

Generate Differentiated Insights Through Better Discovery, Questioning, and Influencing Learner Workbook

NOTE: Please ensure you can interact with this document during the workshop in one of these methods:

- With a keyboard (as a Word document); or
- With pen (as a hard copy)

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Acknowledgements

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Overview

Purpose & Learning Objectives



Why take a workshop to *Generate Differentiated Insights Through Better Discovery, Questioning and Influencing?*

Research produced by many analysts relies almost entirely on information provided by the companies they cover, which is not only biased but lacks the *unique* insights required for great stock calls. Discovering, connecting with and interviewing valuable unique live sources of insight can be a huge time sink, not to mention intimidating to some, which is why so few analysts tap into these valuable resources.

Developing great out-of-consensus stock calls relies heavily on generating *unique* insights, which are found through exchanges with experts not affiliated with the companies being researched. AnalystSolutions has harnessed best practices from the industry's top equity research analysts to create the ASPIRE™ framework for navigating the complex maze of discovering and interviewing these experts. Additionally, our PRACTICE™ framework for influencing others and ICE™ framework for questioning help ensure these experts are compelled to answer the questions key to making great stock calls. The best analysts master these skills to ensure they have a continual pipeline of unique and accurate insights to support their out-of-consensus stock calls.



Learning Objectives

After completing this program, you will be able to:

- Self-assess if you're currently utilizing enough proprietary sources of information to consistently generate insights necessary for great stock picking
- Identify the roles and specific individuals that can provide informed insights to narrow the assumptions surrounding a stock's critical factors
- Utilize methods to regularly cultivate new sources of insight
- Utilize our ICE™ questioning framework to construct interview questions that **I**nclude parameters, **C**alm the interviewee's concerns and **E**ntice a thorough response
- Identify "what's in it for them?" (WIIFT), a key ingredient for winning over potential information sources that hold insights useful for stock picking
- Maximize interview effectiveness by creating the ideal environment.
- Utilize the ASPIRE™ and PRACTICE™ frameworks to lead interviews in an influential manner that will yield insights and strengthen relationships with interviewees

Introduction Module

Opening Case



Instructions for the Opening Case:

- The purpose of the opening case is to identify areas where an equity research analyst could generate unique insights for stock picking through better discovery, questioning and influencing
- First review the entire case, reading one row of the table at a time (read through to the last table)
- Then go back and read again, making notes in the right-most columns of the tables, where you sense the analyst is not using best practices
- At the end of each module of this workshop we will review the relevant areas of the case where the analyst should have performed better

Opening Case

For the past 18 months, Lucas Gallo has been an equity research analyst covering about 30 stocks in the transportation, chemical, and auto sectors for Nickel Mine Asset Management (NMAM). He meets monthly with his mentor David Torres, a senior portfolio manager, who many years ago also covered the same sectors as Lucas.

During this month's meeting, David addresses Lucas' one-year stock picking performance, which is dreadful. Let's listen in on the conversation...

Lucas' dialogue	David's dialogue	Your thoughts
"I'm not sure why my stock picking performance isn't better. I'm doing everything I can to stay on top of my stocks. I read every news story, sell-side report and regulatory filing for my universe of stocks."	"Where do you get your unique insights for stock picking?"	
"It's usually from something I learn from speaking to the company's IR contact or a sell-side analyst"	"Do they help you better understand the critical factors for your stocks?"	
"What are critical factors?"	"They're the factors most likely to drive a stock's relative performance, but that's another conversation we should have. Are there other sources you could contact to develop unique insights?"	
"I have a friend who works for ExpBitz which is an on-line travel site for booking flights and hotels. I speak to him about once a month about the airline sector."	"He must be a great resource for understanding airline pricing and traffic."	
"Not really...he's in charge of their IT department and so we usually discuss IT issues for the industry"	"Hmmm...not sure that's a great use of time. Among your sectors, which industry groups host the best industry events to make good connections and develop new insights?"	

Opening Case

"I'm not sure because I haven't spent any time learning about industry groups"	"I'd like you to develop your industry contacts by going to Air-Con, which is the largest airline industry conference and it's taking place next month."	
Lucas' thoughts and actions...		Your thoughts
Lucas considers this Air-Con event to be a big interruption to his normal routine and so he decides he'll wait to learn more about it on his flight there.		
As the date draws closer, he figures he can use the event to seek information that will support his view that trans-Pacific pricing is likely to increase over the next two years.		
Although the conference is being held at a major conference hotel, Lucas stays down the street at the hotel chain where he has gold status so he can get upgraded to a nicer room. He's booked a flight that gets him there too late to attend the pre-conference social event at the conference hotel because he doesn't like social events.		
He arrives at the conference the next morning, realizing he's under-dressed, wearing jeans and a polo shirt while everyone at the conference is in full professional attire. In the hall during the morning break, a fellow conference attendee, Sunil, starts making small talk with Lucas and when he sees Sunil works for an airline he follows, Lucas asks if there are any senior management at the conference he could speak with. Sunil isn't sure and so Lucas thanks him and moves onto the next session.		
After the lunch keynote presentation Lucas approaches the speaker, who is the CEO of a small cap regional airline that he doesn't cover. Lucas doesn't know much about the CEO or company. The conversation takes place in the table that follows.		
Lucas' dialogue	Executive's dialogue	Your thoughts
"Hi, I'm Lucas Gallo of Nickel Mine Asset Management. I don't cover your stock because it's too small and so I don't know much about your airline"	"Well, nice to meet you"	
"How long have you been CEO?"	"About ten years"	
"I'd like to know how much you are taking up ticket pricing in the trans-Pacific market"	"I'm not sure because we don't operate in that market. Have you spoken with the guys at McFinsey Consulting who specialize in forecasting airline pricing by route?"	
"No, I didn't know there were consultants who focus on airline pricing. So how's business in the areas where you operate?"	"As we mentioned during our quarterly call just over a month ago, we believe we'll see a 5% increase in passenger seat miles and a 2% increase in revenue per available seat mile this quarter"	
"Do you expect to change your guidance before you report the current quarter?"	"Well, I'm not sure I can answer such a direct question"	

