

AnalystSolutions

471

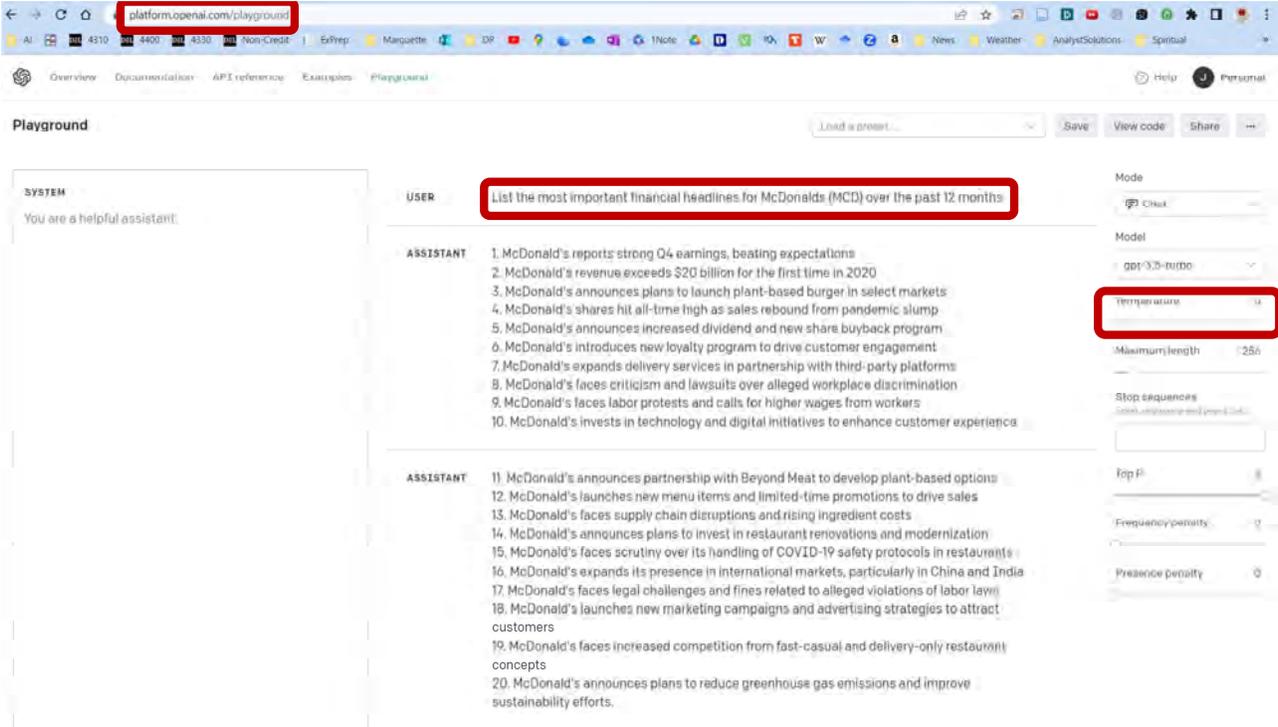
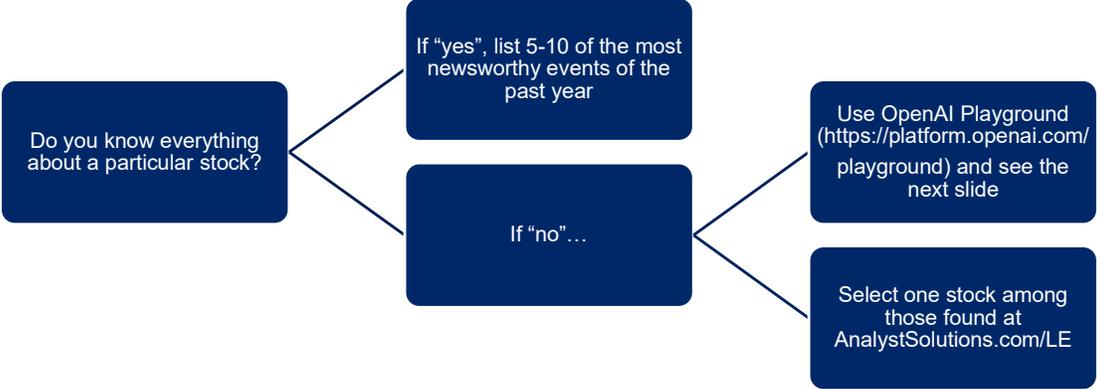
James J. Valentine, CFA, DrBA

Identify and Monitor a Stock's Critical Factors

472

CE Qualified
Activity  CFA Institute

Choose Your Option



Complete Your TAP

Section 1, Part 1

Transformation Action Plan (TAP)



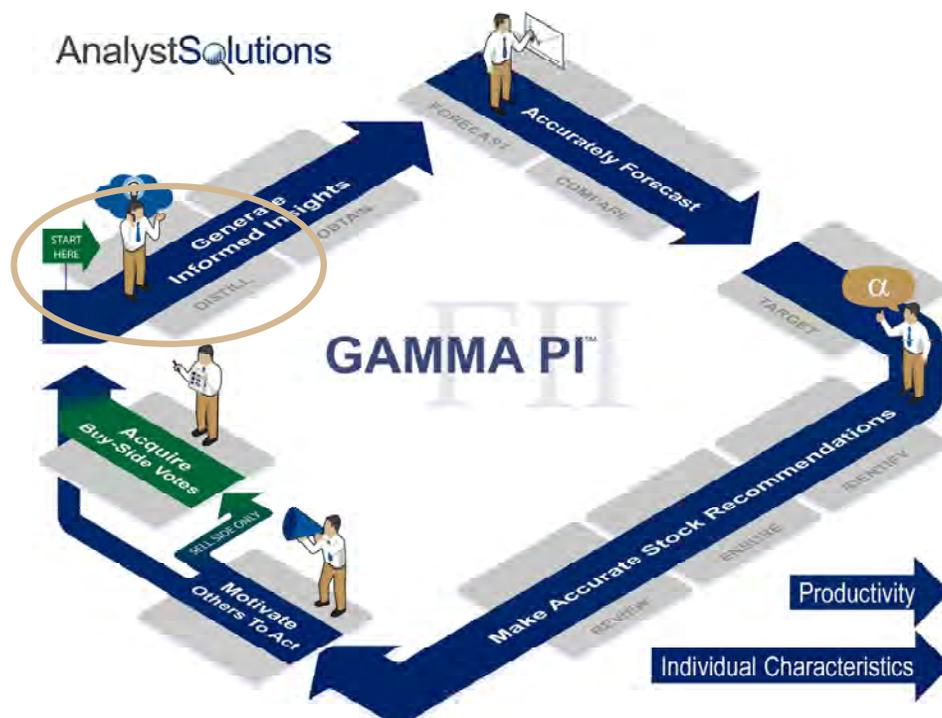
Instructions for the Transformation Action Plan (TAP):

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

Exercise: “List Everything”

475

James J. Valentine, CFA, DrBA



, CFA, DrBA

Best of Breed

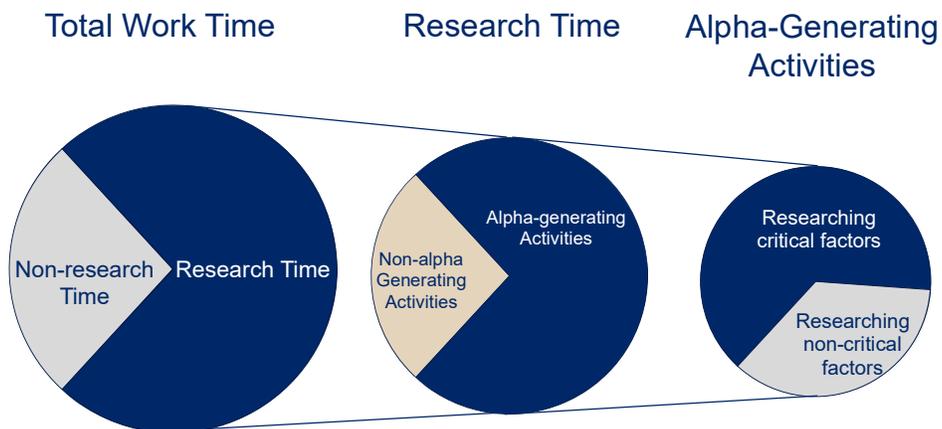
- Above average intelligence
- Inquisitive
- Good time managers
- Good influencers
- Focus on just 1-4 critical factors per stock



477

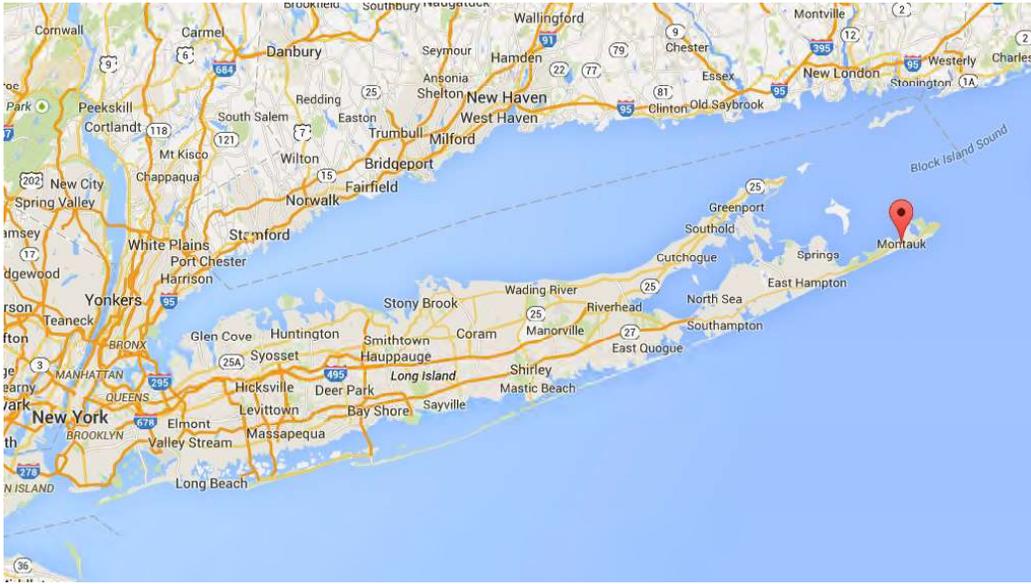
James J. Valentine, CFA, DrBA

Make the Alpha-Generating Time Matter



478

James J. Valentine, CFA, DrBA



479

James J. Valentine, CFA, DrBA

Fish Where There's Alpha



480

James J. Valentine, CFA, DrBA

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?



481

James J. Valentine, CFA, DrBA

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?



482

James J. Valentine, CFA, DrBA

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

483

James J. Valentine, CFA, DrBA

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

484

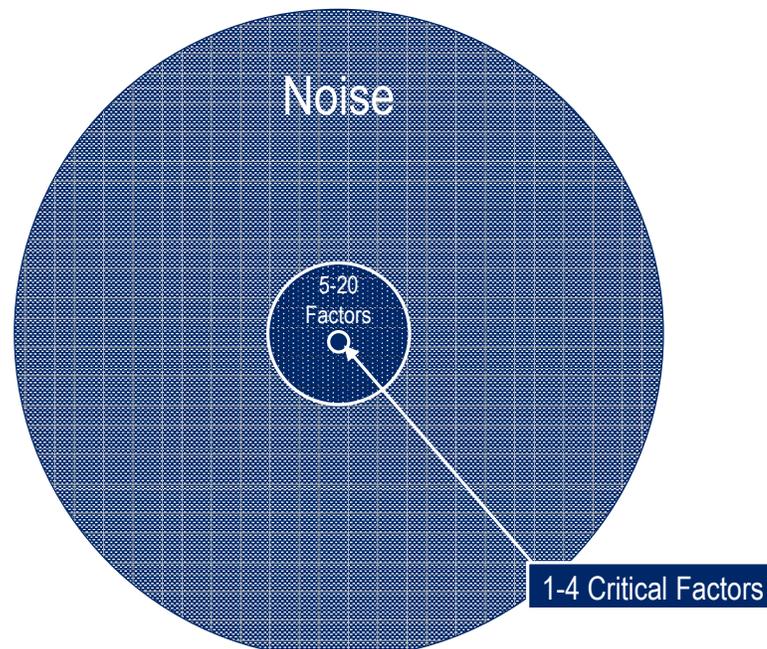
James J. Valentine, CFA, DrBA

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
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

485

James J. Valentine, CFA, DrBA



486

James J. Valentine, CFA, DrBA

Sea of Mediocrity



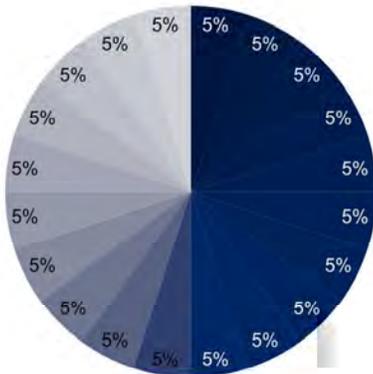
- “90% of everything is crap”
– Sturgeon’s Law (1951)
- “Four-fifths of everybody’s work must be bad. But the remnant is worth the trouble for its own sake.”
– Rudyard Kipling (1890)

487

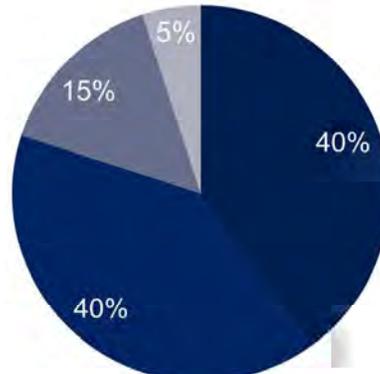
James J. Valentine, CFA, DrBA

What Will Your Day Look Like?

Critical Factors Not Defined



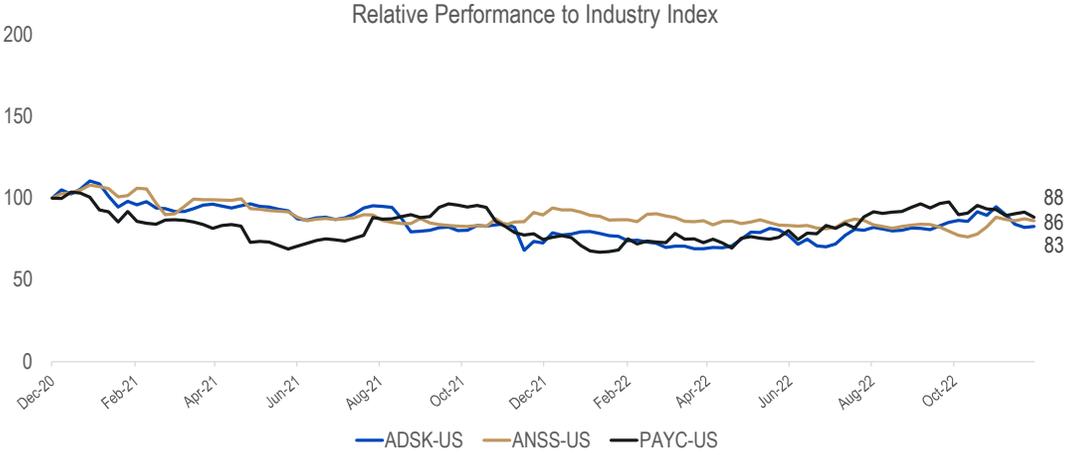
Critical Factors Defined



488

James J. Valentine, CFA, DrBA

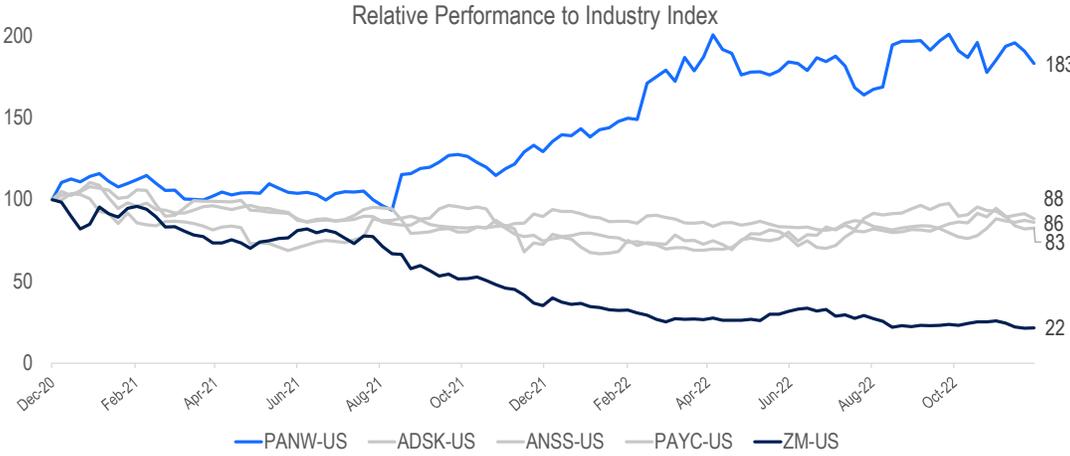
Generate Alpha...



