**GATHERING INVESTMENT INFORMATION**

**Introduction:**

The business of choosing investments is an art rather than a science; there is no best way to do it, nor is there even a right or wrong way. Chapter seven and eight discussed the fundamental and the technical analysis school of thought on stock selection. Chapter nine discussed market efficiency and why investor should be realistic with their expectations for the outcome of the investment research. Regardless of the stand investors taken on the matter of predicting the future, they need to organize their research efforts efficiently. This chapter provides a summary of some of the most popular reference material. Before using it though an investor needs a game plan.

**RESEARCH PHILOSPHY:**

Someone once said that it is hand to accomplish your goals until you know what it is you want to accomplish. This motto is a good one for the investment analyst to follow. The conduct of investment research should be a part of a boarder activity. As a preamble to the process of gathering information, an investor should ask two questions.

1. What kind of information do I want?
2. Why should this information be useful to me?

Keeping these thoughts in mind will contribute to a more discipline and logical approach to investment research.

***Before conducting any research, formally decide what kind of information will be useful.***

**Know Thyself:**

Most people have internal bases or preconceptions that are generally difficult to overcome. Perhaps some people are not even interested in trying to overcome all of them. Knowing their own attitudes towards various issues can be a big help in allowing investors to make productive use of their research time.

***1. Fundamental Analysis:***

An investor needs to consider the following question: Are you a fundamental analyst at heart? Do you believe the financial statements provide useful information and that the marketplace focuses on them in determining investment values? If so, an investor will want to investigate these accounting records.

The more someone explores and learn about accounting records, the more that person can learn from them. As shown previously, a firm can have rising net income at the same time its cash follow from operations is falling. The informed fundamental analyst knows that facts and will generally not be content with summary information of the type presented in some of the research sources described in this chapter. Anyone can do a cursory job of reviewing the numbers; the experts are going to work at it a lot harder than the hobbyist.

***2. Technical Analysis:***

A plethora of academic research exists showing the title relationship between some people technical indicators and subsequent stock market performance. Despite this discrepancy, many efficient market advocates are unwilling to dismiss technical analyst techniques; they routinely incorporate technical tools such as a chart into their decisions- making process. If some people truly believe technical analysis is of no value as the efficient market hypothesis indicates why would they read technical comments in investment advisory services or look at charts?

There is nothing wrong, with considering a particular type of information. Investors act illogically, however, when they say something is worthless but still spend time studying it. Looking charts is not a crime; there is no need to study them in the dark of night when no one is around.

***To prove a thing is not enough; you must convince someone to accept it.***

***3. The Experts’ Approach:***

Some people would do well to realize that their investment decision are largely made on the basis of what someone else says and are seldom the result of their own research. Much of the research emanating from brokerage houses and investment advisory services is quite good. Investors should consider it carefully and give it substantial weight in security selection.

**Screening:**

Understanding personal attitudes toward the investment selection process is helpful in constructing a useful sector of the security universe. Screening is the term used to describe the process of sorting through the list of potential investments. The use of some type of screen is almost always necessary in security selection, because too many different alternatives make through investigation of them all impossible, even with the aid of a computer.

Not only are thousands of potential investment listed on the New York NASDAQ Exchanges, thousands more are traded in the over-the-counter market. An investor who spent five minutes looking at each of 500 possible picks would need 2,500 minutes (a 40 hour work week) to check out this sample.

The reminder of this chapter will look at some of the most important sources of information to both the individual investor and to the security analyst.

***Screening is the process of sorting through the list of potential investments.***

**RESOURCES AT THE LIBRARY:**

Newcomers to the business reference section of the library quickly discover that two names dominate much of the stock market reference material on the shelves: Standard & Poor’s and Moody’s. These two companies are widely respected and, to a large extent, duplicate each other’s services. Many people eventually develop a preference for one company’s material over the other, becoming either an “S&P person” or a “Moody’s person”. Both companies provide excellent material.

***Standard & Poor’s and Moody’s publish easy-to-use reference material that can be found in most public libraries.***

**Standard and Poor’s Publications:**

The Standard & Poor’s Corporation publishes a wide variety of reports on the company, on industries and on about 5,500 individual stocks. Seven of these publications can be especially useful in helping from investment decisions.

