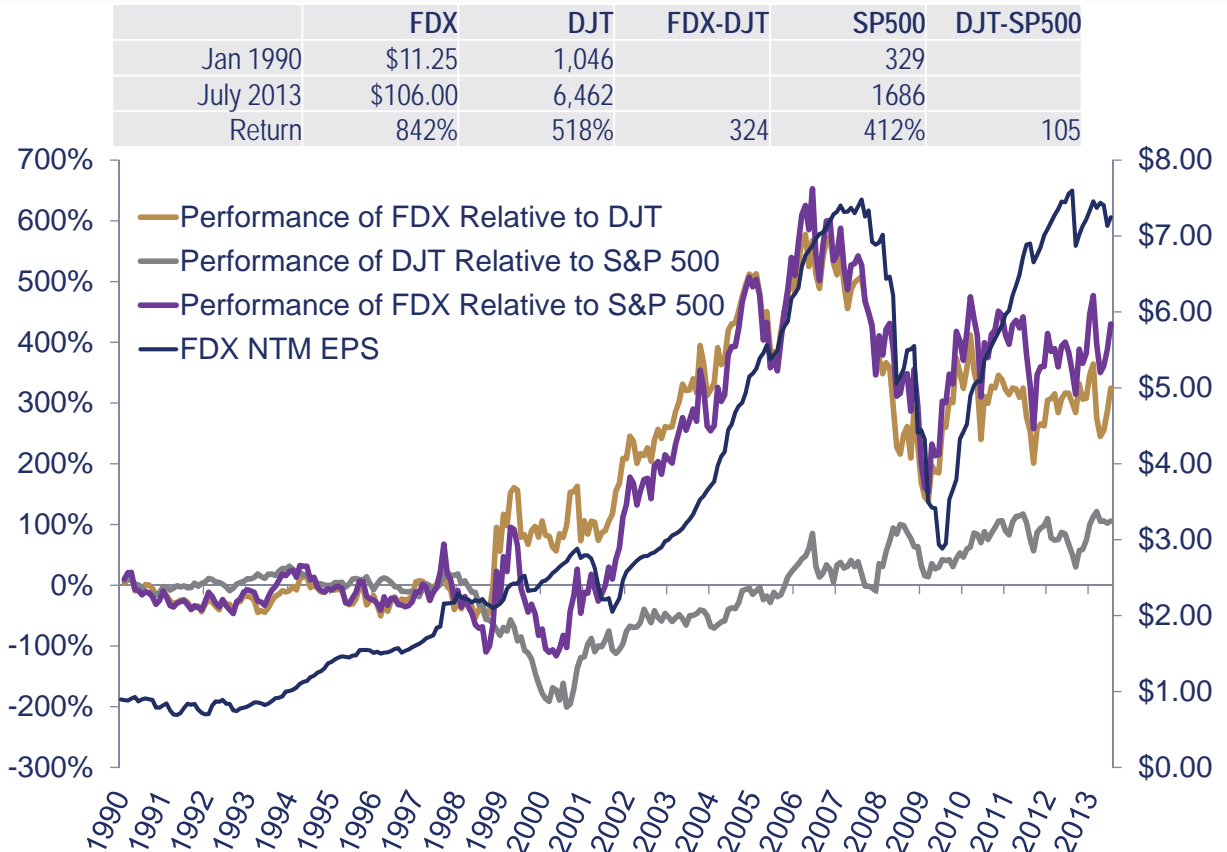
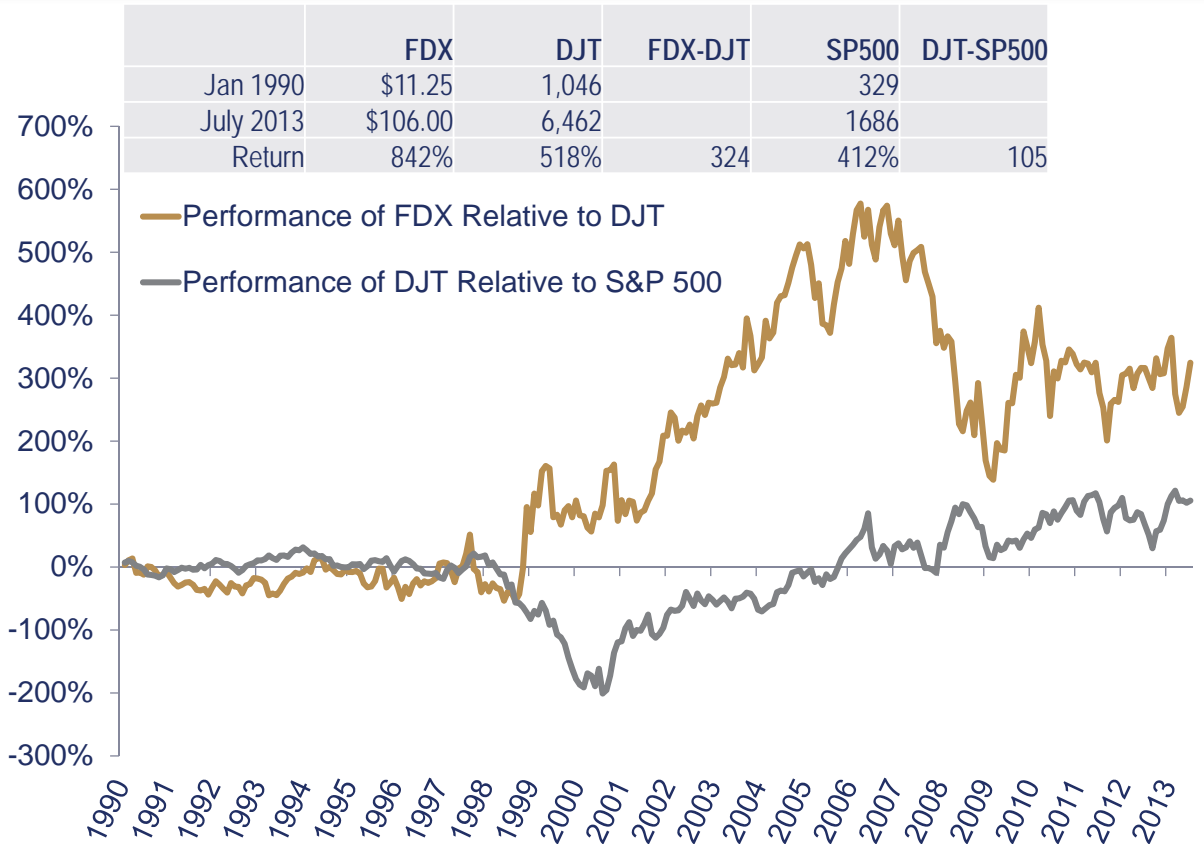
# The Goal Is To Identify Specific Periods of Time When...

- An individual stock materially outperforms or underperforms its peers
- A sector index materially outperforms or underperforms a broader index



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# FedEx – UPS Performance Spread



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## Simulation, Part A

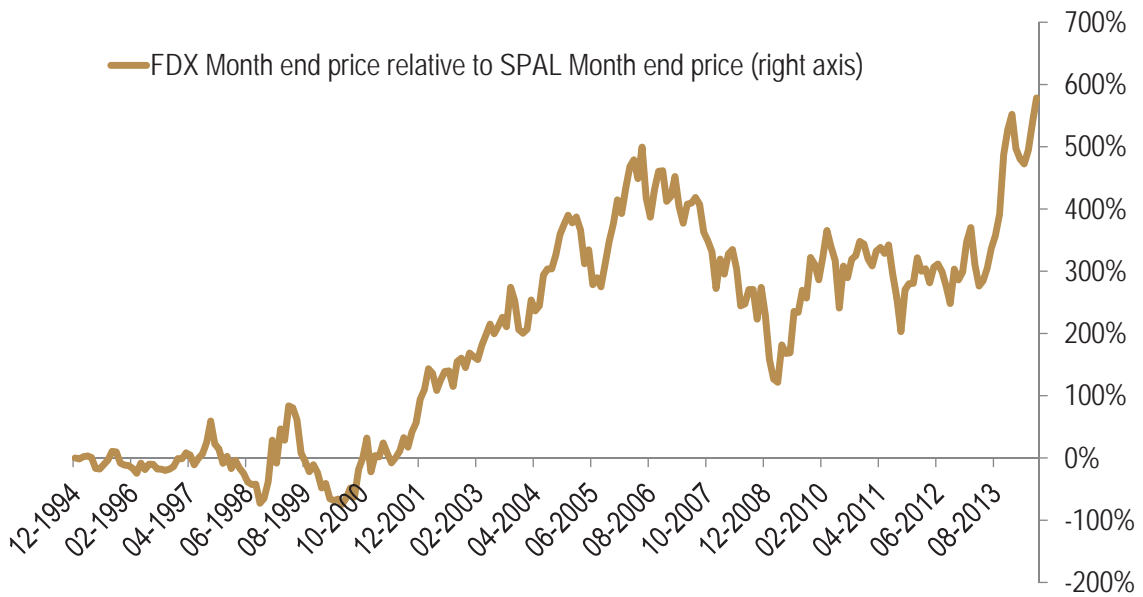
### Simulation, Part A



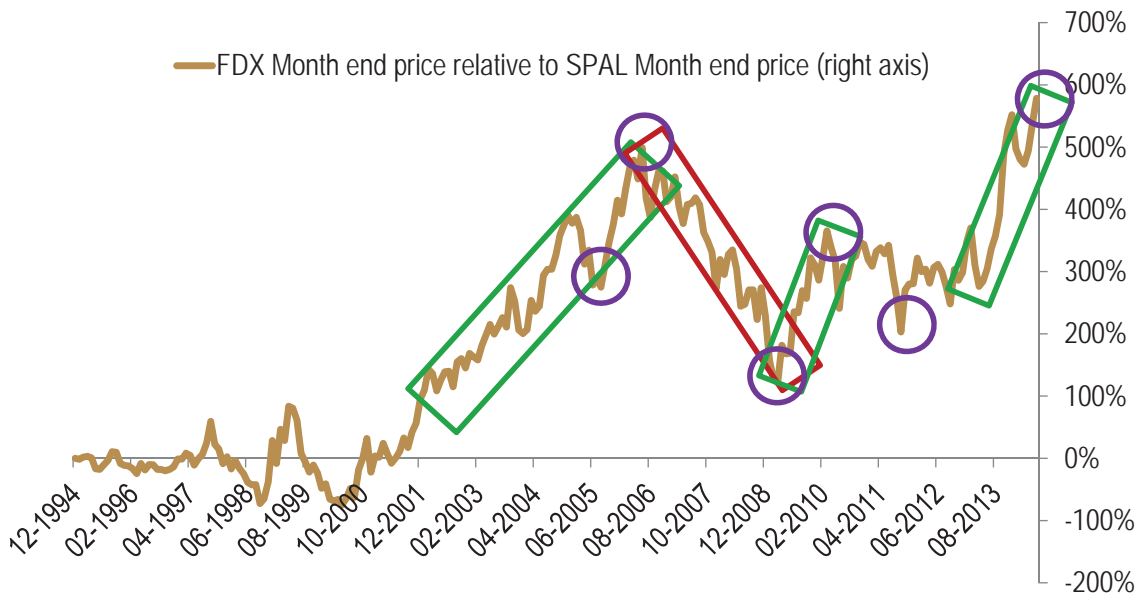
#### Instructions for the Simulation, Part A:

- As pre-work you may have brought a chart(s) showing the performance of your stock going back at least 10 years (if the stock has traded that long)

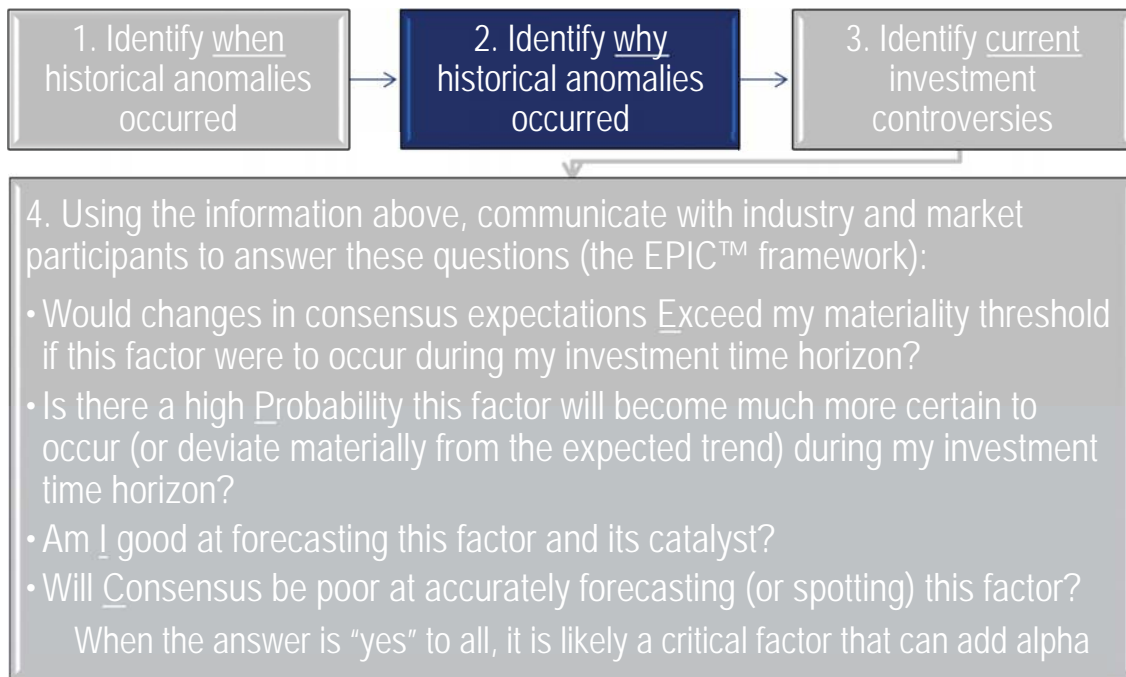
# Simulation, Part A



# Simulation, Part A Answer Key



## Module 2: Step 2 of the 4-Step Process

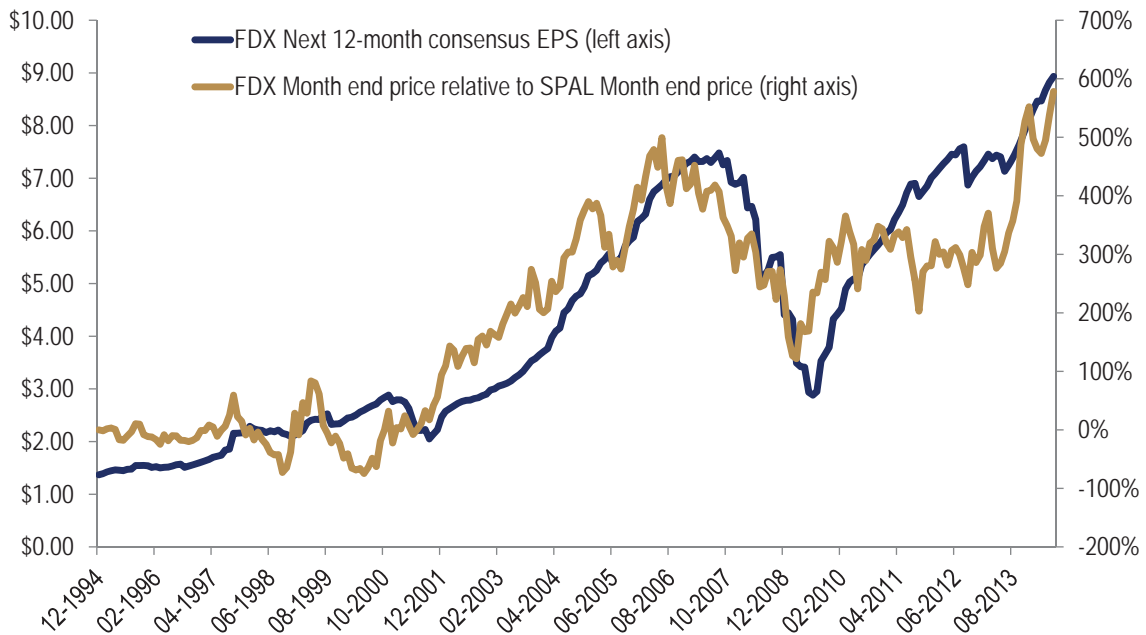


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## Data to Uncover Critical Factors