489

James J. Valentine, CFA, DrBA

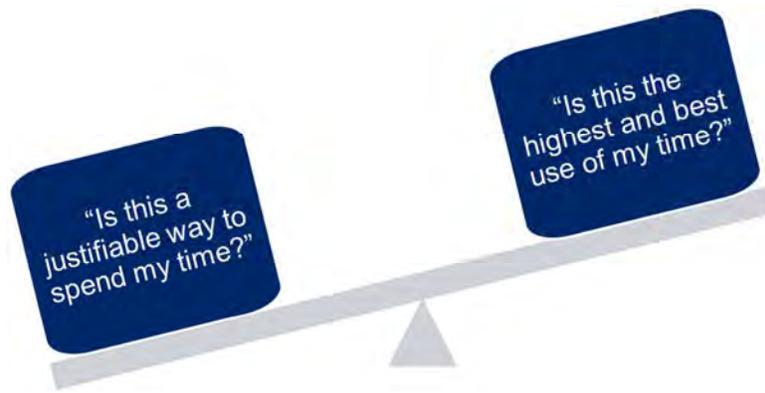
Generate Alpha...



490

James J. Valentine, CFA, DrBA

What Gets An Analyst Paid?



[Return to Lesson 3A](#)

491

James J. Valentine, CFA, DrBA

Workshop Flow

- Define a Critical Factor (using EPIC™ framework)
- Steps to Identify Critical Factors (using HELP™ framework)
- Process to Monitor Critical Factors

492

James J. Valentine, CFA, DrBA

Definition of Critical Factor

- An under-appreciated stock-related factor that can be forecast with reasonable accuracy to occur during the investor's investment time horizon, leading a stock to out- or under-perform an index or absolute level
- Everything that can move a stock is not automatically a critical factor

493

James J. Valentine, CFA, DrBA

EPIC™ Stock Calls Require Critical Factors Meet All Four Criteria



494

James J. Valentine, CFA, DrBA

Is It Material?

- Apple will be adding a new color option to the current version of its iPhone
- Toyota is going to move a manufacturing plant from Japan to Vietnam
- Amazon is going to raise the price of its Amazon Prime

495

James J. Valentine, CFA, DrBA

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



496

James J. Valentine, CFA, DrBA

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



497

James J. Valentine, CFA, DrBA

Does It Matter Where It Hits the Income Statement?

1% change in revenue from volume	• Need to include the associated costs for the incremental revenue
1% change in revenue from pricing	• No associated costs and so aside from taxes, it drops to the bottom line
1% change in expenses	• Aside from taxes, it drops to the bottom line
1 point change to tax rate	• Drops to the bottom line, but taxes tend to be less than a third of EBIT
1% change in share count	• Causes corresponding change to EPS

500

James J. Valentine, CFA, DrBA

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.			

501

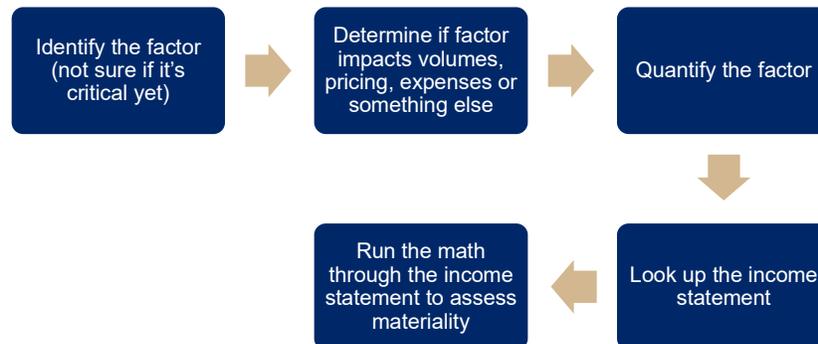
James J. Valentine, CFA, DrBA

EXERCISE: COMPUTE EBIT CHANGE TO EXCEED EPS THRESHOLD ("MAGIC NUMBER")

502

James J. Valentine, CFA, DrBA

Standard Process to Assess “Materiality”



503

James J. Valentine, CFA, DrBA

Wonut History

Wikipedia article for "Wonut". The article text is as follows:

Wonut

From Wikipedia, the free encyclopedia

A **wonut**, **doffle**^{[1][2]}, **wonnut**, **waffle-donut** or **waffle nut**^[citation needed] is a hybrid food made from a combination of the cooking techniques and inputs of a waffle and a doughnut. A mixture of the waffle batter and the doughnut dough are first poured into a waffle iron, then deep fried and finally decorated, with toppings similar to doughnuts. The wonut became popular in the spring of 2014 at the Waffles Cafe in the Lake View community area of Chicago, and its popularity quickly spread via bloggers and social media. It can now be found throughout the United States and beyond.

History | edit |

Following on the trend of the cronut, Waffles Cafe (3611 North Broadway, Chicago)^[3] included the wonut on its menu for a few months before it became prominent.^[4] In April 2014, bloggers and Instagrammers popularized the item around the country.^[5] The wonut was added to the menu to commemorate the opening of Waffles Cafe's second location in Streeterville and was first noticed by the Thrillist website.^[6]

Among the early supporters of the food item were Jezebel^[6] which DNAinfo.com author Serena Dal credits with causing the wonut to go viral.^[4] The creation, which was promptly featured on *The Chew*, is credited to Waffles Cafe owner Aliza Hernandez,^[7] a product of Le Cordon Bleu and former manager of Japonais in New York.^[8] By May 2014, DK's Donuts made a product that they called wonnuts, available to the Los Angeles area.^{[9][10]} The original Waffles Cafe location, which had been opened in 2012, was closed at the beginning of 2016 for renovation and was later that year shut down after losing its business license when it failed to pay a \$15,000 debt.^[11]

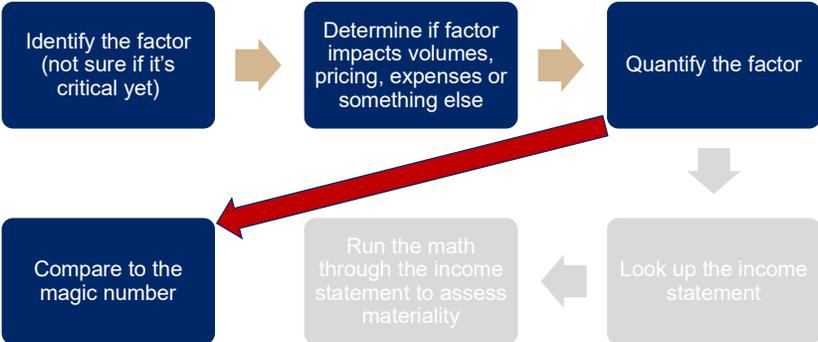
504

James J. Valentine, CFA, DrBA

EXERCISE: PART 1 OF COMPUTE IMPACT ZONE THRESHOLDS FOR MCD

Open corresponding Excel file

Using the Magic Number to Assess “Materiality”



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)

508

James J. Valentine, CFA, DrBA

Your “Materiality” Threshold

To illustrate the concept, we use 5% as



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

509

James J. Valentine, CFA, DrBA

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

510

James J. Valentine, CFA, DrBA

Example: Computing Materiality

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

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

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

2. Compute net income impact:

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

3. Convert after-tax to pre-tax:

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

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



511

James J. Valentine, CFA, DrBA

Details for Computing the Magic Number

Step	Math	Example Using Company in Prior Slide and 5% Materiality Threshold
1. Derive a material change to EPS by multiplying EPS by the materiality threshold (e.g. 5%)	(Annual EPS) x (Materiality threshold %) = Required per share change to be material	$\$0.88 \times 0.05 = \0.04
2. Derive the material change in net income by multiplying the material change in EPS by the share count	(Material EPS impact from above) x (share count) = Material change in net income that would cause material change to EPS	$\$0.04 \times 53.9 = \2.4 million (this is the same as 5% of net income)
3. Derive the material change in pre-tax income (or EBIT) by dividing the material change in net income by (1 - tax rate)	(Answer from above) ÷ (1 - tax rate) = Material change in pre-tax income that would cause material change to EPS	$\$2.4 \text{ million} \div (1 - 0.34) = \underline{\underline{\$3.6 \text{ million}}}$



512

James J. Valentine, CFA, DrBA

Compute Impact Zone Thresholds

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. EPS changes materially when revenue from **volume** exceeds \$24 million, or 3.4%. Here is the math:
 $\$3.6\text{MM} \div 0.15 = \24MM
2. EPS changes materially when revenue from **pricing** exceeds 0.5% across all revenue. Here is the math:
 $\$3.6\text{MM} \div \$698\text{MM} = 0.5\%$
3. EPS changes materially when a change in **expenses** exceeds \$3.6 million

513

James J. Valentine, CFA, DrBA

Details for Computing Impact Zone Thresholds

Step	Math	Example Using Company Above and 5% Materiality Threshold
Compute the amount of revenue from <u>volumes</u> that would need to change to cause EPS to move by the materiality threshold	(Magic number) ÷ (EBIT margin) = The amount a revenue change from <u>volume</u> that would cause a material change to EPS	\$3.6 million ÷ 0.15 = \$24 million of revenue (3.4%) from <u>volume</u> would cause a material change to EPS
Compute the amount of revenue from <u>pricing</u> that would need to change to cause EPS to move by materiality threshold	(Magic number) ÷ (Annual Revenue) = The amount a revenue change from <u>pricing</u> that would cause a material change to EPS	\$3.6 million ÷ \$698 million = 0.5% change in revenue from <u>pricing</u> would cause a material change to EPS
Expense threshold	Just use the magic number	\$3.6 million change in <u>expenses</u> would cause a material change to EPS

514

James J. Valentine, CFA, DrBA

EXERCISE: PART 2 OF COMPUTE IMPACT ZONE THRESHOLDS FOR MCD

Open corresponding Excel file

515

James J. Valentine, CFA, DrBA

Compute Impact Zones

- Using the skills you have learned, compute the magic number for your company, assuming a 5% materiality threshold
- Then, using the magic number from above, compute the minimum change from the following to cause a 5% change in your company's EPS
 - Change in revenue from
 - Volume
 - Pricing
 - Change in expenses

518

James J. Valentine, CFA, DrBA

Is It Worth Your Time?



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

519

James J. Valentine, CFA, DrBA

Materiality Tool

Ticker:	FDX	IBM	SBUX	WMT
Period (year)	F2022	F2021	F2021	F2021
Amount EPS needs to change to be "material":	10%	10%	10%	10%

Company name:	FedEx	IBM	Starbucks	Walmart
Step 1: Compute 10% of net income				
10% change to EPS	1.44	0.53	0.36	0.49
Materiality threshold as measured in net income	\$382	\$471	\$420	\$1,367

Step 2: Convert to pre-tax EBIT (MAGIC NUMBER)				
Materiality threshold as measured in pre-tax EBIT	\$490	\$486	\$536	\$1,870

Step 3: Compute threshold for changes from pricing and expenses				
Materiality threshold as measured in changes to pricing ¹	0.5%	0.8%	1.8%	0.3%
Materiality threshold as measured in changes in expenses ²	0.6%	1.0%	2.2%	0.3%

Step 4: Compute threshold for change in revenue from sales/volume				
Materiality threshold as measured in changes from sales/volume ³	\$7,019	\$3,965	\$3,337	\$37,649
As a percent of revenue	7.5%	6.9%	11.5%	6.6%

520

James J. Valentine, CFA, DrBA

Complete Your TAP

Section 1, Part 2

Questions #1 & #2

Transformation Action Plan (TAP)



Instructions for the Transformation Action Plan (TAP):

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

521

James J. Valentine, CFA, DrBA

EPIC™ Stock Calls Require Critical Factors Meet All Four Criteria

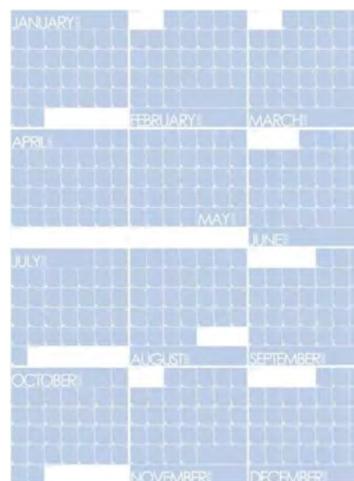


522

James J. Valentine, CFA, DrBA

Probably Going to Occur?

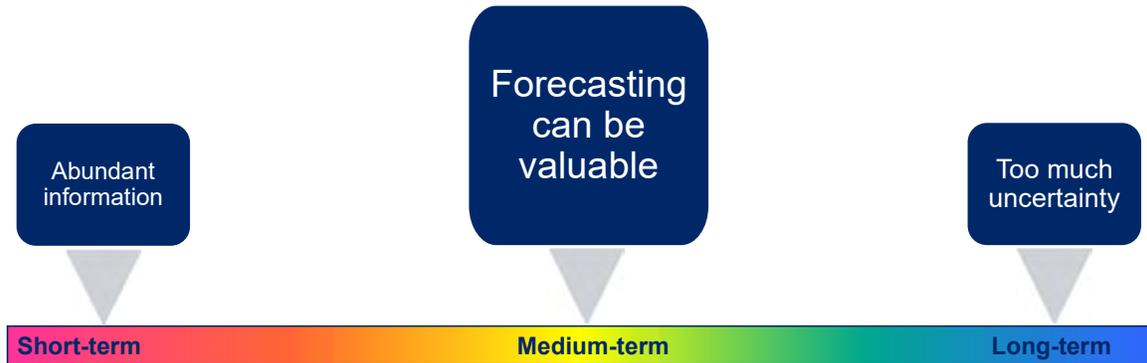
- Will likely occur during your investment time horizon
- What is your investment time horizon?



