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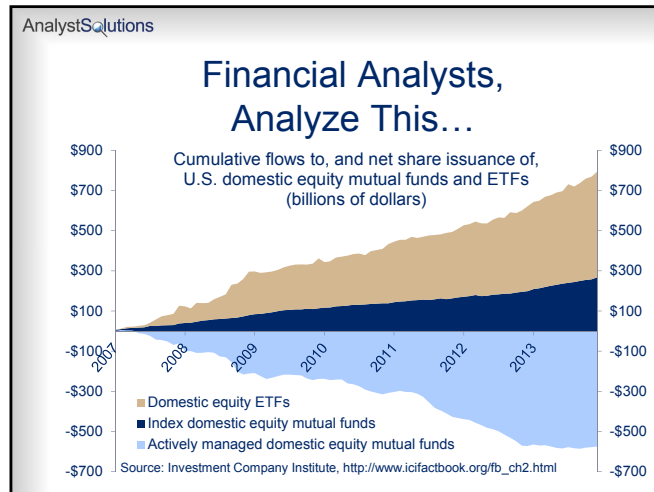
Who's Measuring Our Performance?

Market Participant	Value-destruction (in Billions)
Long-only funds not generating alpha	\$300
Wealth management not achieving benchmark returns	\$250
Hedge funds falling short of target return	\$51
Sell-side and credit rating agencies' inaccuracies	\$459
Total	\$1,060

Source: "Financial Markets 2020" study conducted by IBM as reported by the Financial Times, April 3, 2011

Over 70% of U.S. equity managers, across all capitalization and style categories, failed to deliver returns higher than their respective benchmarks over the past five years

Source: "SPIVA® U.S. Scorecard" by McGraw Hill Financial, June 2014



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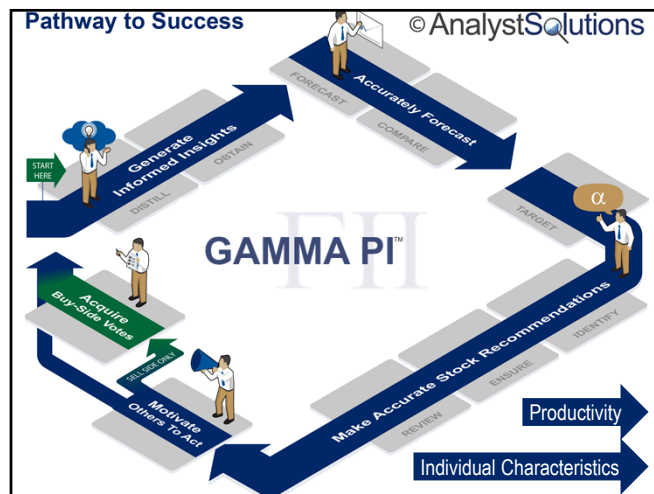
Do We Deliver On Our Commitments?

What We Tell Our Clients...

- “We like to say that investment research is in our DNA”
- “Research is not simply a priority for us, it is part of what defines us and distinguishes our firm”
- “The investment team uses a bottom-up research process to identify companies that, among other things, sell at a discount to their intrinsic value”

What Analysts Tell Me...

- “I cover too many stocks to have time to develop unique sources of information”
- “I’m not comfortable contacting information sources I don’t know”
- “We’re not allowed to use expert networks and so my primary source of information is company management”



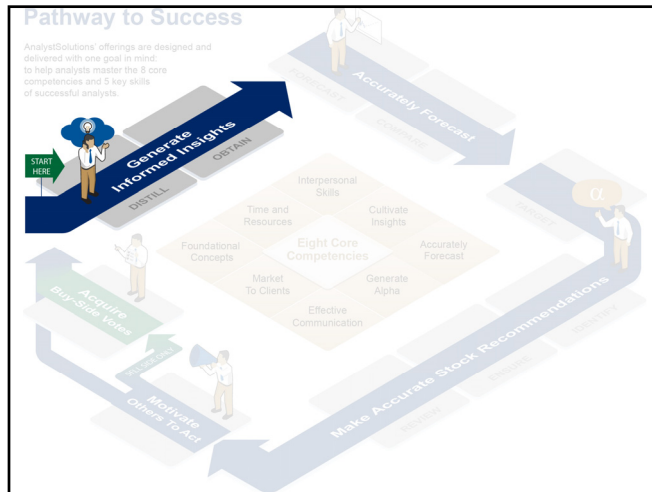
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Assess Needs Before Developing the Solutions

135 questions assessing the following areas:

- **G**enerate informed insights
- **A**ccurately forecast
- **M**ake accurate stock recommendations
- **M**otivate others to act (communications)
- **A**cquire buy-side votes (sell-side only)
- **P**roductivity
- **I**ndividual characteristics

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Unique Insights or Just Information?

