

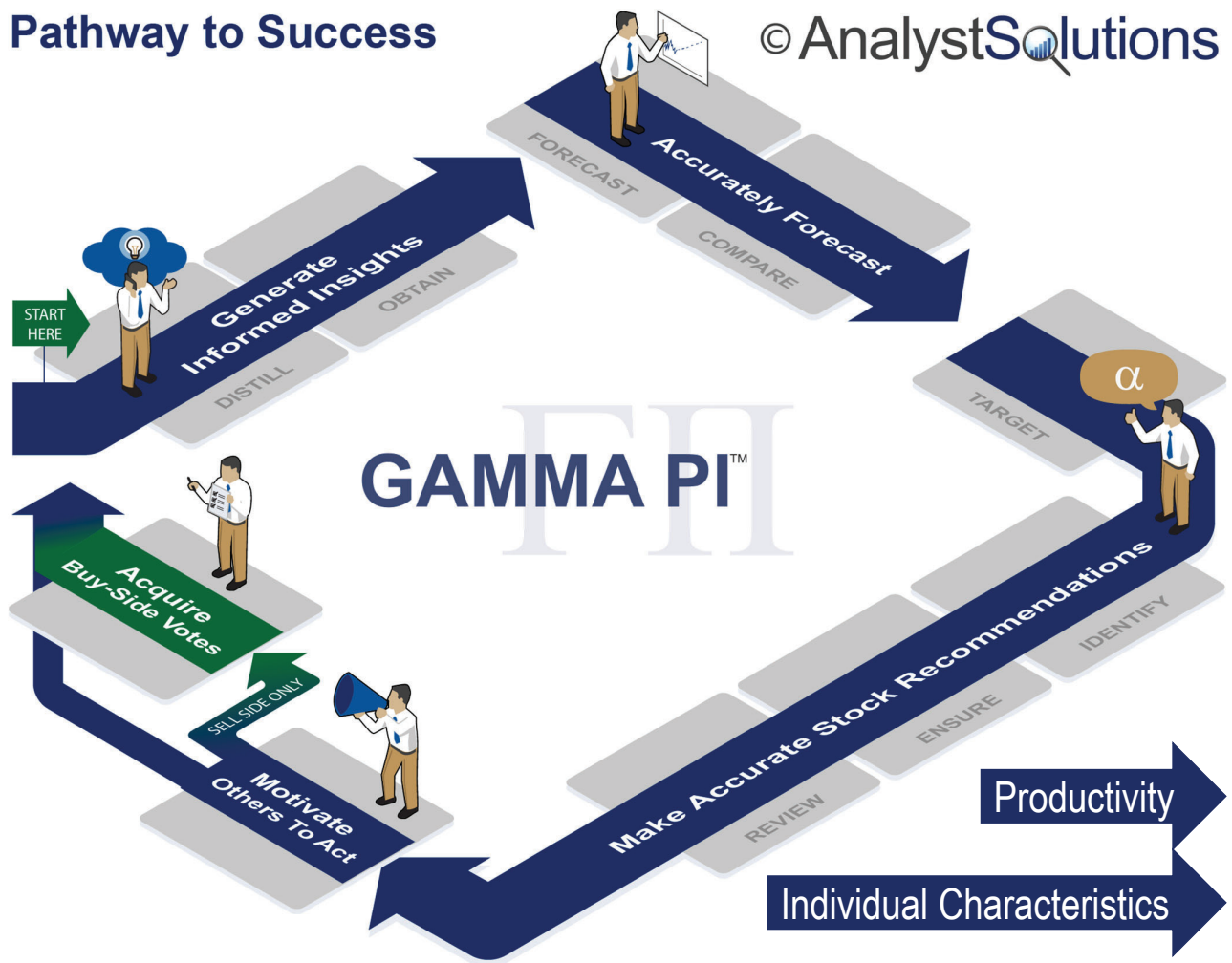
Matthews International Capital Management Offsite

17 September 2019

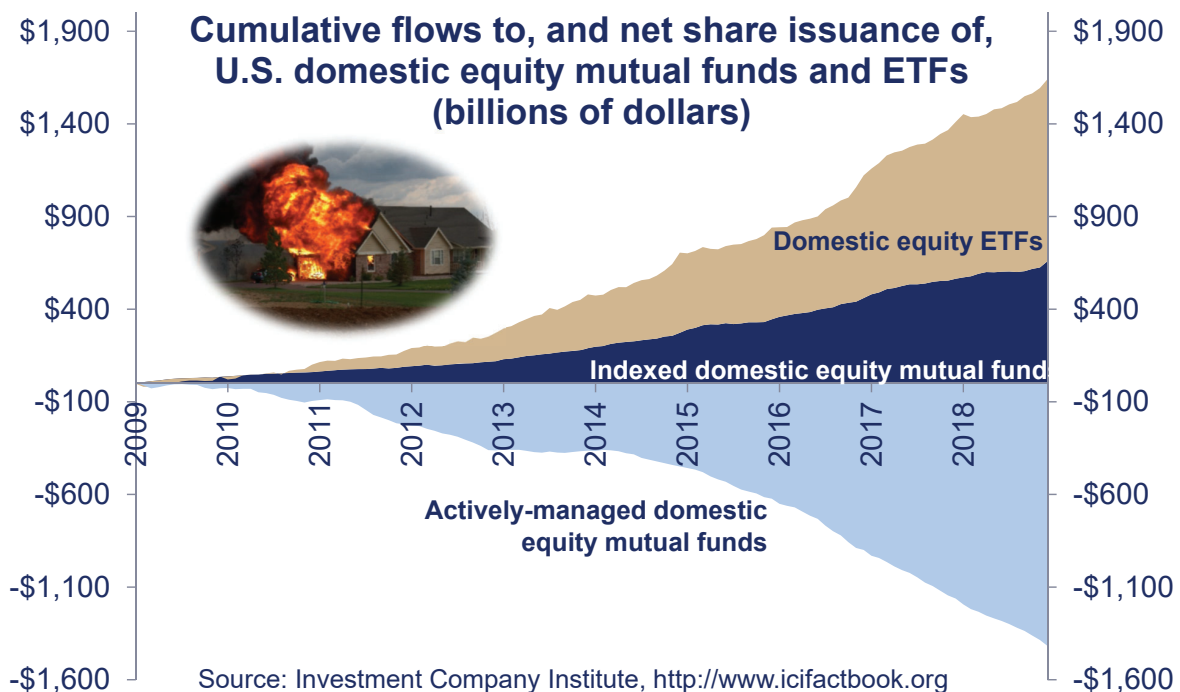
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Agenda

1. Identify and Monitor a Stock's Critical Factors
2. Generate Differentiated Insights Through Better Discovery, Questioning, and Influencing
3. Maximize Your Time for Alpha Generation
4. Specialists vs. Generalists



Worthy of Analysis



Portfolio Manager's Frustrations

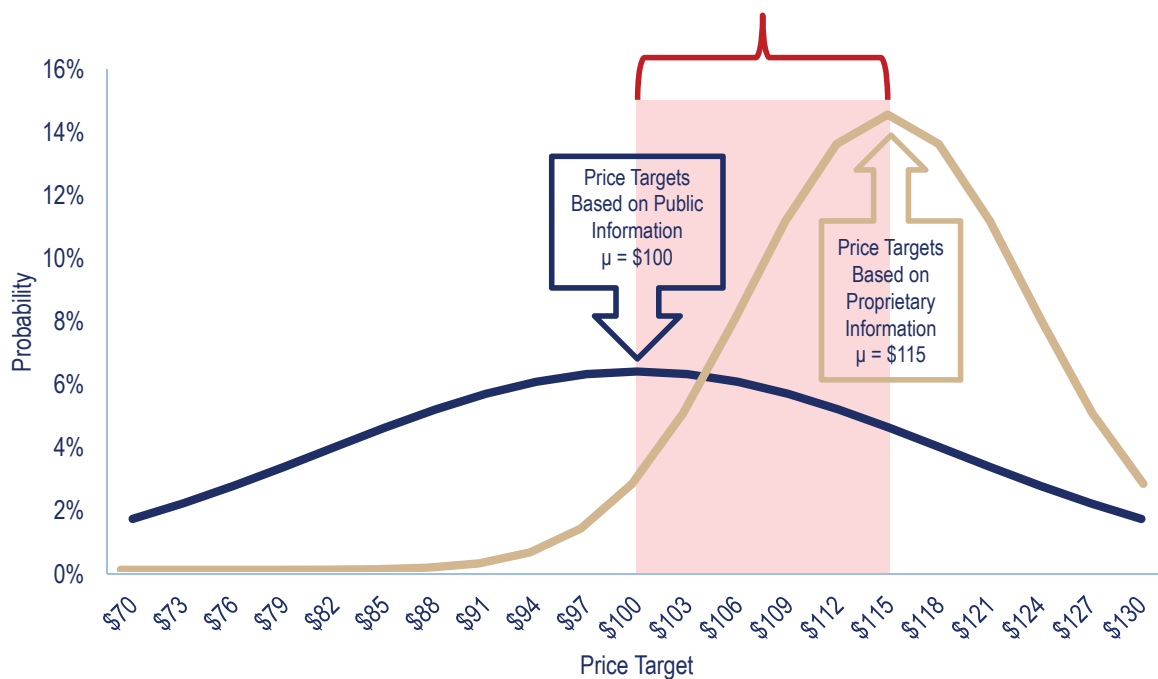
- Over 80% of research is worthless
 - Not unique
 - Few to no insights
 - Backward looking
 - Lacks substance
 - Lacks conviction
- Research should focus on:
 - What's unique about the analyst's work?
 - What's the market missing?
 - Where do the supporting details come from?
 - What's new from the last update?

Tell me something that will generate alpha

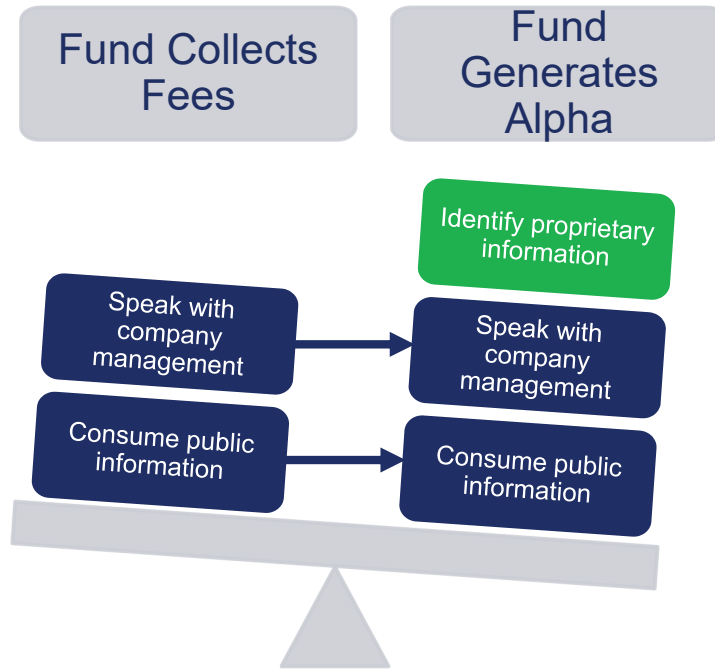


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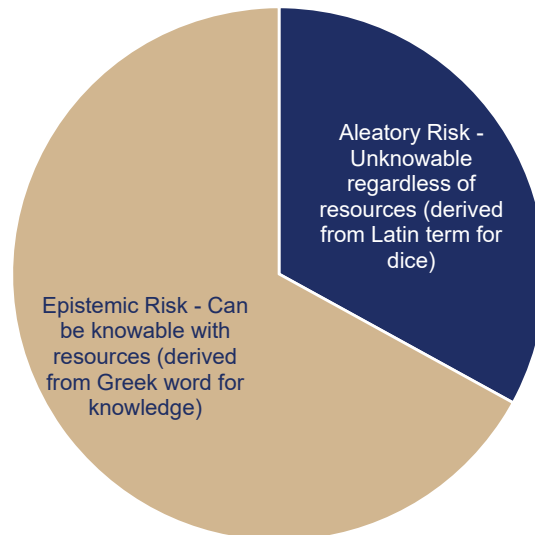
Information Asymmetry



Information Asymmetry = Alpha



Improving Return vs. Risk



Integrity Research

Gerson Lehrman Doubles Down On Quantitative Insights Group

Posted: 31 Jul 2018 05:55 AM PDT

Leading expert network GLG (Gerson Lehrman Group) is aggressively expanding its Quantitative Insights group. After examining LinkedIn registrations and new hires advertised on the company website, we estimate that the group is more than doubling in size during 2018, projected to grow to approximately 60 staff by year end. GLG has offered custom surveys which ...

