

Chapter 3

Prioritize Time for the Most Valuable Activities

Everything analysts do during the day should help achieve the primary objective of identifying mispriced securities, or in the case of sell-side analysts, helping clients identify mispriced securities. If the activity doesn't meet this objective, stop doing it. For the buy-side, stop taking calls and reading e-mails from those who don't help the stock picking process. For the sell-side, don't focus on minutia such as attending a plant tour in Iowa for a company that isn't likely to perform substantially different than the rest of the sector.

Here are just a few areas where analysts often use their time ineffectively:

- Reading news feeds or e-mails that don't add value to generating alpha (i.e., there's nothing new). As one senior analyst put it, "If you chase all of the news flow and data points, you may miss the critical data that will actually drive a stock."
- Watching stock screens beyond a cursory look.
- Attending sessions of an investor conference that aren't likely to yield new insights.
- Sell-side only: speaking with clients who ultimately aren't paying for the analyst's time.

Good and Bad Time Management

Time is an analyst's most valuable resource and will be the weapon to provide competitive advantage. During my career, I had the opportunity to watch hundreds of buy-side and sell-side analysts conduct their jobs. Over time I could put the analysts into one of two categories: *offensive* and *defensive*.

The *defensive* analyst attempts to digest all incoming information, regardless of its importance in generating alpha, primarily out of concern that something will be missed. While this is a great CYA strategy, it doesn't give analysts time to find ideas that separate them from the pack. Richard Bilotti, an analyst with 27 years of experience on the buy-side and sell-side, reinforces this view with, "Most analysts on the buy-side don't have time to be creative in terms of exploring unknown areas."

The analyst who is on the *offensive* learns to ignore most, if not all, of the noise, so as to explore unique avenues that may lead to great stock picks. These types of analysts have enough confidence so as not to be embarrassed when they don't have an answer to more esoteric questions that may come up from their portfolio managers (for buy-side analysts) or salespeople and clients (for sell-side analysts). Don't forget that in order to maximize wealth on the buy-side or sell-side, an analyst must become a stock analyst, not an industry analyst. If someone asks you if a company is buying six-axle or four-axle locomotives, say you'll look into it. Nobody is going to fire an analyst for not knowing this, and time will be better spent trying to determine if the stock is going to outperform or underperform.

A Day in the Life of an Analyst

No two analysts work the same way, so it would be impossible to pin down an optimal formula for how time should be spent. But for analysts who wonder how their time usage compares with others, the following is a general breakdown based on interviews I've conducted and my personal experience. The numbers have purposely been left off

Read the rest of this chapter in the full
version available at [Amazon.com](https://www.amazon.com)

BEST PRACTICES FOR EQUITY RESEARCH ANALYSTS

ESSENTIALS FOR
BUY-SIDE
AND SELL-SIDE
ANALYSTS



Identifying Factors That Drive the Stock

Creating Financial Forecasts

Mastering the Practical Valuation Tools

JAMES J. VALENTINE