***1. Stock Guide:***

The S&P Stock Guide is published monthly; it contains summary statistics on several thousand common stock, preferred stocks, warrants, and mutual funds. This publication is small enough to carry conveniently in a coat pocket.

Most users of the Stock Guide use to get a company’s stock symbol, its line of business, its recent price, or its price earnings ratio. It provides other information too, and for this reason is standard equipment in many briefcases.

Standard & Poor’s rates a common stocks earnings and dividends in the same manner as with bonds. Some historical price ranges appear after a brief description of the company’s line of business. The next set of columns shows price activity for the previous month, followed by annualized total returns for the past 12, 36 and 60 months.

The company information continues across the fold of the booklet. The next two sets of columns give actual and indicated dividend information. Then come two columns of balance sheet information.

The last two sets of columns provide income statement information, focusing on earning. The guide shows earning for the last five years plus intern earnings for the fiscal year to date. The symbol “y” indicates the earning shown are fully diluted rather than primary.

A number of footnotes and other codes are used and may be important in the listing.

The paragraph mark indicates the company is part of the S&P 500 index. The symbol indicates options trade on the stock, the superscript indicates cycle two on the Chicago Board Options Exchange (option expiring in March, June, September and December). The check mark indicates “stock for which research reports, investment reports or street reports are available”.

Information about stock split and stock dividends from the last five years appears in footnotes on the right side of the listing. While a complete stock analysis will require more information than that presented in the stock guide, a substantial amount of information lies within its pages. It is a handy tool for investors.

***2. Stock Report:***

If an investor needs more information than the stock guide provides, the S&P stock report is a good place to go next. This one page front and back document provides a surprisingly through description of a company and estimate of what the future holds for it. These reports are updated quarterly and appear in a loose-leaf binder in most public libraries. Many investors like graphs, as discussed earlier.

The Stock Report provides a bar graph of the stock price along with the line graph showing 10 and 30 week moving averages and relative strength line. Standard & Poor’s recently begin providing a specific option on the stock it follows.

A few paragraphs indicate current corporate events, statistical data, and anticipated future activities. The flip side of the report is more detailed balance sheet and income statement information than provided in the Stock Guide. Note in the “ratio analysis” section that five commonly used financial indicators appear: a liquidity ratio (the current ratio), a debt ratio (percentage of capital from long term debt) a profit margin (net incomes as a percent of revenues) and two profitability measures (ROA and ROE). The footer provides a corporate address, telephone number and name of the corporate officers.

It is logical to compare these ratios with industry average reported in Dun & Bradstreet’s key business ratio as we did in the chapter on fundamental analysis. If an investor asks a broker or investment advisor for information on a particular company, a copy of the S&P stock report is a likely candidate for emulsion in the information packet. The stock report is available on every stock traded on the New York and American stock exchanges, and on more than 1,000 NASDAQ securities.

***3. Bond Guide:***

The S&P bond guide is a companion publication in the stock guide. It contains summary information about corporate and many municipal debt issues.

***4. Outlook:***

The S&P outlook is a weekly loose-leaf publication providing summary options and statistics on a variety of stock and bond market indicators as well as individual issue. Weekly section includes rising and falling stars, rapid growth stock, and stocks with high dividend growth. One industry is usually highlighted for special comment in each issue.

We see a short summary of Standard’s and Poor’s thought about the appropriate investment behavior at present. The graph shows fewer firms raising dividends, a relationship followed by technical and fundamental analysis alike.

***5. Stock Market Encyclopedia:***

The S&P stock market encyclopedia contains a description of each of the stocks making up the S&P 500 stock market index. It is a competition of the appropriate S&P Stock Reports.

***6. Earning Forecaster:***

The S&P earning forecaster is a competition of the earning per share estimates of about 60 investments analysis firm. The publication covers approximately 1,600 different stocks. Of particular interest to investor are those firms that show a change in the earning estimate.

***7. Corporation Records:***

S&P Corporation Records provides a comprehensive summary of the firm’s capital structure. The terms of its debt agreements, a listing of subsidiaries, and recent news reports about the firm arranged alphabetically by firm (about 7,000) in seven loose-leaf volumes. New security issue and bond rating changes receive particular attention. It comes with a daily, weekly and biweekly cumulative index. The corporation records are published annually with daily updates.

**Mergent / Moody’s Publications:**

Moody’s is a well-known statistical service that was recently acquired by Mergent Inc. These publications are likely to be known by both names for a number of years.