Opening Case

"In your presentation you referenced bidding on another regional airline last year but didn't succeed in acquiring it. Who's to blame in your firm for messing up such a great opportunity?"	"We walked away because valuation was too rich. We determined we could build more cheaply than buy. I need to get to another meeting and so I'm sorry but I need to run. It was nice meeting you."	
"Same here, thanks"		
Lucas' thoughts and actions...		Your thoughts
Immediately before the last session of the day, Lucas sees Sunil (whom he met earlier in the day) and since Lucas hasn't made any contacts with senior executives of the companies he covers, he decides he should probably ask Sunil to get together before the dinner session. Sunil (who doesn't drink alcohol) suggests they meet in the hotel lobby, but Lucas says he's had a long day and would prefer to meet at the hotel bar for a drink.		
Lucas goes back to his hotel for an hour to check stock prices and news flow for the day. Realizing he's running 10 minutes late for his meeting with Sunil, he jogs to the conference hotel where he goes to the bar (which is quite noisy and has no seating) to find Sunil waiting for him. The conversation takes place in the table that follows.		
Lucas	Sunil	Your thoughts
"So what do you do for Trans Global Airlines?"	"I work in our purchasing department where I help determine our long-term need for aircraft"	
"So how's business?"	"It's good"	
"I've seen you guys have had some IT integration problems. Are those resolved?"	"I'm not sure because that's really not my area of expertise. I focus on purchasing equipment. The areas where...(Lucas interrupts Sunil)"	
"I'm building a DCF valuation model and need help in forecasting the RASM in order to compute the ROIC. What's your current WACC and where do you see it 2-3 years from now?"	"Sorry but I don't understand some of those terms"	
"Maybe I should start with my basic view in that I expect trans-Pacific ticket pricing to increase over the next 2 years. Do you agree?"	"I think pricing might go up"	
"Thanks, my boss is going to be pleased I found someone in the industry to confirm my thesis."	"I'm glad I could help"	
"Didn't you guys order a bunch of those enormous A380 aircraft? Who's in charge of that massive gamble?"	"That's my boss. I worked on that project for him. It's actually quite sound, given our strategy of focusing on hub-to-hub routes..."	
Lucas' thoughts and actions...		Your thoughts
As Sunil explains the strategy, Lucas feels his phone vibrate and it's a text showing that his favorite team is losing an important playoff game. So he shifts his stance so he can see a TV in the bar showing the game, now standing almost side-by-side with Sunil, and continues to show mild interest in the conversation. Lucas, feeling confident Sunil has answered his question about trans-Pacific pricing, decides there's nothing else to discuss and thinks of a strategy to end the conversation. Lucas spends a few minutes telling		

Opening Case

Sunil about his buy-side job and then says he needs to go back to his hotel to catch up on work.	
Before Lucas departs, Sunil asks why he's not going to the conference dinner featuring a panel discussion of four of the industry's top journalists/bloggers. Lucas tells him, "If they have something really important to say, I'm sure I'll read about it in the <i>Financial Journal</i> or CNBC tomorrow."	
Lucas flies home the next day, feeling a bit anxious because he's missed two days of news flow. In his effort to catch up, he doesn't take the time to follow up with Sunil or the CEO, or share with his internal colleague who covers the aerospace sector that Trans Global Airlines sees a design flaw in the next generation of planes being produced by a major manufacturer held in the company's portfolio.	

- If this workshop is being taught live (web-based or in-person), notify the facilitator when you have reached this point for your first read-through. If time is available, read again, noting in the right column where the analyst was not using a best practice
- If you are taking this workshop as On-demand, continue to the next topic. The case will be discussed at the end of each module

Module 1: Assumptions for Critical Factors

“Quality Control Inspector” Exercise



Instructions for the “Quality Control Inspector” exercise:

- You are a quality control manager in a game card plant and need to determine if any of the playing cards are defective
- There are three assembly lines, each with separate, unrelated types of cards you need to inspect
 - Type #1
 - Type #2
 - Type #3
- Each type of cards will have a unique set of features unrelated to the other types
- Your job is to review a sample from the assembly line and then determine which card(s) you will need to turn over to determine if that deck of cards is defective

Please do not go to the next page until told to do so

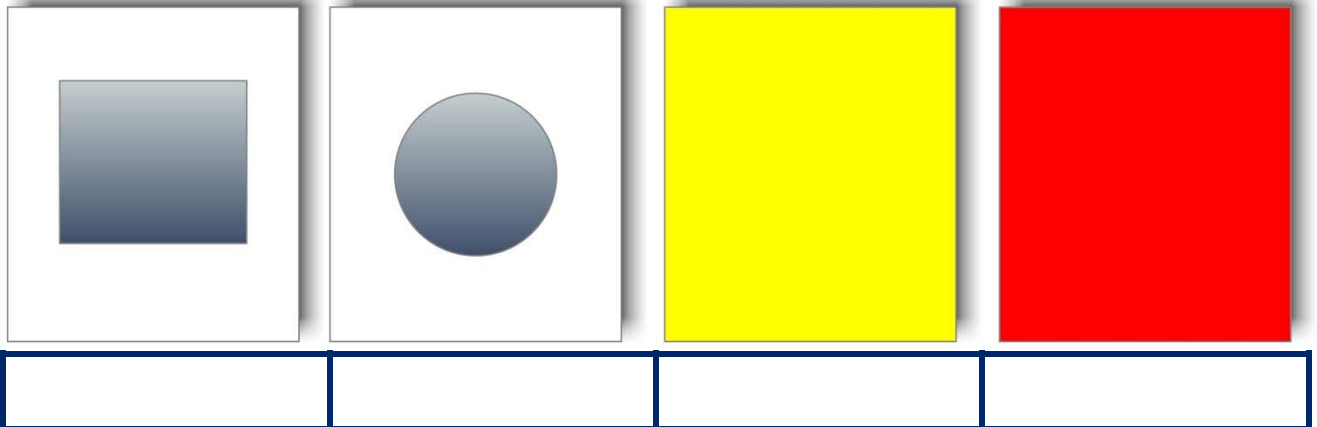
“Quality Control Inspector” Exercise



Instructions for the “Card Type 1” exercise:

- Look at the four “Type 1” cards that immediately follow below these instructions
- These cards are unique in that they each have a:
 - Color on one side; and
 - Shape on the other
- This aspect does not need to be inspected – we know all cards have a color on one side and shape on the other
- To ensure this batch of cards was assembled correctly, you need to make sure this rule is followed:
 - If a card has a circle on one side, then it must have the color yellow on the other side
- You’ve entered the inspection room where you are presented with the four cards below from the current production batch and you need to determine if they are defective
- Based on these four cards alone, which do you need to turn over to see if the cards are defective?
- Put an “X” below the card(s) you need to turn over to confirm if this rule has been broken

Card Type #1:



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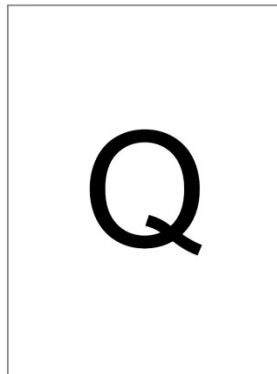
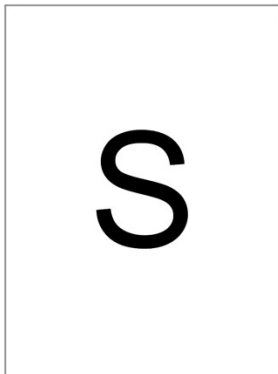
“Quality Control Inspector” Exercise



Instructions for the “Card Type 2” exercise:

- Look at the four “Type 2” cards that follow immediately below these instructions
- These cards are unique in that they each have a:
 - Number on one side; and
 - Letter on the other
- This aspect does not need to be inspected – we know all cards have a number on one side and letter on the other
- To ensure this batch of cards was assembled correctly, you need to make sure this rule is followed:
 - If a card has the letter S on one side, it must have the number 3 on the other side.
- You’ve entered the inspection room where you are presented with the four cards below from the current production batch and you need to determine if they are defective
- Based on these four cards alone, which do you need to turn over to see if the cards are defective?
- Put an “X” below the card(s) you need to turn over to confirm if this rule has been broken

Card Type #2:



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Please do not go to the next page until told to do so

“Quality Control Inspector” Exercise



Instructions for the “Card Type 3” exercise:

- Look at the four “Type 3” cards that follow immediately below these instructions
- These cards are unique in that they each have a:
 - Statement about a specific company’s unique quality (green border) on one side; and
 - Indication if the stock has outperformed or underperformed the market over the long-term (red border) on the other side
- This aspect does not need to be inspected – we know all cards have a statement about a specific company’s unique quality on one side and how the stock has performed relative to the market over the long-term on the other side
- To ensure this batch of cards was assembled correctly, you need to make sure this rule is followed:
 - Companies with earnings growth rates faster than the market always outperform the market over the long term
- You’ve entered the inspection room where you are presented with the four cards below from the current production batch and you need to determine if they are defective
- Based on these four cards alone, which do you need to turn over to see if the cards are defective?
- Put an “X” below the card(s) you need to turn over to confirm if this rule has been broken

Card Type #3:

Company has pricing power	Company has earnings growth faster than the market	Stock ABC has outperformed over the long term	Stock XYZ has under-performed over the long term

Module 2: Sources of Insight

Networking Self-Assessment



Instructions for the Networking Self-Assessment

- The purpose of this assessment is to identify your strengths and potential weaknesses as it relates to networking skills, which are critically important for successful equity research
- Rate each statement in Parts 1 and 2 below on a scale of 1-5, according to how it relates to you with:
 - 1 = I NEVER exhibit this behavior
 - 5 = I ALWAYS exhibit this behavior
- Try to answer based on your most recent real-life situations
- Your scores will not be collected or shared and so be as honest as you can
- Part 1 pertains to general networking skills, while Part 2 pertains to equity research-specific skills
- Complete self-assessment Parts 1 and 2 and then go back and score each part

Networking Self-Assessment

Part 1 of Networking Self-Assessment

1=Never 5=Always	Part 1: General Networking Skills
	A. I find it easy to initiate conversations with strangers
	B. People I know think that I am a good listener
	C. Before attending a networking event, I usually stress out
	D. When I meet people for the first time, I make an effort to get to know them by asking a lot of questions.
	E. At social and business events, I clearly remember the people I have met before.
	F. I feel comfortable calling/emailing people that I have been referred to by people I know
	G. I find it easy to talk about and sell myself to people I hardly know

- Go to the next page and complete the table labeled “Part 2” of the self-assessment before scoring Part 1

Part 1 Scoring:

- After you have completed Part 2, come back and score Part 1 as follows:

- Step 1: Add your scores for ALL BUT question C and put in box below:

- Step 2: Convert your score to question C by using the following table:

If your score for C was...	Add this to the score for the questions above
1	5
2	4
3	3
4	2
5	1

- Step 3: Add Step 1 to Step 2 for your total score:

- Review the scoring key below

Part 1 Scoring Key

Score	Level
7-18	Developing Networker: You may feel uncomfortable when meeting people for the first time and may encounter difficulties when networking. Try to come out of your shell by approaching strangers and selling your skills and attributes. If networking is something you don't feel comfortable with, remember, if done correctly, it should be mutually beneficial to both parties. Always follow up with the contacts you have made and remember, networking isn't only about meeting the right people, it's about getting to know the people you have met.
19-26	Competent Networker: You feel comfortable meeting people in some situations more than others. Although you may not encounter a great deal of difficulty when networking, you are probably not utilizing your full networking potential. Approach as many people as possible and make sure to get their contact details, and conduct follow-ups via email, instant message or the phone.
27-35	Confident Networker: You feel comfortable when meeting people for the first time and likely have little or no problems networking and developing relationships with your contacts. Remember to immediately follow up any contacts you have made and conduct follow-ups via email, instant message or the phone. Also ask them for additional referrals that may be of help.