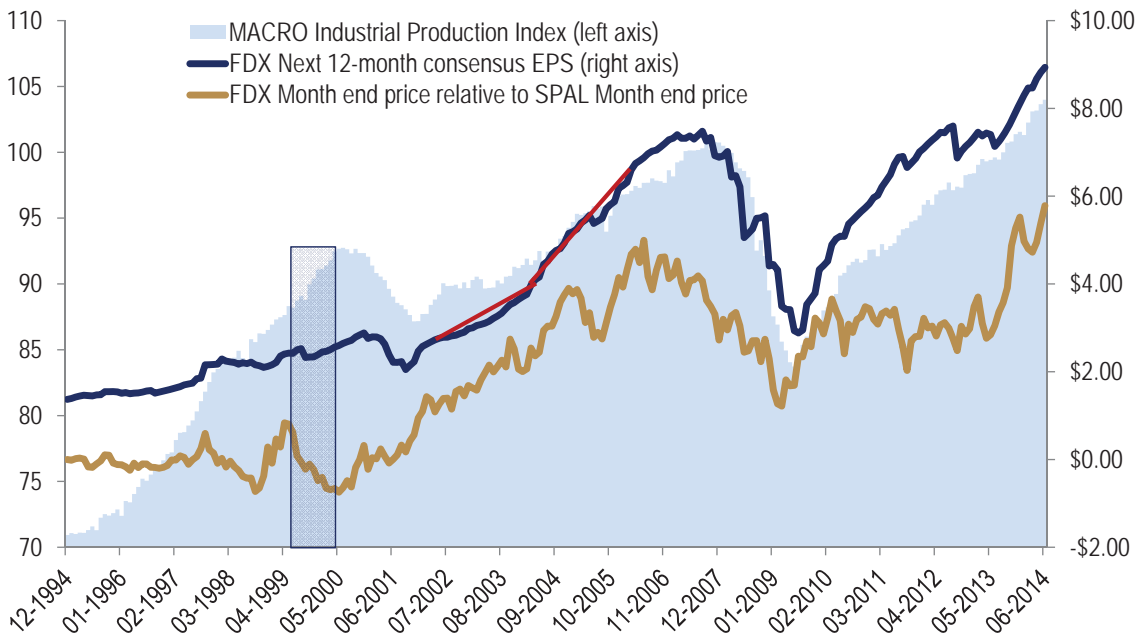


# FDX Relative Performance and Consensus EPS



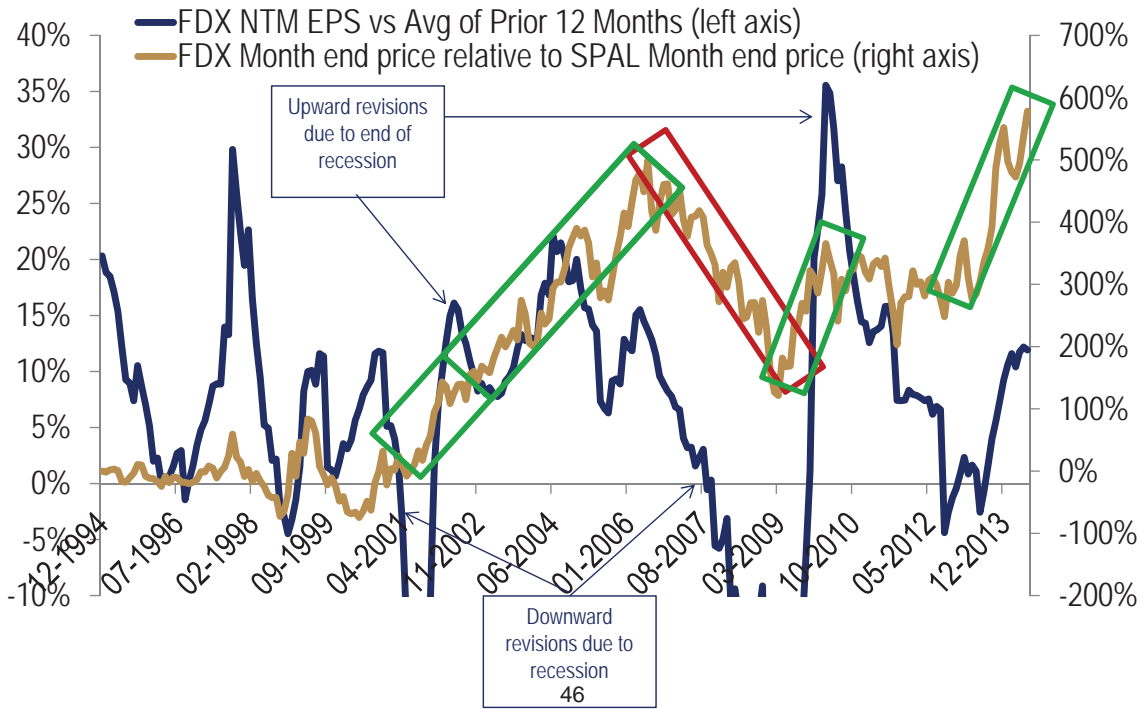
44

# FDX Relative Performance, Consensus EPS and Industrial Production

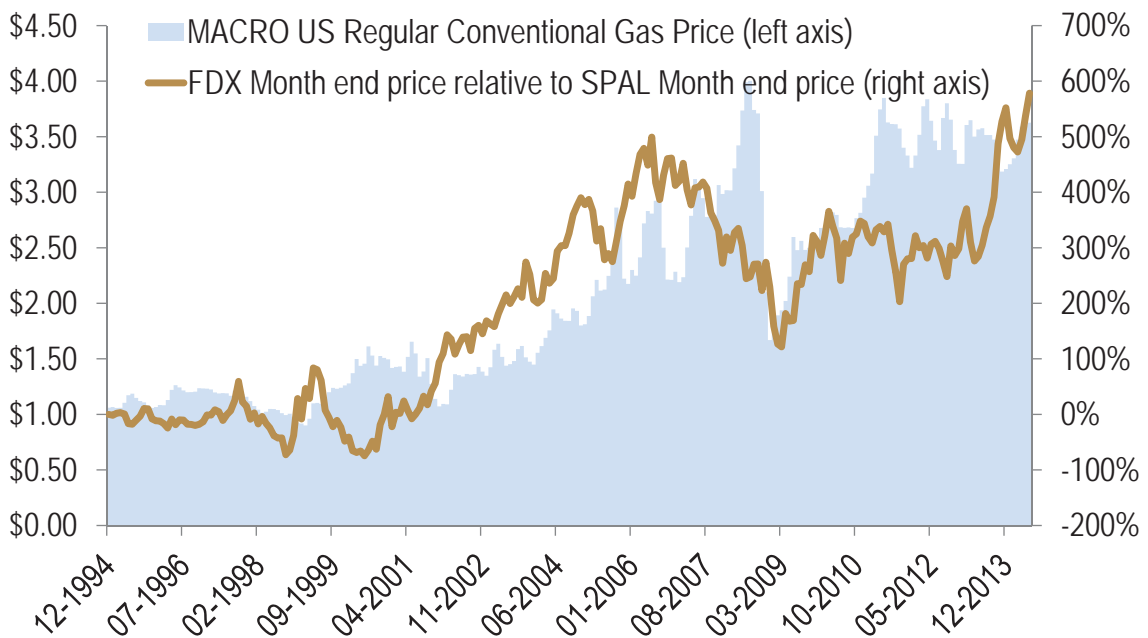


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# FDX Relative Performance and Consensus EPS Growth Rate



# FDX Relative Performance and Gasoline Prices

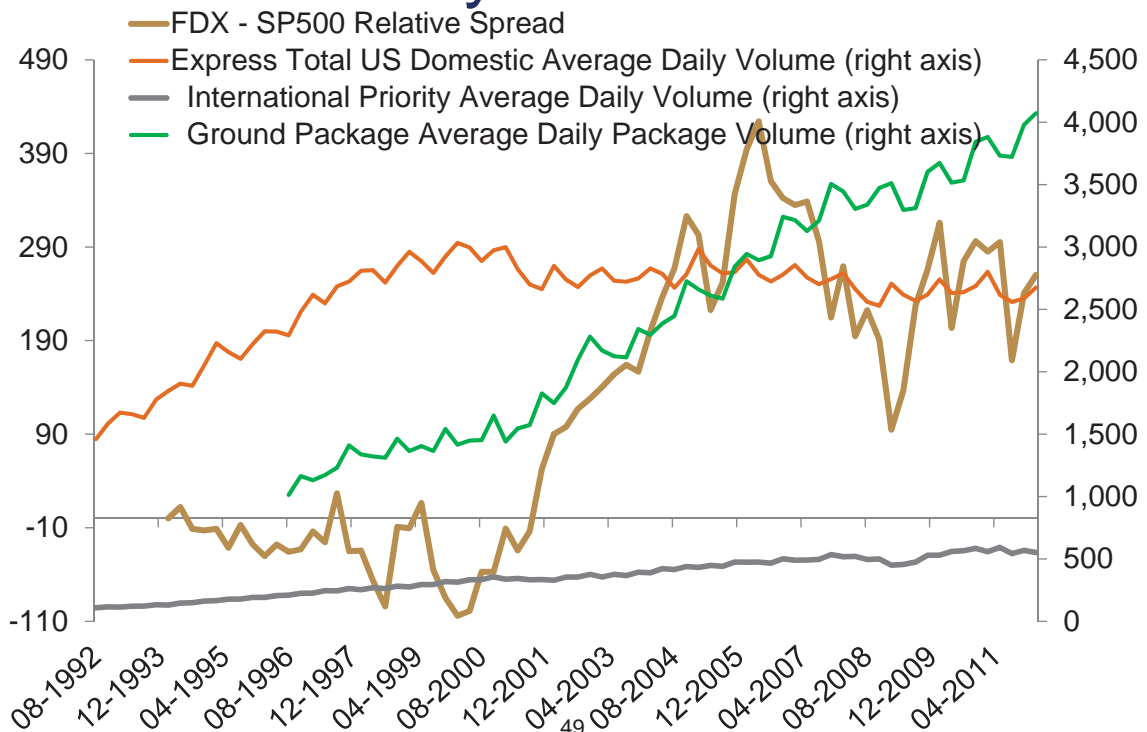


# See Correlation Matrix in Your Learner Workbook

Ticker	Growth of Consensus EPS	Payout ratio	Beta	US Gas Price	New One Family Houses Sold	Mnfrs New Orders	Real Retail and Food Services Sales	S&P/Case-Shiller Home Price Index	Consumer Sentiment
ABT	49.4%	25.1%	11.1%	29.0%	-35.1%	16.2%	-1.8%	-10.2%	-31.6%
ADBE	-17.2%	-70.0%	-11.2%	70.1%	-37.5%	78.7%	76.4%	48.2%	-15.4%
ADSK	15.5%	-76.4%	22.8%	75.3%	-30.2%	84.5%	82.0%	60.3%	-16.8%
AEC	39.4%	18.9%	-39.4%	48.3%	-11.6%	65.3%	65.1%	69.2%	1.7%
AI R	15.8%	-76.5%	82.5%	87.2%	-77.0%	73.0%	57.9%	-6.1%	-44.1%