Quantitative Process



Activities at Scale (Team in quant shop)

- | | | | | |
|--|--|---|---|--|
| <ul style="list-style-type: none"> • Test third party data source • Create custom data gathering | <ul style="list-style-type: none"> • Clean, adjust, index, and store data • Time series, index rolls, currency adjustments | <ul style="list-style-type: none"> • Transform data into informative signals • Data processing, signal extraction, feature importance | <ul style="list-style-type: none"> • Combine and weight multiple signals • Develop dynamic allocation model | <ul style="list-style-type: none"> • Monitor factor and strategy performance • Phase strategies in and out |
|--|--|---|---|--|

Activities by Individual

- | | | | | |
|---|--|--|--|--|
| <ul style="list-style-type: none"> • Gather data with web scraping, excel plug-ins, APIs | <ul style="list-style-type: none"> • Build database | <ul style="list-style-type: none"> • Build factors and test significance • Backtest on real data | <ul style="list-style-type: none"> • Create ranking mechanism from data | <ul style="list-style-type: none"> • Track performance versus benchmark • Examine misses |
|---|--|--|--|--|

Tools

- | | | | | |
|---|--|---|---|---|
| <ul style="list-style-type: none"> • Web scaping (coding) • Excel downloads • APIs | <ul style="list-style-type: none"> • Excel • SQL | <ul style="list-style-type: none"> • Data manipulation, statistical modeling, graphing/visualization • R, Python, other (not Excel) | <ul style="list-style-type: none"> • Statistical coding (R or Python, usually) | <ul style="list-style-type: none"> • Trading system reports • Excel |
|---|--|---|---|---|

Time

- | | | | | |
|--|---|---|---|---|
| <ul style="list-style-type: none"> • 10% if available • 50% if not | <ul style="list-style-type: none"> • 20% | <ul style="list-style-type: none"> • 40% | <ul style="list-style-type: none"> • 10% | <ul style="list-style-type: none"> • 10% |
|--|---|---|---|---|

Key skills

- | | | | | |
|--|---|---|---|---|
| <ul style="list-style-type: none"> • Domain knowledge (what is important) | <ul style="list-style-type: none"> • Database construction • Domain knowledge (how adjust data) | <ul style="list-style-type: none"> • Statistics & coding • Visualization • Domain knowledge (what should work) | <ul style="list-style-type: none"> • Statistics/Math | <ul style="list-style-type: none"> • Curiosity |
|--|---|---|---|---|

Source: c.rank.y credit: <https://crankycrredit.com/>

Expand Your Toolset Beyond Excel

Choose one (learn both eventually)



- | | | | |
|------------------------|--|--|--|
| What is it? | <ul style="list-style-type: none"> • Structured Query Language • Used to create and query databases | <ul style="list-style-type: none"> • Statistical programming language • Dominates statistical community | <ul style="list-style-type: none"> • Very flexible and easy to learn programming language • Named for Monty Python |
| Why learn | <ul style="list-style-type: none"> • The logic of databases permeates all programming • You can learn it in a few days. There are only 7 commands. | <ul style="list-style-type: none"> • Excellent data manipulation and visualization • Best support for statistical operations | <ul style="list-style-type: none"> • Rapidly becoming de facto scripting language standard • Broadest use outside of statistics • Best support for machine learning |
| Which software | <ul style="list-style-type: none"> • MySQL | <ul style="list-style-type: none"> • R | <ul style="list-style-type: none"> • Python 3 (not 2.7) |
| Which interface | <ul style="list-style-type: none"> • MySQL Workbench | <ul style="list-style-type: none"> • RStudio | <ul style="list-style-type: none"> • Jupyter notebooks via the Anaconda download |
| Key packages | | <ul style="list-style-type: none"> • dplyr • tidyverse • ggplot | <ul style="list-style-type: none"> • pandas • matplotlib • scikit learn • tensorflow |

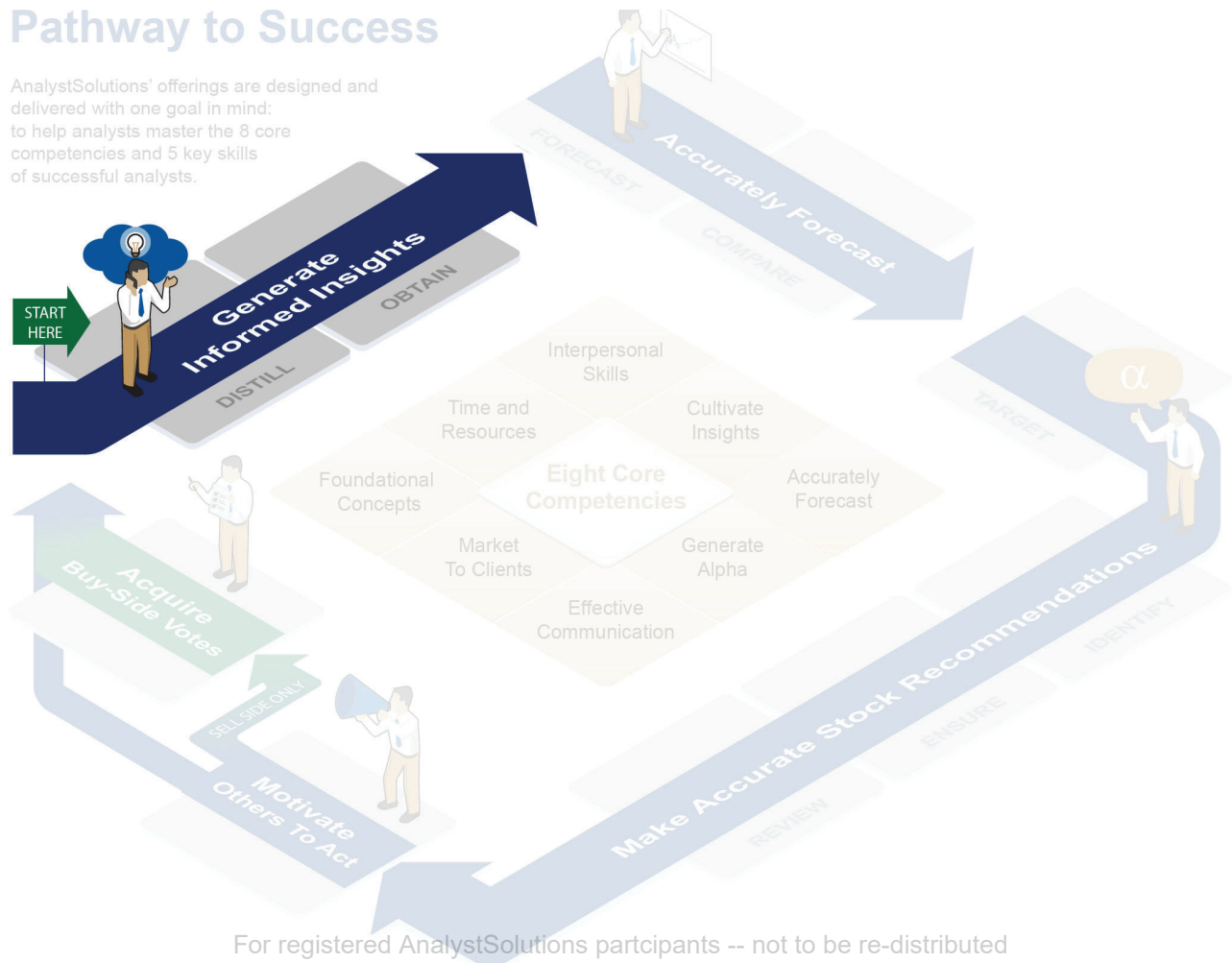
Total cost of the above? FREE.

Invest in a \$10 -\$20 Udemy course on each to help you get started.

Identify and Monitor a Stock's Critical Factors

Pathway to Success

AnalystSolutions' offerings are designed and delivered with one goal in mind: to help analysts master the 8 core competencies and 5 key skills of successful analysts.



Complete Your TAP

Section 1, Part 1

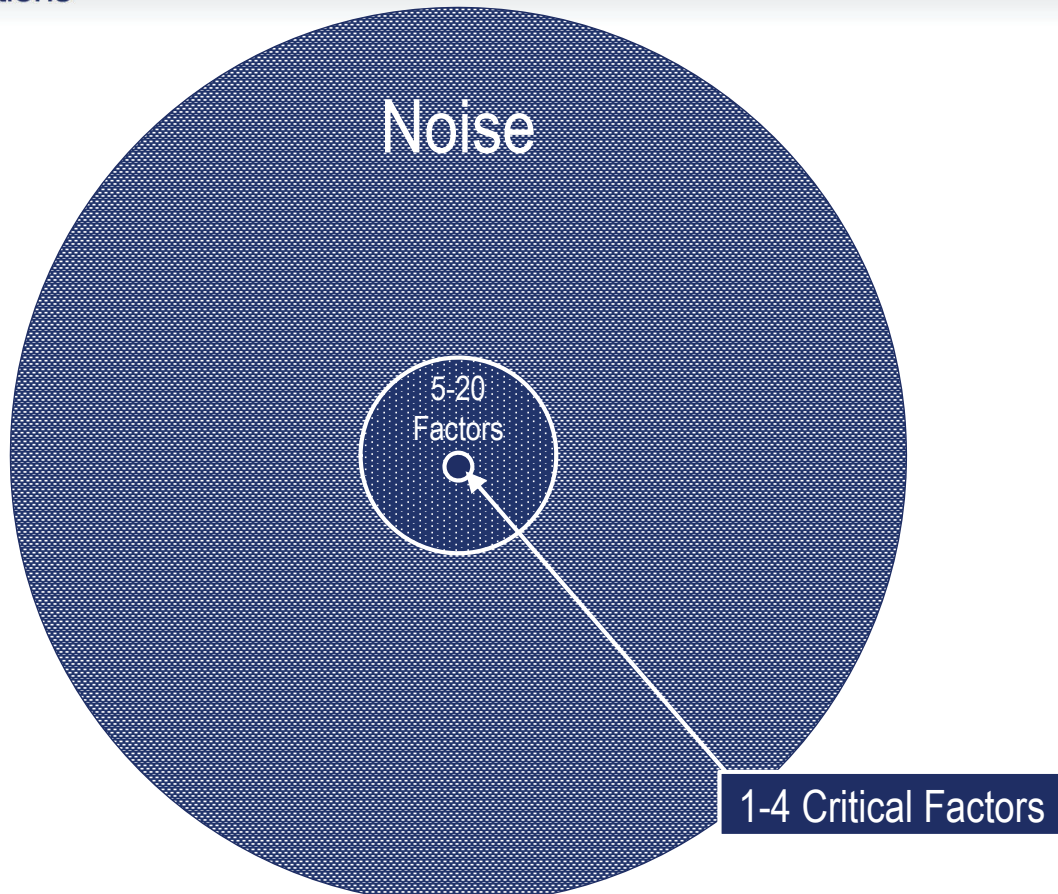
Transformation Action Plan (TAP)