Information	Insight
<ul style="list-style-type: none"> Apple unveiled an iPhone 6 Plus that's larger than the iPhone 5 	<ul style="list-style-type: none"> Apple's new iPhone 6 Plus will likely give the company 5-10% market share in the larger smartphone market
<ul style="list-style-type: none"> Tesla will deliver its first SUV model in the next year 	<ul style="list-style-type: none"> Tesla is likely to push out the delivery of its new SUV model by 3-6 months, but this isn't a concern because most valuations look 5-10 tens years out
<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

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How Do Analysts Differ from Sector (or "Beat") Journalists?

Task	Equity Research Analysts	Experienced Sector Journalists
Understand industry fundamentals	Y	Y
Listen to company conference calls	Y	Y
Read company press releases	Y	Y
Review company regulatory filings	Y	Y
Cultivate a list of insightful industry contacts	Y	Y
Interview industry experts to identify changes in the industry	Y	Y
Speak with company management	Y	Y
Write about developments within a company and across the industry	Y	Y


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Two Critical Questions

Which factors are going to move my stocks?




Where can I get unique insights on these factors?




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Drinking from Fire Hose



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EPIC™ Stock Calls Require Critical Factors Meet All Four Criteria



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Follow the 4 Steps to Identify Critical Factors

1. Identify when historical anomalies occurred
2. Identify why historical anomalies occurred
3. Identify current investment controversies

4. Using the information above, communicate with industry and market participants to answer these questions (the EPIC™ framework):

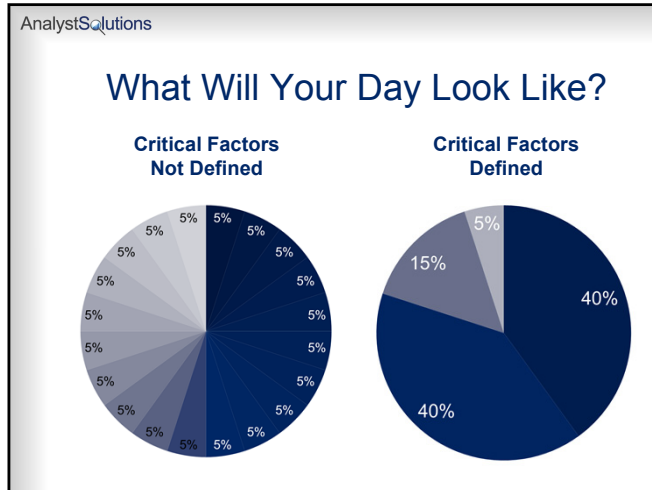
- Would changes in consensus expectations Exceed my materiality threshold if this factor were to occur during my investment time horizon?
- Is there a high Probability this factor will become much more certain to occur (or deviate materially from the expected trend) during my investment time horizon?
- Am I good at forecasting this factor and its catalyst?
- Will Consensus be poor at accurately forecasting (or spotting) this factor?

When the answer is "yes" to all, it is likely a critical factor that can add alpha

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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 thresh.	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 (if'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
Acquisitions	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

From workshop: *Identify & Monitor a Stocks' Critical Factors*

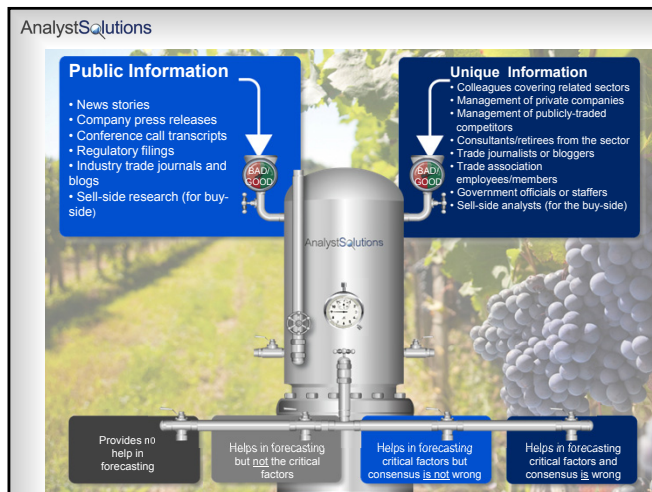


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Two Critical Questions

Which factors are going to move my stocks?