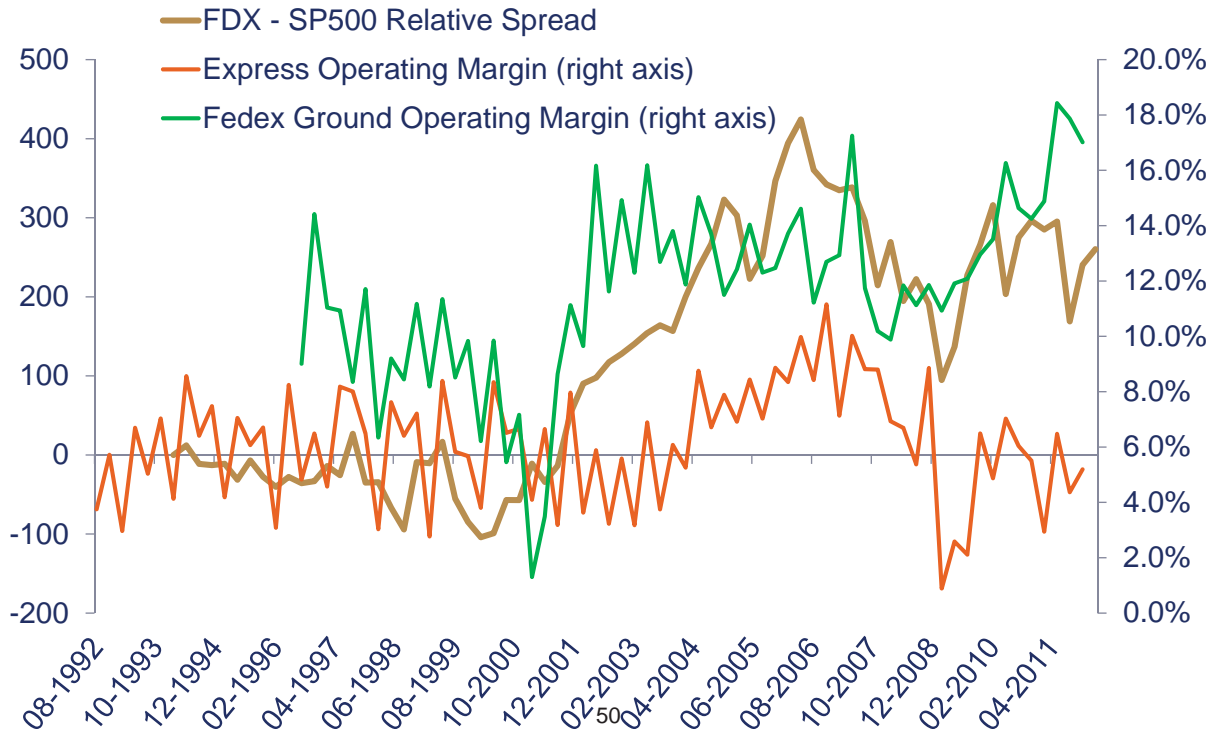
Uses Excel's PEARSON function

# FedEx - S&P 500 and Daily Volumes

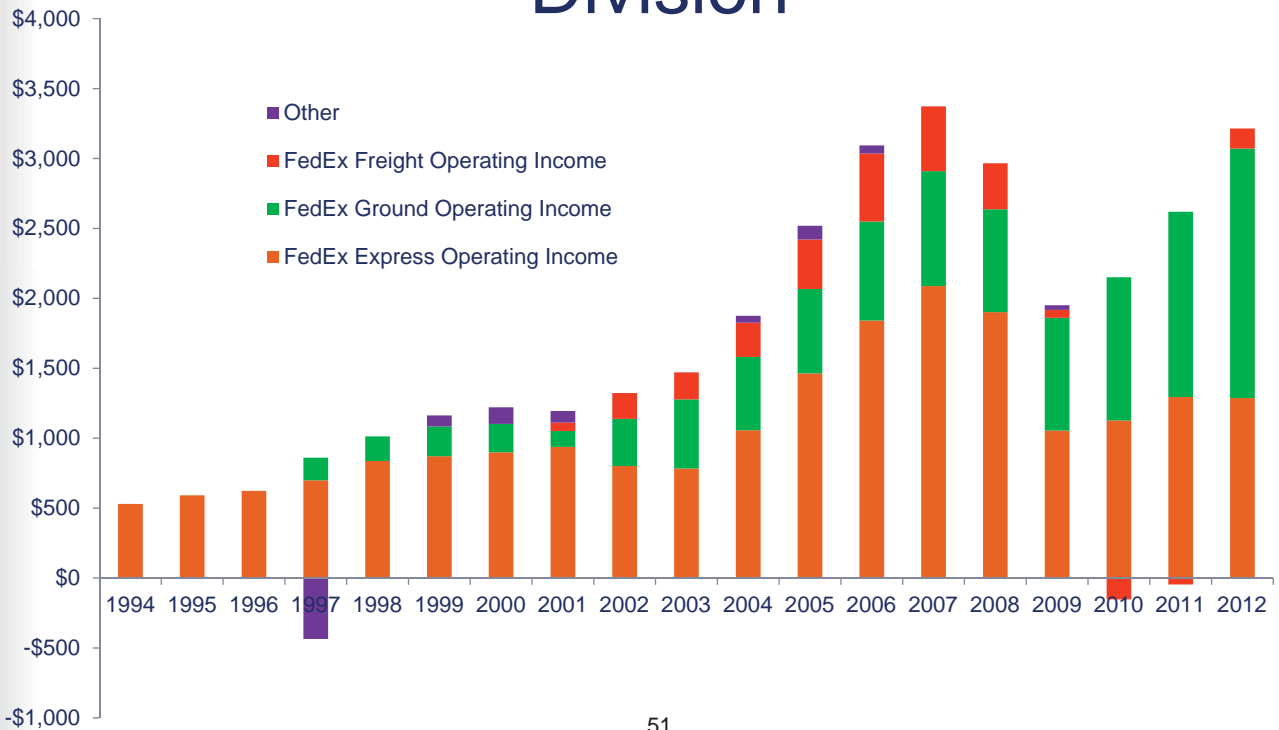




# FedEx - S&P 500 and FedEx Margins



# FedEx Operating Income by Division



# Research If Corporate Actions Impact Performance

<HELP> for explanation. EquityCACS

33<Go> to save current settings to the current template

FDX US Equity 3) Templates 3) Actions 18 results Corporate Actions

Show Company Lev Date Announc 01/01/97 -01/01/07 2) Asset Types

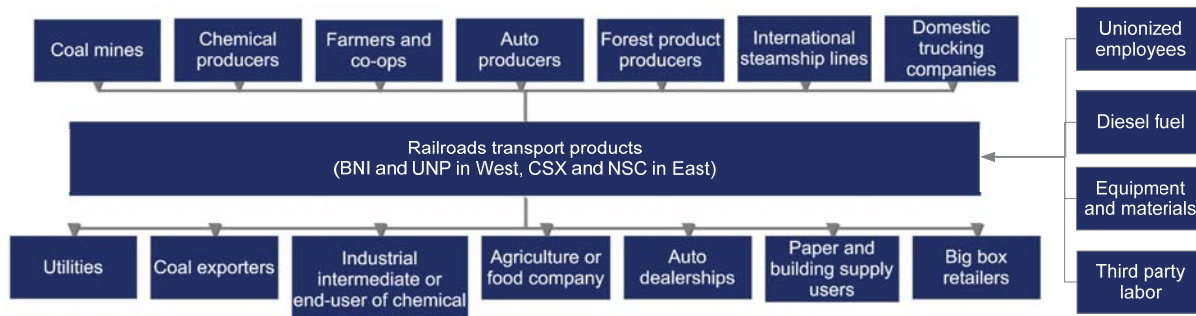
Filter Actions Dividends Splits M & A IPO / ADDL Listings 2) Actions (6)

	Date	Action Type	Ticker / ID	Summary
1)	12/18/06	Acquisition	FDX US	Target: ANC Holdings Ltd, Sought: 100.00%
2)	11/02/06	Acquisition	FDX US	Target: Prakash Air Freight Pvt Ltd, Sought:
3)	05/26/06	Acquisition	FDX US	Target: Less-than truckload operations, Soug
4)	01/24/06	Acquisition	FDX US	Target: 50% of JV and other assets, Sought:
5)	09/23/04	Acquisition	FDX US	Target: Certain Assets, Sought: 100.00%
6)	08/09/04	Acquisition	FDX US	Target: Parcel Direct, Sought: 100.00%
7)	12/30/03	Acquisition	FDX US	Target: FedEx Office and Print Service, Soug
8)	07/14/03	Stock Buyback	FDX US	Open Market for Common; 5.000M Shares
9)	05/31/02	Stock Buyback	FDX US	Open Market for Common; 5.000M Shares
10)	01/31/02	Acquisition	FDX US	Target: Fritz brokerage ops, Sought: 100.00%
11)	09/24/01	Stock Buyback	FDX US	Open Market for Common; 5.000M Shares
12)	11/13/00	Acquisition	FDX US	Target: American Freightways Corp, Sought:
13)	08/01/00	Acquisition	FDX US	Target: Passport Transport, Sought: 100.00%
14)	04/04/00	Acquisition	FDX US	Target: World Tariff Ltd, Sought: 100.00%
15)	02/17/00	Acquisition	FDX US	Target: Tower Group International, Sought: 1
16)	09/27/99	Stock Buyback	FDX US	Stock Buyback for Common; 15.000M Shares
17)	08/06/99	Acquisition	FDX US	Target: GeoLogistics Air Services, Sought: 10
18)	10/06/97	Acquisition	FDX US	Target: Caliber System Inc, Sought: 100.00%

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 59 9204 1210 Hong Kong 852 2977 6000  
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2012 Bloomberg Finance L.P.  
 SN 674606 EDT GMT-4:00 H427-3139-3 03-Jun-2012 15:36:49

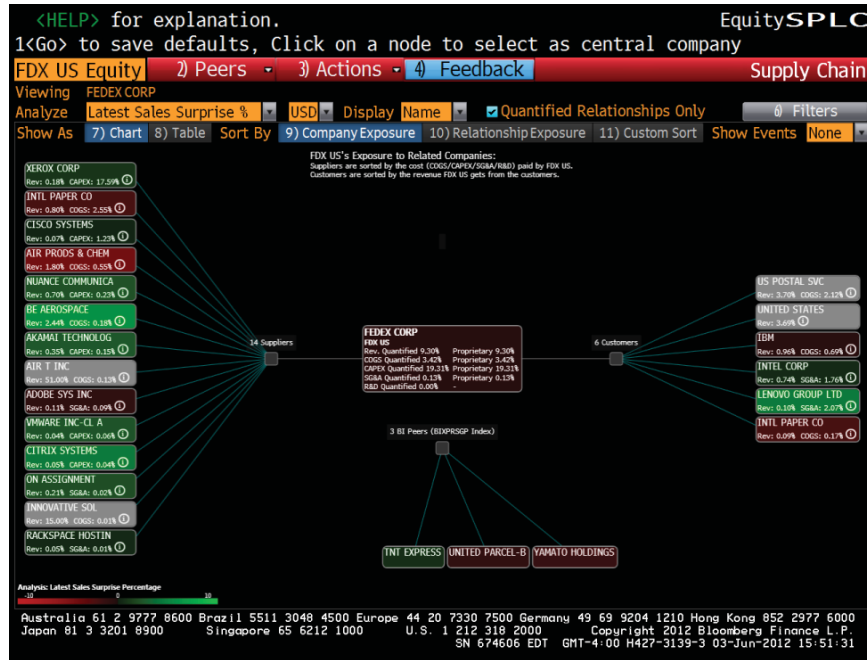
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# Food Chain Analysis

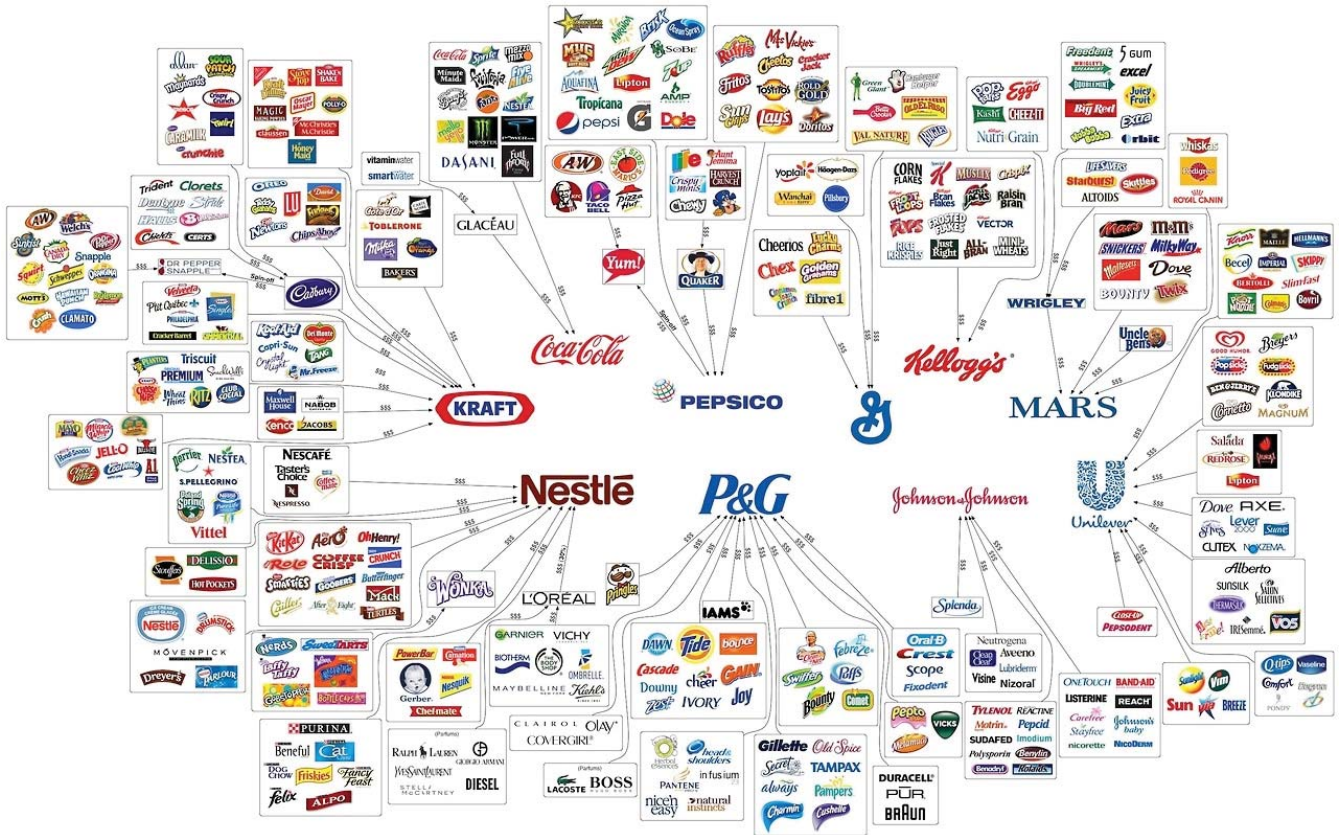


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# Food Chain Analysis



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# Earnings Surprises

Announcement date	Fiscal Quarter	Period Ending	Reported	Adjusted	Consensus	Surprise
03/22/2012	Q3 12	02/12	\$1.55	\$1.55	\$1.35	15%
12/15/2011	Q2 12	11/11	\$1.57	\$1.57	\$1.53	3%
09/22/2011	Q1 12	08/11	\$1.46	\$1.46	\$1.44	1%
06/22/2011	Q4 11	05/11	\$1.75	\$1.75	\$1.72	2%
03/17/2011	Q3 11	02/11	\$0.85	\$0.81	\$0.82	-1%
12/16/2010	Q2 11	11/10	\$1.30	\$1.16	\$1.31	-11%
09/16/2010	Q1 11	08/10	\$1.20	\$1.20	\$1.21	-1%
06/16/2010	Q4 10	05/10	\$1.33	\$1.37	\$1.33	3%
03/18/2010	Q3 10	02/10	\$0.76	\$0.76	\$0.73	5%
12/17/2009	Q2 10	11/09	\$1.10	\$1.10	\$1.10	0%
09/17/2009	Q1 10	08/09	\$0.58	\$0.58	\$0.58	0%
06/17/2009	Q4 09	05/09	-\$0.30	\$0.64	\$0.51	27%
03/19/2009	Q3 09	02/09	\$0.31	\$0.31	\$0.46	-33%
12/18/2008	Q2 09	11/08	\$1.58	\$1.58	\$1.58	0%

Source: Bloomberg (SURP function)

## 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:	

# What's "Material" To You?

Ticker	Revenue from volume	Revenue from pricing	Expenses
1. ABC	\$24 million	\$3.6 million (or 0.5% change in overall pricing)	\$3.6 million
2.			
3.			