Instructions for the Transformation Action Plan (TAP):

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Exercise: “List Everything”



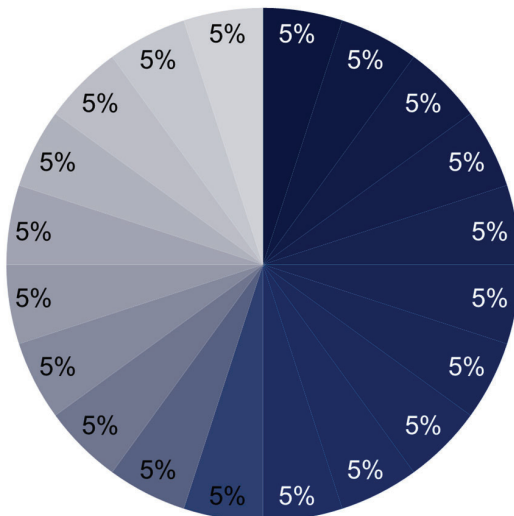
Sea of Mediocrity



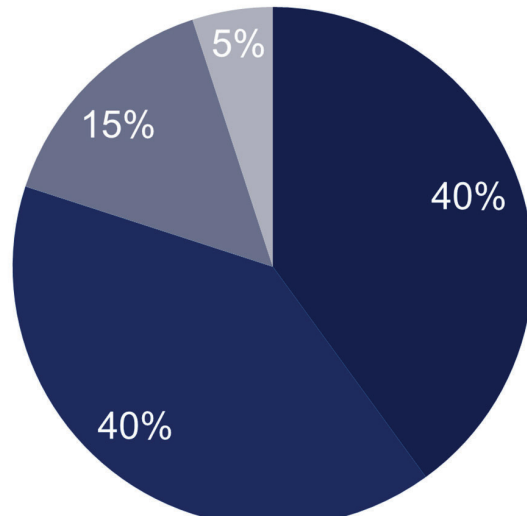
- “90% of everything is crap”
 - Sturgeon’s Law (1951)
- “Four-fifths of everybody’s work must be bad. But the remnant is worth the trouble for its own sake.”
 - Rudyard Kipling (1890)

What Will Your Day Look Like?

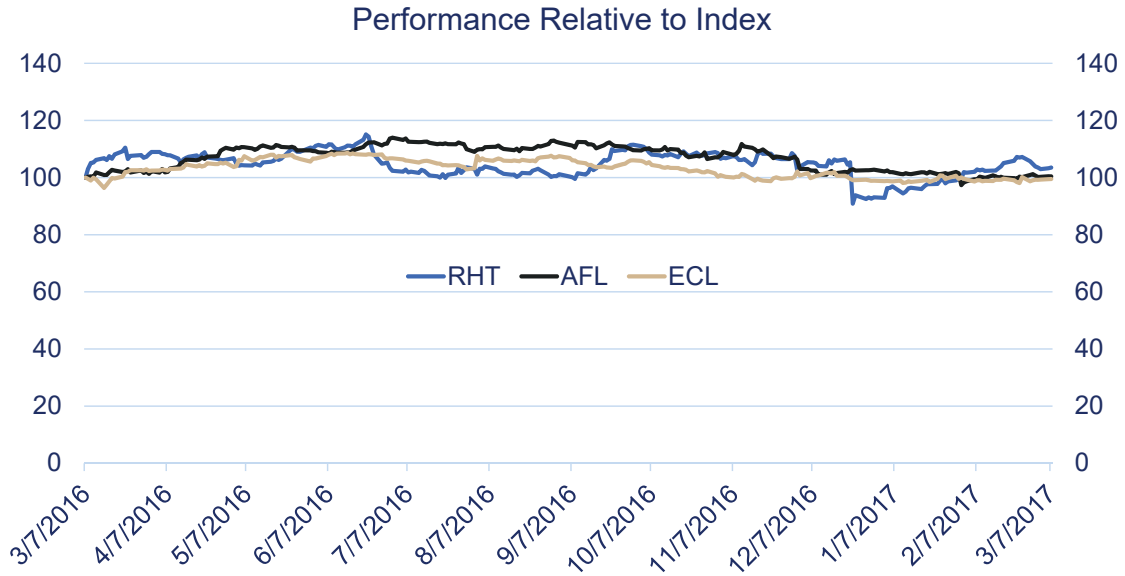
**Critical Factors
Not Defined**



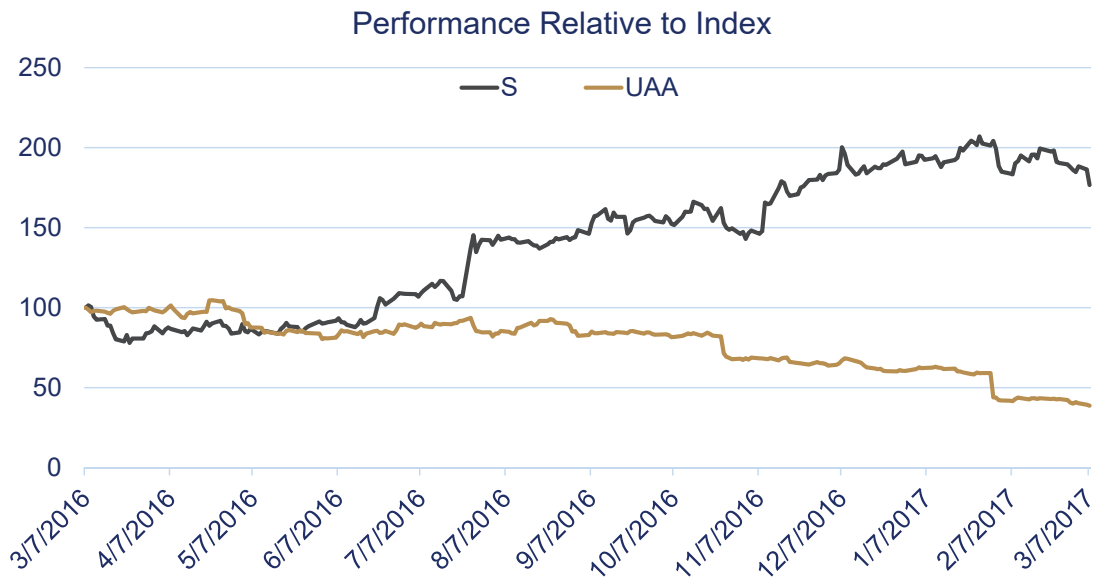
**Critical Factors
Defined**



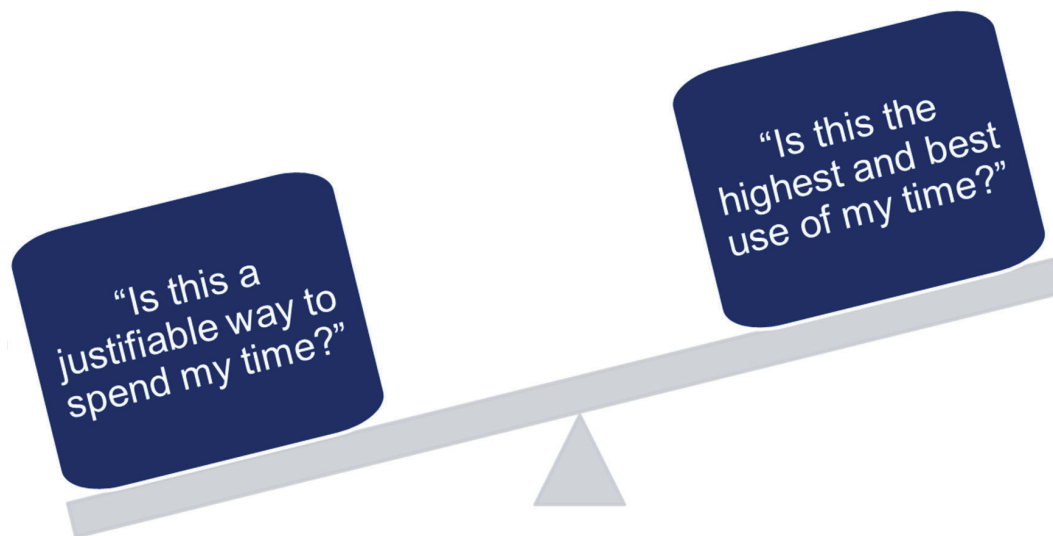
Generate alpha...



Generate ALPHA



What Gets An Analyst Paid?



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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
- Everything that can move a stock is not automatically a critical factor

EPIC™ Stock Calls Require Critical Factors Meet All Four Criteria



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Exceeds Materiality Threshold?

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



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



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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
1% change in share count	• Causes corresponding change to EPS

Materiality Tool

Ticker:	FDX	IBM	SBUX	WMT
Period (year)	2016	2016	2016	2016
Amount EPS needs to change to be "material":	10%	10%	10%	10%
Step 1: Compute 10% of net income				
10% change to EPS	1.08	1.37	0.19	0.44
Materiality threshold as measured in net income	\$302	\$1,317	\$286	\$1,414
Step 2: Convert to pre-tax EBIT (MAGIC NUMBER)				
Materiality threshold as measured in pre-tax EBIT	\$375	\$1,359	\$424	\$2,036
Step 3: Compute threshold for changes from pricing and expenses				
Materiality threshold as measured in changes to pricing ¹	0.7%	1.7%	2.0%	0.4%
Materiality threshold as measured in changes in expenses ²	0.8%	2.0%	2.5%	0.4%
Step 4: Compute threshold for change in revenue from sales/volume				
Materiality threshold as measured in changes from sales/volume ³	\$3,767	\$8,117	\$2,135	\$40,980
As a percent of revenue	7.5%	10.2%	10.0%	8.5%

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Complete Your TAP

Section 1, Part 2 Questions #1 & #2

Transformation Action Plan (TAP)



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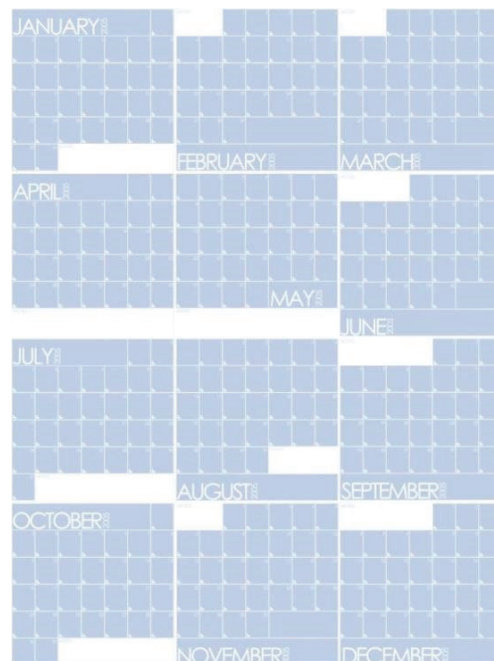
EPIC™ Stock Calls Require Critical Factors Meet All Four Criteria



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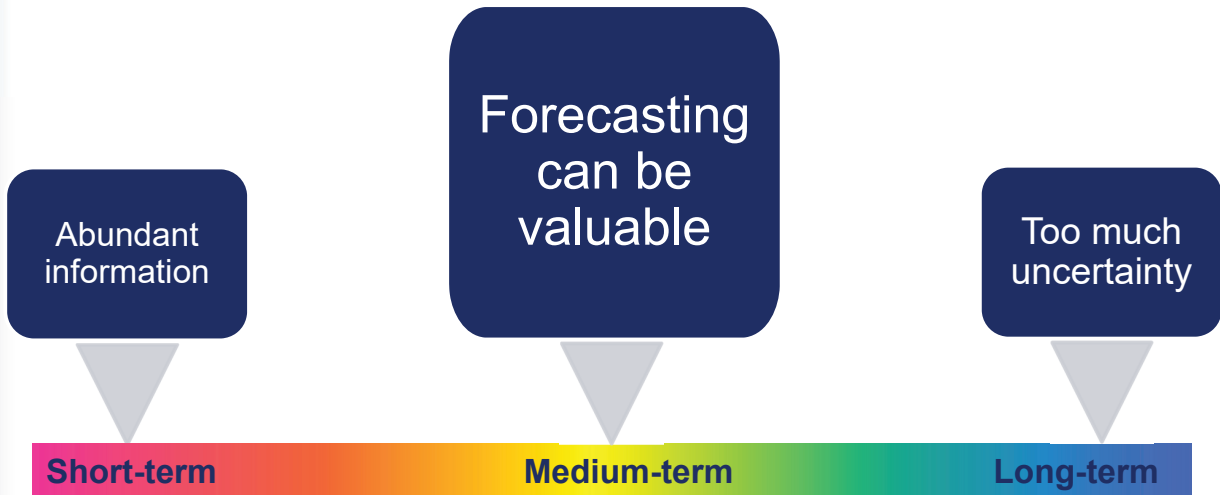
Probably Going to Occur?