Inspired by Morton Phillips, Search, Selection and HR Strategy

Networking Self-Assessment

Part 2 of Networking Self-Assessment

1=Never 5=Always	Part 2: Equity Research Networking Skills
	A. When information is critical to my valuation, I typically try to validate it using independent sources, rather than only the company's management
	B. I hand out business cards, including to people who may not have a formal relationship with me or my firm
	C. When developing assumptions about my companies, my primary source of insight is from the company and financial press
	D. I have more connections than most of my friends on LinkedIn, Facebook or other professional and personal networks
	E. When researching a critical factor that is likely to impact my stock, I have a wide network of contacts to speak with for insights.
	F. I ask colleagues and established industry contacts for names of other people who can help me in my efforts
	G. I cultivate new sources of information, independent of company management

- Go back and score Part 1 of the assessment and then return to score Part 2 below

Part 2 Scoring:

- Step 1: Add your scores for ALL BUT question C and put in box below:

- Step 2: Convert your score to question C, by using the following table:

If your score for C was...	Add this to the score for the questions above
1	5
2	4
3	3
4	2
5	1

- Step 3: Add Step 1 to Step 2 for your total score:

- Review the scoring key below

Part 2 Scoring Key

Score	Level
7-18	Minimally-differentiated Research: You are probably either new to your sector or have fallen into the all-too-often trap of relying on company management for insights. Without unique insights you will struggle to have differentiated stock calls that generate alpha.
19-26	Pursuing Unique Insights: You demonstrate some of the key skills required for great alpha-generating research. By relying on a broader network of insightful information sources, you will increase the probability that your stock calls are more accurate than consensus.
27-35	Discovering Alpha-Generating Insights: You are showing the skills of a highly successful analyst who knows the only way to beat the competition with stock picking is to have uniquely differentiated insights, which is usually the result of a wide and deep network of information sources.

Appendix

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



Section 1: Identify Critical Factors and Key Assumptions

- The purpose of this portion of the TAP is to identify the key assumptions surrounding the critical factors for at least one stock, which is the first step before reaching out to information sources
- Properly identifying the 1-4 critical factors for a given stock requires detailed research (typically 3-10 hours of work), which is beyond the scope of this workshop and so it's worth noting the steps below are an abbreviated (and inferior) method compared to the full method (discussed in our workshop *Identify & Monitor a Stock's Critical Factors*)
- Recall from the EPIC™ framework (in your slides) that an ideal critical factor will meet all of these criteria:
 - Exceed my materiality threshold
 - Probably going to occur during my time horizon
 - I'm good at forecasting factor and catalyst
 - Consensus is poor at forecasting or spotting factor
- After reviewing the examples in the table below, list 1-3 critical factors for a stock of interest. If you cannot identify any *current* critical factors for that stock, feel free to use critical factors from the *past*. It's most important to list critical factors you understand well because you will be using them throughout the rest of the workshop
- In the two right-most columns below, provide assumptions that must be better understood to gain greater clarity around each of your critical factors
- Avoid falling into the “confirmation bias” mind trap, by:
 - Not creating assumptions like this: “Worsening regulatory environment”
 - Instead phrase the assumption more neutrally, like this: “Changes in regulatory environment.” This keeps you open to the idea that your research may find the environment isn't worsening but is actually improving
- Recall the goal is to identify the *assumptions* for the critical factors, because we will use them in the next step of the ASPIRE™ framework

Transformation Action Plan (TAP)

Identify Critical Factors and Key Assumptions Table

Sector or Stock	Critical Factor	Assumption #1	Assumption #2
Airbnb (online travel agency)	Growth of online travel agencies	Rate of market share gains from traditional hotel channels	Cost advantage of online travel agency vs. traditional channels
Amazon.com	Market share shift from traditional retailers	Adoption rate of e-commerce within emerging markets	Adoption rate of mobile apps for retail purchases
IBM	Migration to cloud-based solutions	Rate of growth of cloud-based enterprise applications	Level of security offered in the cloud vs. in-house options
Nike	Top line growth rate keeping up with historical trends	Changes in demand from international markets	Changes in broad athletic activities
NVIDIA (graphics tech)	Growth of virtual reality as mainstream product	Adoption of virtual reality by mass markets	Cost to produce high quality virtual reality devices that can be used in the home
SolarCity	Growth of renewable energy revenue	Changes in energy storage costs	Impact from changes in oil and natural gas prices
The Gap	Apparel pricing deflation	Adoption of off-price and low-price fashion	Use of mobile devices for price discovery
Time Warner Cable	Growth of competing content providers such as Netflix, Amazon and HBO	Customer loyalty for the cable bundle vs. new entrants	Potential growth of cable-provider broadband offering (which is required to access new entrants)
T-Mobile	Competitive pricing among the wireless carriers	Timing when domestic smartphone becomes saturated	Changing regulations
VMware (software)	Growth of Open Source software vs. traditional vendors	Open Source providers going public	IT leaders selling services that rely on Open Source solutions
Walgreens (drug retailer)	Generic drug price inflation	Changes in FDA regulation of non-generic drug manufacturers	Distribution channel consolidation
Your Stock:	Your Critical Factor #1:	Your Assumption #1:	Your Assumption #2:
Your Stock (does not need to be same as above):	Your Critical Factor #2:	Your Assumption #1:	Your Assumption #2:
Your Stock: (does not need to be same as above):	Your Critical Factor #3:	Your Assumption #1:	Your Assumption #2:

Transformation Action Plan (TAP)



Section 2: Research Methods' Ability to Provide Unique Insights

- The purpose of this portion of the TAP is to evaluate the most traditional research methods based on their ability to provide the unique insights required for great stock calls

STEP 1 of 3:

- In the table that follows, the first column consists of typical methods equity research analysts use to collect and analyze information
- Using the scale below, rank each method under the first empty column heading "*Method tends to lead to information that is*":
 - 1 = Not differentiated because it's *widely accessed* by other analysts
 - 2 = Possibly differentiated because it's *not widely accessed* by other analysts
 - 3 = Highly differentiated because it's *not typically accessed* by other analysts
- After completing this step, continue with the instructions that follow the table to complete STEP 2 and 3

Transformation Action Plan (TAP)

“How Unique Are Your Information Sources?” Table

- Note, for STEP 1, ignore the 3 right-most columns with headings “Frequency”, “Score” and “Goal to Change”