523

James J. Valentine, CFA, DrBA

Sweet Spot of Forecasting



524

James J. Valentine, CFA, DrBA

Exceed Materiality vs. Probability

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

525

James J. Valentine, CFA, DrBA

Complete Your TAP

Section 1, Part 2

Question #3

Transformation Action Plan (TAP)



Instructions for the Transformation Action Plan (TAP):

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

526

James J. Valentine, CFA, DrBA

EPIC™ Stock Calls Require Critical Factors Meet All Four Criteria



527

James J. Valentine, CFA, DrBA

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?

528

James J. Valentine, CFA, DrBA

High Quality Catalyst(s)

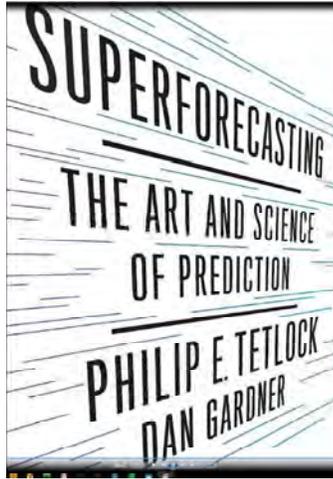
- Why does a great stock call need a catalyst?
- Some of the more common places to expect catalysts include:
 - Company-sponsored analyst meetings and calls
 - Earnings releases
 - The company's annual pricing, volume, or earnings guidance or projection
 - Deadlines for new legislation, regulations, 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



529

James J. Valentine, CFA, DrBA

Exercise: Fermi-ize



Break down the question into:

- Knowable; and
- Unknowable

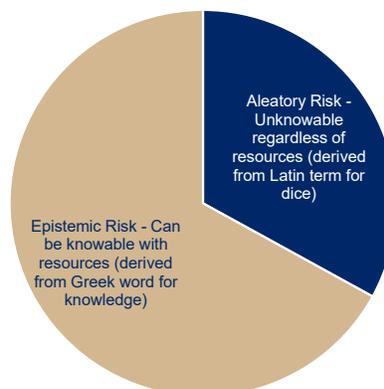
Types of uncertainty

- Epistemic: may be unknown but can be knowable with enough resources (e.g. customer demand for a new product)
- Aleatory: Unknowable regardless of resources (timing of when an executive will leave a company)

530

James J. Valentine, CFA, DrBA

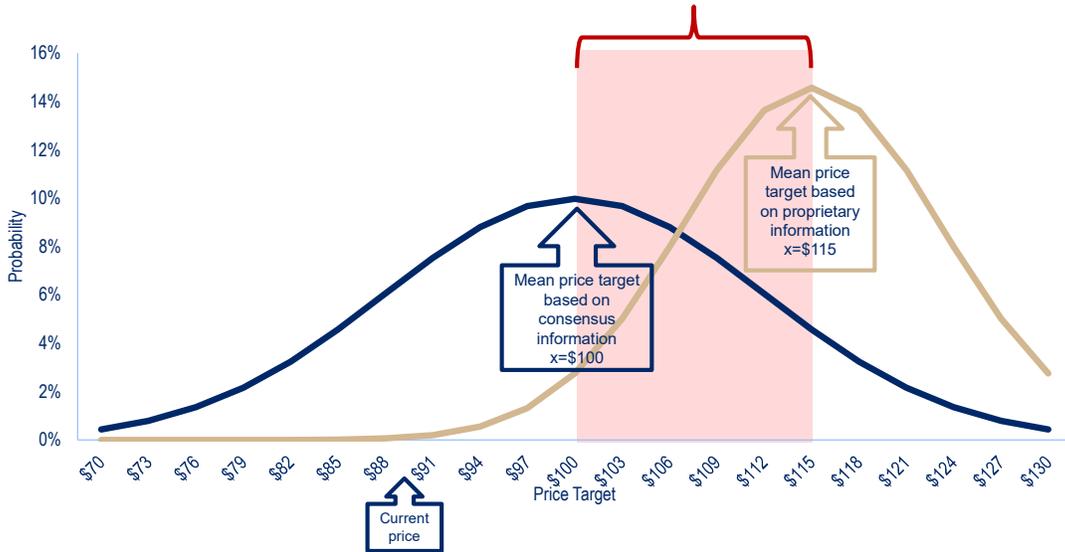
Improving Return vs. Risk



531

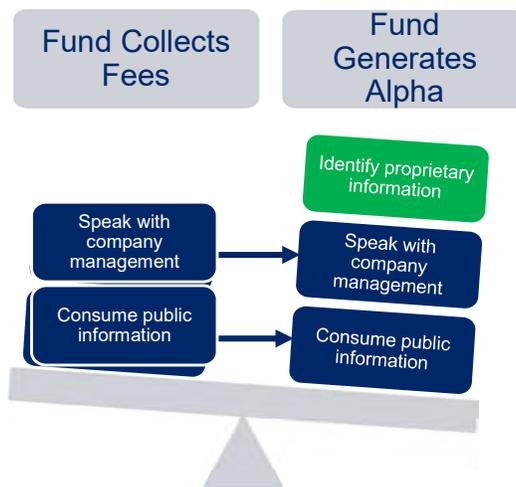
James J. Valentine, CFA, DrBA

Information Asymmetry



James J. Valentine, CFA, DrBA

Information Asymmetry = Alpha



533

James J. Valentine, CFA, DrBA

Methodology of Superforecasters

- Unpack the question into components
- Distinguish as sharply as you can between the known and unknown and leave no assumptions unscrutinized
- Adopt the outside view (base rate, or statistical average) and put the problem into a comparative perspective that downplays its uniqueness and treats it as a special case of a wider class of phenomena
- Adopt the inside view (specifics to the particular case) that plays up the uniqueness of the problem
- Explore the similarities and differences between your views and those of others—and pay special attention to prediction markets and other methods of extracting wisdom from crowds
- Synthesize all these different views into a single vision
- Express your judgment as precisely as you can, using a finely grained scale of probability

Source: Superforecasting: The Art and Science of Prediction

534

James J. Valentine, CFA, DrBA

Characteristics of Superforecasters

- In their **philosophic outlook**, they tend to be:
 - Cautious: nothing is certain
 - Humble: reality is infinitely complex
 - Nondeterministic: what happens is not meant to be and does not have to happen
- In their **abilities** and thinking styles, they tend to be:
 - Actively open-minded: beliefs are hypotheses to be tested, not treasures to be protected
 - Intelligent and knowledgeable, with a “need for cognition”: intellectually curious, enjoy puzzles and mental challenges
 - Reflective: introspective and self-critical
 - Numerate: comfortable with numbers
- In their **methods** of forecasting they tend to be:
 - Pragmatic: not wedded to any idea or agenda
 - Analytical: capable of stepping back from the tip-of-your-nose perspective and considering other views
 - Dragonfly-eyed: value diverse views and synthesize them into their own
 - Probabilistic: judge using many grades of maybe
 - Thoughtful updaters: when facts change, they change their minds
 - Good intuitive psychologists: aware of the value of checking thinking for cognitive and emotional biases
- In their **work ethic**, they tend to have a:
 - Growth mindset: believe it’s possible to get better
 - Grit: determined to keep at it however long it takes

Source: Superforecasting: The Art and Science of Prediction

535

James J. Valentine, CFA, DrBA

Methods to Reduce Intuitive Errors

Reduce Intuitive Errors (in columns) By using Structured Techniques to Perform Key Tasks (in rows)	Ignoring the Absence of Information	Favoring First-Hand Information	Imposing Lessons Learned	Lacking Sufficient Bais	Expecting Marginal Change	Projecting Past Experiences	Presuming Patterns	Relying on First Impressions	Rejecting Evidence	Over-interpreting Small Samples	Ignoring Inconsistent Evidence	Assuming a Single Solution
Define the project	2		2	1		1						
Get Started		2			2		1	1	2	2		
Examine and make sense of the data	2	2					2		1	2	1	
Explain a recent event and assess outcomes			2		1		1				2	1
Monitor a situation to gain early warning	1		1	1					2		2	1
Generate and test hypotheses				2					1		1	1
Assess the probability of deception		1		2		1	2					
Foresee the future				2	1	2						2
Challenge your own mental model	1	2	2	1	2	2	2	2	1	2	1	1
See events from perspective of adversary				1		2	2	2		2	1	1
Manage conflicting mental models								2	2	1	2	
Support a decision maker		1	1			1						2

Source: Structured Analytic Techniques for Intelligence Analysis

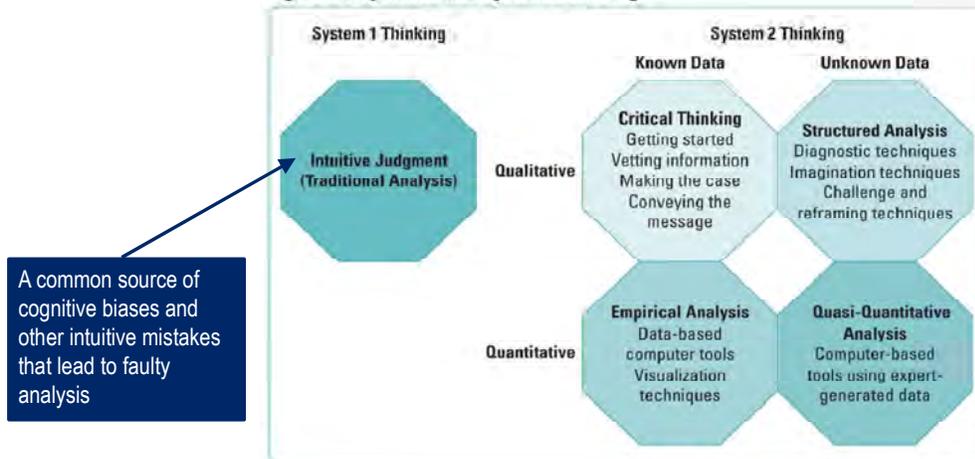
Most prevalent mental mistakes are in blue

1 = Major Impact in Reducing Errors, 2 = Some Impact in Reducing Errors
Source: Structured Analytic Techniques for Intelligence Analysis

James J. Valentine, CFA, DrBA

Where Does Bias Creep In?

Figure 2.0 System 1 and System 2 Thinking



Source: Structured Analytic Techniques for Intelligence Analysis

ASPIRE™ to Gain Insight

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

538

James J. Valentine, CFA, DrBA

Complete Your TAP

Section 1, Part 2

Questions #4, #5 and #6

Transformation Action Plan (TAP)



Instructions for the Transformation Action Plan (TAP):

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

539

James J. Valentine, CFA, DrBA

EPIC™ Stock Calls Require Critical Factors Meet All Four Criteria



James J. Valentine, CFA, DrBA

An Analyst's Goal...

Identify where
consensus is wrong

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?
- How can you determine if consensus will be poor at forecasting?



542

James J. Valentine, CFA, DrBA

Complete Your TAP

Section 1, Part 2

Question #7

Transformation Action Plan (TAP)



Instructions for the Transformation Action Plan (TAP):

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

543

James J. Valentine, CFA, DrBA

EPIC™ Conclusion



James J. Valentine, CFA, DrBA

Not a Critical Factor

- These are not critical factors (can you base a stock call on any?)
 - Changes of most macro-economic factors
 - Changes in most commodity prices
 - Most market-moving events (e.g. Fed policy change, Brexit, unexpected political leadership change)

Exploit Non-factors

- If you are well-versed on why a factor is “not critical”, there may be times to exploit a short-term trade when the market overreacts by treating it as a critical factor

546

James J. Valentine, CFA, DrBA

Hunting for Critical Factors



565

James J. Valentine, CFA, DrBA

HELP™ Framework for Identifying Critical Factors



Linked

566

James J. Valentine, CFA, DrBA

Industry and Company Research



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

567

James J. Valentine, CFA, DrBA

Agree or Disagree?

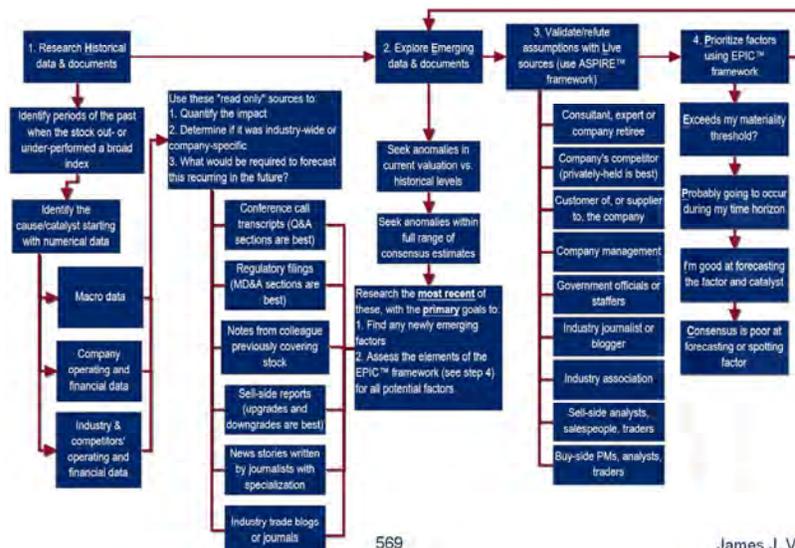
- “Most of the factors that drive stock prices in the current marketplace are similar to factors in the past”



568

James J. Valentine, CFA, DrBA

HELP™ Framework For Identifying Critical Factors



569

James J. Valentine, CFA, DrBA

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



570

James J. Valentine, CFA, DrBA

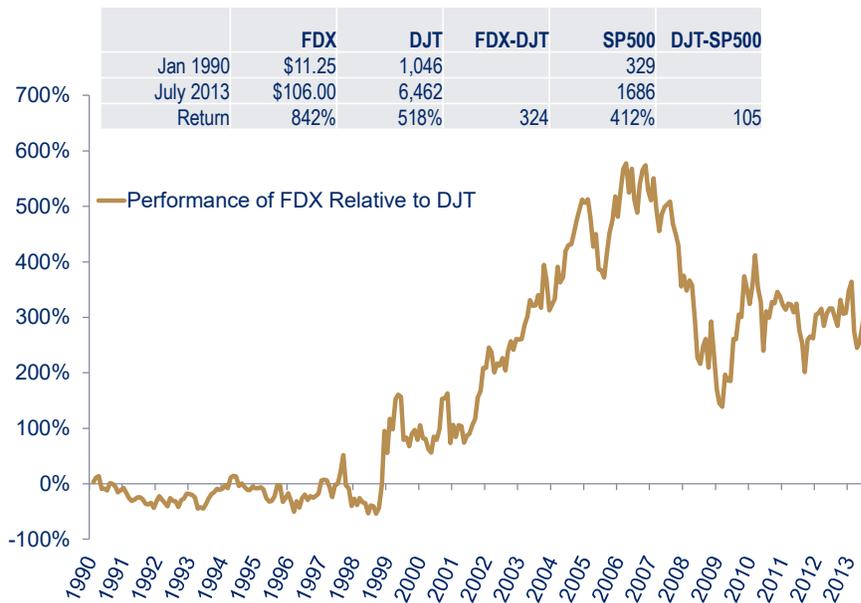
The Goal Is To Identify Specific Periods of Time When...