Where can I get unique insights on these factors?



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ASPIRE™ to Gain Insight

- CRITICAL FACTORS** Assumptions for critical factors
- Source(s) of insight
- Prepare to approach and interview
- Introduce and interview
- Respond with follow-up
- Evaluate benefit

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

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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)	□	□	□

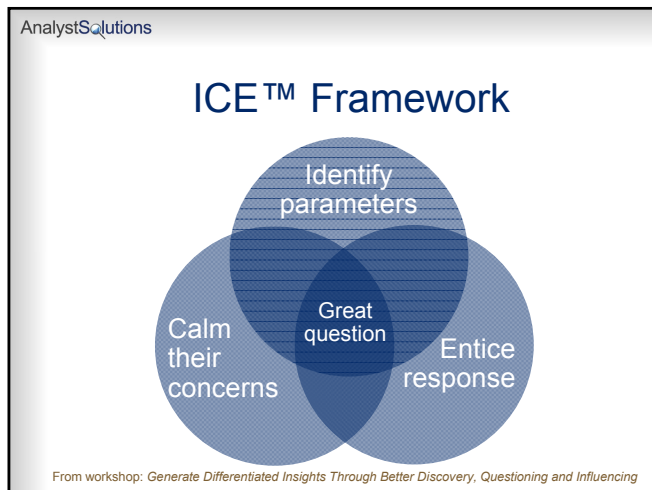
Legend: ■ = best first source, □ = good source
 * Source must have been active with the stock/company at time of historical anomaly

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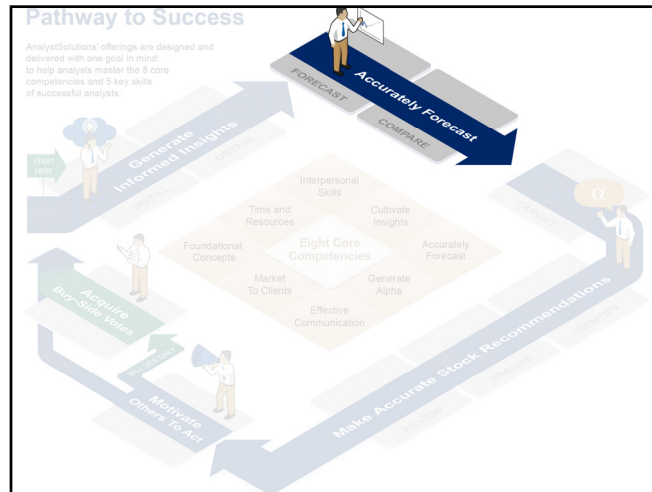
ASPIRE™ to Gain Insight

- C** **RITICAL FACTORS** Assumptions for critical factors
- S** **ource(s)** of insight
- P** **repare** to approach and interview
- I** **ntroduce** and interview
- R** **espond** with follow-up
- E** **valuate** benefit

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



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- ## Can You Influence Others?
- P** Prepare
 - R** Rapport building
 - A** Ask about needs (WIIFT*)
 - C** Conform
 - T** Trustworthy
 - I** Ignore distractions
 - C** Communicate persuasively
 - E** Ensure needs are met (WIIFT*)
- * What's in it for them?
From workshop: Generate Unique Insights Through Better Discovery, Questioning and Influencing



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Apply the ENTER™ Quality Framework

- E**xpectational
- N**ovel/New
- T**horough
- E**xaminable
- R**evealing

From workshop: *Communicate Unique Stock Calls Successfully So Others Take Action*

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Scenarios Force You To Think About What You Don't Know

EPS Impact from Changes to Critical Factor Assumptions	Downside	Base	Upside
Critical Factor #1. Impact from slowing international growth	Non-U.S. growth of -1%	Non-U.S. growth of 2%	Non-U.S. growth of 5%
EPS Impact vs. Base-case	-\$0.25	\$0.00	\$0.25
Probability (must equal 100%)	20%	60%	20%
EPS Impact, Weighted for Probability	-\$0.05	\$0.00	\$0.05
Critical Factor #2. Operating margins stop improving	O.M. decline 200 bps	O.M. decline 100 bps	O.M. rise 50 bps
EPS Impact vs. Base-case	-\$0.18	\$0.00	\$0.27
Probability (must equal 100%)	35%	50%	15%
Weighted probability	-\$0.06	\$0.00	\$0.04
Critical Factor #3. Food inflation (not passed along to customer)	6% inflation	3.5% inflation	1% inflation
EPS Impact vs. Base-case	-\$0.10	\$0.00	\$0.10
Probability (must equal 100%)	15%	75%	10%
Weighted probability	-\$0.02	\$0.00	\$0.01