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## 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)

# 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

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## 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

## Example: Computing Materiality

Example Company	
Revenues	\$698
Expenses	\$593
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Tax rate	34%
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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:  
 $\$0.04 \times 53.9 = \$2.4$  million
3. Convert after-tax to pre-tax:  
 $\$2.4 \div (1 - 0.34) = \$3.6$  million

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

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## 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:  
 $\$3.6\text{MM}$

# Is It Worth Your Time?



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

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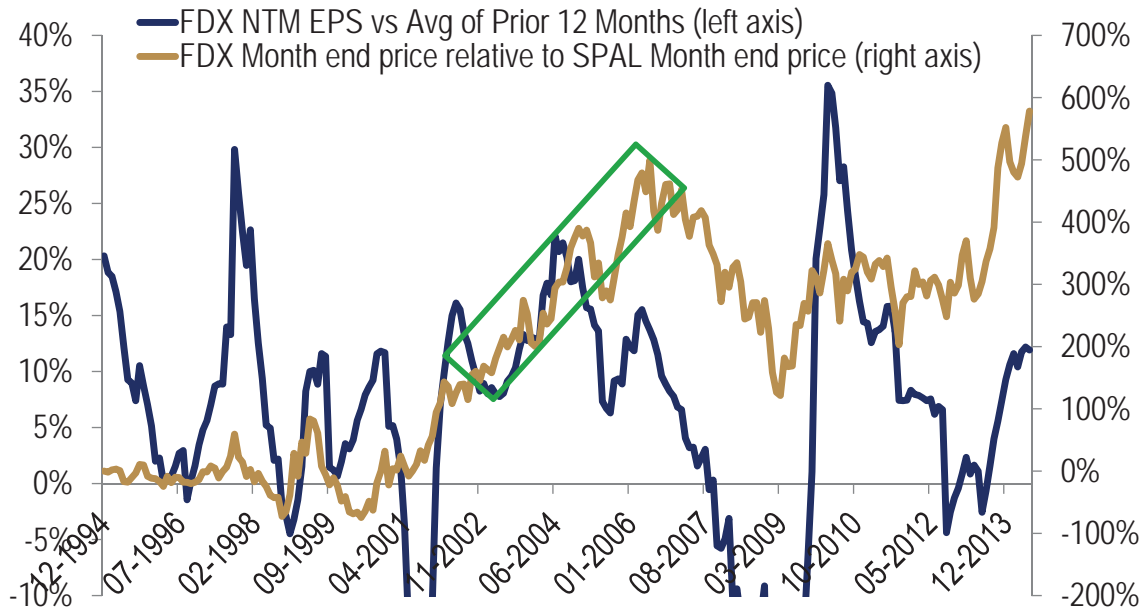
## Materiality Tool

Ticker	FDX	UPS	DAL	UNP
Period (year)	2015	2015	2015	2015
Amount EPS needs to change to be "material":	10%	10%	10%	10%
<b>Step 1: Compute 10% of net income</b>				
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
<b>Step 2: Convert to pre-tax EBIT</b>				
Materiality threshold as measured in pre-tax EBIT	\$317	\$741	\$674	\$759
<b>Step 3: Compute threshold for changes from pricing and expenses</b>				
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%
<b>Step 4: Compute threshold for change in revenue from sales/volume</b>				
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%

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# FDX Relative Performance and Consensus EPS Growth Rate



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## Simulation, Part B



### Instructions for Simulation, Part B:

- In this step, you are going to “Identify why historical anomalies occurred” (step 2 of the 4-step process)
- As pre-work you may have prepared by obtaining the following for a company of interest:

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# Answer Key to Part B (found in your workbook)

FDX 10-K For the fiscal year ended May 31, 2006

## Management's Discussion and Analysis

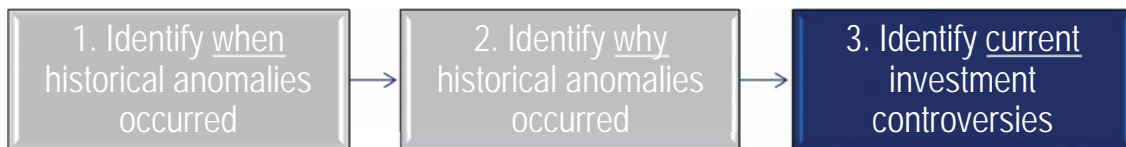
Operating income increased during 2006 primarily due to revenue growth and improved margins across all our transportation segments. Yield and cost management activities, combined with productivity gains across all transportation segments, contributed to our margin growth. Operating income improvement was partially offset by higher costs at FedEx Express to support international volume growth, expansion costs at FedEx Ground and reduced operating profit at FedEx Kinko's.

While fuel costs increased substantially in 2006, fuel surcharges more than offset the effect of higher fuel costs on our operating results.

Revenue growth during 2005 was attributable to volume and yield improvements across all transportation segments and the inclusion of FedEx Kinko's for the full year. Combined volume growth in our package businesses increased 8%. Yields improved during 2005 primarily due to incremental fuel surcharges and base rate increases.

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## Module 3: Step 3 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

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## Critical Factors Often Are Embedded in Current Market Expectations



Seek to understand “what’s in the stock” in terms of the market’s current expectations

- Monitor trading data
- Know consensus
- Survey market sentiment
- Monitor technical indicators

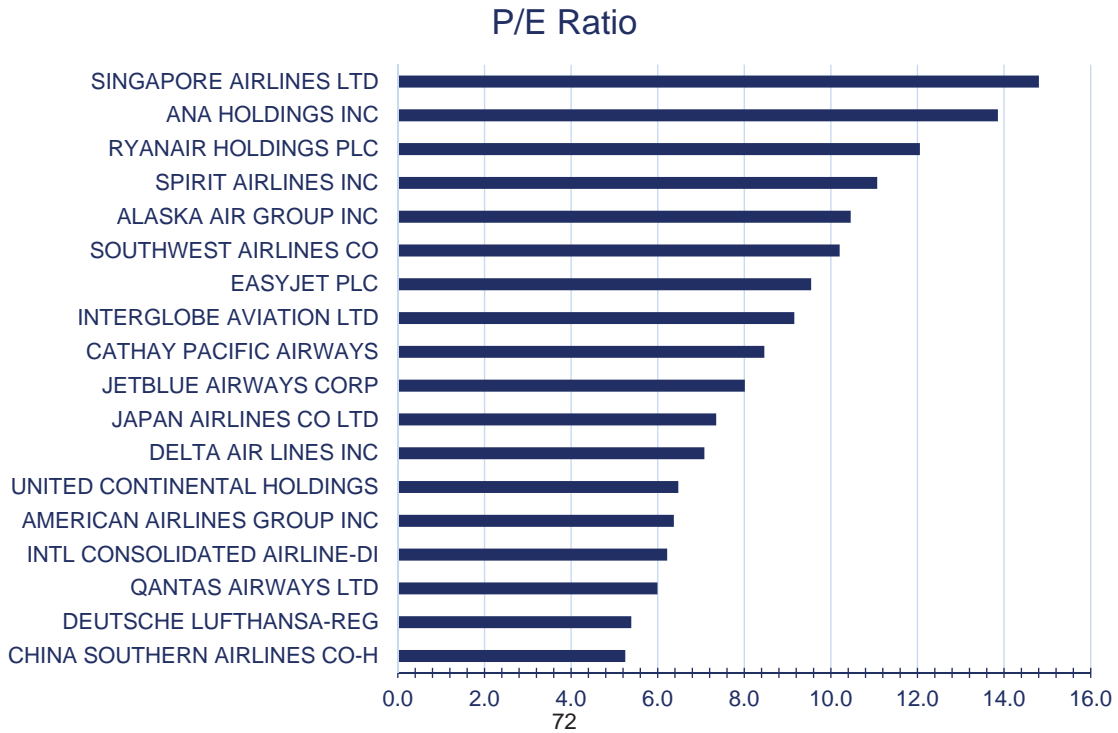
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## Understand the Comp Table and Consensus Expectations

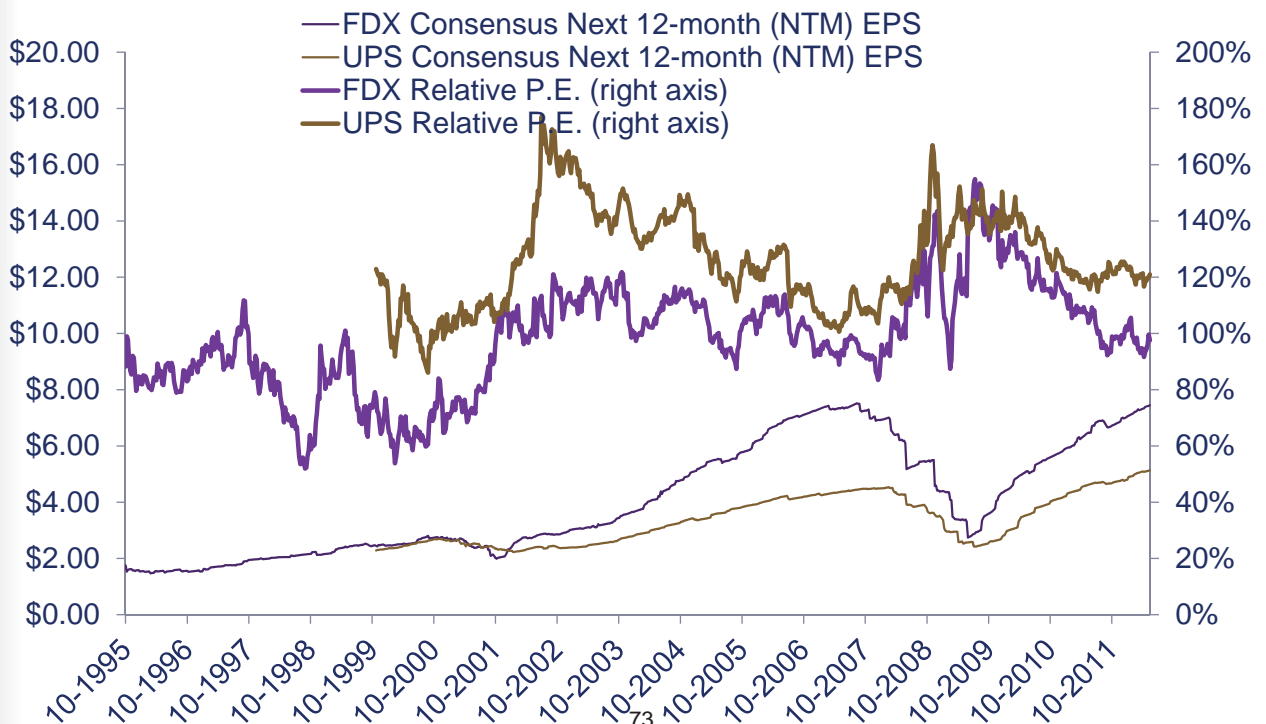
- Review a valuation comp table to:
  - Identify where there are discrepancies between each company’s current valuation and its historical valuation
  - Understand why companies are trading at a significant premium or discount to their peers
- Review a full range of sell-side earnings estimates to identify where earnings or cash flow expectations are the widest

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# Why Premiums or Discounts?