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



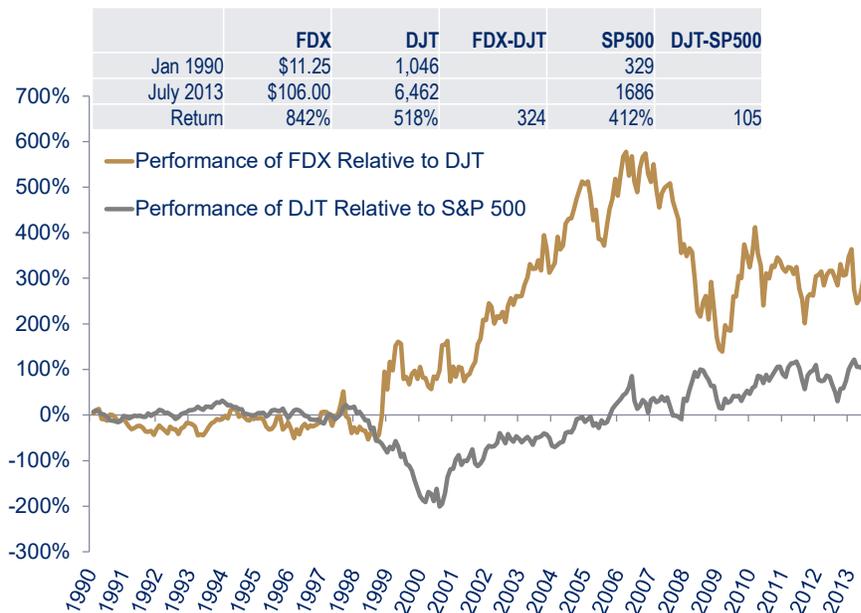
571

James J. Valentine, CFA, DrBA



572

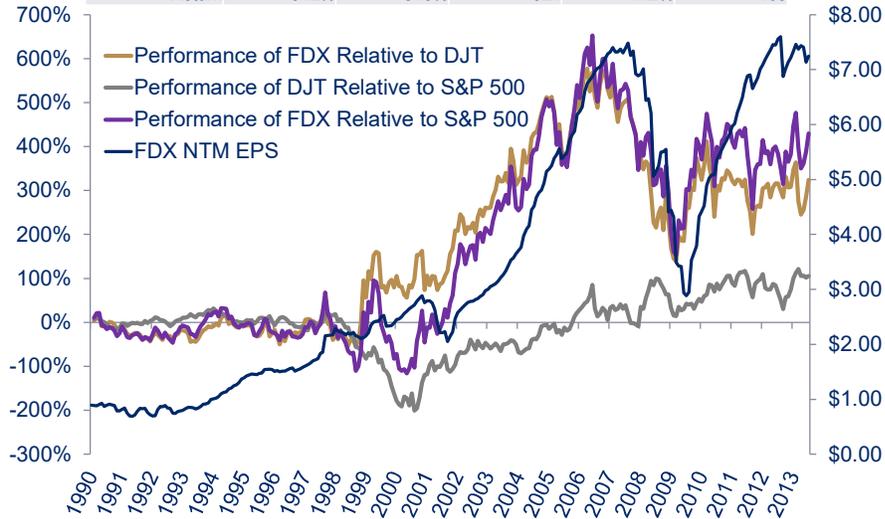
James J. Valentine, CFA, DrBA



573

James J. Valentine, CFA, DrBA

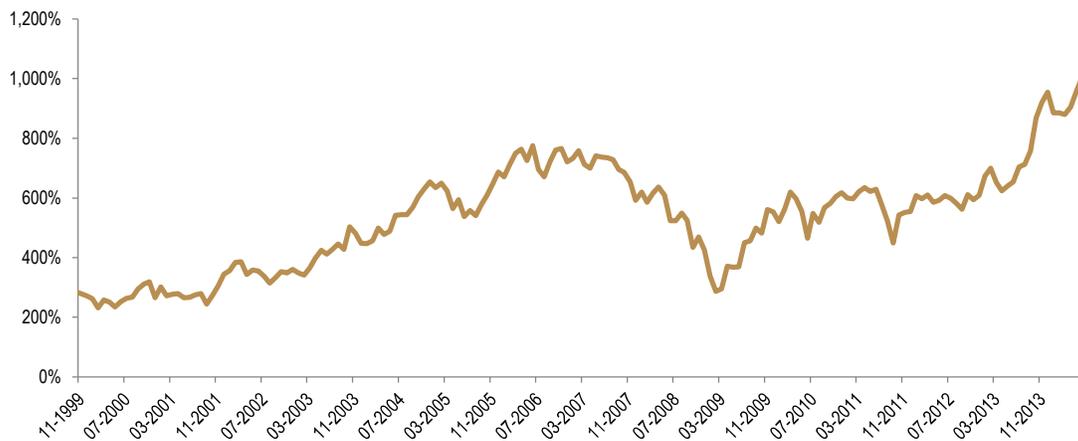
	FDX	DJT	FDX-DJT	SP500	DJT-SP500
Jan 1990	\$11.25	1,046		329	
July 2013	\$106.00	6,462		1686	
Return	842%	518%	324	412%	105



574

James J. Valentine, CFA, DrBA

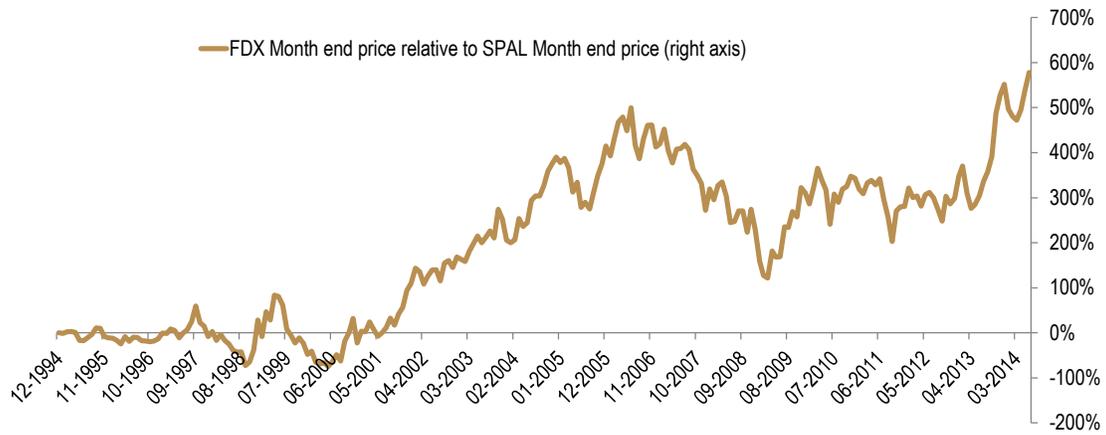
FedEx – UPS Performance Spread



575

James J. Valentine, CFA, DrBA

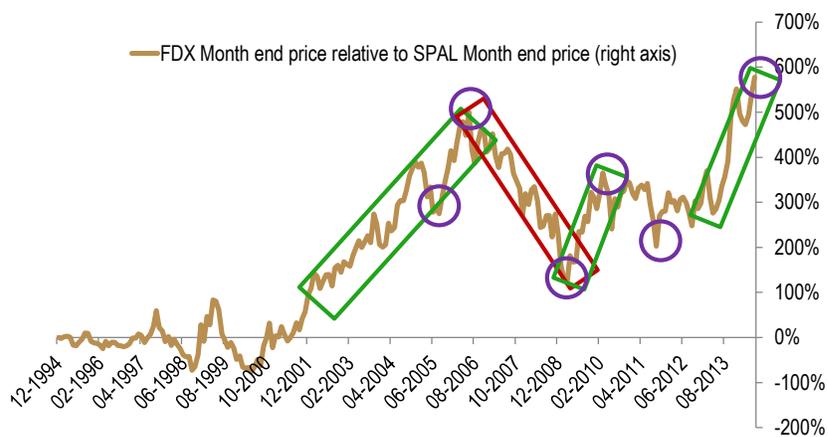
Where Should We Fish?



576

James J. Valentine, CFA, DrBA

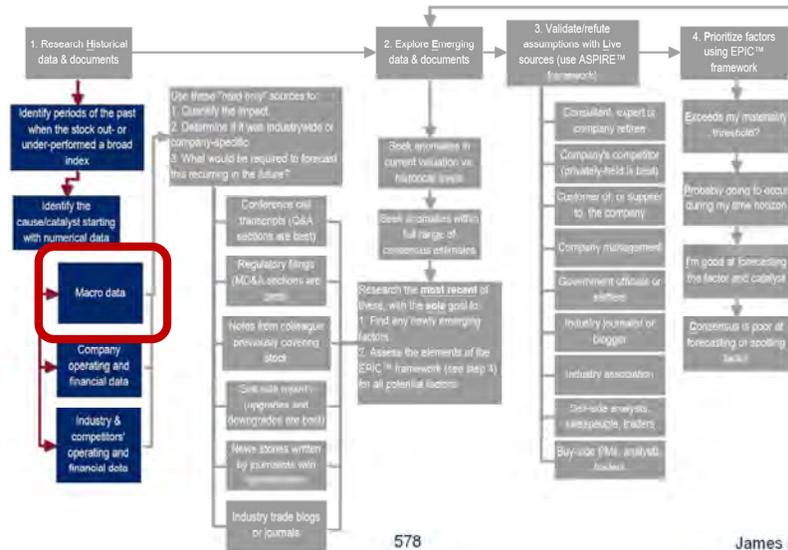
Good Fishing Ground



577

James J. Valentine, CFA, DrBA

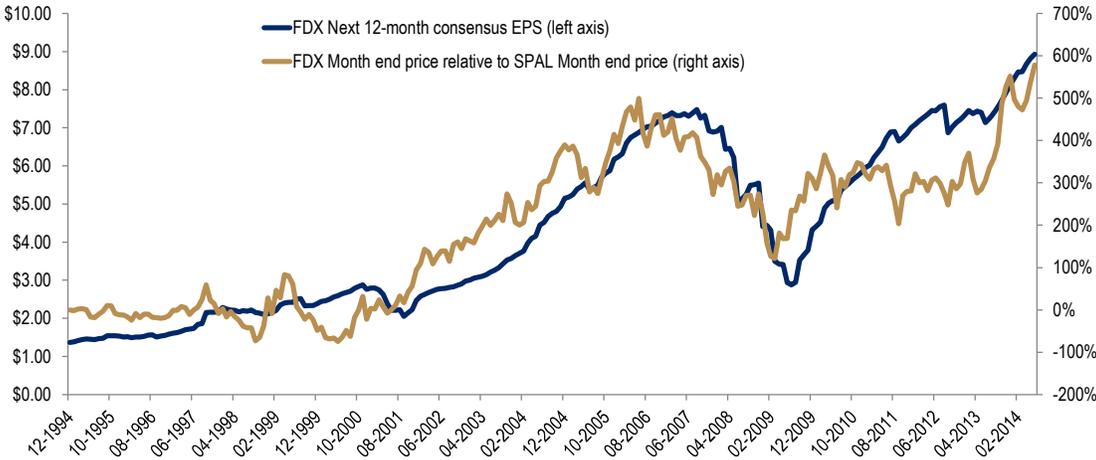
HELP™ Framework For Identifying Critical Factors



Data to Uncover Critical Factors



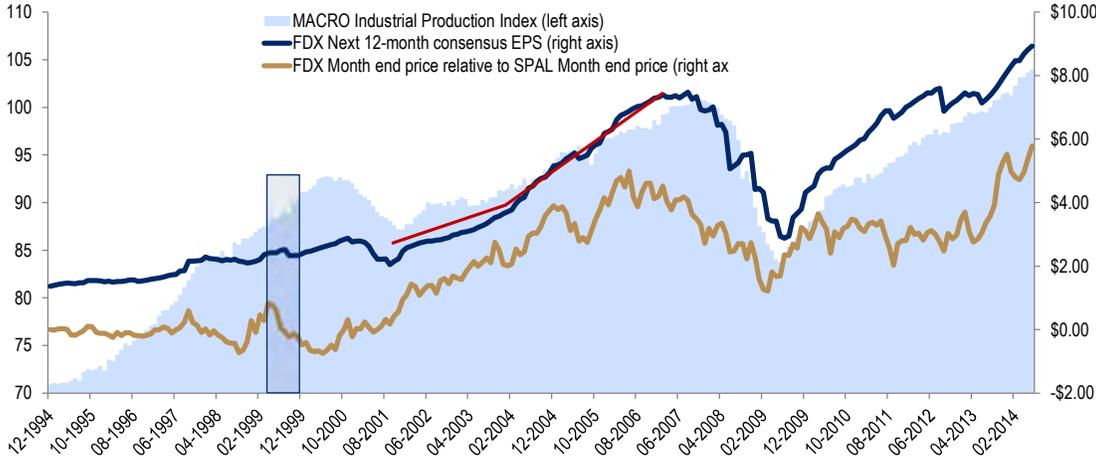
FDX Relative Performance and Consensus EPS



580

James J. Valentine, CFA, DrBA

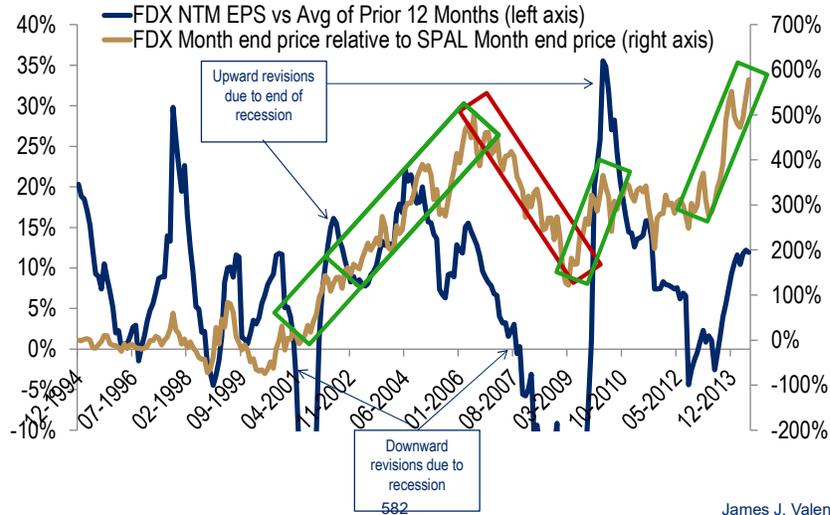
FDX Relative Performance, Consensus EPS and Industrial Production



581

James J. Valentine, CFA, DrBA

FDX Relative Performance and Consensus EPS Growth Rate



James J. Valentine, CFA, DrBA

Correlation Using Excel's PEARSON Function

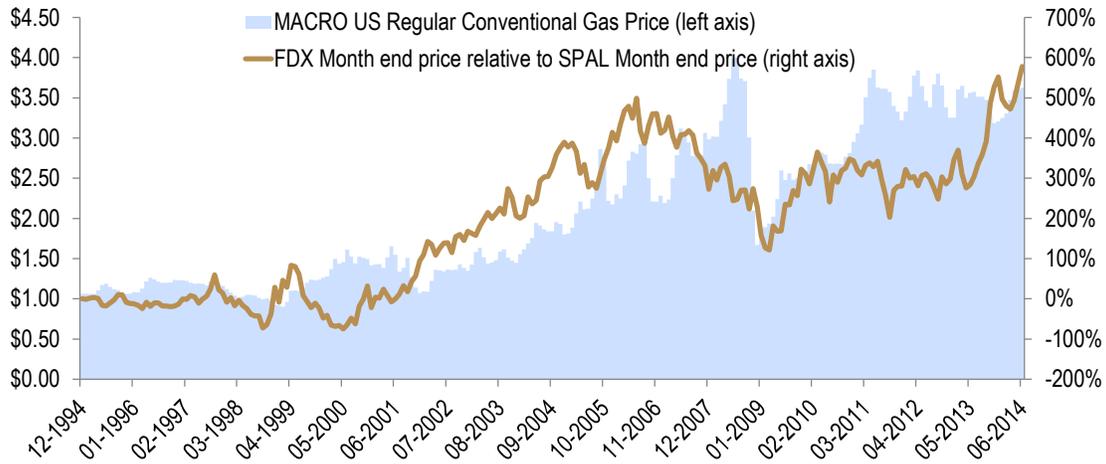
Stock's relative performance vs. economic data series (monthly data over 10 years)