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



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Sweet Spot of Forecasting



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Complete Your TAP

Section 1, Part 2

Question #3

Transformation Action Plan (TAP)



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I'm Good at Forecasting?



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

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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



Methodology of Superforecasters

1. Unpack the question into components
2. Distinguish as sharply as you can between the known and unknown and leave no assumptions unscrutinized
3. 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
4. Adopt the inside view (specifics to the particular case) that plays up the uniqueness of the problem
5. 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
6. Synthesize all these different views into a single vision
7. Express your judgment as precisely as you can, using a finely grained scale of probability

Source: Superforecasting: The Art and Science of Prediction

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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

Complete Your TAP

Section 1, Part 2

Questions #4, #5 and #6

Transformation Action Plan (TAP)



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EPIC™ Stock Calls Require Critical Factors Meet All Four Criteria



An Analyst's Goal...

Identify where consensus is wrong

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Consensus is Poor at Forecasting?

- Tough to generate alpha when others have done work in the same area
- Does consensus have the answer already...
 - If not, why not?
- How can you determine if consensus will be poor at forecasting?



Complete Your TAP

Section 1, Part 2

Question #7

Transformation Action Plan (TAP)



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

Complete Your TAP

Section 1, Part 2

Question #8

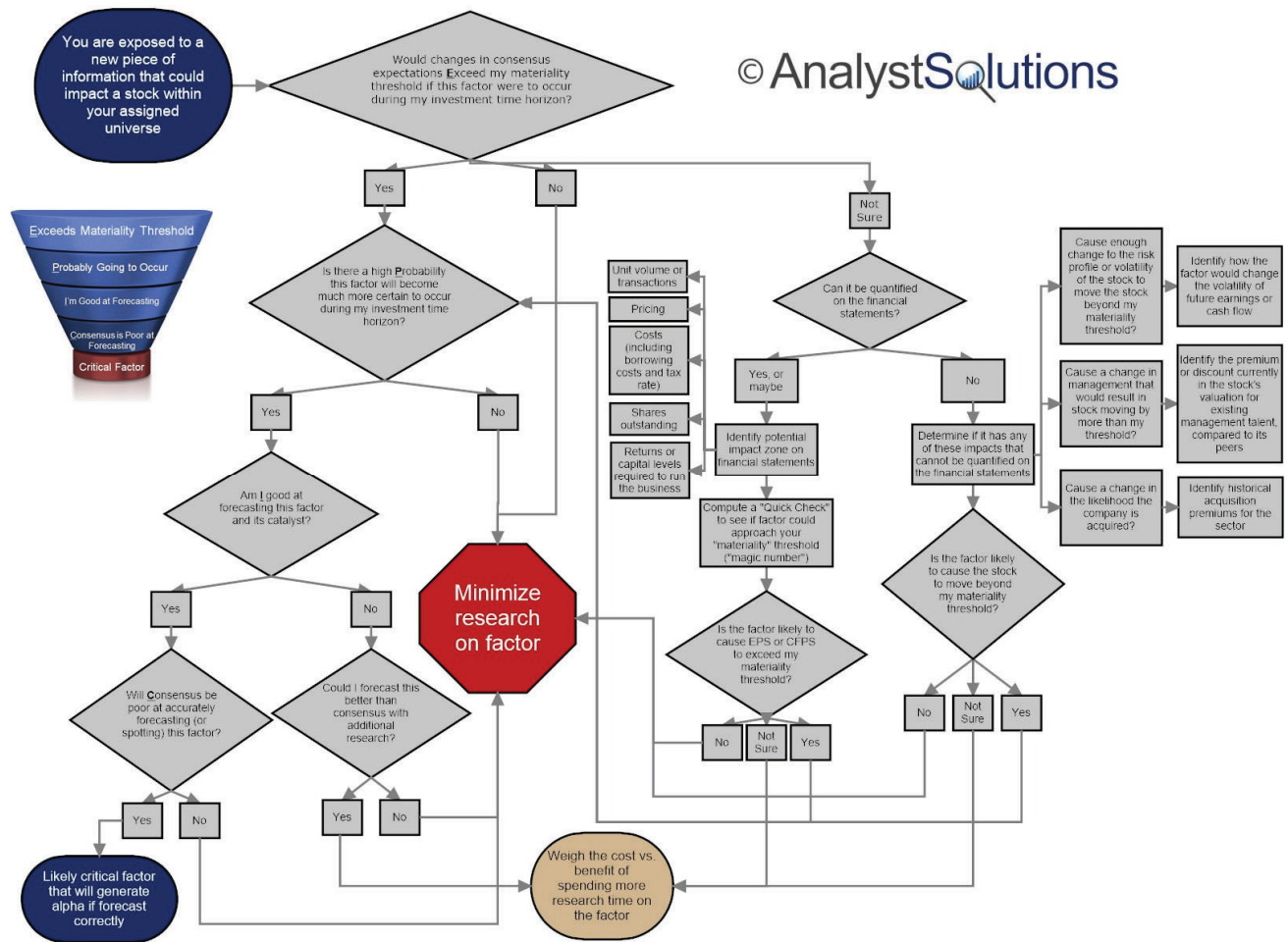
Transformation Action Plan (TAP)



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-

DEBRIEF: WHERE IS THE MARKET WASTING ITS TIME?



Reference Card

Detailed Reference Card (DRC)

Identify a Stock's Critical Factors

Seek Factors That Meet All Four Criteria Below

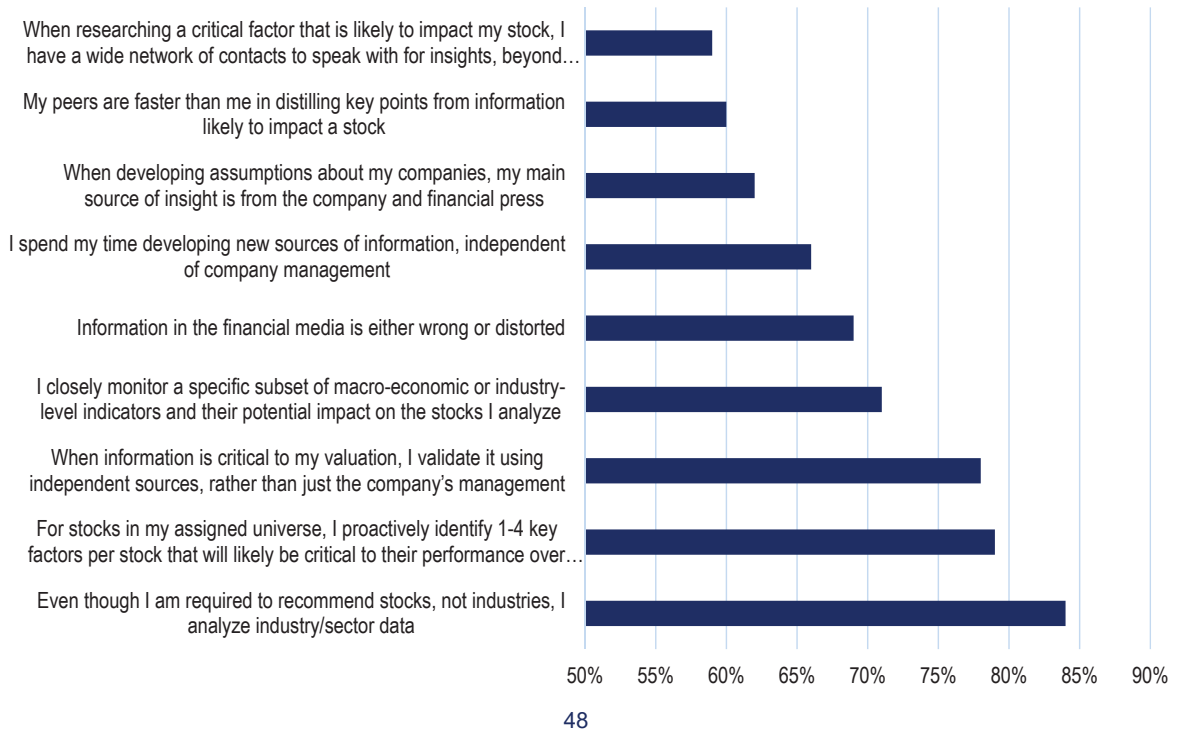
Benefits of Focusing on Critical Factors

- 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

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Generate Differentiated Insights Through Better Discovery, Questioning, and Influencing

Survey Responses: Generating Informed Insights

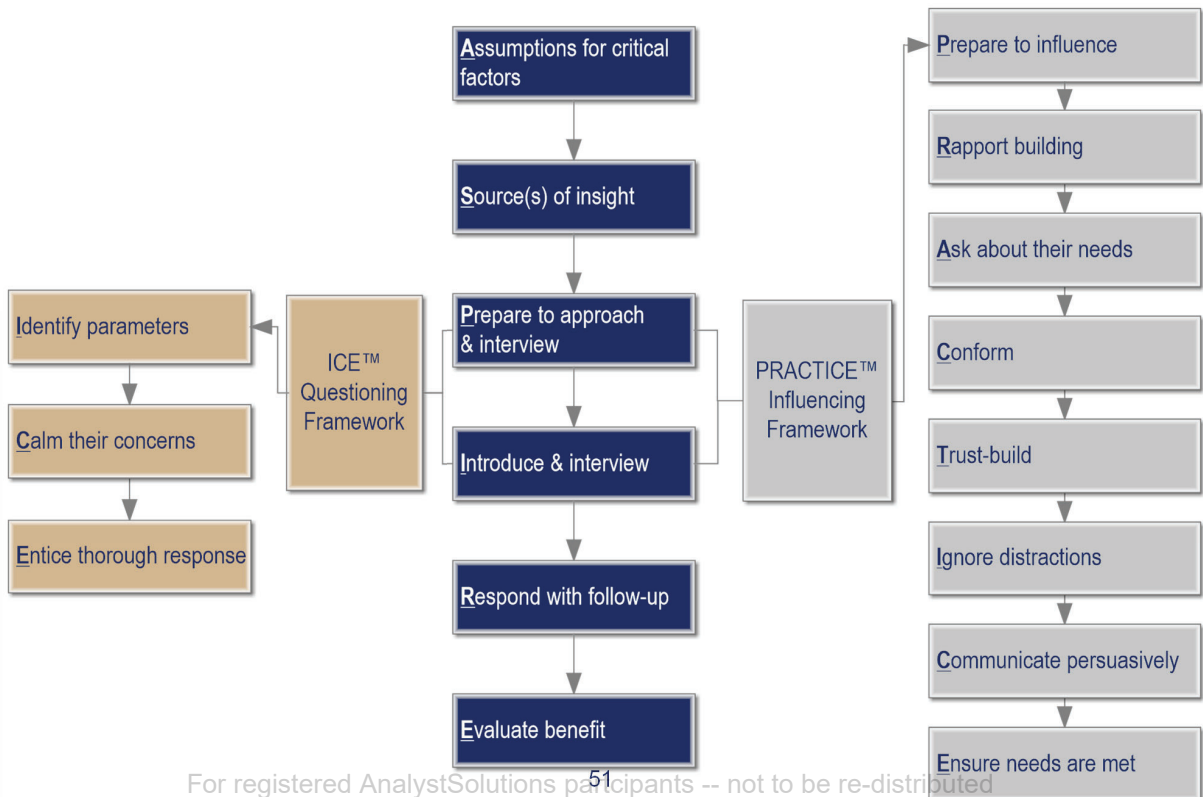


Unique Insights or Just Information?