## FDX and UPS Relative P/E; Rolling Forward Consensus Estimates



## Start with the Most Recent Version of These...



- The MD&A and risks sections of company regulatory filings
- Transcripts and related material from recent company presentations
- Trade journals/websites
- Notes from colleague(s) who have participated in recent company calls and meetings
- Sell-side reports (for buy-side analysts)

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## Simulation, Part C



### Instructions for the Simulation, Part C:

- In this step, you are going to compile a list of *new* or *emerging* factors that may explain why a stock will substantially out- or under-perform during your upcoming investment time horizon (step 3 of the 4-step process)
- If you brought your own materials or will be using the FedEx materials we provide beginning on the next page, review the following:
  - Company's most recent regulatory filing
  - Transcript from the most recent company call

# Answer Key to Part C (found in your workbook)



The answer key below includes many of the potential factors that could be on your list

## Materials for FedEx

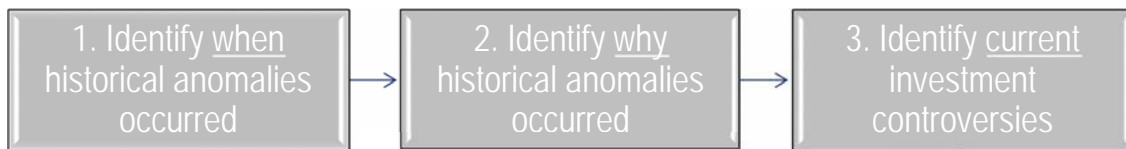
- Assume the materials that follow are the most current available (the time is late 2013)

### Excerpt From a "Current" Regulatory Filing (Fiscal 2Q14 – Dec 2013)

FedEx Ground average daily volume grew 8% in the second quarter, as growth in both business-to-business and FedEx Home Delivery services was driven by market share gains. Revenue per package increased 2% due to rate increases and higher residential surcharges, partially offset by lower fuel surcharges. FedEx SmartPost average daily volume increased 9% primarily due to growth in e-commerce. FedEx SmartPost net revenue per package was down 3% due to higher postage rates and lower fuel surcharges, partially offset by rate increases.

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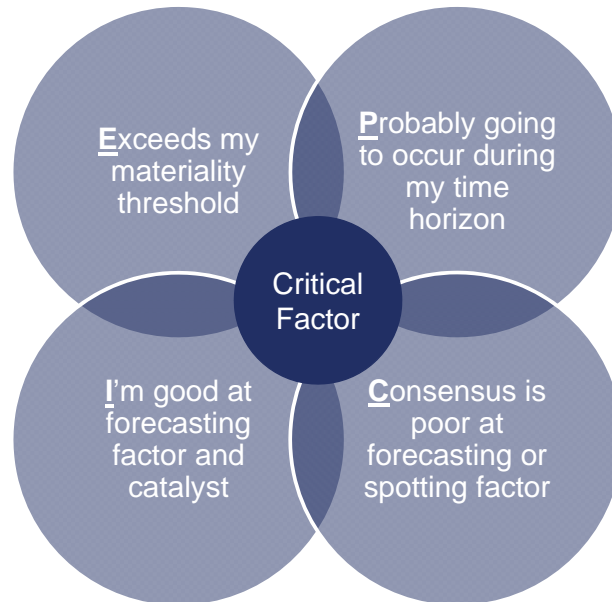
## Module 4: Step 4 of the 4-Step Process



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

# How Do You Measure These Four Elements?



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# Speak with Live Sources

## Be prepared by reviewing published materials

- **Goals:**
  - Confirm or refute conclusions from research conducted to identify historical critical factors
  - Assess new or emerging critical factors
  - Assess materiality and probability surrounding potential critical factors
  - Assess current market psychology in terms of assumptions for critical factors



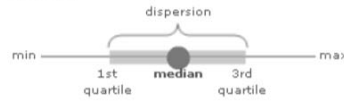
# Example of Consensus Expectations

How do investors think the following factors will affect Nat Aust Bank stock over the next 12 months?

CHOOSE a time horizon:

3 months 12 months

LEGEND



VERY NEGATIVELY -3 -2 -1 0 +1 +2 +3  
NOT AT ALL VERY POSITIVELY



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# Speak with Live Sources



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# 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"/>

## “Get to the Critical Factors” Exercise



Please do not turn to this in your Learner Workbook until after you have received instructions

# Review DRC: Identify a Stock's Critical Factors

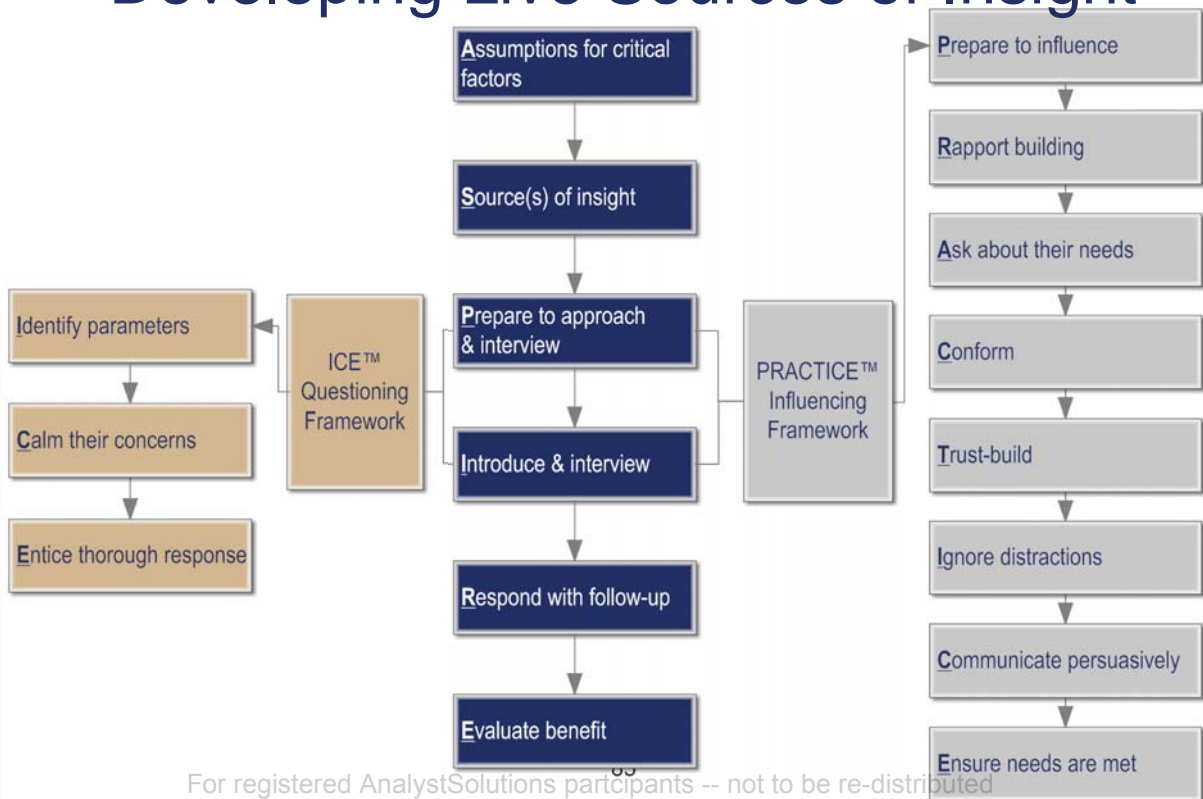
## Detailed Reference Card (DRC)

Identify a Stock's Critical Factors

Seek Factors That Meet All Four Criteria Below



# Key Frameworks Useful for Developing Live Sources of Insight



# Transformation Action Plan (TAP): Section 1, Simulation Part D

## 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.

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# Answer Key to Part D (found in your workbook)

Learner Workbook

Module 6: Appendix

## Transformation Action Plan (TAP)

### ANSWER KEY FOR FEDEX

PLEASE DO NOT REVIEW UNTIL TOLD TO DO SO:

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

Factor to Potentially Be Researched	If this factor were to occur or change from trend, it would cause changes in consensus' expectations to Exceed my materiality threshold	This factor will Probably deviate materially from consensus expectations during my investment time horizon	Based on my research on the factor, I'm good at forecasting this factor and its catalyst (it's not just a guess)	The overall Consensus will be poor at accurately forecasting or spotting an anomaly for this factor	Total
Cost management/productivity/Improved network efficiency	5	4	4	5	18
Level of fuel surcharge collected	5	4	4	4	17
Acquisition(s)	5	3	2	5	15
Ground package volume growth	3	4	4	4	15
Domestic Express package pricing/yield	4	3	4	3	14
Ground package pricing/yield	4	3	3	4	14

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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

# Transformation Action Plan (TAP): Section 2

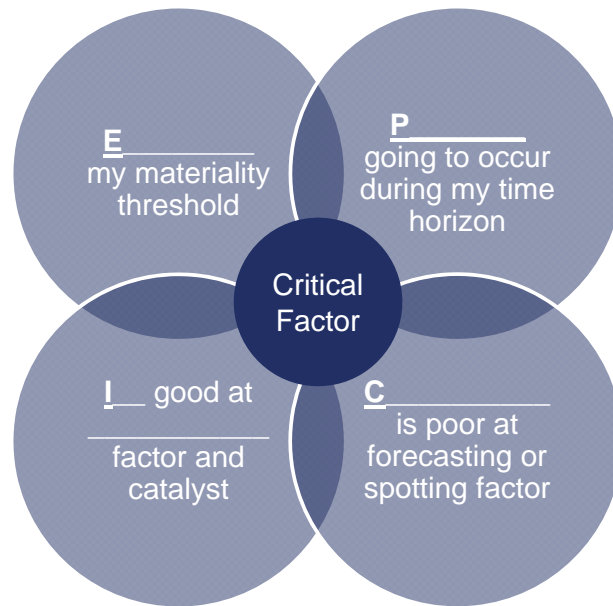
## Transformation Action Plan (TAP)