	FDX	SBUX	WMT	INTC	BMW
U.S. Existing Home Sales	13%	-5%	-11%	18%	26%
U.S. Employees on Nonfarm Payrolls	12%	47%	-63%	1%	21%
U.S. Industrial Production	51%	65%	-70%	-44%	3%
ISM Non-manufacturing	25%	35%	-43%	14%	36%
U.S. Personal Consumption	-15%	2%	-41%	46%	26%
S&P CoreLogic Case-Shiller 20-City Composite Home Price	80%	50%	-53%	-61%	-8%
S&P CoreLogic Case-Shiller 20-City Composite City Home Price NSA	-1%	14%	-7%	27%	58%
Census Bureau US Construction Spending	59%	37%	-55%	-42%	-25%
University of Michigan Consumer Sentiment Index	-27%	-2%	-36%	51%	9%
Adjusted Retail & Food Services Sales	0%	10%	-36%	23%	31%

583

James J. Valentine, CFA, DrBA

FDX Relative Performance and Gasoline Prices



584

James J. Valentine, CFA, DrBA

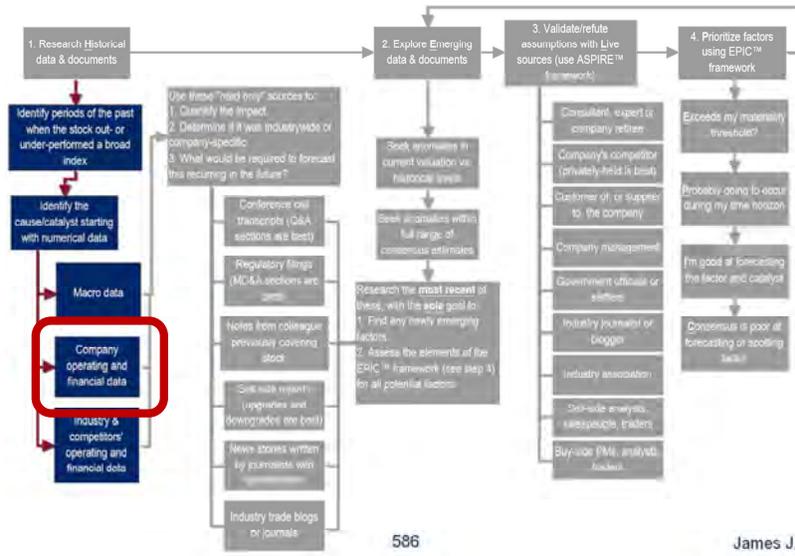
FDX Relative Performance



585

James J. Valentine, CFA, DrBA

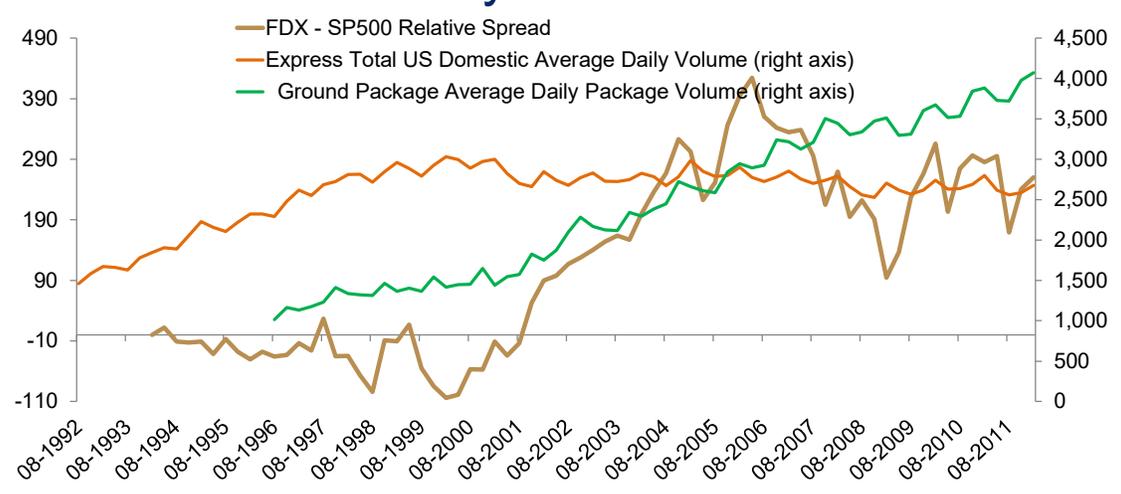
HELP™ Framework For Identifying Critical Factors



586

James J. Valentine, CFA, DrBA

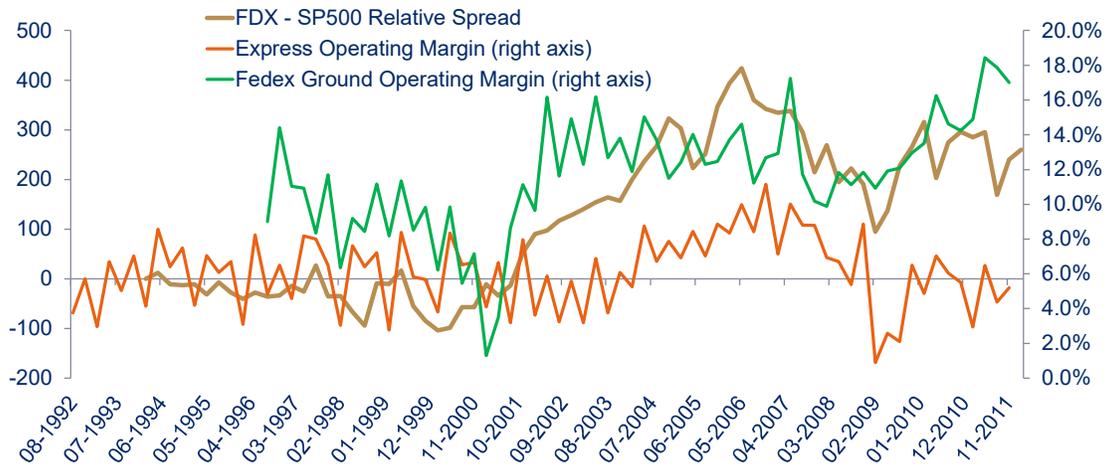
FedEx - S&P 500 and Daily Volumes



587

James J. Valentine, CFA, DrBA

FedEx - S&P 500 and FedEx Margins



588

James J. Valentine, CFA, DrBA

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%
09/18/2008	Q1 09	08/08	\$1.23	\$1.23	\$1.23	0%
07/16/2008	Q4 08	05/08	\$1.47	\$1.45	\$1.47	-1%
03/20/2008	Q3 08	02/08	\$1.26	\$1.26	\$1.23	3%

- Bloomberg
 - [Ticker] Equity SURP
- FactSet
 - Company/Security>Reports>Estimates>Surprise History
- Refinitiv
 - [Ticker] HSUP

589

James J. Valentine, CFA, DrBA

Research If Corporate Actions Impact Performance

EquityCACs

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

FDX US Equity 11 Templates 10 Actions - 18 results Corporate Actions

Show Company Lev Date Announc 01/01/97 01/01/07 21 Asset Types

Filter Actions Dividends Splits M & A IPO / ADDL Listings 22 Actions (6)

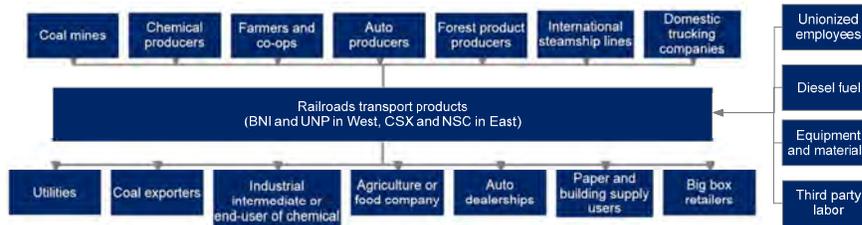
	Date	Action Type	Ticker / ID	Summary
1)	12/18/06	Acquisition	FDX US	Target: ANC Holdings Ltd, Sought: 100.00%
2)	11/02/06	Acquisition	FDX US	Target: Prakash Air Freight Pvt Ltd, Sought: 100.00%
3)	05/26/06	Acquisition	FDX US	Target: Less-than truckload operations, Soug
4)	01/24/06	Acquisition	FDX US	Target: 50% of JV and other assets, Sought: 100.00%
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: 100.00%
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: 100.00%
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: 100.00%
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 69 9204 1210 Hong Kong 852 2977 5000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2012 Bloomberg Finance L.P.
08 67468 8201 011-1 01 9427-3133-3 03-Jun-2012 15:36:49

590

James J. Valentine, CFA, DrBA

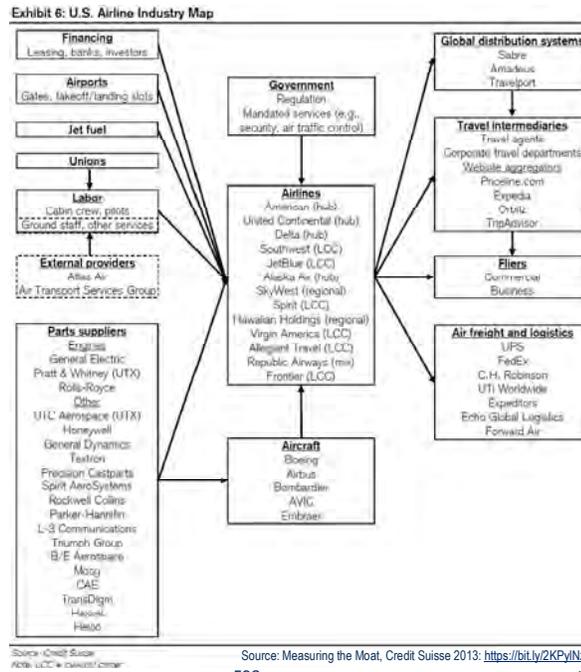
Food Chain Analysis



591

James J. Valentine, CFA, DrBA

Industry Map



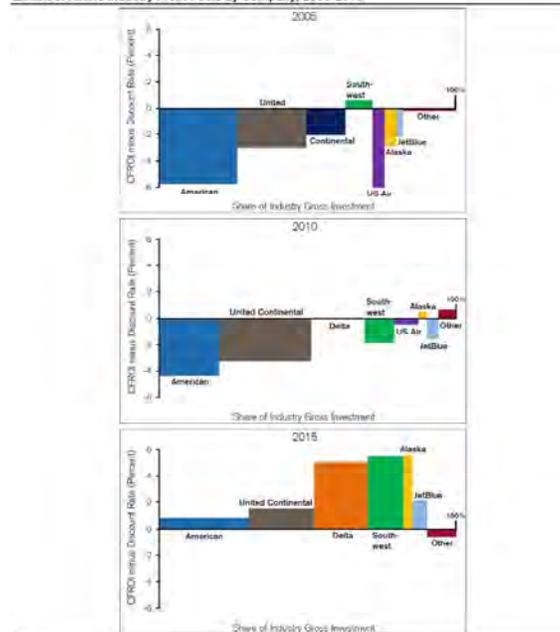
592

James J. Valentine, CFA, DrBA

Profitability Pool

"We can also construct a profit pool of the leading companies within an industry. Exhibit 8 shows profit pools for the U.S. airline companies for 2005, 2010, and 2015. The horizontal axis represents 100 percent of the capital invested in the industry by public companies. These charts provide a bottom-up view of the industry's migration from value destruction to value creation."

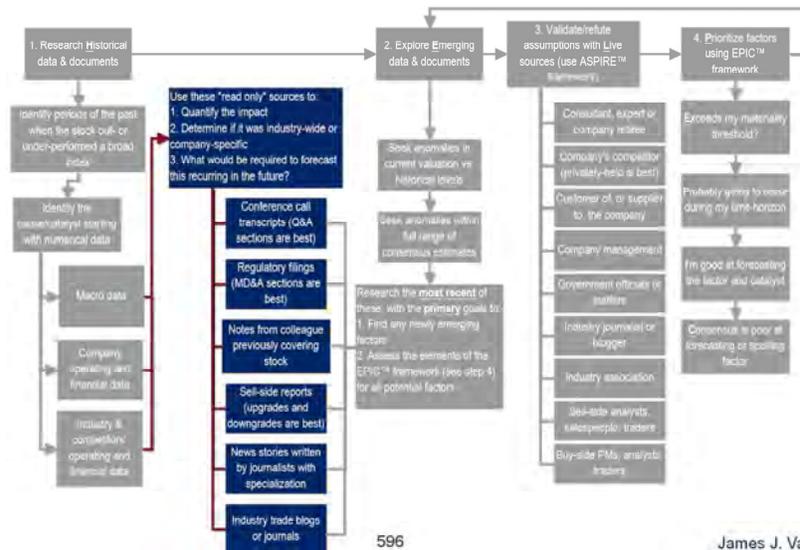
Exhibit 8: Airline Industry Profit Pools by Company, 2005-2015



593

James J. Valentine, CFA, DrBA

HELP™ Framework For Identifying Critical Factors



Searching for Historical Factors

Information Type	Good Source to Start With
News story	<ul style="list-style-type: none"> Bloomberg/FactSet/Refinitiv News service
Sell-side research	<ul style="list-style-type: none"> Bloomberg/FactSet/Refinitiv Sell-side website
Company quarterly call transcripts (focus on the Q&A section)	<ul style="list-style-type: none"> Bloomberg/FactSet/Refinitiv
Company press release	<ul style="list-style-type: none"> Company website Bloomberg/FactSet/Refinitiv
Regulatory filing	<ul style="list-style-type: none"> Try using Bloomberg's Redline or FactSet's Blackline functions, which identify text that has changed since the last filing EDGAR

VIDEO: 'H' OF HELP™ - DOWNLOADING HISTORICAL TEXT FILES FROM BLOOMBERG

598

James J. Valentine, CFA, DrBA

Self-Assess Your Historical Tool Kit

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:	

599

James J. Valentine, CFA, DrBA

Complete Your TAP

Section 2

Transformation Action Plan (TAP)



Instructions for the Transformation Action Plan (TAP):

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

600

James J. Valentine, CFA, DrBA

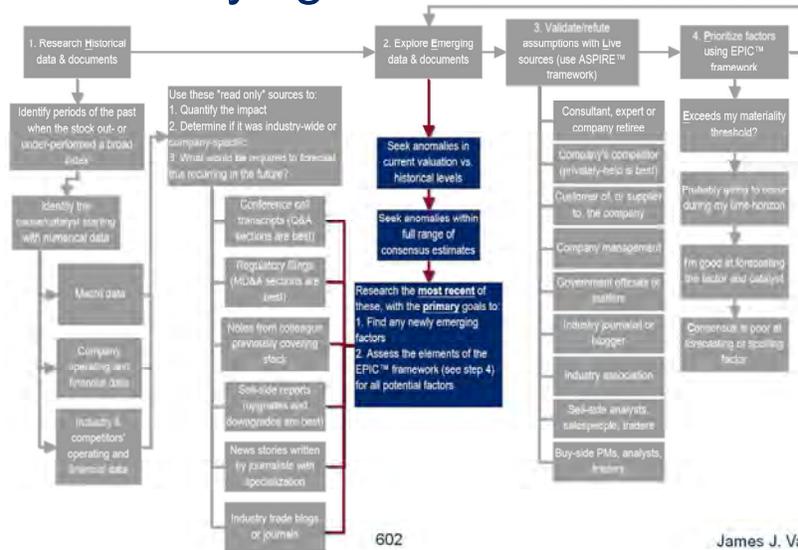
HELP™ Framework for Identifying Critical Factors