From workshops: *Apply Practical Valuation Techniques for More Accurate Price Targets; and Master the Stock Call Techniques of Highly Experienced Analysts*

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What You Don't Know You Don't Know Will Destroy You

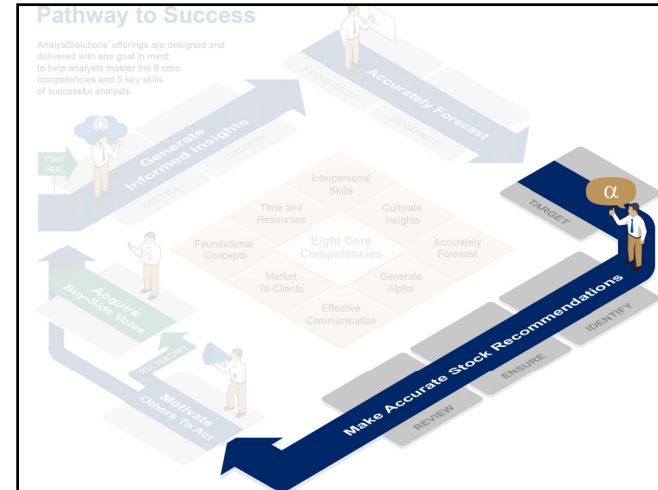
		Information Accessible to You	
		Known	Not Known
Information Accessible to the Market	Known	"Information" Background or noise	"Blow Ups" Information that catches us by surprise but not everyone (e.g. sub-prime collapse)
	Not Known	"Alpha Generating Insights" Your proprietary insights about critical factors	"Opportunities to Find Alpha" Events likely to surprise the entire market unless you can forecast it first

Source: Joseph Luft and Harrington Ingham's Johari window (1955)

Master Excel

42 Key Features

Useful Keyboard Shortcuts



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Target Realistic Price(s) (SHARE™ Framework)

- Create an accurate financial forecast(s)
- Select valuation method(s)
- Historical & current sentiment
- Adjust for future time period
- Range of multiples and price targets
- Evaluate as circumstances change

Identify & Forecast Catalyst(s)

- Identify & forecast potential catalyst(s)
- Focus on catalysts meeting optimal criteria
- Proactively prepare for next catalyst

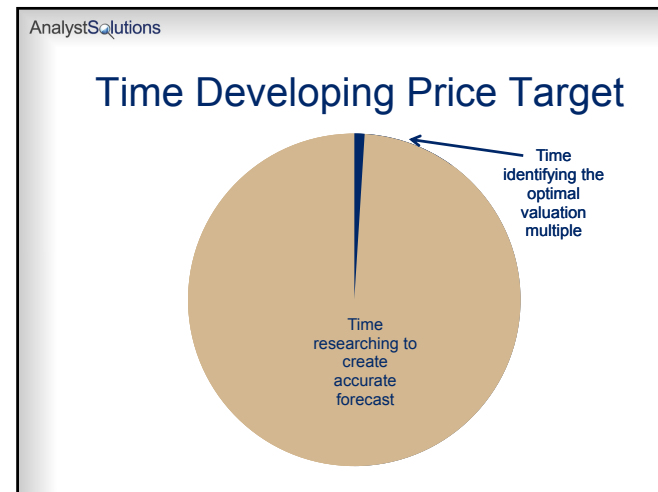
Ensure Ideal Entry Point: Validate Your View

- Avoid costly psychological shortcuts
- Ensure call is differentiated (FaVeS™)
- Avoid Pollyannaish or hopeful thinking
- Weigh risk as well as a return
- Ensure no imminent danger
- Document thesis
- Sleep on it

Review Performance and Thesis

- Monitor trading data
- Know consensus
- Survey market sentiment
- Avoid following the herd
- Monitor technical indicators
- Influence the market
- Dynamically rank and review
- Avoid "fear or failure"
- Review original documentation
- Review unbiased comparisons
- Re-think recommendation if thesis wanes
- Re-think recommendation if catalyst is ineffective
- Avoid placing blame or denying responsibility