Information	Insight
<ul style="list-style-type: none"> Apple's iPhone 8 is to have an edge-to-edge OLED screen 	<ul style="list-style-type: none"> Apple's new iPhone 8 will... <ul style="list-style-type: none"> likely accelerate its EPS growth rate; OR confirm slower smartphone innovation is leading to longer upgrade cycles
<ul style="list-style-type: none"> Tesla will deliver its first Model 3 in late 2017 	<ul style="list-style-type: none"> Tesla's launch of its Model 3 will... <ul style="list-style-type: none"> eliminate concerns about its longer term growth rate; or be delayed by 6-12 months, causing its valuation to drop by 10%
<ul style="list-style-type: none"> Bayer will report earnings next Wednesday 	<ul style="list-style-type: none"> Next Wednesday when Bayer reports earnings, I expect it to raise its revenue forecast to €42 billion up from its current €41 billion



Key Frameworks



Complete Your TAP

Section 2

Transformation Action Plan (TAP)



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Sources of Insight

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



Where Do I Find Sources?



Review QRC

Quick Reference Card (QRC)

Information Sources Pros and Cons

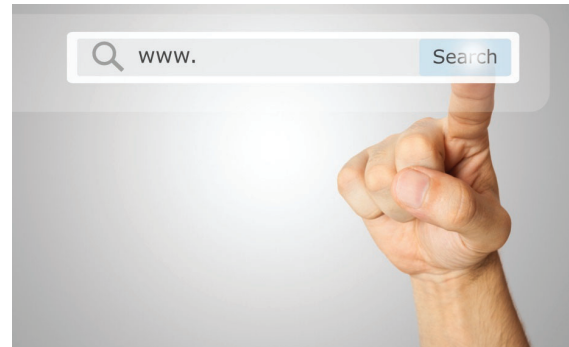
Individual Conversation

Source for Information	Pros	Cons	Confirm or Refute Historical Factors*	Assess New or Emerging Critical Factors	Assess Market Psych.
Buy-side analyst or portfolio manager (as source for buy-	Best place to gauge investor expectations	May not be representative of the larger investor base	<input type="checkbox"/>		<input checked="" type="checkbox"/>

Scan Target-Rich Websites

Use online sites such as those below to find individuals formerly employed by the company, currently employed by a competitor (preferably a privately-held competitor) or an expert on the critical factor(s) you're researching:

- On-line networking groups such as LinkedIn, alumni networks, etc.
- On-line job boards such as Monster.com and Upwork



Read Relevant Content Creators



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

Scan Content Creators



- Research topical blogs
 - Google sector name and “blogs” to find names of the blogger and those who are mentioned or quoted
 - Sign up for the good ones
- News stories (to find names of the journalist and those being quoted)
 - General press, when the story has a focus on your sector(s)
 - Trade journals focused on your sector(s)

Scan for High-Profile Authorities

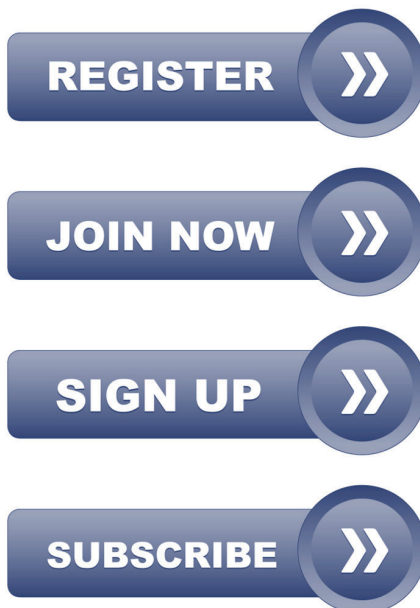
- Conference speakers (even those you don't attend) focused on the critical factor(s)
- Authors of papers, books and presentations
 - Conduct a Google “Advanced Search” and ensure the “file type” is PDF or PowerPoint
 - For books use: <http://www.worldcat.org/>
 - For papers use: <http://www.ssrn.com/en/> or <http://www.ebscohost.com/> (subscription based)
 - You may want to research YouTube, but unless the topic pertains to companies only, you may get too many search results to quickly analyze
- Search the internet for names of consulting firms that specialize in the sector (if the search doesn't come up with a quick answer, ask company management for the consultants they use)

Scan Aggregator of Names



- Industry, association and professional society websites
- Industry award winner lists (e.g. “top performers of the year”)
- Databases or lists that contain the names of the largest privately-held companies in your sector (it can be an industry associate directory, or use a service such as Hoovers)

Sign Up



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

Participate in Industry Events

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



Don't Forget To...

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



Consider Expert Networks

You may want to utilize expert networks (if allowed by your firm), but understand the best contacts are probably already speaking to others in the financial community and so they won't be entirely proprietary



Expert Networks

Examples:

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



Limitations of Relying on Company Management

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



Live Roles Within Financial Markets

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



Typical “WIIFT”

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

DRC Covers Non-Verbal Communications

Detailed Reference Card (DRC)

Generating Sustainable Sources of Insight with ASPIRE™ Framework

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

- Research shows 65% to 93% of the message being delivered can be nonverbal, and so for in-person interviews, don't miss these cues (this is another reason why in-person interviews are superior to phone or email exchanges, but they require more time which is why they're aren't always the best option)
- When asking interviewees questions, note their verbal and non-verbal responses. If they quickly and confidently downplay your concerns, you can feel more confident with the answer than if they appear concerned or, worse yet, avoid answering the question.
- There is significant subjectivity involved in reading body language and much practice is required to master these skills. As you'll see below, for every cue there is a qualifier that says you can't rely

Summary of ASPIRE™ Best Practices

(1 of 2)

- 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)

Summary of ASPIRE™ Best Practices

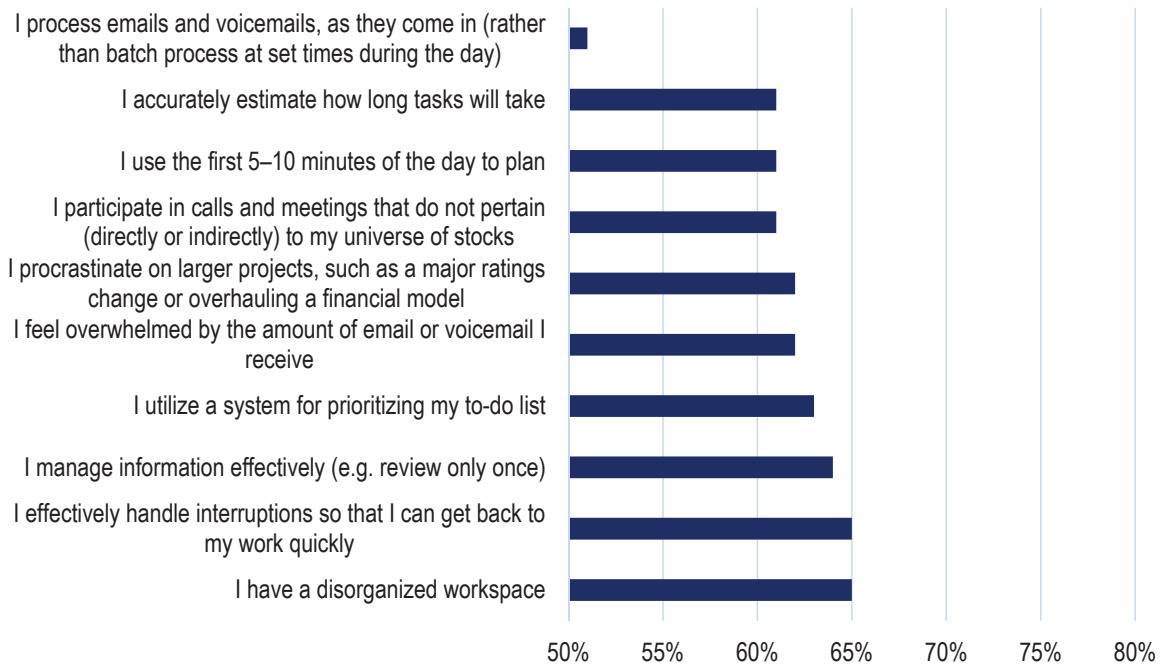
(2 of 2)

- **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

Maximize Your Time for Alpha Generation



Survey Responses: Productivity



Drinking from Fire Hose



Time Management Is Your Primary Weapon

- The 3 elements that can make a great analyst:
 - Superior intelligence
 - Superior firm resources
 - Superior work skills
- Which can you control?



What Would 10% More Time Mean to You?

At least 5 extra hours per week could be used for...

- Better identifying the critical factors most likely to move a stock
- Calling information sources about a critical factor
- Conveying your insights to those colleagues you need to influence

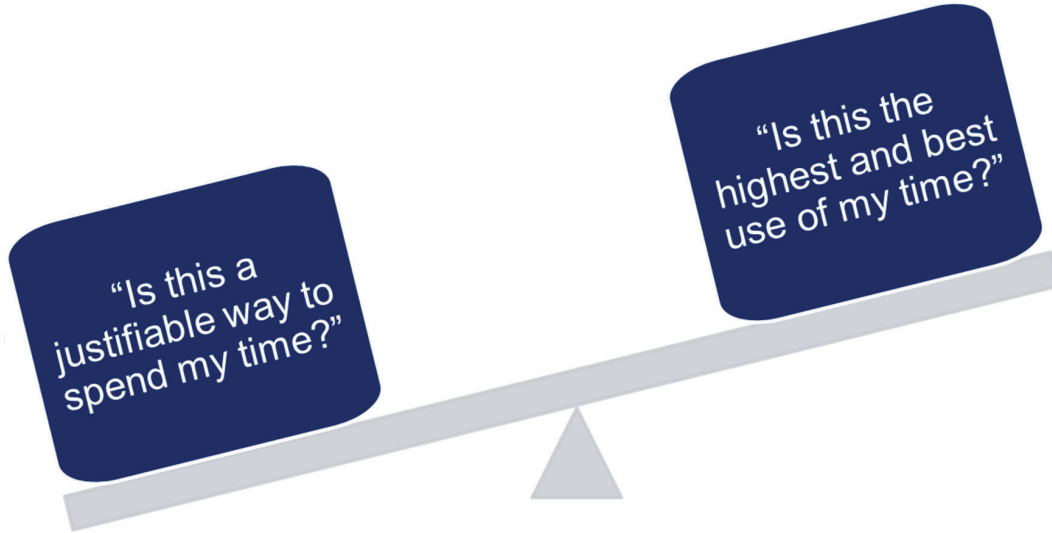


Most analysts play *defense*...



...while the best play *offense*

What Gets an Analyst Paid?