601

James J. Valentine, CFA, DrBA

HELP™ Framework For Identifying Critical Factors



Critical Factors Often Are Embedded in Current Market Expectations

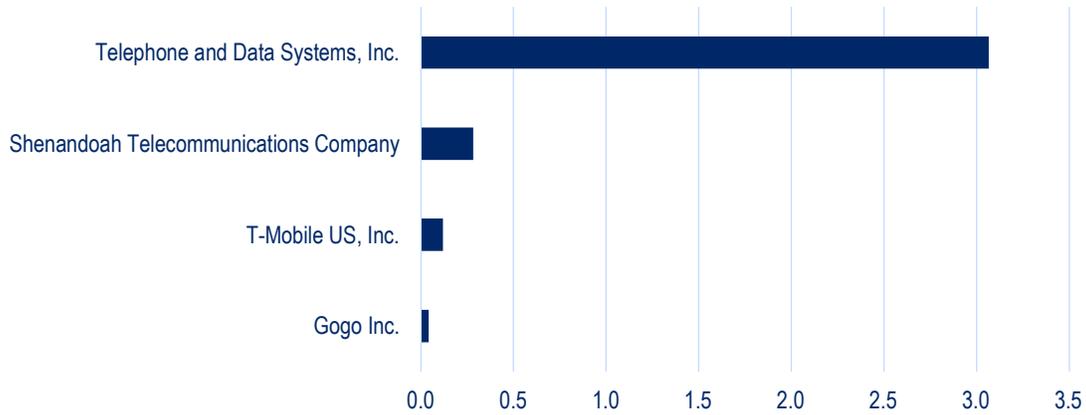
Seek to understand "what's in the stock" in terms of the market's current expectations



- Monitor trading data
- Know consensus
- Survey market sentiment
- Monitor technical indicators
- Evaluate current and historical valuation levels

Investigate “Consensus”

EPS Coeff of Variance of Analysts (Wireless Telecom)



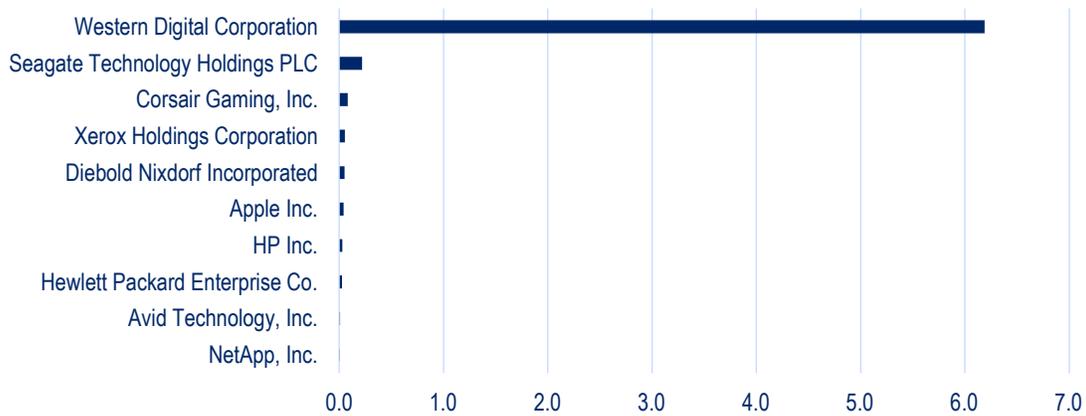
Source: FactSet 13-Dec 2022

604

James J. Valentine, CFA, DrBA

Investigate “Consensus”

EPS Coeff of Variance of Analysts (Technology Hardware Storage & Peripherals)



Source: FactSet 13-Dec 2022

605

James J. Valentine, CFA, DrBA

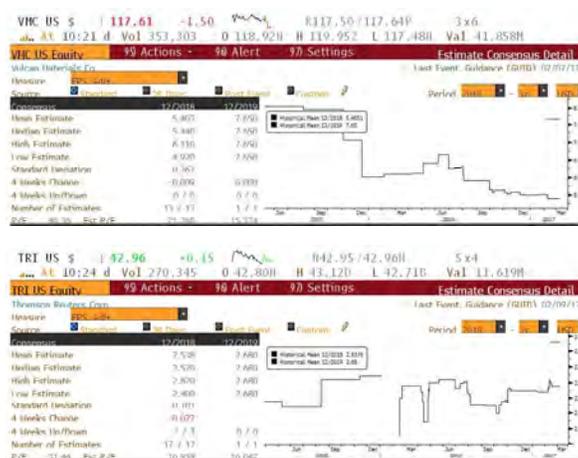
COEFFICIENT OF VARIANCE

Stocks with high coefficients of variance may be more influenced by a critical factor

606

James J. Valentine, CFA, DrBA

Investigate “Consensus”



Source: Bloomberg 9-March 2017

607

James J. Valentine, CFA, DrBA

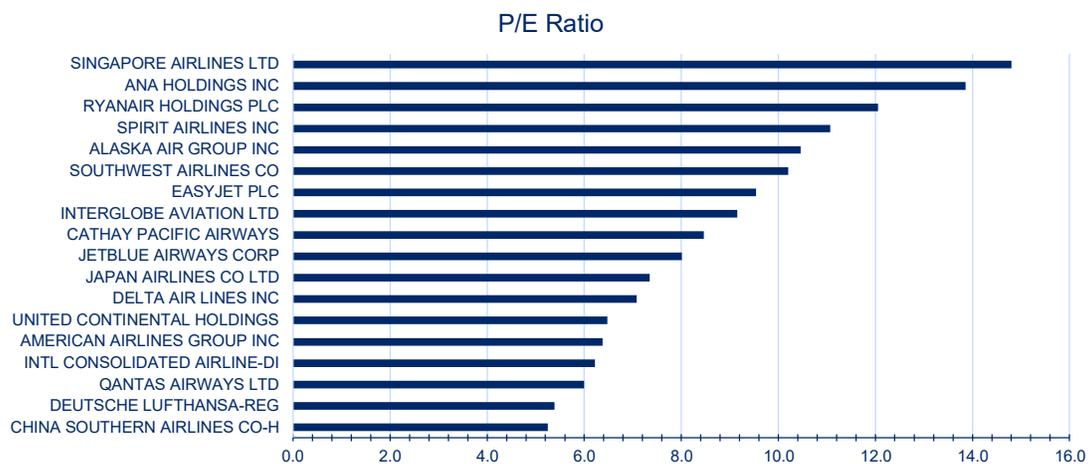
Understand the Comp Table and Consensus Expectations

- 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

608

James J. Valentine, CFA, DrBA

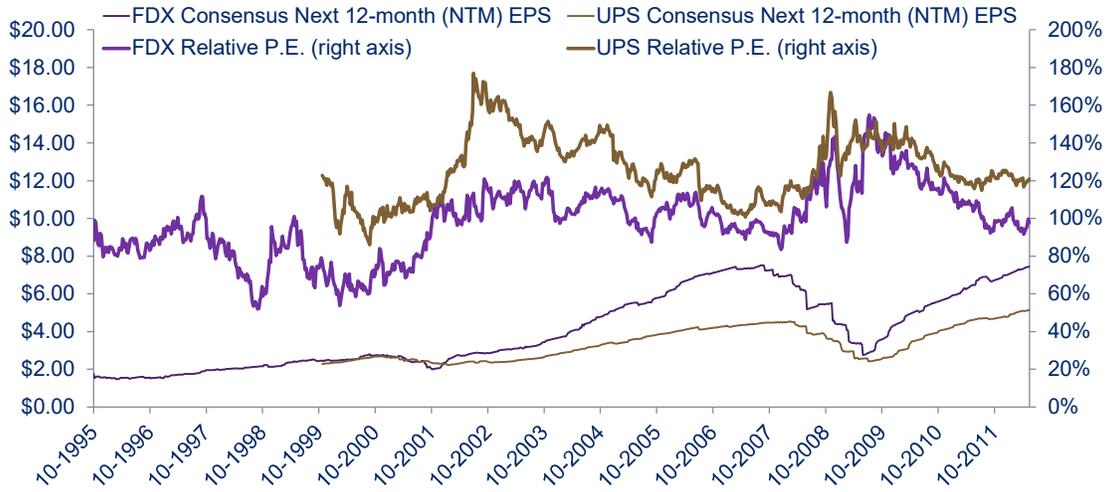
Why Premiums or Discounts?



609

James J. Valentine, CFA, DrBA

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



610

James J. Valentine, CFA, DrBA

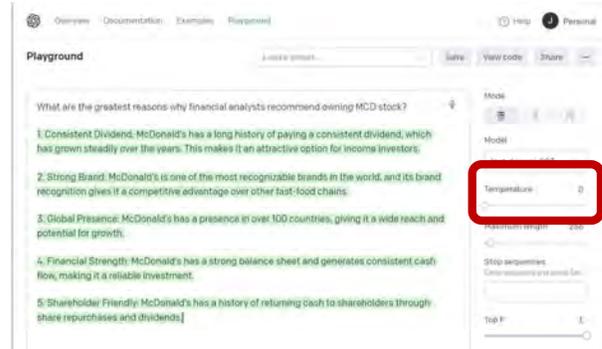
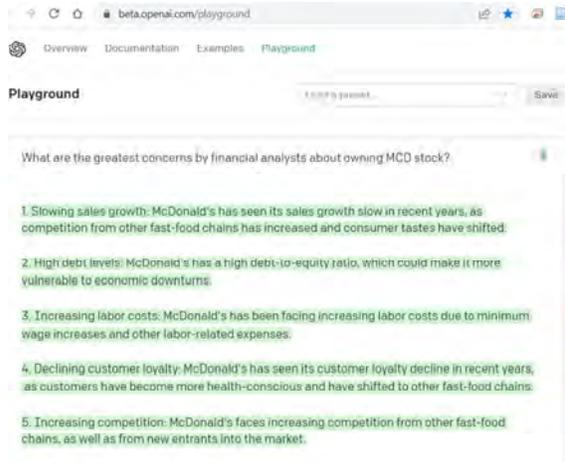
EXAMPLE COMP TABLE

Review Data Validation

611

James J. Valentine, CFA, DrBA

AI Can Be a Starting Point



612

James J. Valentine, CFA, DrBA

Start with the Most Recent Version of These...



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

613

James J. Valentine, CFA, DrBA

Searching for Emerging Factors

Information Type	Good Source to Start With
Company's most recent analyst meeting or conference presentation transcript (focus on the Q&A section)	<ul style="list-style-type: none"> Company website (Investor Relations section) Bloomberg/FactSet/Refinitiv
Most recent company press releases	<ul style="list-style-type: none"> Company website Bloomberg/FactSet/Refinitiv
Most recent 10-Q or 10-K	<ul style="list-style-type: none"> Try using Bloomberg's Redline or FactSet's Blackline functions, which identify text that has changed since the last filing EDGAR
News stories in the financial press that provide a critical look at anything found from the above documents	<ul style="list-style-type: none"> Bloomberg/FactSet/Refinitiv
Sell-side research focused on the events above	<ul style="list-style-type: none"> Bloomberg/FactSet/Refinitiv Sell-side firm websites

614

James J. Valentine, CFA, DrBA

Blackline & Redline

Redline Report

Additions: 126

Deletions: 132

Changes: 280

FEDEX CORP

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

File Edit View Document Comments Tools Window Help

Open... Zoom In 90%

FACTSET BLACKLINE REPORT

25 Aug '13 10-Q CAG-US
Compass Foods Inc (CAG)

24 Feb 13 10-Q CAG-US
Compass Foods Inc (CAG)

51 Additions 49 Deletions 170 Changes

615

James J. Valentine, CFA, DrBA

Example “Emerging” Information

FedEx Express Segment Operating Income

Q.118 FedEx Express operating income and operating margin increased in the second quarter and the first half of 2014 driven by stronger base U.S. and international business and lower aircraft maintenance and pension expense, partially offset by higher depreciation expense. In addition, operating income in the second quarter of 2014 compared to 2013 benefited from the negative impact of Superstorm Sandy in the prior year. In the first half of 2014, operating income reflects a significant negative impact of the timing lag which exists between when fuel prices change and when indexed fuel surcharges automatically adjust and one fewer operating day. The demand shift from our priority international services to our economy international services continued to impact our overall business.

Q.119 In the second quarter and the first half of 2014, salaries and employee benefits included lower pension expense and the delayed timing or absence of annual merit increases for many of our employees. Intercompany charges decreased 4% in the second quarter and 6% in the first half of 2014 due to lower allocated sales and information technology costs. Purchased transportation costs increased 9% in the second quarter and 11% in the first half of 2014 due to costs associated with the expansion of our freight-forwarding business at FedEx Trade Networks and higher utilization of third-party transportation providers. Purchased transportation costs in the first half of 2014 were also negatively impacted by international acquisitions. Depreciation and amortization expense increased 11% during the second quarter and 13% during the first half of 2014 as a result of accelerated depreciation due to the shortened life of certain aircraft, and aircraft recently placed into service.

Q.118 Our results for the FedEx Express segment for the first quarter of 2014 were significantly constrained by the net negative impact of first and one fewer operating day. Despite the negative impact of these factors, FedEx Express operating income increased by 14% and operating margin increased by 50 basis points in the first quarter of 2014, driven by stronger base U.S. business and lower aircraft maintenance and pension expense, partially offset by higher depreciation expense.

Q.119 In the first quarter of 2014, salaries and employee benefits benefited from lower pension expense, one fewer operating day, and the delayed timing or absence of annual merit increases for many of our employees, partially offset by the impact of prior year international domestic acquisitions. Intercompany charges decreased 8% due to lower allocated sales and information technology costs. Purchased transportation costs increased 11% due to prior year international business acquisitions, higher utilization of third-party transportation providers and costs associated with the expansion of our freight-forwarding business at FedEx Trade Networks. Depreciation and amortization expense increased 14% during the first quarter of 2014 as a result of accelerated depreciation due to the shortened life of certain aircraft and aircraft recently placed into service.