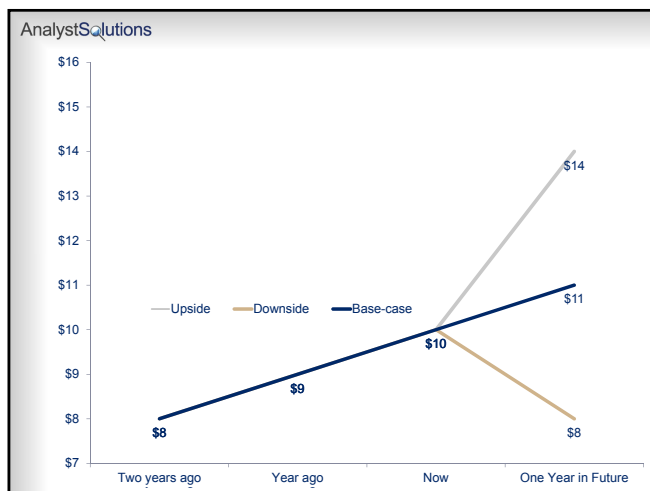
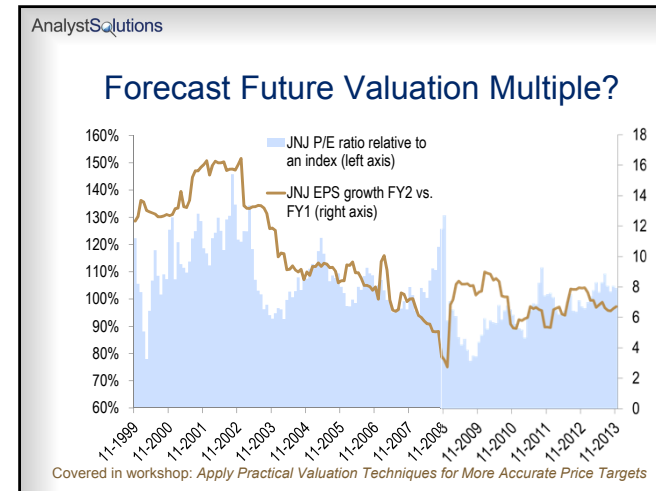
From workshops: Apply Practical Valuation Techniques for More Accurate Price Targets; and Master the Stock Call Techniques of Highly Experienced Analysts



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It Might Look Like This...

- “We’re upgrading JNJ to a buy-rating with an \$81 one-year price target” (35% upside)
- “Our price target is based on the stock trading at its current 30% premium to the S&P 500 on our \$4.80 EPS forward forecast one year from now”

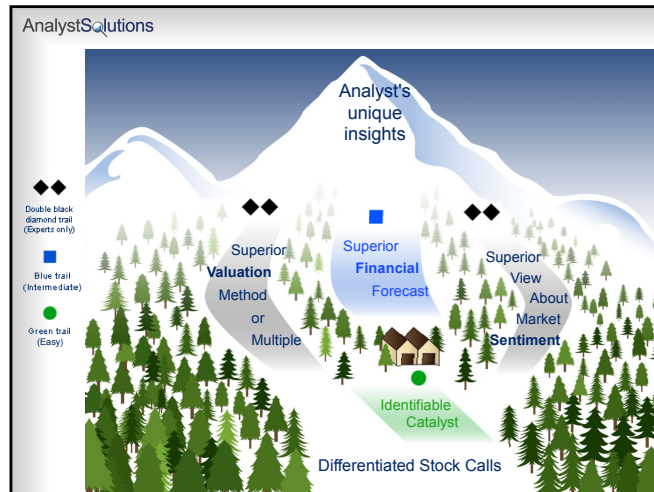



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Ensure a Differentiated Stock Call with a Superior FaVeS™ Insight

- Forecast**
 - Financial forecast superior to the market (used at least 85%)
- Valuation**
 - Valuation methodology or valuation multiple superior to the market
- Sentiment**
 - Forecast of short-term investor sentiment superior to the market

Utilized in workshop: *Master the Stock Call Techniques of Highly Experienced Analysts*



Monitor Trading Data

Monitor trading data to understand the motivations of the current stock holders

- Short interest
- Company insider buying and selling
- Changes in the types of investors who own the stock (e.g. value, GARP, growth, momentum)
- Movement of stock compared to company's debt yield or CDS spreads

Holder Name	Investment Style	Market Value (\$)	Position Change
UBS AG	Aggressive Growth	1,155,304,385	51.8%
UBS AG	Stock Market Value Fund	574,791,111	100.0%
UBS AG	Aggressive Growth	473,309,748	100.0%
UBS AG	Value	414,499,461	100.0%
UBS AG	Value	345,794,307	4.6%
UBS AG	Value	310,010,261	46.3%
UBS AG	Value		