Research Method for Collecting Information	STEP 1: Method tends to lead to information that is...* 1=Not diff. 3=Highly diff.	STEP 2: Frequency 0=Never 3=Very frequent	STEP 3: Score	STEP 3: Goal to Change
1. Review company documents, website, and conference call				
2. Monitor financial press				
3. For buy-side only: read sell-side reports				
4. Speak with company investor relations contact				
5. For buy-side only: proactively interview sell-side analyst, beyond listening to their pitch				
6. Review industry trade journal, website, or blog				
7. Interview company management (other than investor relations)				
8. Analyze publicly-available economic data in a manner that differs from how it is delivered to the market				
9. Proactively interview buy-side analyst, portfolio manager, sell-side salesperson or trader to understand investor psychology of a stock				
10. Interview management of <u>publicly-traded</u> competitor of the stock being researched				
11. Interview management of <u>publicly-traded</u> customer of, or supplier to, the stock being researched				
12. Interview consultant, expert, or company retiree who is <u>part of an expert network</u>				
13. Analyze information from private forecasting service in a manner other than for which it was intended				
14. Interview journalist, blogger or noted book author for unpublished insights				
15. Interview government official, staffer, lobbyist or association executive				
16. Interview management of <u>privately-held</u> competitor of the stock being researched				
17. Interview management of <u>privately-held</u> customer of, or supplier to, the stock being researched				
18. Interview consultant, expert, or company retiree who is <u>not in an expert network</u>				
19. Conduct survey, formal or informal				

Transformation Action Plan (TAP)



STEP 2 of 3:

- In the table above, in the column titled “Frequency”, rate the frequency in which you use this method, using this scale:
 - 0 = Never
 - 1 = Rarely (1x to 2x per quarter)
 - 2 = Moderately (> 2x per quarter, < 1x per week)
 - 3 = Very frequently (at least 1x per week)
 - **Complete this step before proceeding to STEP 3**
-



STEP 3 of 3:

- In the column titled “Score” multiply the number from the two columns to its left
 - Review your scores
 - Ideally, the highest scores will be near the bottom of the table because those are the more proprietary sources
 - If your highest scores are near the top suggests you are primarily relying on sources that provide information widely available to other analysts and therefore it’s not unique
 - In the right-most column titled “Goal to Change”:
 - Put the word “Increase” or “+” sign if you would like to use this method more;
 - Put the word “Decrease” or “-” sign if you would like to rely on this method less
 - Note: you can’t add something to your day unless you take something away and so for every item you intend to increase, there should be at least one corresponding item you intend to decrease
-

Transformation Action Plan (TAP)



Section 3: Identify Role, Source and Name of Insight

- In this portion of the TAP you will move towards identifying the names of individuals to contact to help develop greater clarity around the assumptions you created in the prior TAP section
- In the prior step of the TAP you created as many as six assumptions for critical factors that impact one or more of your stocks. Go back and select the two assumptions that you best understand and enter them below:

Assumption #1:

Assumption #2:

- Using the table below, first identify the types of professional *roles* that would be best suited to help better forecast each of your two assumptions
 - Put an “X” in the columns titled “Role helpful in answering or narrowing Assumption” to identify the best roles
- After you have selected the best *roles*, go to the corresponding two right-most columns and identify:
 - The source where you could likely find this role (see the table footer for thoughts); or
 - If you know of specific individuals at a company or within the industry, record their name
- If you were instructed to prepare before the workshop began, or if you have access to the information while taking the workshop, research the names of specific individuals to contact (you may have more than one per assumption)

Transformation Action Plan (TAP)

Roles, Names and Sources Table

Live Information Source	Role helpful in answering or narrowing Assumption #1?	Role helpful in answering or narrowing Assumption #2?	Source(s) to Find Names to Clarify Assumption #1*	Source(s) to Find Names to Clarify Assumption #2*
Author of book/academic paper with expertise				
Customer of, or supplier to, the company (publicly-traded or privately-held)				
Forecasting service representative				
Government officials or staffers				
Industry association representative				
Industry consultant				
Industry journalist/blogger				
Management from privately held competitor in primary market				
Management from publicly-traded competitor in primary market				
Management from the company being researched (including investor relations)				
Management from local competitor in an emerging market (for trends that involve international expansion)				
Other:				

* The "Source(s) to Find Names to Clarify Assumption" include online sites (e.g. LinkedIn, Monster.com), blogs or news stories authored by those with sector expertise, trade journals, industry award winners, conference speakers, book authors, databases of privately-held firms, consulting firms, expert networks, etc.



Section 4: Cultivate Sources of Insight

- Great analysts are continually looking for new sources of insight, which doesn't occur on its own. There are activities that can help analysts make new connections (e.g. attending a target-rich conference), or at a minimum, bring the names of industry thought leaders to the analyst's attention (e.g. an insightful industry blog).
- In the table below:
 - Check if you currently use the method regularly
 - Check if you would like to use this method more often
 - For those methods you would like to use more often, create a game plan in the right-most column that explains how you will achieve this (be as specific as possible in terms of dates and names of events, publications, websites, etc.)
- When reviewing the methods below, remember to focus on those where your involvement will *help gain insights that clarify the assumptions surrounding your stocks' critical factors*. Reading an industry blog or attending a conference that offer no new contacts with expertise of your stock's critical factors is likely a waste of time.

Transformation Action Plan (TAP)

Cultivate Sources of Insight Table

Methods to Cultivate Sources of Insight	Put "X" if you currently use this regularly	Put "X" if you would like to use this more often	Steps you will take for those methods you want to use more often
Proactively read relevant industry trade blogs and journals			
Attend industry events not sponsored by publicly-traded companies (e.g. conferences, trade shows)			
Approach good conference speakers after their presentation (possibly after the conference)			
Attend industry social events (such as evening conference events and annual award banquets)			
Belong to relevant on-line groups (e.g. LinkedIn groups)			
Belong to industry task forces, committees or philanthropies that include key decision makers			
Belong to industry associations (possibly as an "associate" member)			
Be on the distribution list of relevant industry consulting firms that publish reports and white papers			
Speak with other analysts at your firm who cover stocks that are large suppliers to, or customers of, your companies in order to get names of good industry contacts			
Other: _____			

Transformation Action Plan (TAP)



Section 5: Create Questions That Get Answers

- The purpose of this section of the TAP is to ensure the questions you ask of information sources (including management of companies you cover), will yield insights helpful for stock picking
- You will need the Detailed Reference Card *Questioning Techniques for Obtaining Insights Using the ICE™ Framework* and therefore have it available before proceeding
- Start by focusing on two of the critical factors or assumptions you created earlier in the TAP. Put these in the first row of the table that follows.
- Then complete the entire column for your first critical factor or assumption (center column) and when this is done move onto your second critical factor or assumption (right-most column)
- We have provided examples for the first three rows of information to help clarify the exercise
- You should provide your response where prompted and in all of the empty boxes