616

James J. Valentine, CFA, DrBA

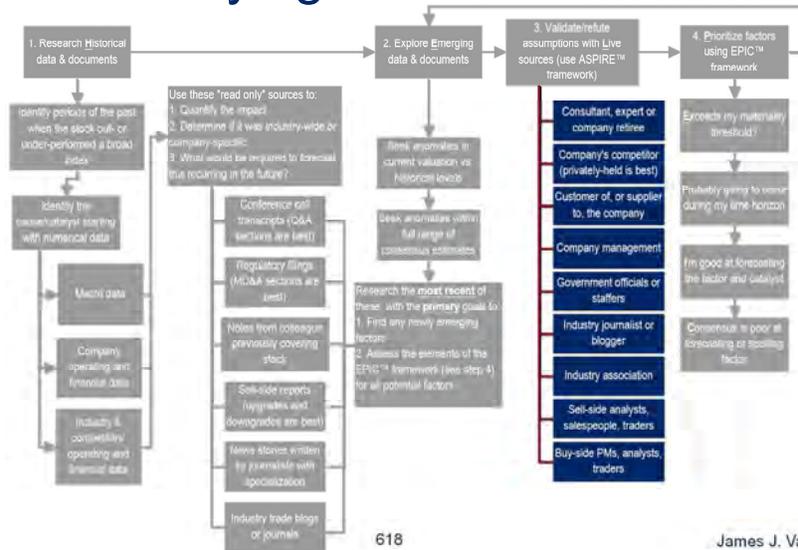
HELP™ Framework for Identifying Critical Factors



617

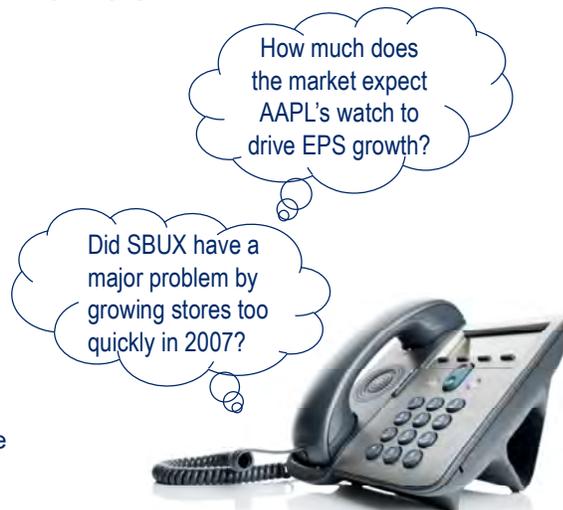
James J. Valentine, CFA, DrBA

HELP™ Framework For Identifying Critical Factors



Speak with Live Sources to Understand Anomalies

- Goals
 - Confirm or refute conclusions from research conducted to identify historical critical factors ("H" of HELP™)
 - Assess new or emerging critical factors ("E" of HELP™)
 - Assess materiality and probability surrounding potential critical factors ("E" and "P" of EPIC™)
 - Determine if consensus will be good at forecasting ("C" of EPIC™)
- For historical factors, ensure the individual was closely involved with the stock or sector for the time period you are analyzing



Understand What's in Consensus

Speak with market participants:

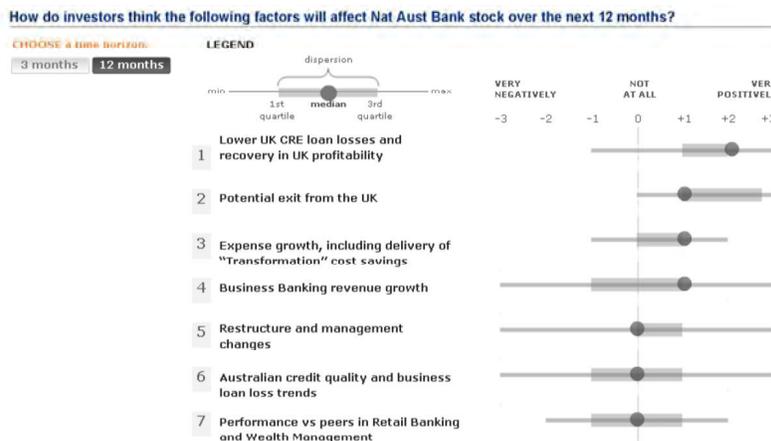
- Experienced buy-side analysts or PMs who currently own or have owned the stock in the fund
- Sell-side salespeople who have interest in the stock
- Sell-side traders who trade the stock
- The company's investor relations contact
- Sell-side analysts (if you're a buy-side analyst)



620

James J. Valentine, CFA, DrBA

Example of Consensus Expectations



621

James J. Valentine, CFA, DrBA

Live Sources of Unique Insights

Live Information Source to be Interviewed	Confirm or Refute Historical Factors*	Assess New or Emerging Critical Factors	Assess Market Psychology
Company's competitor (privately held are best)	■	■	□
Industry consultant, expert, or company retiree	■	■	
Knowledgeable representative of forecasting service or trade association	■	■	
Customer of, or supplier to, company (privately held are best)	■	□	
Industry journalist or blogger	■	□	
Government official, staffer, lobbyist or association executive	■	□	
Sell-side analysts (for buy-side analysts)	■	■	■
Sell-side salesperson	□		□
Buy-side analyst/portfolio manager/desk trader familiar with stock	□		■
Investor relations contact	□	□	□
Company management (other than investor relations)	□	□	□
Legend: ■ = best first source, □ = good source			
* Source must have been active with the stock/company at time of historical anomaly			

622

James J. Valentine, CFA, DrBA

Review QRC

Quick Reference Card (QRC)

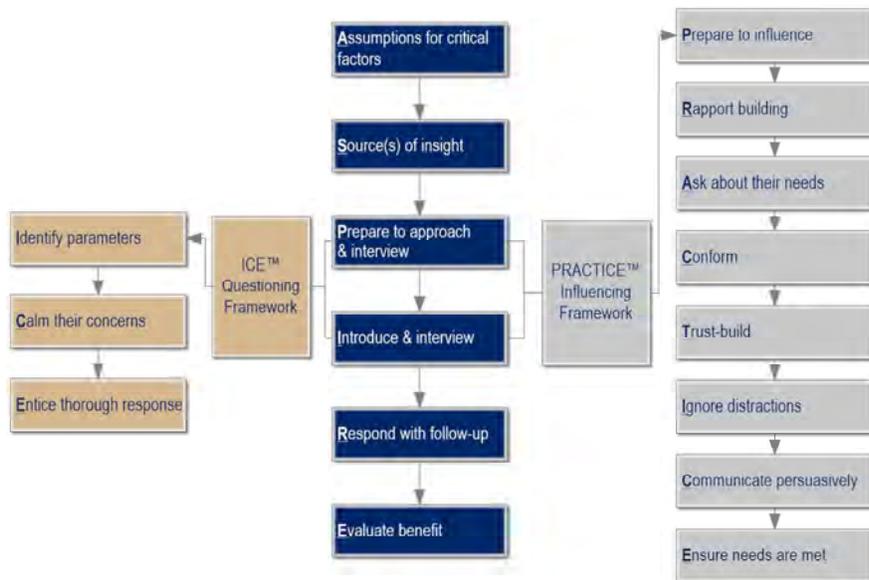
Information Sources Pros and Cons

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	□		■

623

James J. Valentine, CFA, DrBA

Key Frameworks



From workshop: *Generate Differentiated Insights Through Better Discovery, Questioning and Influencing*

James J. Valentine, CFA, DrBA

ASPIRE™ Best Practices (1 of 2)

- Excerpts from our Detailed Reference Card “Generating Sustainable Sources of Insight with ASPIRE™”
- Identify the **A**ssumptions that need answering for the 1-4 critical factors per stock
- Seek **S**ources of insight such as:
 - Reviewing industry trade journal, website, or blog
 - Interviewing:
 - Consultant, expert, or company retiree who is not in an expert network
 - Management from customer of, or supplier to, or competitor of the stock being researched (can be publically-traded or privately-held company)
 - Government official, staffer, lobbyist or association executive
 - Journalist, blogger or noted book author
 - Industry award-winners (e.g. best salesperson)
 - Consultant, expert, or company retiree who is part of an expert network
 - Analyzing information from private forecasting service in a manner other than for which it was intended
 - Conducting survey, formal or informal
- **P**repare to approach and interview
 - Prepare questions, ensuring they have these elements (from our ICE™ framework):
 - Identifiable parameters
 - Calm their concerns
 - Entice a response
 - Identify “What’s in it for them?” (WIIFT)

From workshop: *Generate Differentiated Insights Through Better Discovery, Questioning and Influencing*

625

James J. Valentine, CFA, DrBA

ASPIRE™ Best Practices (2 of 2)

- Excerpts from our Detailed Reference Card “Generating Sustainable Sources of Insight with ASPIRE™”
- **I**ntroduce and interview
 - Use good influencing skill techniques (explained in our PRACTICE™ framework):
 - Build rapport by showing interest in them
 - Ask about their needs
 - Conform to their style and do not openly reject their view (even if you disagree with it)
 - Use “linking & building” to get from their view to your question
 - Use the rule of reciprocity, social proof, scarcity and authority figure to motivate them to help
 - Explain you won’t quote or attribute their thoughts
 - Start by asking easiest questions first
 - Don’t allow interviewee to take control or use their influencing skills to derail the interview
 - Convey and read body language to be effective
 - End with purpose by asking for commitment to follow-up and referrals to other information sources
- **R**espond quickly with follow-up to build trust and improve ability to influence
- **E**valuate the benefits of spending time cultivating each contact

From workshop: *Generate Differentiated Insights Through Better Discovery, Questioning and Influencing*
626 James J. Valentine, CFA, DrBA

Complete Your TAP

Section 3

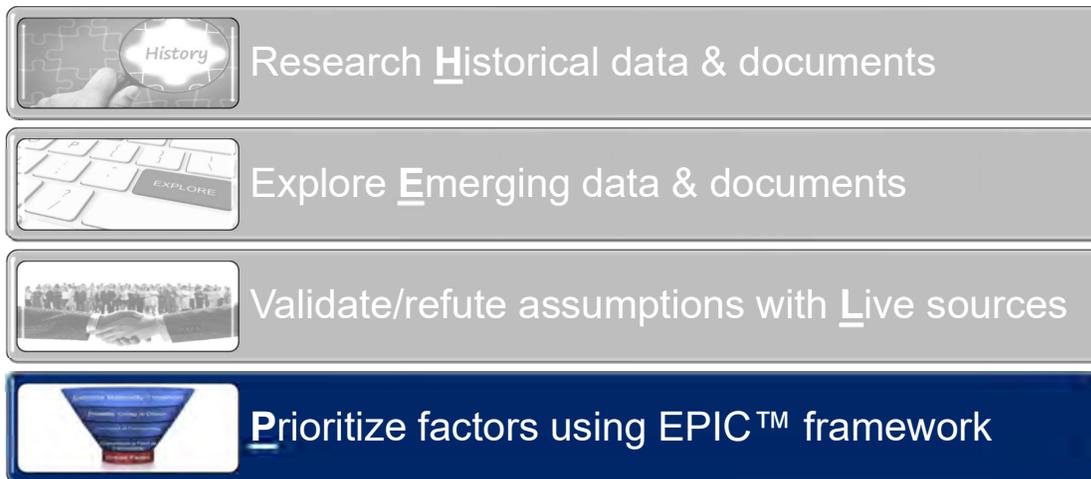
Transformation Action Plan (TAP)



Instructions for the Transformation Action Plan (TAP):

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

HELP™ Framework for Identifying Critical Factors



629

James J. Valentine, CFA, DrBA

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 <u>C</u> onsensus 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
International Priority package pricing/yield	3	4	3	4	14
International Priority package volume growth	2	4	4	4	14
Service levels other than during the holiday season	3	2	4	5	14
Change in senior management	5	2	2	4	13
Electronic documents reducing need for overnight envelopes	2	4	3	4	13
GDP growth	5	3	2	3	13
Labor cost trends	3	3	3	4	13
Domestic Express package volume growth	2	3	4	3	12
Service levels at holiday season	2	2	3	5	12
Asia-Pacific volume growth	2	3	4	2	11
Change in level of tech shippers vs. non-tech shippers	4	2	3	2	11
Purchase of new aircraft	1	3	3	4	11
Level of major weather disruptions	1	3	1	5	10
Depreciation rate	1	2	2	4	9

630

James J. Valentine, CFA, DrBA

Complete Your TAP

Section 1, Part 2

Question #8

Transformation Action Plan (TAP)



Instructions for the Transformation Action Plan (TAP):

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

DEBRIEF: WHERE IS THE MARKET WASTING ITS TIME?

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”

633

James J. Valentine, CFA, DrBA

New Information Starts the Process

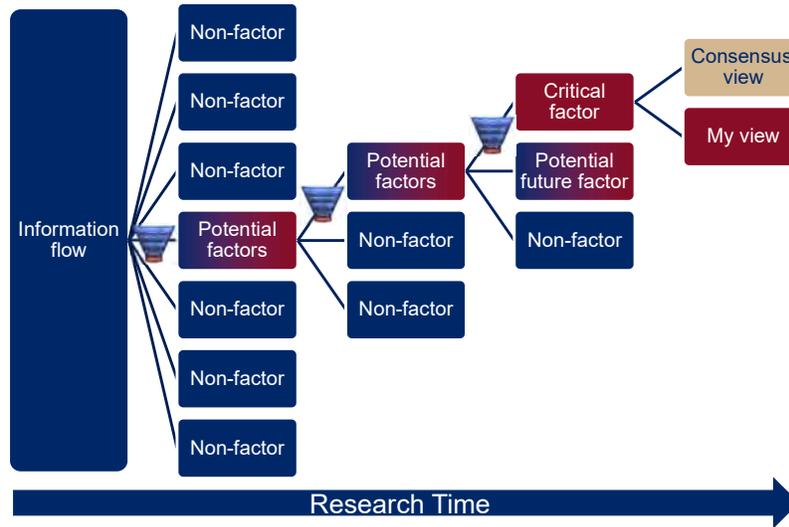


- You are exposed to a new piece of information that could impact a stock within your assigned universe
- What do you do next?