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Reviewed in workshop: *Master the Stock Call Techniques of Highly Experienced Analysts*

Avoid Mind Traps

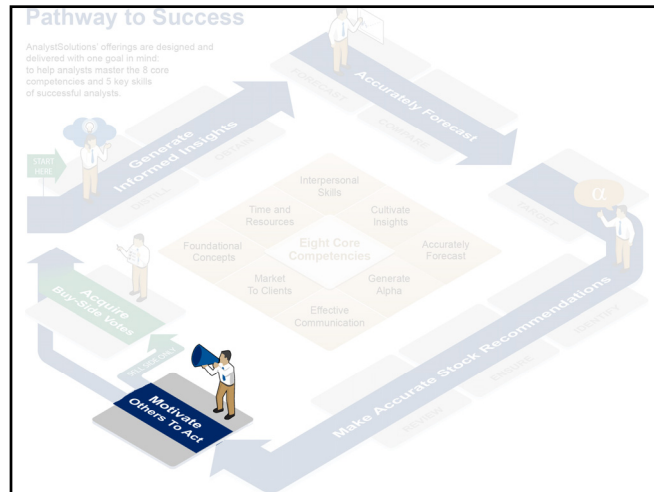
- Fear of failure
- Costly psychological shortcuts
- Following the herd
- Pollyannaish or hopeful thinking

Reviewed in workshop: *Master the Stock Call Techniques of Highly Experienced Analysts*

Signs You Are Ignoring a Mind Trap

- Being close-minded about new information
- Seeing only one side of the trade
- Disinterested in assessing the downside or risk
- Failing to completely analyze/research important factor
- Allowing emotions to govern decisions despite the facts
- Refusing to accept responsibility while blaming others
- Taking shortcuts that are not built on solid research
- Going with what is easiest or most comfortable, rather than what is best
- Reacting to short-term fluctuation without a long-term view

Reviewed in workshop: *Master the Stock Call Techniques of Highly Experienced Analysts*



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3 Steps For Communicating Stock Recommendations



STEP 1: Ensure CONTENT has value
ENTER™ framework

- Expectational
- Novel
- Thorough
- Examina**bl**e
- Revealing



STEP 2: Utilize the optimal channel

- In-person conversation
- Telephone conversation
- Leaving voicemail
- Presenting, five minutes or less
- Presenting, in-depth
- Sending an email or text message
- Writing a report



STEP 3: Ensure MESSAGE has value
ADViCE™ framework

- Aware
- Differentiated
- Validated
- Conclusion-oriented
- Easy-to-consume

Utilized in workshop: *Communicate Stock Calls Successfully So Others Take Action*

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ADViCE™ Framework



Aware



Differentiated



Validated



Conclusion-oriented



Easy-to-consume

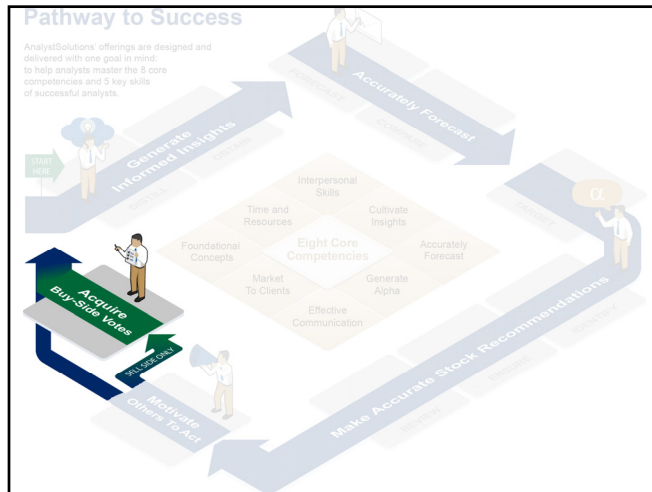
From workshop: *Communicate Unique Stock Calls Successfully So Others Take Action*

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Elements of ADViCE™

- Start with a conclusion (e.g. add or reduce exposure to a stock)
- Explain
 - How you arrive at the price target
 - Why you differ from consensus
 - Where you could be wrong
- Provide
 - Upside, downside, and base-case scenarios as well as your conviction level, even if it's low
 - An insight that is new and not widely understood within the market place
 - A forward-looking view, in terms of the stock or the critical factor(s) being discussed
 - Important dates/events that will be the catalyst to move the stock
- Clearly separate your opinion or forecast from
 - Views of others; and
 - Undisputable facts