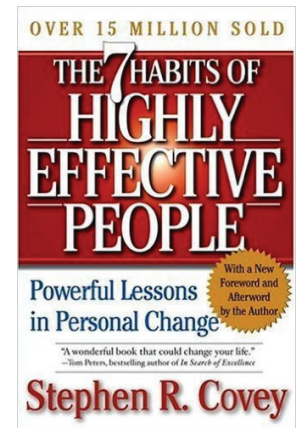
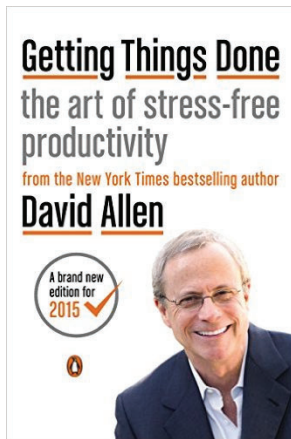
Challenge to Balance

Likelihood activity will help achieve goal

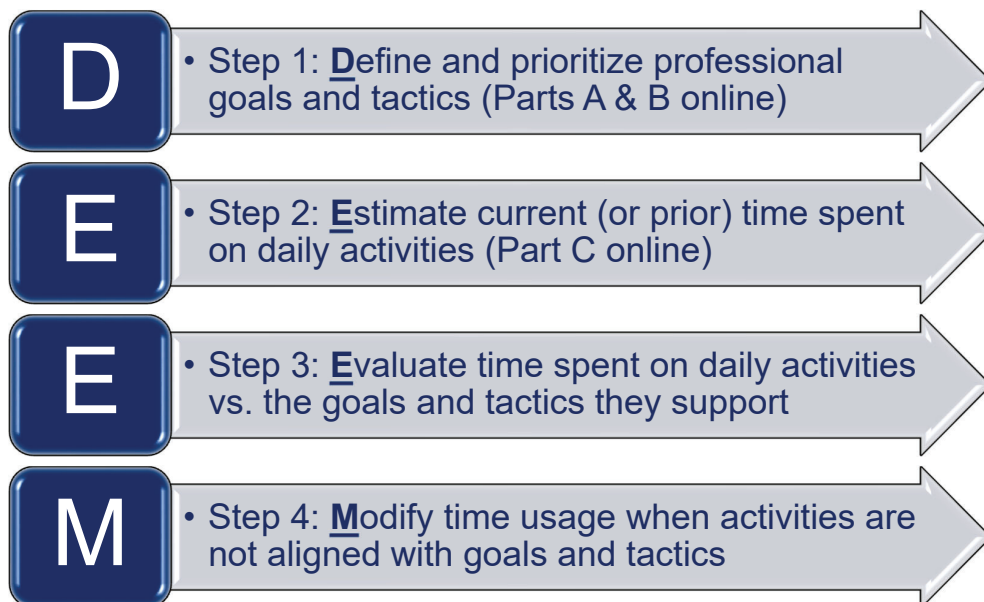
=

Time dedicated to activity





DEEM™ to Prioritize Your Time



Time Used On Any Activity Should Balance with the Goals It Achieves



Primary Goals

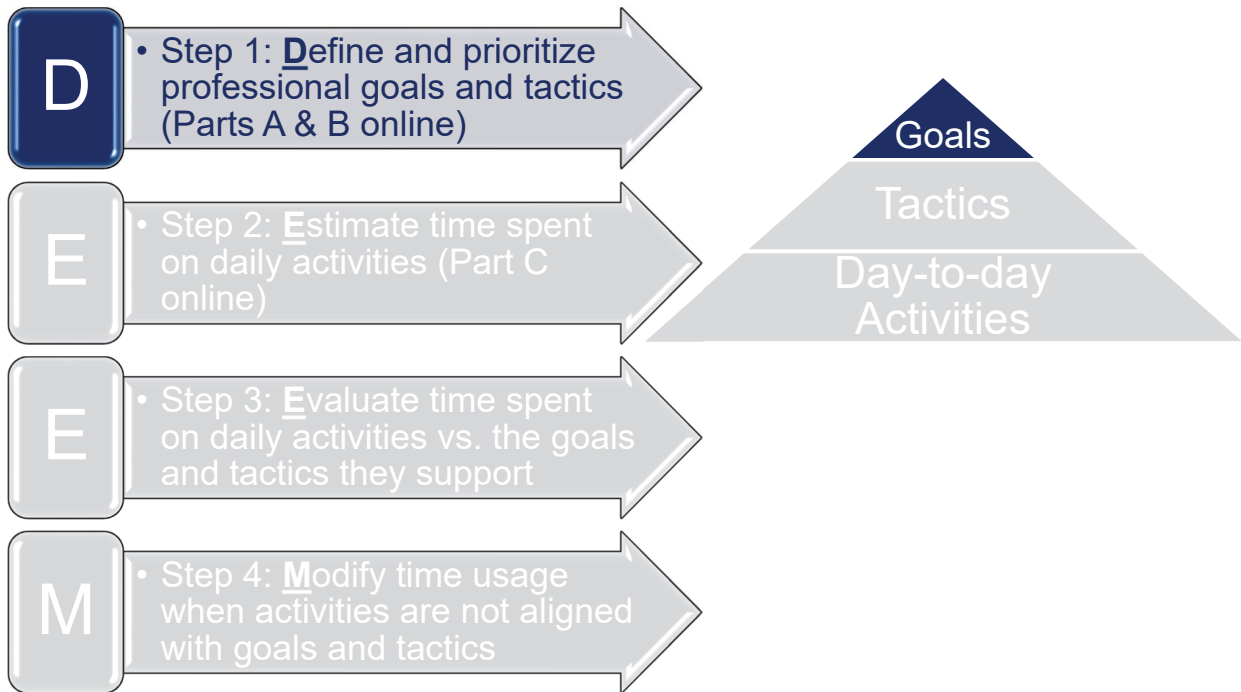
Generate Alpha or Help Clients Generate Alpha



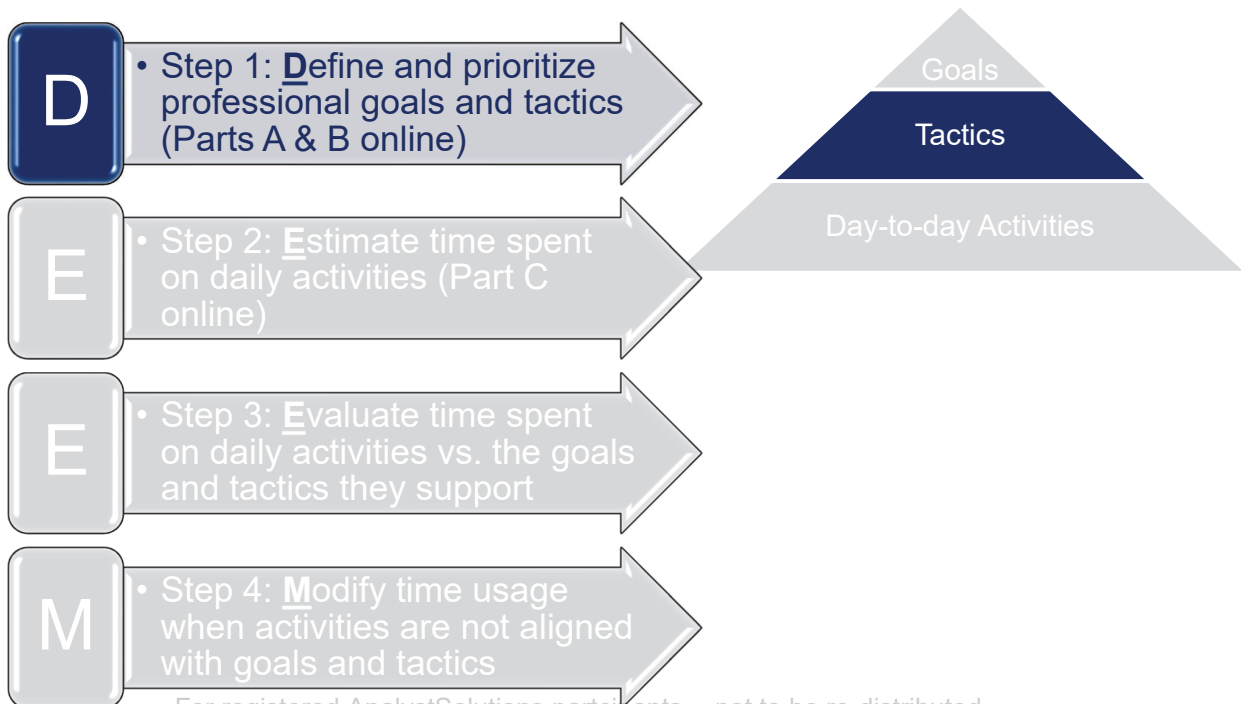
Get Recognized for Your Efforts



Step 1A: Define and Prioritize Professional Goals and Tactics




Step 1B: Define and Prioritize Professional Goals and Tactics



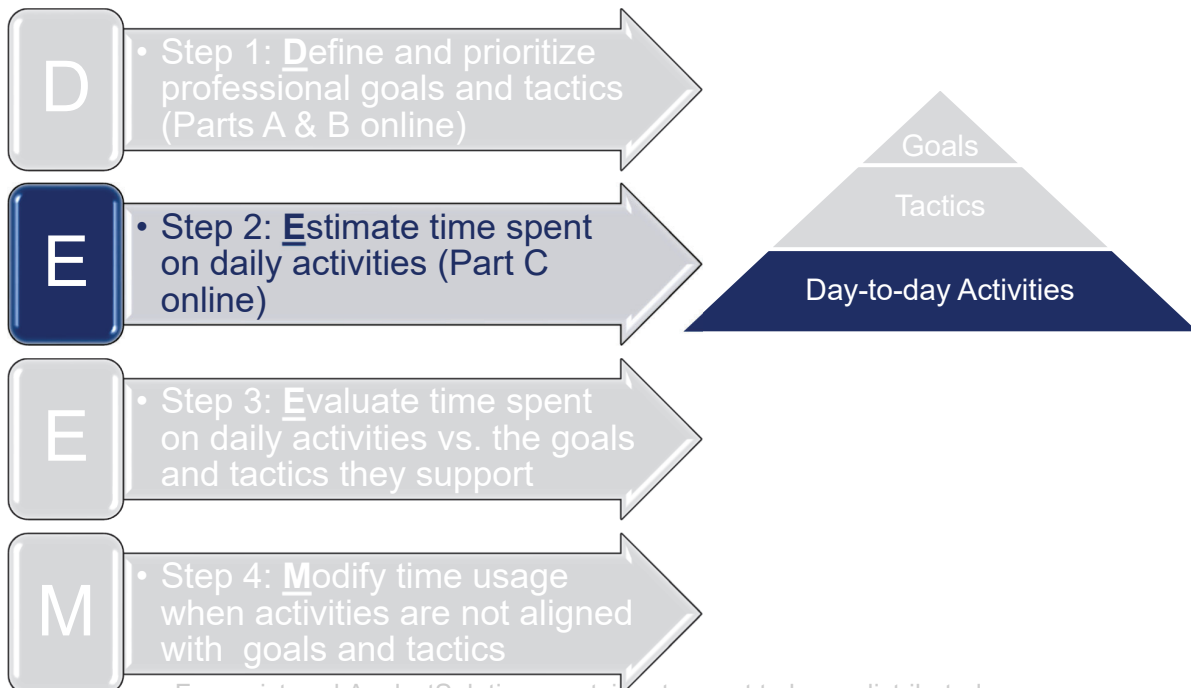
Part B, Item A

Part B: Are Your Activities Aligned with Your Tactics?