***1. Manuals:***

While investors can satisfy most quickly information needs whit the stock reports, the stock guide on the Bond guide, on occasions they cannot find what they need in these sources. Moody’s manuals are a good place to turn next. This publication contains several sets of volumes: one each on industrial firms, municipals and governments, over-the-counter industrial, public utilities, transportation issues banking and finance, and international firms. An especially common problem is when an investor seeks information about a company that does not have publicity traded stock because the firm is subsidiary of another company or because the firm is privately held. The blue pages section in the Moody’s Manuals book contains a cross reference of subsidiaries. Look up Taco Bell for instance, and you will find that this firm is a subsidiary of Pepsi Co.

Moody’s Manual also contain detailed news reports about a firm, more detailed financial statements, another relevant information that is not included in the S&P stock report because of space limitations. This information source is a heavy book, expensive to acquire, and not conveniently taken far from its shelf.

***Most quick information needs can be satisfied with the S&P Stock Report, Stock Guide, or Bond Guide.***

***2. Dividend Record:***

When it is necessary to investigate the recent dividend history of a company (payment dates, ex-dividend dates, etc.), Mergent Dividend Record is one of the most convenient place to get this information quickly. The reference room in most public libraries carries this weekly service.

***3. Bond Record:***

Mergent Bond Record is a comprehensive document on virtually all aspects of debt securities. It provides the Moody’s bond rating, interest payment dates, sinking fund provisions, call dates, the historical high and low price of the bond, and the bond’s yield to maturity. It also contains a listing of municipal securities by state.

***4. Handbook of Common Stock:***

Moody’s handbook of common stock is much like the S&P stock market encyclopedia. It is broader, though, covering about 950 stocks “with high investor interest”, according to the introduction. The stock report is a single page front and back, while the write up in the handbook is a single page that comes out quarterly.

**COMPANY INFORMATION:**

Numerous publications are required for publicly traded firms. Because the financial statements are audited, investors can generally place substantial reliance upon them. Company publications are usually free sources to anyone who requests them.

**Annual Reports:**

Every publicly traded company issues an annual report. An annual report is a useful publication containing a statement from corporate management about results from the previous year and about prospects for the future. Financial statements appear here too. Readers will also find information about most of the firm’s principal activities including its subsidiaries.

One of the first items in the annual report is the president’s letter to the shareholders. This document usually runs one page or it can run much longer and be annotated with graphs and tables.

One of the traditional shareholder rights is the right to vote on matter of interest to the corporation. Whenever a vote is to be held, shareholders have the option of voting in person at a company meeting or voting by proxy (the choice made by most investors). Accompanying the announcement of a forthcoming vote is the proxy statement which outlines the matter to be decided and management’s position on them.

In recent years an increasing number of shareholders proposals have been included in the proxy statement. Any shareholder has the right to arrange for a question to be included in the proxy statement. Shareholder initiatives usually fail but often make for the most interesting reading in the proxy statement.

***Many annual reports can be ordered by calling a toll-free number listed in the WSJ.***

**SEC Filings:**

The Securities and Exchange Commission requires certain technical filing that may also be helpful to investors and analysts.

***1. 10-K Report:***

The 10-K report is the Securities and Exchange Commission equivalent of the annual report. It contains more detailed financial information here than in the annual report. A shareholder is entitled to receive a copy of the 10-K report at no charge. Some firms will provide them to anyone who asks whether they are a shareholder or not. A full service brokerage firm will usually provide their customers any 10-K they request at little or no charge.

***2. 10-Q Report:***

The 10-Q report is the quarterly equivalent of the 10-K report. It contains much less information than the 10-K but has the advantage of being the most current performance figures. Shareholders may receive these reports upon request.

***3. Schedule 14A:***

Schedule 14A is the firm’s proxy statement for shareholders. It can be of interest to potential investors for two reasons. First it lists the company’s board of director’s and tells you something about them. Many investors find an impressive accomplished board of directors a reassurance that management’s decisions will be wise and not half cocked. The second piece of potentially useful information is the stock holdings of the corporate officers and directors. When these people have a substantial ownership interest in the firm stock. It seems they would be less likely to put shareholders wealth in jeopardy by ill-conceived or un-usually risky ventures.