From workshop: *Communicate Unique Stock Calls Successfully So Others Take Action*



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Largest Hurdles to Acquiring Client Votes

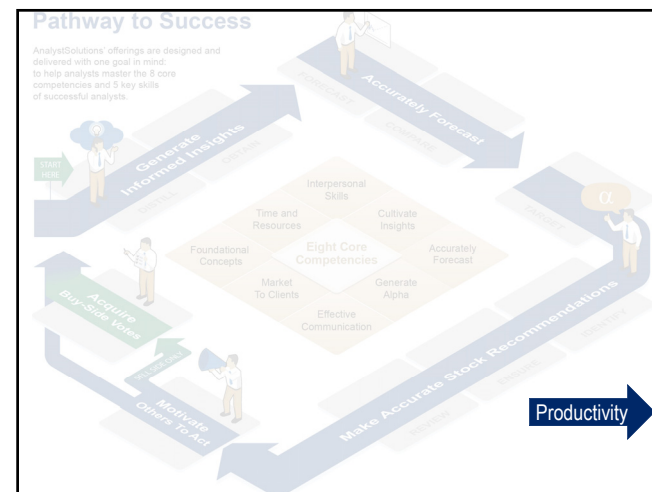
1. Not researching in a manner that develops unique insights about critical factors
2. No strategy for ensuring there's always new value-added content in the pipeline
3. Covering too many stocks to add depth to most buy-side client's efforts
4. Reluctant to make outgoing calls to clients or leave blast voicemails
5. Not leveraging institutional sales force
6. Making too many bad stock calls
7. Not spending enough time marketing

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BREAD™ Framework

- B**uild marketing plan
- R**esearch investment controversies
- E**ffectively communicate using ADVICE™
- A**ssemble and prioritize client list
- D**evelop client relationships with PRACTICE™

From workshop: Develop and Deploy a Marketing Strategy That Maximizes Wallet Share



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How Do You Play the Game?

Defense?



Offense?



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Analyst Solutions Time Management Matrix

		Generates Differentiated Insights Useful for Stock Picking	
		LOW	HIGH
Initiating vs. Responding	You INITIATE (Offense)	"Enabler" for Alpha Read portions of regulatory filing that pertain to critical factors and their catalysts	Generate Alpha Make 10 outgoing calls in one day to discuss assumptions for critical factors with proprietary sources of information
	You RESPOND (Defense)	IR contact from company you don't cover calls to tell you about an issue that has no importance to your assigned coverage	Accept a last-minute one-on-one with management at investor conference
	Waste of Time?	Surprise Find	

From workshop: Maximize Your Time for Alpha Generation

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Areas for Time-Management Self-Assessment



Prioritization



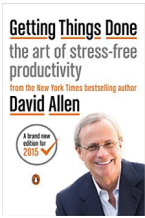
Scheduling




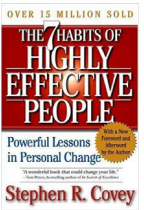
Efficiency

Covered in workshop: Maximize Your Time for Alpha Generation

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DEEM™ to Prioritize Your Time

- D** • Step 1: **Define** and prioritize professional goals and tactics (Parts A & B online)
- E** • Step 2: **Estimate** current (or prior) time spent on daily activities (Part C online)
- E** • Step 3: **Evaluate** time spent on daily activities vs. the goals and tactics they support
- M** • Step 4: **Modify** time usage when activities are not aligned with goals and tactics

From workshop: *Maximize Your Time for Alpha Generation*

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Time Management Assessment

Part C: Rank Your Activities

Instructions: In this part, you will evaluate your activities during a typical work week or month. In order to provide a uniform scoring mechanism, we have created a list of over 30 typical activities conducted by equity research analysts, which is found below. Rank each activity in terms of the **priority it currently commands** based on how you have been scheduling your time over the past few months ("1" is low and "10" is high).

Also, while reviewing the activities, rank each one based on the **priority you believe it should command** ("10" is high) to help someone like you achieve the tasks and goals you created earlier. We've listed this column "Priority in Future" as a reminder this is how you want to prioritize your time in the future. Put another way, if you could start new, with no constraints on your time from others, those activities that you would emphasize the most should be rated at the higher end of the scale.