### 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.
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# Test Your Knowledge



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## Module 5: Monitoring Critical Factors



## Digesting Inbound Information is Like Drinking From a Fire Hose



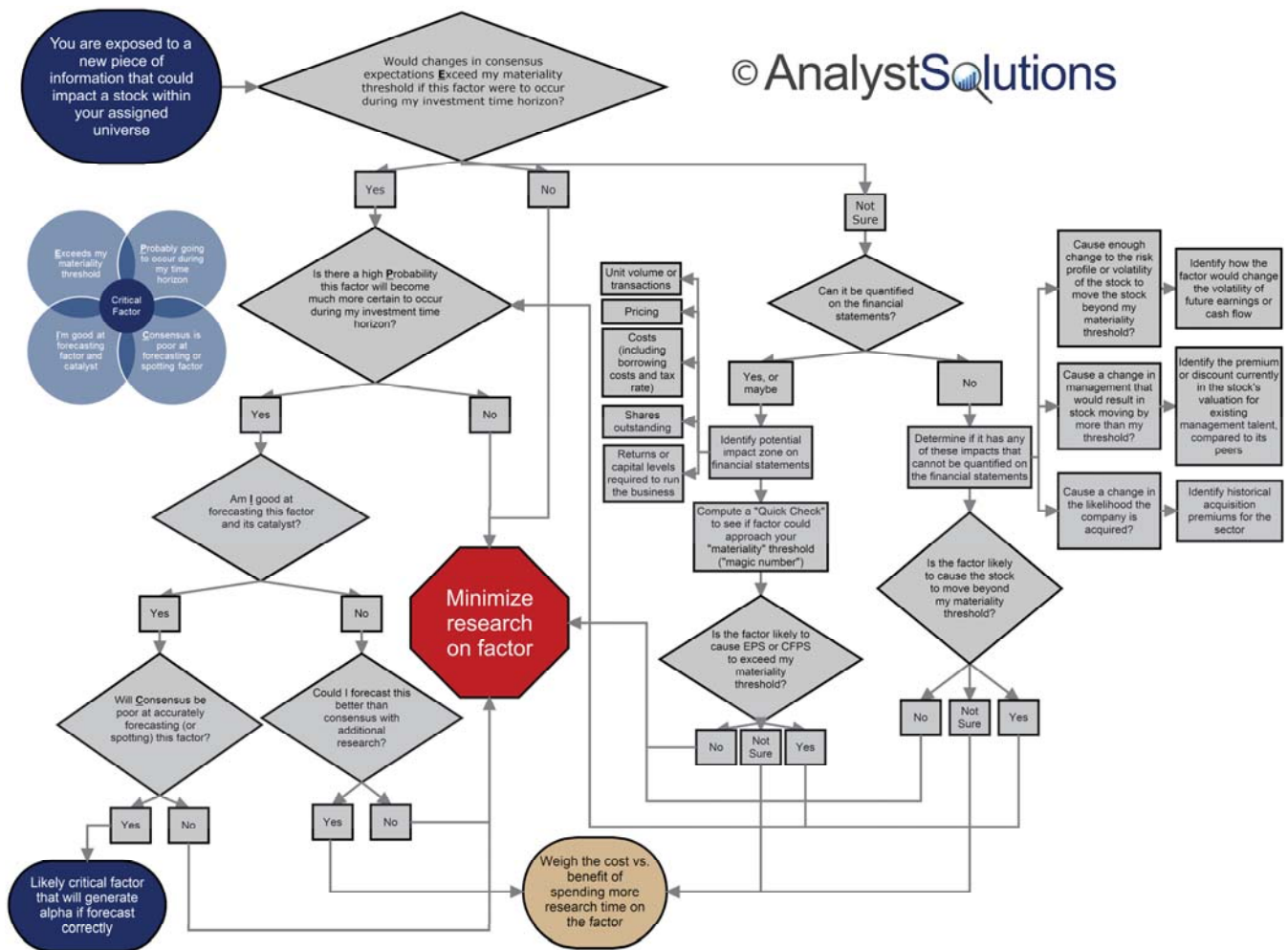
- Information flow never stops
- Take command with a process
- “He who processes information efficiently will be a happier analyst”

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## New Information Starts the Process



- You are exposed to a new piece of information that could impact a stock within your assigned universe
- What do you do next?



# Examples

Company or sector: FedEx/express parcel industry

The factor: FedEx purchased Caliber System in 1997

Yes, it initially caused the stock to sell off and then led to multi-year out-performance

No, because the size of the announced customer rate increase isn't material – it's the amount the company can successfully collect

Company or sector: FedEx/express parcel industry

The factor: FedEx announced one of its largest customer rate increases last November

# Test Real-life Examples

- Change in ability to collect fuel surcharge
- Major weather disruptions



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# Set Up Networks to Monitor Critical Factors

Critical Factor	Issue to Explore	Potential Catalysts	Contact Source	Frequency
Price of western region coal	Supply and demand	Publicized discussions from upcoming industry conference	Bill Smith, industry consultant	Monthly
Salary and wage expenses	Inflation level for upcoming labor contract	Outcome from upcoming union negotiations	Jenny Thompson, union officer	Monthly
Size of fall grain harvest	Impact from weather conditions during growing season	Release of monthly government crop condition reports	Dawn Johnson, agriculture consultant	Weekly, from early June to early September
Financial community sentiment about a potential change in management	Is it priced into the stock that the CEO will leave soon?	Upcoming sell-side hosted dinner with CEO	Ken Lee, sell-side analyst	Monthly

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# Module 6: Conclusion and Q&A