Transformation Action Plan (TAP)

Create Questions That Get Answers Table

	Critical factor or assumption #1	Critical factor or assumption #2
Stock	Example: Amazon.com (AMZN) Your example:	Example: Union Pacific (UNP) Your example:
Critical factor or assumption (from earlier TAP section)	Example: Adoption rate of e-commerce within emerging markets Your example:	Example: Changes in freight railroad capacity Your example:
Following Step 1 of the ICE™ framework, <u>if</u> there is a credible forecast for the factor or assumption (other than by you) list the source and forecast (quantify when possible):	Example: Amazon management expects emerging market e-commerce to take 1%-2% market share from retail stores per year over the next 3 years For your example: (if a credible forecast exists):	Example: GE, which is one of only two freight locomotive manufacturers, expects locomotive deliveries to grow only 2% per year for the next 2 years, while freight demand grows at 5% each year For your example: (if a credible forecast exists):
Provide your forecast for the factor or assumption (if you don't have a good one, create a fictitious one for now):		
Using the DRC <i>Questioning Techniques for Obtaining Insights Using the ICE™ Framework</i> , review the table titled "Question Types That Reference Specific Parameters to Evoke Specific Answers" (Exhibit 3) to create a question that has a parameter:		
Go to "Step 2" of the DRC ("C" of ICE™ framework) and ensure your question above uses non-threatening language and terms. If you need to make changes to the question you composed in the row above, re-write your question here:		
Go to "Step 3 of the DRC ("E" of ICE™ framework) and incorporate as many of the strategies as you can that will entice a thorough response . Re-write your question here:		

Transformation Action Plan (TAP)



Section 6: Determine What's In It For Them (WIIFT)

- The purpose of this section of the TAP is to become more familiar with identifying “what’s in it for them?” for potential information sources, which is *critically important* if you want them to open up and provide useful insights
- Ideally, through research or conversations with others, you’ll identify the WIIFT before you have your first conversation or email exchange with a new information source, but that’s not always possible. So understand for this portion of the TAP, we are purposely forcing you to *conjecture* about an individual’s WIIFT, which is a common real-world challenge.
- Start by identifying two information sources you want to contact:
 - Go back to the portion of the TAP where you potentially identified specific names for each of your two assumptions; or
 - If you didn’t identify specific names, think of two industry sources you have met or would like to meet
 - If you are new to covering a sector, and have no thoughts for industry contacts to potentially meet, think of a famous business executive you would like to interview
 - Put the names of the two interviewees below:

Name #1:

Name #2:

- In the table that follows, rank order from 1 to 8, the WIIFT options in terms of their likely effectiveness in meeting each individual’s needs. Start by putting a “1” for the most effective and “8” for the least effective and then rank the rest.
- Complete the column “Rank for Name #1” first and then move to “Rank for Name #2” next

Determine What's In It for Them Table (rank order, with “1” as most effective)

Their Specific Need (WIIFT)	Rank for Name #1:	Rank for Name #2:
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		

Transformation Action Plan (TAP)



Section 7: Introduce and Interview

- This portion of the TAP provides an opportunity for you to identify the areas of the ASPIRE™ and PRACTICE™ frameworks that you intend to incorporate into, or reinforce within your routine as they relate to:
 - *Introducing yourself* to interviewees; and
 - *Conducting the interview* to generate useful insights for stock picking (recall the “I” of ASPIRE™ is “Introduce and Interview”)
- Review the table that follows and rate each element using this scale:
 - 1 = Already firmly in my routine
 - 2 = Part of my routine but want to improve further
 - 3 = Not part of my routine and want to develop
 - N/A = Not interested in making this part of my routine

Introduce and Interview Table

Elements for Successful Introduction and Interview	Rating
1. Research the interviewee's background in advance to better understand WIIFT	
2. Prepare questions before the interview (that meet the ICE™ framework best practices)	
3. Possess excellent communication skills	
4. Possess excellent listening skills (including stop interrupting)	
5. Be more empathetic of those I meet (e.g. listen to their concerns)	
6. Fully adapt to the interviewee's preferences and surroundings	
7. Build a larger network of contacts to potentially share as “currency” with interviewees	
8. Be the first to say “hello” and thank the interviewee for his/her time	
9. Ask questions to get to know them, in a sincere and genuine manner	
10. Show reverence to the person by noting why I reached out to him or her	
11. When referred to the person by someone they know, mention the other person's name	
12. Establish common ground by agreeing with points they make – and avoid having a debate during my first conversation	
13. While speaking with interviewee (or email exchange) make an effort to identify or confirm their “WIIFT”	
14. Avoid passing judgment if the information source says something I disagree with	
15. Avoid using terms or jargon that may not be understood by the information source	
16. Embrace “their ways” by showing interest in something unique to their profession, personal background or geographic region	
17. To illustrate my expertise, show or send the interviewee some of my insights in advance of the first meeting/conversation	
18. Proactively explain I will maintain their confidentiality	
19. “Be in the moment” with the person by avoiding distractions such as emails, phone calls, texts, etc.	
20. For face-to-face interviews, utilize a location conducive to a conversation and note taking	
21. Ignore internal distractions such as inattention, self-absorption, misinterpretation and personal biases	
22. Use a comforting non-threatening tone, timing, pace and volume that will appeal to the interviewee	
23. Convey body language that shows I am interested in the conversation (e.g. good eye contact, posture, facing the other person directly, smiling, energetic, no crossed arms or legs, etc.)	
24. Ask interviewee's opinion on topics	
25. Use these influencing strategies: reciprocity, commitment and consistency, social proof, liking, authority and scarcity	
26. When an interview is moving too slowly, take charge and move it along	
27. At the conclusion of a conversation, thank the interviewee for his/her time and ask if there is anything I can do to reciprocate for their help	

Transformation Action Plan (TAP)