	Tactic Category	Your Initial Ranking (Item "A")	Item Priority (1-10)
1. Distill macro, industry and company information to identify the most important critical factors for my assigned stocks	GI: Generate insights more accurate than consensus	10	
2. Build/contact network of informed/accurate information sources to identify/validate my out-of-consensus views for my critical factors	GI: Generate insights more accurate than consensus	10	
3. Generate a financial forecast(s) more accurate than consensus by using unique insights not held by consensus	FA: Forecast accurately	10	
4. Apply the most appropriate valuation method(s) and multiple(s) to create a price target(s) more accurate than consensus	VA: Value (stocks) accurately	9	

Step 2: Estimate Time Spent on Daily Activities



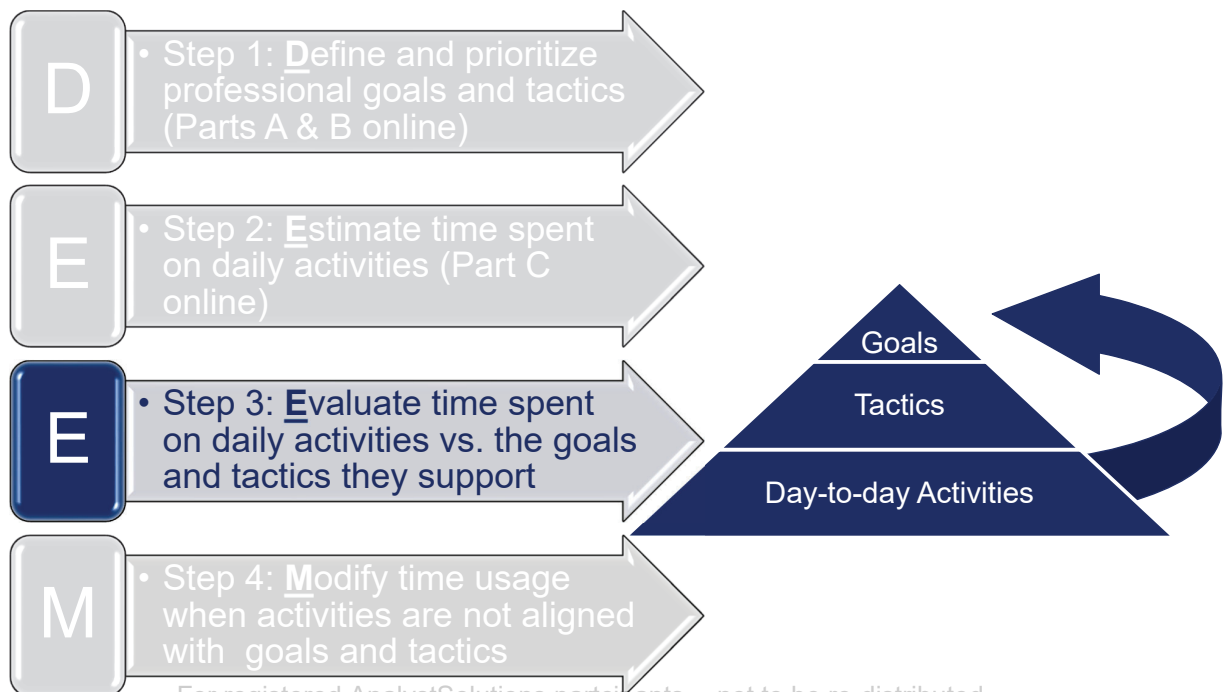
Activities Are Categorized as a Means to Achieving a Tactic

Tactic:

“Ensure I'm getting into or out of a stock at the ideal time (not early or late)”

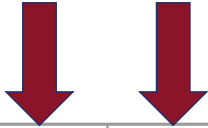
Activities
Before making a major change in stock recommendations, setting aside time to assess market sentiment towards a stock
Researching elements of risk rather than just upside for my high-conviction stock calls
Reviewing my investment thesis with a colleague/committee before changing, in order to reduce my potential biases or blind spots
When making recommendations, verifying my forecasts and/or valuation multiples are accurate and justifiably out-of-consensus

Step 3: Evaluate Time Spent On Daily Activities vs. Goals And Tactics They Support



Part B: Item B & “Activity Score”

Part B: Are Your Activities Aligned with Your Tactics?



	Tactic Category	Your Initial Ranking (Item "A")	Ranking Based on Prioritizing Your Activities in the Recent Past (Item "B")	Activity Score: Ratio of Item B divided by Item A
1. Distill macro, industry and company information to identify the most important critical factors for my assigned stocks	GI: Generate insights more accurate than consensus	10	6.5	65.5%
2. Build/contact network of informed/accurate information sources to identify/validate my out-of-consensus views for my critical factors	GI: Generate insights more accurate than consensus	10	6.5	65.5%
3. Generate a financial forecast(s) more accurate than consensus by using unique insights not held by consensus	FA: Forecast accurately	10	5.3	52.5%
4. Apply the most appropriate valuation method(s) and multiple(s) to create a price target(s) more accurate than consensus	VA: Value (stocks) accurately	9	8.5	94.4%

“WOT?” or “Value Add?”

- At the request of others, participating in activities that do not support my professional tactics
- Fine tuning my financial forecasts based on new public information
- Initiating non-work activities during business hours (e.g. looking up sports scores, personal discussion conversation, etc.)
- Participating in widely-publicized conference calls/meetings/field trips arranged by others (e.g. quarterly conference calls)
- Reading company regulatory filings/press releases to get a general understanding of the company and its performance
- Reviewing emails and voicemails coming from anyone who is not one of my trusted information sources
- Reviewing news or other widely disseminated, publicly-available data

Do You Need to Reprioritize?

Review column “Future Priority Minus Past Priority”

- Positive scores are those that you want to increase
- Where will you find the time?
- Negative scores are those you want to reduce



Part C

Part C: Do You Need to Re-Prioritize How You Spend Your Professional Time?

Activity	Tactic Category	Past Priority	Future Priority	Future Priority Minus Past Priority
1. Validating my out-of-consensus financial forecasts with informed non-biased information sources	FA	3	7	4
2. Conducting scenario analysis to stress-test my financial forecasts	FA	2	6	4
3. Meeting privately one-on-one with company management	GI	3	7	4
4. Reviewing my investment thesis with a				

32. Reading publically-available information, seeking specific insights that pertain to a critical factor that is not understood by consensus	GI	9	7	-2
33. Accepting an inbound call/meeting from a sell-side analyst who has NOT helped in generating alpha in the past	WOT	9	7	-2
34. Reviewing emails and voicemails coming from anyone who is not one of my trusted information sources	WOT	6	3	-3
35. Reading sell-side research in response to something that did not change consensus expectations for one of the companies in my universe	WOT	9	6	-3

Complete Your TAP

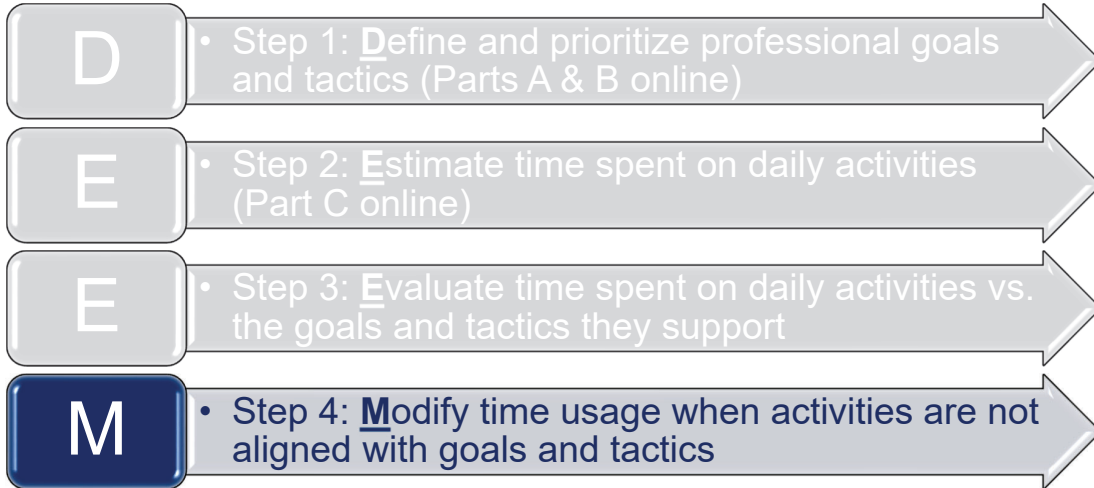
Section 3

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



Prioritization Is About...

...Starting



...Stopping



QRC: Best Practices for Time Management

Quick Reference Card (QRC)

Best Practices for Time Management

Best Practices for Playing Offense

- **Maximize offensively-focused activities** where proprietary insights are most likely to be found. Examples include:
 - Making outgoing phone calls to information sources who offer insights that improve forecast of critical factors
 - Participating in private or small group meetings with industry expert(s) or company management
 - Attending an industry conference where few financial analysts are in attendance
 - Review only what's changed (e.g. Bloomberg's Redline and FactSet's Blackline for quarterly reports)
- **Stop or minimize defensively-focused activities** such as those that may provide background but not alpha-generating insights. Examples include:
 - Quarterly earnings conference calls (reading the transcript can be done in half the time as listening to the call)
 - Reading regulatory filings (use services that highlight the information that has changed from the prior filing)
 - Sell-side-sponsored investor conferences (only attend if one-on-ones are available)
 - Site tour, especially when no senior management are present (if the tour doesn't cover a potential critical factor, spend time elsewhere)
- Participate in calls/meetings only when they directly pertain to your universe of stocks
- **Hold a weekly meeting with yourself** to evaluate the prior and upcoming weeks to ask "Am I filling my calendar with "offense" activities (those that help generate more stock ideas) and eliminating "defense" activities?"

Best Practices for Working Efficiently

- **Batch process emails** and return phone calls during 2-4 pre-blocked times each day
- Handle information only once (don't keep an email in your in-box for future reference)
 - Immediately convert all emails into tasks, calendar events or OneNote entries
 - Leave the office each day with an empty in-box
- **Schedule your week in advance**, noting important tasks and use the first 5–10 minutes of the day to plan
- **Set time limits** (mentally or in a calendar) before starting calls, meetings or tasks (and stick to the time limit)
- **Actively utilize a to-do list** that allows for prioritization and is accessible 24x7, including from mobile devices
- Utilize a note-taking system that can be quickly searched and cross referenced (e.g. OneNote or Evernote)
- Continually fine tune news filters (reduce the noise and increase critical factor insights)
- Learn Excel short-cuts if utilizing spreadsheets extensively
- When traveling, use time for research beyond reading the news or consuming publicly-available information
- Read transcripts rather than listen (or listen post call at 2x the speed)
- When possible, automate, delegate or outsource lower-valued activities that occur regularly

Best Practices for Reducing Distractions

- **Shut off all pop-up boxes** (instant messaging, email, news and price alerts)
- Phone:
 - **Pre-screen all incoming calls**
 - Put phone in do-not-disturb mode when conducting research
- Wear a headset while at work
- **Say “no” to others** when
 - Meetings are ineffective or unnecessary
 - You are not the right person for the task
 - You need to focus on higher-priority tasks for the firm
- Immediately unsubscribe from all unwanted email distribution lists
- Tell those who interrupt you need to get onto a call
- Stand up when someone enters your office
- Put books or papers on your chairs to dissuade others from sitting

Methods to Avoid Psychological Pitfalls

1. **Ask a trusted colleague or investment committee to put your thesis under scrutiny**
2. If you're serious about changing a recommendation, ensure that you know the opposing view
3. Any time you think "I can't lose", think through the downside or risks of the investment
4. Set aside time (once a month or quarter), and ask yourself, "If I switched firms tomorrow, would my initial stock recommendations at the new firm match my current ones?" If not, understand why.
5. Build and document your upside and downside scenarios while conducting the research (not after determining the rating)
6. If you've missed a substantial move in a stock, be hesitant to chase it such as jumping on the bandwagon. If get into the same trade as everyone else, ask "Who's going to take the other side of the trade when I want to get out?"
7. It's important to watch the daily movements in your stocks to understand investor sentiment, but don't let stock price movements alter your view about the fundamentals
8. When conducting extensive research on a topic, periodically ask, "What will I do if I discover nothing new?" It reduces the amount of time sunk into any one effort
9. When making a change to your thesis, ask where you are in the "greed vs. fear" spectrum compared with consensus. If you're in the same place, you may be following the herd.
10. When reviewing your comp table, hide the company names and tickers and look only at only the numbers to see if you have the same view when the names are revealed