## Your Information Gathering Strategy Should Revolve Around Collecting Critical Factors

### **Dedicate a Portion of Your Note-taking System to *factors* and their *catalysts***

- Company factors/catalysts
- Sector factors/catalysts



OneNote



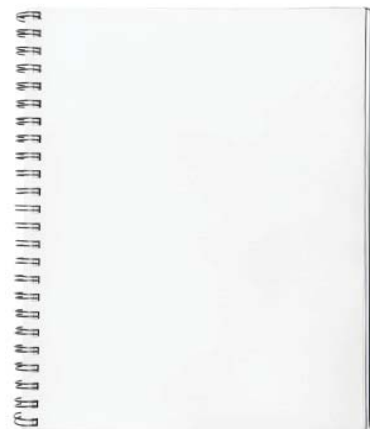
Word



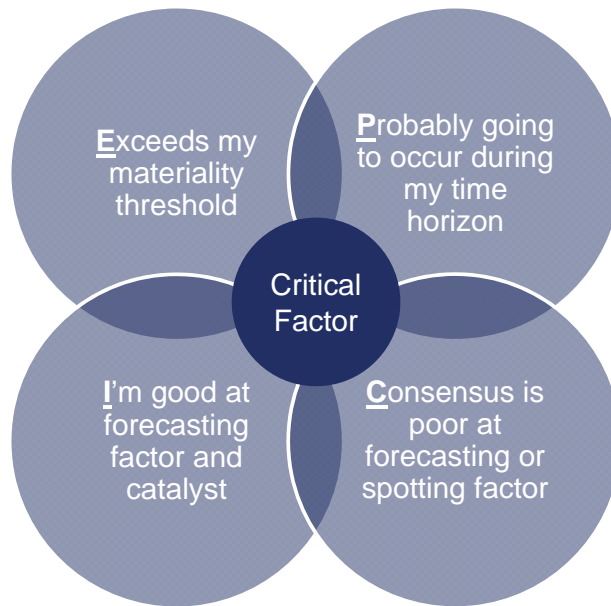
Outlook



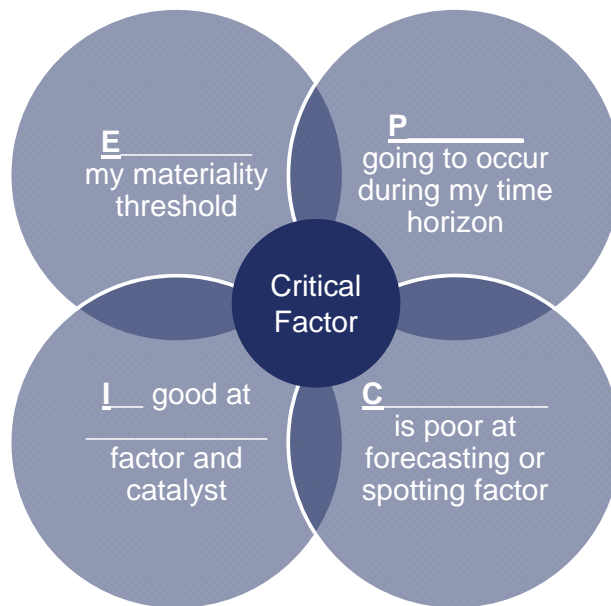
EVERNOTE



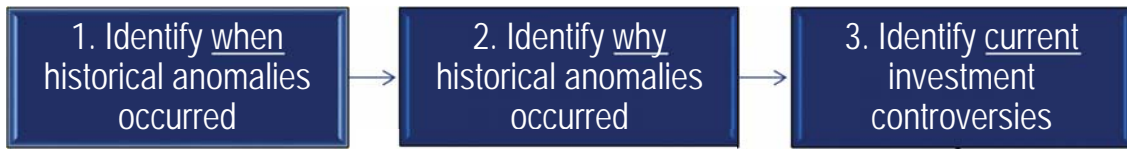
# Utilize the EPIC™ Framework



# Test Your Knowledge



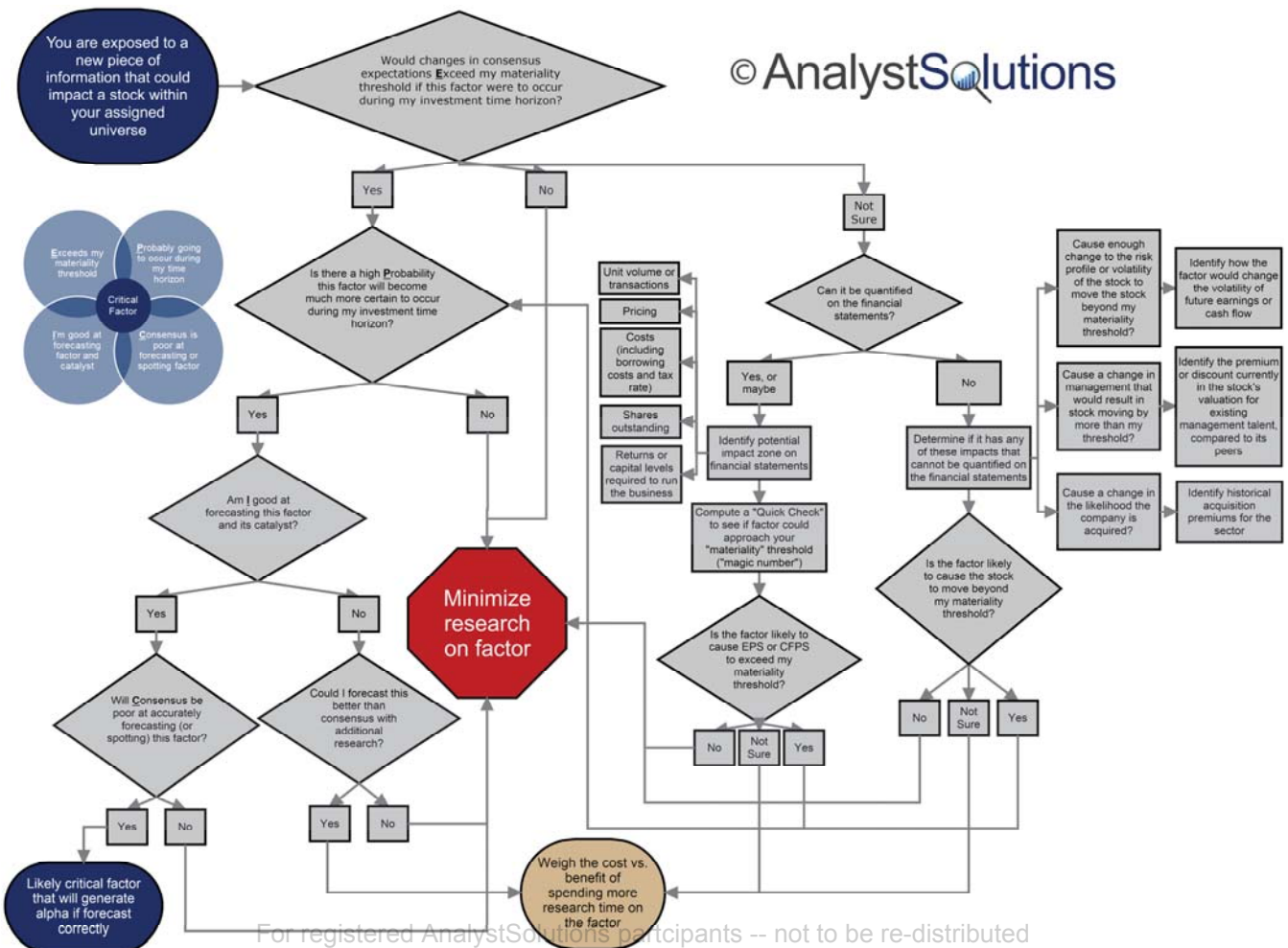
# Follow the 4 Steps to Identify Critical Factors



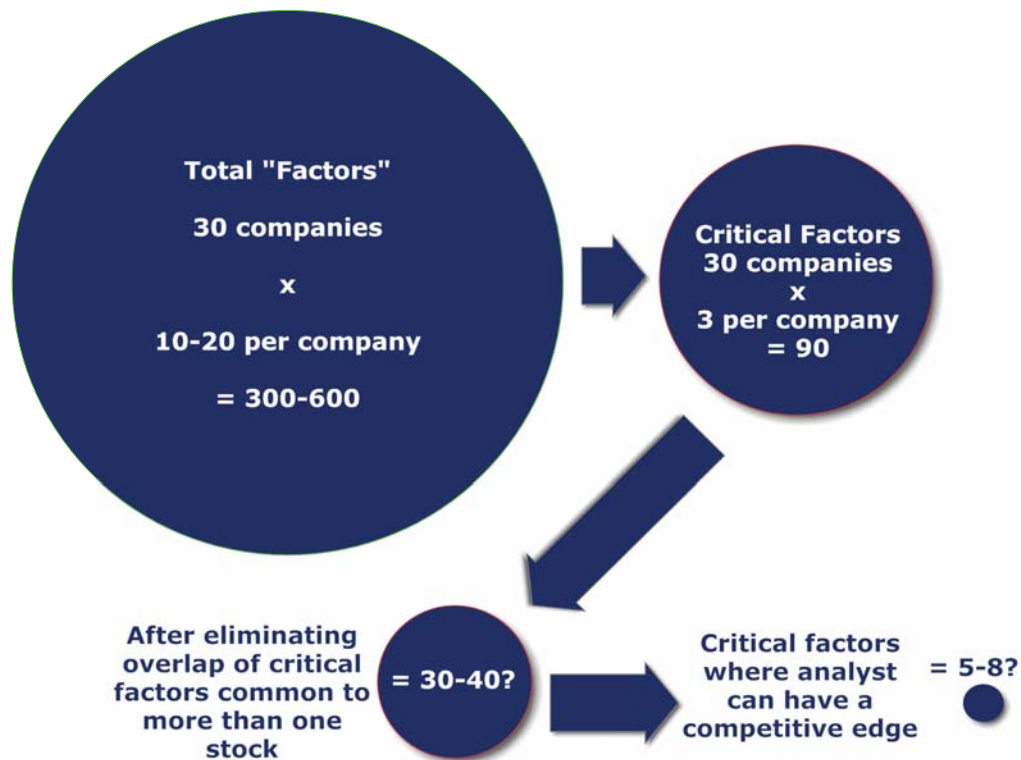
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When the answer is "yes" to all, it is likely a critical factor that can add alpha

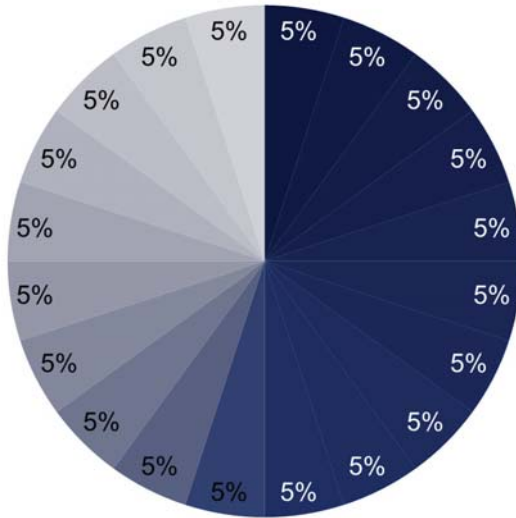


# Identifying and monitoring critical factors helps stock picking by improving time management

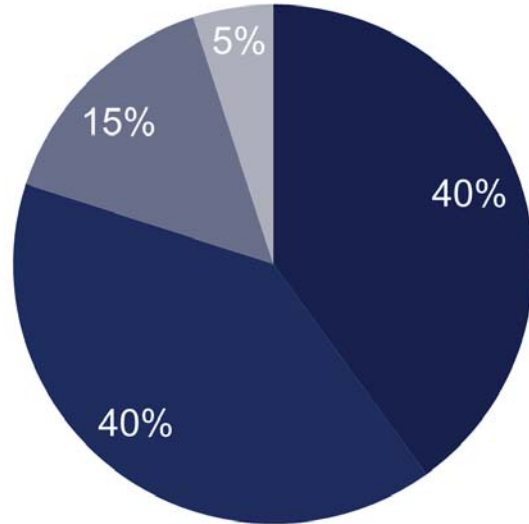


# What Will Your Day Look Like?

**Critical Factors  
Not Defined**

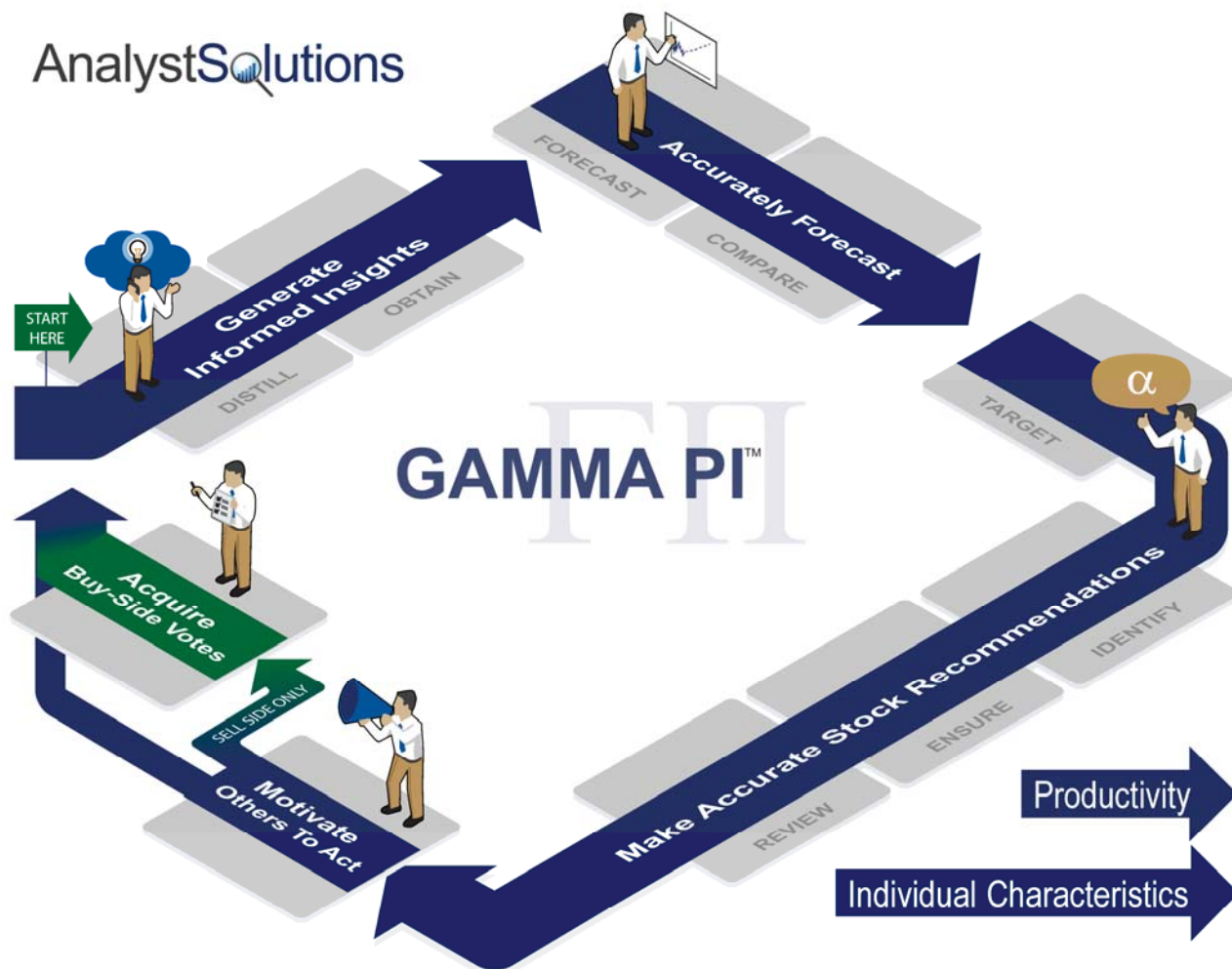


**Critical Factors  
Defined**



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





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

**CRITICAL FACTORS**

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



<https://www.analystsolutions.com/eval/>



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