Section 8: Responding and Evaluating

- This portion of the TAP reinforces the last two elements of the ASPIRE™ framework, which are easy to understand but too often not completed
- Most of the items in the table that follows are useful steps to satisfy an interviewee's WIIFT, which is a critical element of the "R" in the ASPIRE™ framework (**R**espond with follow-up) because it builds trust, credibility and ensures the interviewee is compelled to proactively help your efforts in the future
- The last two items are in italics because they pertain to the "E" in the ASPIRE™ framework (**E**valuate the benefits from the interviewee)
- Review the table that follows and rate each element using this scale:
 - 1 = Already firmly in my routine
 - 2 = Part of my routine but want to improve further
 - 3 = Not part of my routine and want to develop
 - N/A = Not interested in making this part of my routine

Responding and Evaluating Table

For my helpful information contacts, I...	Rating
1. Provide an update after participating in calls or meetings with senior management of companies where they have shown interest	
2. Forward key quotes from a quarterly call transcript of companies where they have shown interest	
3. Provide my thoughts on days when their stock is volatile or company is in the news	
4. Forward relevant insights I come across when researching (including blogs, journals, webcasts, etc.)	
5. Provide access to my research (put "NA" if not allowed by your firm)	
6. Forward them information about relevant industry events they may want to attend	
7. Introduce them to my other relevant information sources	
8. Host events for them to meet other information sources	
9. Forward requests from the press to them that I receive	
10. Recommend them to speak at conferences or client dinners I host	
11. In my post-interview thank you email, mention how I intend to give them recognition with others as the industry thought-leader	
12. Dedicate time with them during industry social events such as conference and annual award dinners	
13. Take to lunch or dinner when I'm in the same town	
For new information sources...	
14. Determine as quickly as possible if the interviewee possesses information that will help me forecast the assumptions that drive the critical factors for my stocks	
15. If the interviewee cannot provide insights, ask if they know of others who can provide the insight	

Opening Case Answer Key

Opening Case Answer Key

Lucas' dialogue	David's dialogue	Problem & Module Where Discussed
"I'm not sure why my stock picking performance isn't better. I'm doing everything I can to stay on top of my stocks. I read every news story, sell-side report and regulatory filing for my universe of stocks."	"Where do you get your unique insights for stock picking?"	M2: Relies too heavily on publicly-available information (news stories, sell-side reports and regulatory filings)
"It's usually from something I learn from speaking to the company's IR contact or a sell-side analyst"	"Do they help you better understand the critical factors for your stocks?"	M2: Doesn't have proprietary sources of insight
"What are critical factors?"	"They're the factors most likely to drive a stock's relative performance, but that's another conversation we should have. Are there other sources you could contact to develop unique insights?"	M1: Doesn't know the critical factors for his stocks or the key assumptions that drive those factors
"I have a friend who works for ExpBitz which is an on-line travel site for booking flights and hotels. I speak to him about once a month about the airline sector."	"He must be a great resource for understanding airline pricing and traffic."	
"Not really...he's in charge of their IT department and so we usually discuss IT issues for the industry"	"Hmmm...not sure that's a great use of time. Among your sectors, which industry groups host the best industry events to make good connections and develop new insights?"	M2: His friend doesn't work in an area that helps to narrow the assumptions for critical factors in his sector M2:: He doesn't ask his friend for names of individuals in ExpBitz that could help better understand airline pricing M5: Doesn't evaluate the benefit of speaking with his friend, which is a waste of time for the purpose of stock picking
"I'm not sure because I haven't spent any time learning about industry groups"	"I'd like you to develop your industry contacts by going to Air-Con, which is the largest airline industry conference and it's taking place next month."	M2: Doesn't see the value in knowing the best industry events or groups that host them

Lucas' thoughts and actions...	Problem & Module Where Discussed
Lucas considers this Air-Con event to be a big interruption to his normal routine and so he decides he'll wait to learn more about it on his flight there.	M2: Doesn't see the value in going to conferences because he feels it takes too much time M2: Doesn't think to ask the conference organizers for a list of attendees in advance M2 and M4: 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 and answer "what's in it for them?"

Opening Case Answer Key

As the date draws closer, he figures he can use the event to seek information that will support his view that trans-Pacific pricing is likely to increase over the next two years.	M1: Goes to the conference with confirmation bias about trans-Pacific pricing is likely to increase
Although the conference is being held at a major conference hotel, Lucas stays down the street at the hotel chain where he has gold status so he can get upgraded to a nicer room. He's booked a flight that gets him there too late to attend the pre-conference social event at the conference hotel because he doesn't like social events.	M2: Doesn't see the value in arriving to the conference in time to participate in the opening social event M3 & M4: 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)
He arrives at the conference the next morning, realizing he's under-dressed, wearing jeans and a Polo shirt while everyone at the conference is in full professional attire. In the hall during the morning break, a fellow conference attendee, Sunil, starts making small talk with Lucas and when he sees Sunil works for an airline he follows, Lucas asks if there are any senior management at the conference he could speak with. Sunil isn't sure and so Lucas thanks him and moves onto the next session.	M2: Doesn't see the value in meeting with Sunil, because he's not a "top executive" even though Sunil may have insights or other contacts he can provide Lucas M4: He's under-dressed which suggests he's not attempting to conform to the interviewee's ways
After the lunch keynote presentation Lucas approaches the speaker, who is the CEO of a small cap regional airline that he doesn't cover. Lucas doesn't know much about the CEO or company. The conversation takes place in the table that follows.	M3: Hasn't conducted research on the CEO he approaches, even though he has been listed as they keynote speaker for over six months

Lucas' dialogue	Executive's dialogue	Problem & Module Where Discussed
"Hi, I'm Lucas Gallo of Nickel Mine Asset Management. I don't cover your stock because it's too small and so I don't know much about your airline"	"Well, nice to meet you"	M3: Fails to "entice thorough response" by suggesting the CEO's company is too small M4: Doesn't thank the CEO for agreeing to have a conversation
"How long have you been CEO?"	"About ten years"	M3: Asks basic questions that can be answered with minimal research
"I'd like to know how much you are taking up ticket pricing in the trans-Pacific market"	"I'm not sure because we don't operate in that market. Have you spoken with the guys at 'McFinsey Consulting' who specialize in forecasting airline pricing by route?"	M3: Asks about a topic where the interviewee is not qualified to provide an accurate answer M3: Question doesn't include parameters
"No, I didn't know there were consultants who focus on airline pricing. So how's business in the areas where you operate?"	"As we mentioned during our quarterly call just over a month ago, we believe we'll see a 5% increase in passenger seat miles and a 2% increase in revenue per available seat miles this quarter"	M2: Doesn't know there are consulting firms that specialize in forecasting critical factors for his sector
"Do you expect to change your guidance before you report the current quarter?"	"Well, I'm not sure I can answer such a direct question"	M3: Asks a question that cannot be legally answered and thus puts the interviewee on the defensive (does not "calm their concerns")
"In your presentation you referenced bidding on another regional airline last year but didn't succeed in acquiring it. Who's to blame in your	"We walked away because valuation was too rich. We determined we could build more cheaply than buy. I need to get to another meeting and	M3: Asks a question in a manner that likely puts the interviewee on the defensive (does not "calm their concerns")