Specialists vs. Generalists

Academic Research on Equity Research Analysts

- When researching analyst's performance (forecasts, price targets and stock recommendations) 99.9% uses sell-side analysts' output
 - Many control for biases such as investment banking and optimism
- High degree of rigor (peer reviewed)

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Specialists Add Value

(1 of 2)

- Boni, Leslie et al, 2006
 - Although analysts tend to chase price momentum (to their detriment), their **expertise for investors lies primarily in their stock picking ability to rank stocks within the industries in which they specialize**
 - Within each industry of buying the firms net upgraded by analysts while selling short net downgraded firms in each calendar month **yields 1.23%** in the next calendar month, about 30% higher than a similar non-industry approach and returns have a one-month Sharpe ratio (excess return divided by standard deviation of returns) of 0.49, **which is almost twice as high as a similar strategy that buys upgraded stocks and sells downgraded stocks regardless of industry**
 - Our results are consistent with the characterization of analysts as good stock pickers within their industry of expertise, but **not as useful sector rotation prognosticators**
 - Stock upgrades and downgrades, aggregated across all analysts for stocks within each industry, provide a much better signal of future returns than does the standard non-industry approach
- Jacob et al. (1999) found that if an analyst follows a particular industry, his/her level of accuracy increases.
- Bae et al. (2008) found that the analysts residing in a country make more accurate earnings forecasts for firms operating in that country than those residing in other countries.

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Specialists Add Value

(2 of 2)

- Tan, Hongping et al. (2019) found technological expertise increases their earnings forecast accuracy and recommendation profitability, especially for firms with more intensive research activities and greater growth opportunities
 - The higher the correlation of patent outputs between the focal firm and an analyst's existing portfolio (excluding the focal firm), the greater the analyst's technological expertise on the focal firm. Intuitively, a greater overlapping in technology between the focal firm and those firms already covered by the analyst indicates greater technological expertise on the focal firm.
- Mikhail et al. (1997) found that analyst forecasts become more accurate as analysts' experience in following a specific firm increases. In contrast, there is little relation between forecast accuracy and analysts' concentration in an industry.
- Guan et al. (2015) found analysts who follow a covered firm's customer provide more accurate earnings forecasts for the supplier firm than analysts who do not.

Specialized Buy-side Analyst/PMs Add Value

A study of analyst-run mutual funds: The abilities and roles of buy-side analysts, (Cici, Gjergji et al, 2016)

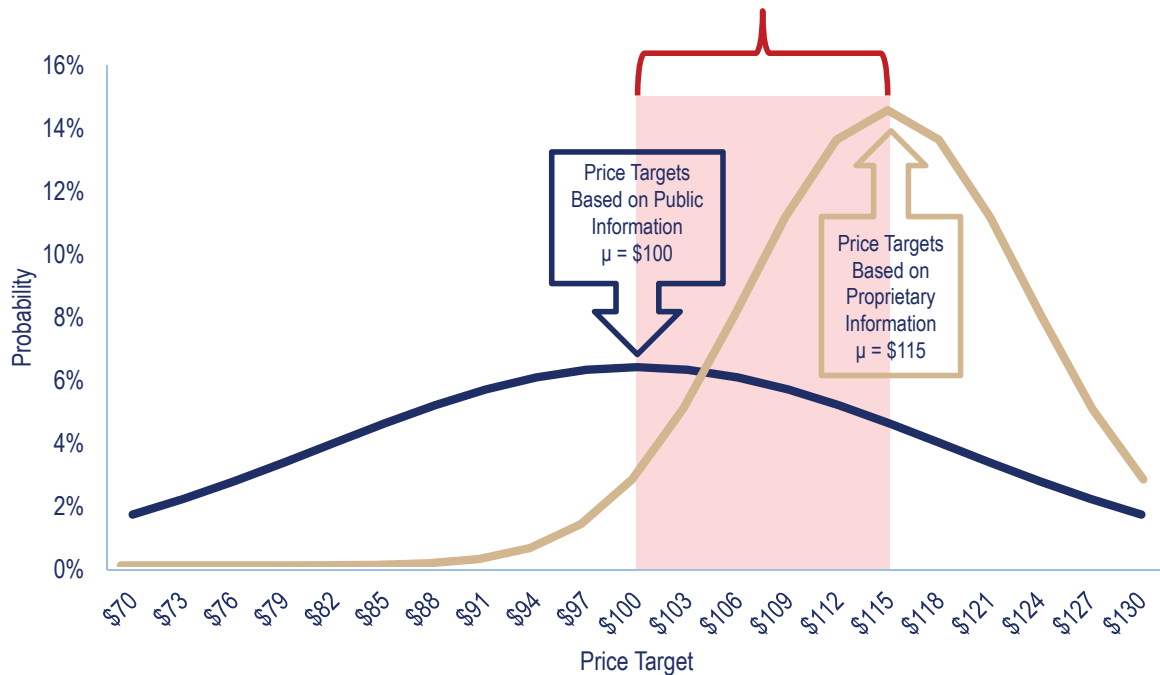
- Analyzed 68 nontraditional mutual funds that are managed exclusively by buy-side analysts from 14 mutual fund families
- Buy-side analysts managing a mutual fund realize positive style- and risk-adjusted returns and generate superior risk-return tradeoffs
- Although some PMs benefit from closely following their buy-side analysts' ideas, research generated by these analysts is generally being underutilized by affiliated managers, which is consistent with longer tenured managers due to career considerations

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Rationale for Specialization

- Many economists have recognized for some time that investors, rather than possessing unlimited processing capacity, **are better characterized as being only boundedly rational** (see Shiller, 2000 Sims, 2001)
- Even from casual observation, few traders can pay attention to all sources of information, much less understand their impact on the prices of the assets that they trade. Indeed, a large literature in psychology documents the extent to which even **attention is a precious cognitive resource** (see, e.g., Kahneman, 1973, Nisbett and Ross, 1980).

What Is Your “Edge”?



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The Case for Generalists

- Reduces the problem of “finding a buy” in the analyst’s assigned sector(s)
- Some firms benefit from generalists
 - Some successful hedge funds have decentralized, “pod” research team which dilutes specialization
 - Bill Nygren’s Thoughts
 - “Oakmark benefits from having investment analysts who are generalists”
 - “Multiple analysts will follow stocks in the same industry. This enables each analyst to provide critical feedback about the others’ investment ideas.”
- In the book *Range*, David Epstein uses sports, chess and music to convey that having a generalist approach is better than specialists
 - “Research on creators in domains from technological innovation to comic books shows that a diverse group of specialists cannot fully replace the contributions of broad individuals. Even when you move on from an area of work or an entire domain, that experience is not wasted”
 - “There is nothing inherently wrong with specialization. We all specialize to one degree or another, at some point or other”

Research Would Suggest...

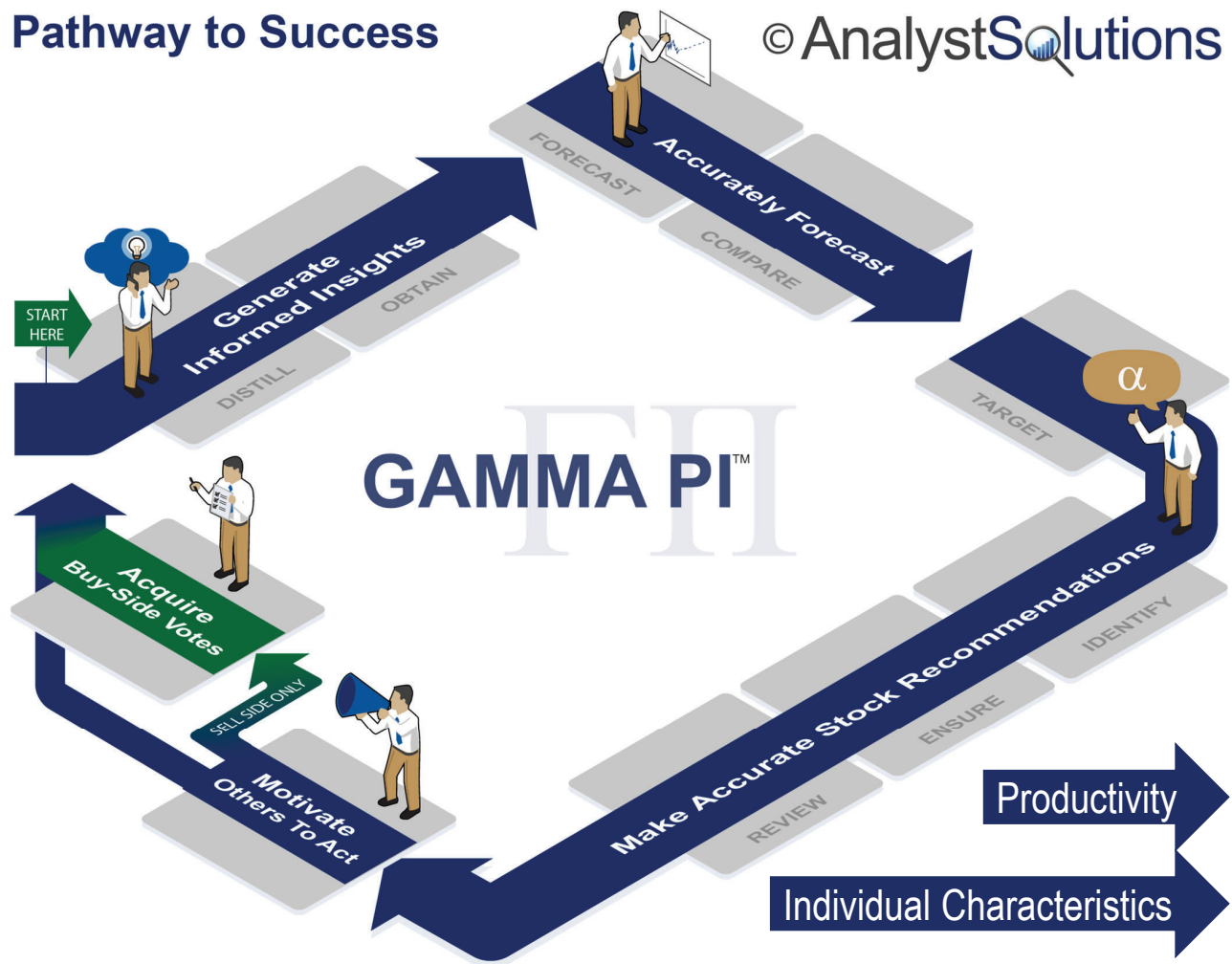
- Specialization is important, even for generalists
- If the generalist model is to remain, consider creating experts in more technical domains (e.g. technology, biotech)

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One More Study...

Global Expertise of Financial Analysts (Ma, Markov and Wu, 2016) (unpublished)

- We describe the challenges of forecasting earnings in a globally interconnected marketplace
- A country's proximity to the US, importance to the firm, and visibility, as well as availability of more precise information about foreign country exposures, contribute to consensus forecast efficiency
- We identify a dimension of individual analyst global expertise — similarity in exposure between the firm and the rest of the firms in the analyst portfolio — and show that it contributes to forecast efficiency, accuracy, and informativeness, suggesting that globalization not only poses a challenge but also creates an opportunity for research providers and analysts to distinguish themselves



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

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 >](#)