

# Chapter 5

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## Construct and Organize an Information Hub

**A**s discussed earlier, I've heard it said that less than two percent of the information a typical analyst receives in a given day actually provides new insight—a figure I wouldn't dispute. The purpose of this best practice is to modify work practices in order to maximize this figure. We'll cover the elements necessary for increasing the flow of good information and reducing the flow of bad information.

To simplify things when setting up an information hub, an analyst should have a thoughtful strategy in response to these questions:

- What needs to be collected?
- Where will it come from?
- How is it best organized?

Without a strategy to approach each of these, the analyst risks getting too much or too little information.

### What Needs to Be Collected?

In terms of figuring out what needs to be collected, remember that the endgame is to select stocks that are mispriced based on a current misunderstanding in the market. As such, the focus should be on

the critical factors that are likely to drive a stock price, either up or down. (I'll discuss this in detail later in Chapter 8.) The key message here is that an analyst's job is *not* to collect all information on all topics for every company being followed. When collecting fundamental information on critical factors, think about organizing information in the areas found in Exhibit 5.1:

**Exhibit 5.1** Best Practice (Knowledge): Key Information to Collect

Sector Information (to develop macro view)	Company Information
<ul style="list-style-type: none"> <li>• Sector growth/demand/market opportunities</li> <li>• Major input costs</li> <li>• Sector threats/risks</li> <li>• Mergers and acquisitions (M&amp;A)</li> <li>• Sector sources of information</li> </ul>	<ul style="list-style-type: none"> <li>• Management guidance, targets, strategy</li> <li>• Major product lines, services, customers</li> <li>• New growth opportunities</li> <li>• Cost inflation (or reductions)</li> <li>• Threats/Risks</li> <li>• Capital expenditures; property, plant, and equipment (PP&amp;E)</li> <li>• Financing needs; free cash flow (FCF)</li> <li>• M&amp;A</li> </ul>

## Where Will It Come From?

In making stock recommendations, there are basically two types of information: publicly available and proprietary. This best practice helps ensure an analyst gets all of the relevant publicly available information, whereas proprietary information is discussed later in Chapter 9.

The first step should be to create a list of all the services and applications utilized by your firm (e.g., Bloomberg, FactSet, Capital IQ, StarMine), because they are among the most useful weapons on the buy-side and sell-side battlefields. Access to good information and understanding how to receive/retrieve it when needed is critical to an analyst's success. Learning how to leverage market data vendor's applications is time well spent.

When looking for resources your first reaction might be to ask the person who sits next to you, which is probably a good starting point, but rarely will she be versed on all that your firm offers. After getting that

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