Opening Case Answer Key

firm for messing up such a great opportunity?"	so I'm sorry but I need to run. It was nice meeting you."	M4: Passes judgement by suggesting the failed acquisition attempt was a mistake M4: His blunt question probably hurts his ability to be trusted (which is key to influencing others)
"Same here, thanks"		M2: He doesn't ask the CEO for names of other good industry contacts to speak with at the conference or afterwards M4: Doesn't demonstrate any level of expertise in his questioning M3: He didn't use any methods to entice a thorough response M4: Doesn't use any of the "Weapons of Influence"

Lucas' thoughts and actions...	Problem & Module Where Discussed
Immediately before the last session of the day Lucas sees Sunil (whom he met earlier in the day) and since Lucas hasn't made any contacts with senior executives of the companies he covers, he decides he should probably ask Sunil to get together before the dinner session. Sunil (who doesn't drink alcohol) suggests they meet in the hotel lobby, but Lucas says he's had a long day and would prefer to meet at the hotel bar for a drink.	M3: 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) M3: Does not conform with Sunil's disinterest for alcohol (which hurts his ability to influence by violating the "conform" principle)
Lucas, goes back to his hotel for an hour to check stock prices and news flow for the day. Realizing he's running 10 minutes late for his meeting with Sunil, he jogs to the conference hotel where he goes to the bar (which is quite noisy and has no seating) to find Sunil waiting for him. The conversation takes place in the table that follows.	M3: Wastes valuable time that could have been spent researching Sunil and his company in order to develop good questions that had parameters M4: Shows up late which hurts his ability to build trust

Lucas	Sunil	Problem & Module Where Discussed
"So what do you do for Trans Global Airlines?"	"I work in our purchasing department where I help determine our long-term need for aircraft"	M4: Doesn't thank Sunil for agreeing to have a conversation M4: Doesn't explain that he won't quote Sunil and he'll keep Sunil's name anonymous M4: Doesn't try to identify Sunil's needs (WIIFT?)
"So how's business?"	"It's good"	M3: Asks a question with no parameters
"I've seen you guys have had some IT integration problems. Are those resolved?"	"I'm not sure because that's really not my area of expertise. I focus on purchasing equipment. The areas where...(Lucas interrupts Sunil)"	M3: Asks about a topic where the interviewee is not qualified to provide an accurate answer M3: Interrupts Sunil which hurts his ability to influence
"I'm building a DCF valuation model and need help in forecasting the RASM in order to compute the ROIC.	"Sorry but I don't understand some of those terms"	M3 and M4: Asks a question with too much jargon that may intimidate the interviewee

Opening Case Answer Key

What's your current WACC and where do you see it 2-3 years from now?"		
"Maybe I should start with my basic view in that I expect trans-Pacific ticket pricing to increase over the next 2 years. Do you agree?"	"I think pricing might go up"	M3: Asks about a topic where the interviewee is not qualified to provide an accurate answer
"Thanks, my boss is going to be pleased I found someone in the industry to confirm my thesis."	"I'm glad I could help"	M2: Incorrectly asserts Sunil is a valuable source of insight for trans-Pacific pricing
"Didn't you guys order a bunch of those enormous A380 aircraft? Who's in charge of that massive gamble?"	"That's my boss. I worked on that project for him. It's actually quite sound, given our strategy of focusing on hub-to-hub routes..."	M3: Question is phrased in a manner not likely to "calm their concerns" M4: Passes judgement by suggesting the A380 aircraft order is a gamble

Lucas' thoughts and actions...	Problem & Module Where Discussed
As Sunil explains the strategy, Lucas feels his phone vibrate and it's a text showing that his favorite team is losing an important playoff game. So he shifts his stance so he can see a TV in the bar showing the game, now standing almost side-by-side with Sunil, and continues to show mild interest in the conversation. Lucas, feeling confident Sunil has answered his question about trans-Pacific pricing, decides there's nothing else to discuss and thinks of a strategy to end the conversation. Lucas spends a few minutes telling Sunil about his buy-side job and then says he needs to go back to his hotel to catch up on work.	M3: Doesn't use any methods to entice a thorough response M4: Doesn't demonstrate any level of expertise in his questioning M4: Doesn't try to get to know the interviewee M4: Doesn't ignore distractions such as his phone and the bar TV M4: 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) M4: Doesn't use any of the "Weapons of Influence"
Before Lucas departs, Sunil asks why he's not going to the conference dinner featuring a panel discussion of four of the industry's top journalists/bloggers. Lucas tells him, "If they have something really important to say, I'm sure I'll read about it in the <i>Financial Journal</i> or CNBC tomorrow."	M2: Doesn't see the value in watching the panel of industry journalists/bloggers, to learn insights, and possibly meet the panelists afterwards to make new industry contacts M2: Doesn't ask Sunil for names of other good industry contacts to speak with at the conference or afterwards
Lucas flies home the next day, feeling a bit anxious because he's missed two days of news flow. In his effort to catch up, he doesn't take the time to follow up with Sunil or the CEO, or share with his internal colleague who covers the aerospace sector that Trans Global Airlines sees a design flaw in the next generation of planes being produced by a major manufacturer held in the company's portfolio.	M5: Doesn't appear to add the CEO or Sunil to his contact list M5: Doesn't follow up with the CEO or Sunil with a "thank you" email M5: Doesn't attempt to fulfill the "what's in it for them?" need after the interviews (partly because he didn't probe for these) M5: Doesn't tell his internal colleague about the issues with the aircraft flaws that could impact his stocks

This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.