Activity	Priority in the Past	Priority in the Future
1. Reviewing my investment thesis with a colleague/committee before changing, in order to reduce my potential biases or viewpoints		
2. When making stock recommendations, developing a range of price targets (upside, downside, base-case)		
3. Reading company regulatory filings/press releases to get a general understanding of the company and its performance		
4. Before making a major change in stock recommendations, setting aside time to assess market sentiment towards a stock		
5. Identifying why my out-of-consensus financial forecasts differ from consensus		
6. At the request of others, participating in activities that do not support my professional tactics		
7. Meeting privately one-on-one with company management		
8. Participating in widely-publicized conference calls/meetings/field trips arranged by others (e.g. quarterly earnings calls)		
9. When making stock recommendations, verifying my forecasts and/or valuation multiples are accurate and justifiably out-of-consensus		
10. Setting aside ample time to prepare material to communicate my stock recommendation/report		

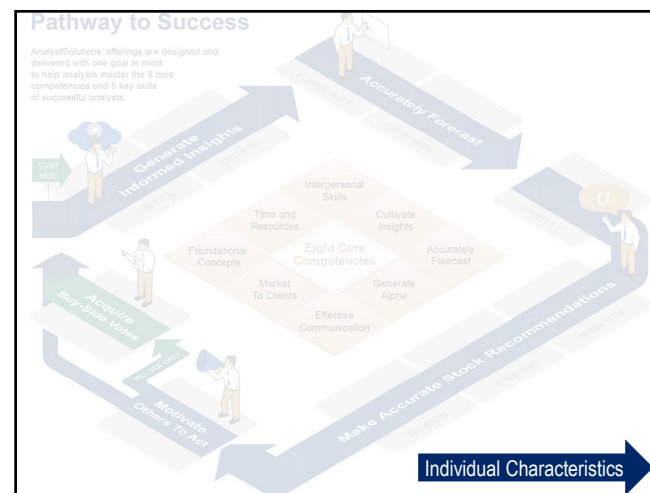
From workshop: *Maximize Your Time for Alpha Generation*

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Select Time Management Best Practices

- Focus only on critical factors (i.e. ignore the 16 "non-factors" per stock)
- Participate in calls/meetings only when they directly pertain to your universe of stocks
- Schedule your week in advance, noting important tasks and use the first 5-10 minutes of the day to plan
- Leverage technology. Examples include...
 - Continually fine tune news alert filters
 - Review only what's changed (e.g. FactSet's Black Line reports)
 - Read transcripts rather than listen (or listen post call at 2x the speed)
 - Use OneNote/Evernote to manage information effectively (e.g. review only once)
- Have only one version of the following items for work: 1) calendar, 2) to-do list, and 3) contact list, all of which can be accessed 24x7
- Utilize a strategy for handling interruptions so you can get back to your work quickly
- Batch process emails and voicemails at set times during the day (rather than when they come in)


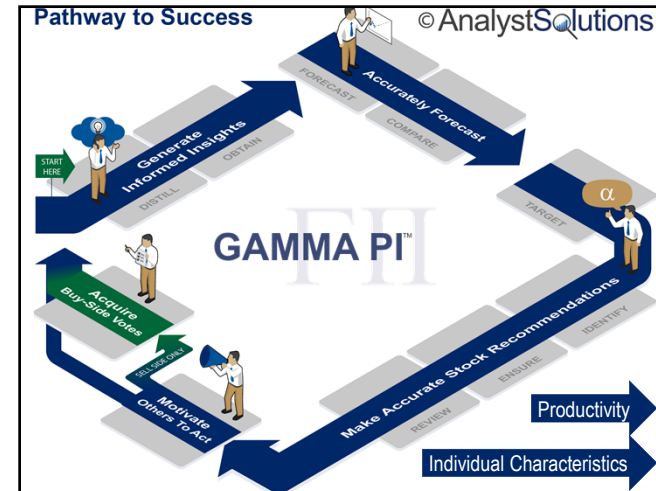
From workshop: *Maximize Your Time for Alpha Generation*



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Individual Characteristics

- Coping strategies
 - Accepting responsibility
 - Distancing
 - Plan-full problem solving
 - Positive reappraisal
- Locus of control
- Managing stress
- Self-monitoring
 - Self-presentation
 - Sensitivity to read others
- Social ability
- Thinking style
 - Heuristic
 - Systematic
- Tolerance for ambiguity

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Our Tools



- Workshops
- One-on-one coaching
- Assessments (GAMMA PI)
- Consulting
- Keynote/offsite presentations

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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*


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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 >](#)