634

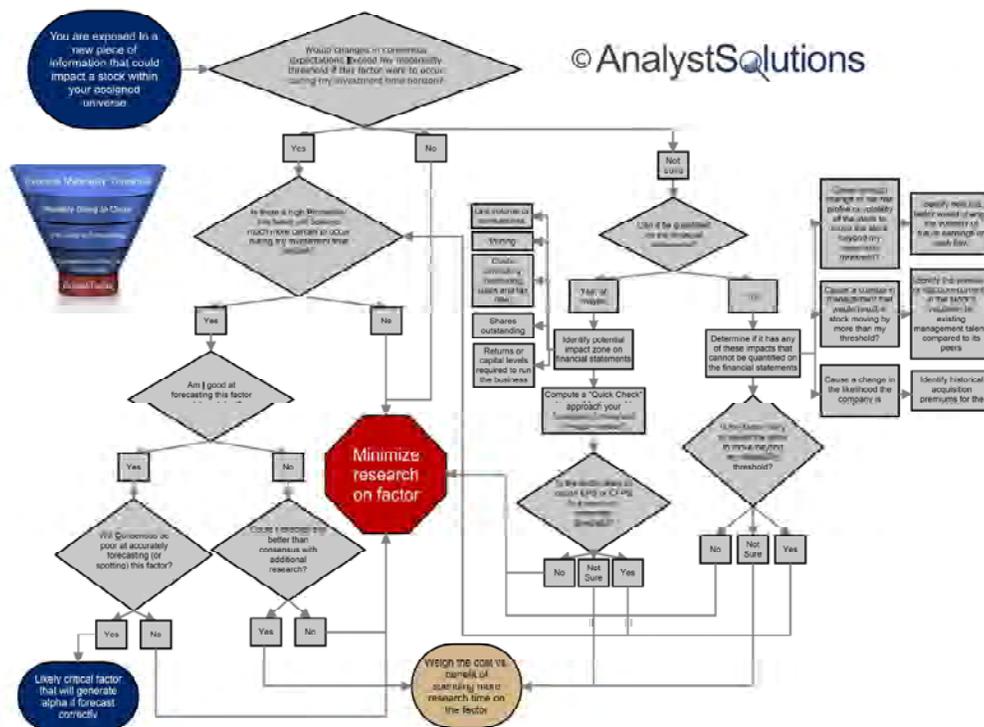
James J. Valentine, CFA, DrBA

Identifying the Critical Factors



635

James J. Valentine, CFA, DrBA



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

637

James J. Valentine, CFA, DrBA

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

638

James J. Valentine, CFA, DrBA

Best Practices for Monitoring Critical Factors

- Create and use a spreadsheet or Word file:
 - List and rank your critical factors (and high-ranking non factors)
 - Update after quarterly earnings season
- Follow the flowchart as quickly as possible
- Continually refine news filters
- Use OneNote tags to organize critical factors
- Buy-side: Routinely remind sell-side of your:
 - Interest in critical factors; and
 - Lack of interest in non-factors (tell them “DON’T WASTE MY TIME!”)
- Sell-side: Keep your team focused only on critical factors
 - Focus of weekly meetings
 - Core theme of future reports
 - Don’t write or speak if it’s not about a critical factor
 - Make them the central emphasis of marketing handouts

639

James J. Valentine, CFA, DrBA

Complete Your TAP

Sections 4 & 5

Transformation Action Plan (TAP)



Instructions for the Transformation Action Plan (TAP):

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

640

James J. Valentine, CFA, DrBA

Reference Card

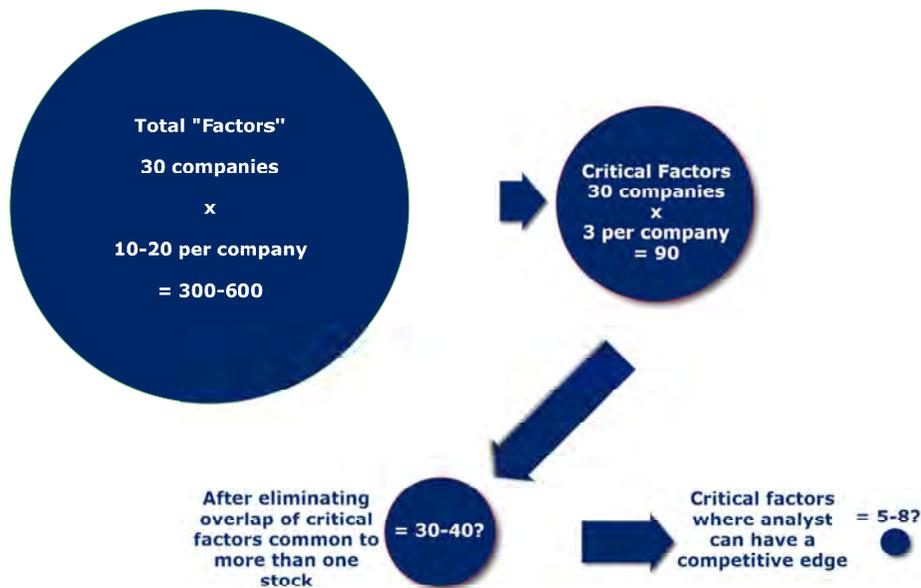
Detailed Reference Card (DRC)

Identify a Stock's Critical Factors

Seek Factors That Meet All Four Criteria Below

641

James J. Valentine, CFA, DrBA

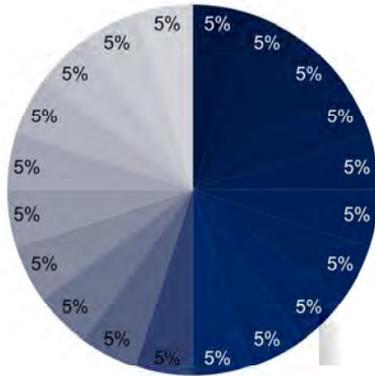


642

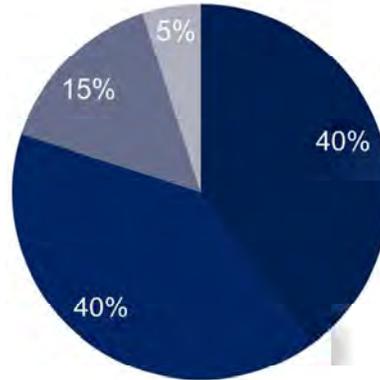
James J. Valentine, CFA, DrBA

What Will Your Day Look Like?

Critical Factors Not Defined



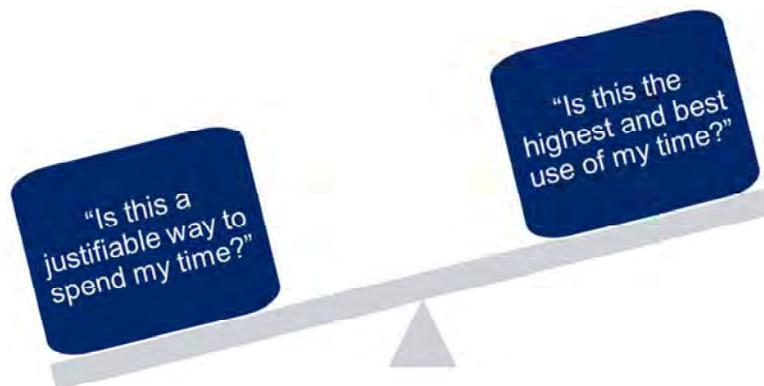
Critical Factors Defined



643

James J. Valentine, CFA, DrBA

What Gets An Analyst Paid?

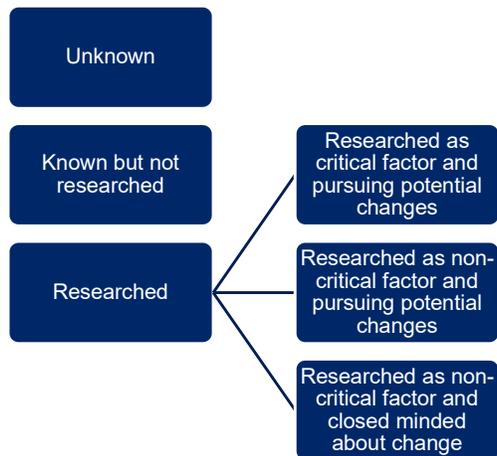


644

James J. Valentine, CFA, DrBA

How Wide and Far to Research?

Company and Industry Information

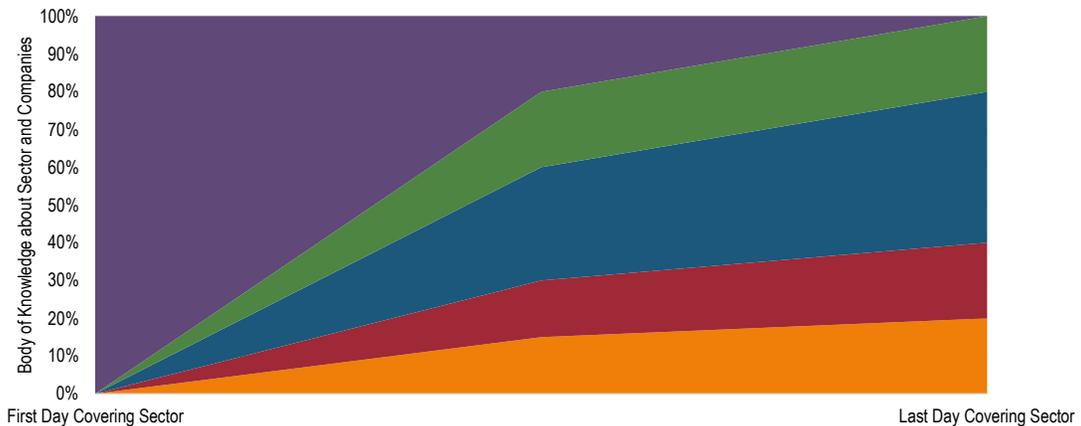


645

James J. Valentine, CFA, DrBA

Are You Open to Change?

- Confirmed critical factor and pursuing potential changes
- Researched as non-critical factor and pursuing potential changes
- Researched as non-critical factor and closed minded about change
- Not researched and not likely to be researched in the future
- Unknown knowledge



646

James J. Valentine, CFA, DrBA

Benefits of Focusing on Critical Factors

- Reviewing information becomes more efficient because as much as 90% can be ignored
- Greater focus on seeking the **best** information sources with expertise around critical factors
- Financial modeling is focused on forecasting the areas that will most impact EPS and cash flows
- Stock calls are predicated on a change in the consensus thinking surrounding a factor that will move the stock
- Presentations and reports are easier to produce and more appreciated by recipients because they focus on the most important issue likely to move a stock
- Sell-side analysts are more impactful when helping clients because they're focused on important issues

647

James J. Valentine, CFA, DrBA

Complete Your TAP

Section 6

Transformation Action Plan (TAP)



Instructions for the Transformation Action Plan (TAP):

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

648

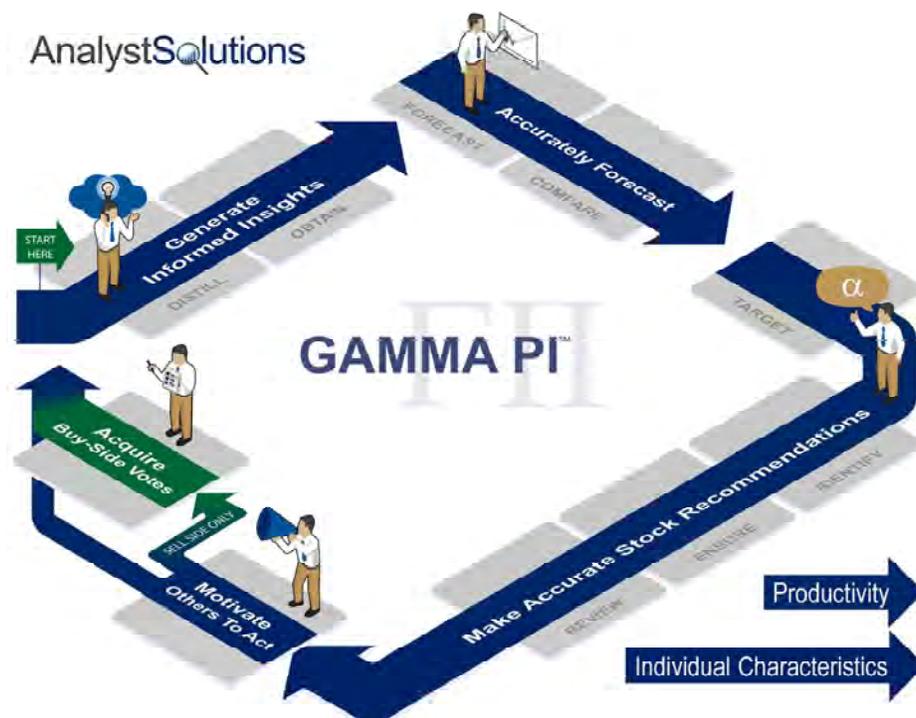
James J. Valentine, CFA, DrBA

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



649

James J. Valentine, CFA, DrBA



, CFA, DrBA

Follow through by continually practicing these three steps...



651

James J. Valentine, CFA, DrBA

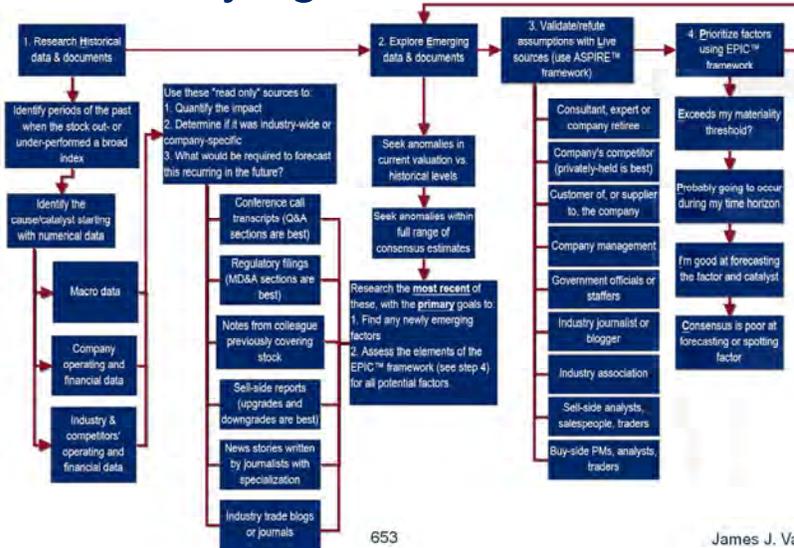
EPIC™ Stock Calls Require Critical Factors Meet All Four Criteria



652

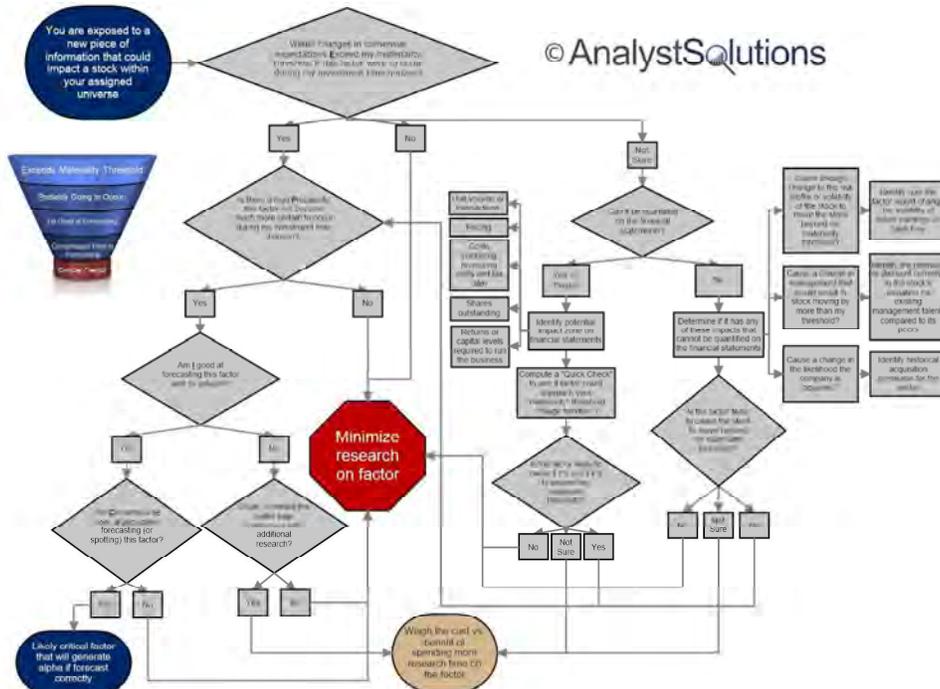
James J. Valentine, CFA, DrBA

HELP™ Framework For Identifying Critical Factors



653

James J. Valentine, CFA, DrBA



Our Tools



Workshops



One-on-one coaching



Assessments



Consulting



Keynote/offsite presentations

655

James J. Valentine, CFA, DrBA

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
	Develop and Deploy a Marketing Strategy that Maximizes Wallet-Share

656

James J. Valentine, CFA, DrBA

Best Practices Bulletins

10 Steps for Equity Research Analysts to Perform Better



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

Portfolio Managers' #1 Frustration With Equity Research Analysts



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

[Read the Entire Bulletin >](#)

657

James J. Valentine, CFA, DrBA

Thank You for Participating!



To sign up for bonus content to help gain practical skills, visit:
AnalystSolutions.com/bonus

Your email address will only be used for educational material

Info@AnalystSolutions.com



658

James J. Valentine, CFA, DrBA

AnalystSolutions

659

James J. Valentine, CFA, DrBA