***4. Form 144:***

Form 144 is another SEC document that investors often review. A corporate insider who intends to sell some of their personal share must file this “intent to sell” document. While insiders frequently sell to raise cash like anyone else it can be thought provoking if a number of insiders are reducing their holdings in their firm’s stock.

**The Prospectus:**

Corporations often issue new debt securities sell more stock acquire another firm or spin off a subsidiary. Actions of this sort usually require complete disclosure of the terms of the transaction and often shareholder approval. The prospectus is the document that outline the terms of the intended transaction.

Sometimes the final details of a transaction are not known in time for the prospectus mailing. A preliminary prospectus is called a red herring because of its traditional red lettering around the front cover.

Any investor considering the purchase of a newly issued security particularly from a firm with no other publicly traded securities should find the prospectus crucial. For one thing little else is likely to be available for study beyond news releases or stories in the financial press. The prospectus should provide a complete outline of the firm’s plans for the capital and a projection of future operating results an investor’s own analysis will help in deciding whether the projections are reasonable and if their present value is sufficient to justify the offering price.

The prospectus tends to be written in a conservative fashion. Companies try to cover every risk in this document because our litigious society seems anxious to blame someone else when things go wrong. Companies are sometimes forces to reimburse someone’s investment losses because of “undisclosed risks” in the prospectus.

**INVESTMENT LETTERS:**

Besides company provided information and library reference material investors often consider publications that make investment recommendations or forecasts. These other publications generally fall into two categories. One category includes services that offer specific investment recommendations such as “buy, sell or hold”. Another category is more general although recommended investor behavior may still be suggested.

**Advisory Letters:**

***1. Value Line:***

One of the best known subscription services is the Value Line Investment Survey. This week publication follows about 1700 common stocks and rates each of them in two categories timelines and safety. The expanded version covers over 6000 stocks.

The timelines ranking refers to precisely what you would expect the advisability of buying this stock now. The safety ranking refers to the confidence the Value Line analysis has in their forecast about the firm.

Statements such as “Value Line rates the stock 1 and 2” are commonly heard. The timelines ranking is normally mentioned first which means Value Line ranks this particular stock 1 for time lines and 2 for safety. In other words Value Line feels the future price appreciation of this stock will rank in the top 100 of the 1700 followed in the basic survey the safety ranking indicates they are rather confident about their estimate.

The quality of Value Line’s research is excellent. Many market analysts attach considerable significant to the Value Line report on a stock. This section provides a useful screening tool. Someone might be interested in a stock prices below $15 rated at least 3 for timelines and a PE below 25. The stock price and the timelines rating are beside each other in the index, and an investor could quickly scan through the 1700 companies to find those that pass the screen.

Value Line also ranks the approximately 100 industries contained within its securities universe. The industry ranked 1 is the most attractive with higher numbers being less attractive.

Each company covered by Value Line receives one full page of coverage. The graph at the top is similar to the one from the S&P Stock Report. Many investors like to follow trends in a firm’s cash flow the Value Line graph shows cash flow per share for the last 15 years. Value Line ranks the stock 5 and 1 meaning lowest for price performance in the next twelve months and highest for safety.

Note in the analysis comments the point that the firm has had a difficult 18 months. Note also that the analyst Stephen Sanborn has CFA after his name. CFA stands for Chartered Financial Analyst a professional designation that is rapidly becoming a mandatory credential for newcomers into the investment research or money management business. The CFA program is discussed in greater detail in the last chapter in the book.

***2. Institutional Brokers Estimate System:***

The Institutional Broker Estimate System is commonly referred to as I/B/E/S. This service compiles the earnings estimates of security analysts providing both individual estimates and a median result. The range of estimates appears too with the most pessimistic and most optimistic estimates highlighted. The I/B/E/S database is updated weekly and contains both a brief report and an expanded report with values from the prior three weeks. Subscribers can access it online at www.ibes.com.

***3. Zack’s:***

Zack’s Investment Research produces the Corporate Earnings Estimator a competitor of the S&P Earnings Forecaster. This publication is popularly referred to simply as Zack’s. Like the Earnings Forecaster it compiles earnings estimates from about 60 different brokerage firms on a total of about 3000 stocks. A great deal of the publication deal with changes in earning estimates. The data on each covered security concludes with Zack’s consensus on expected future earnings. Zack’s is a bi weekly publication.

***4. Brokerage Information;***

Another important information source is the research department at brokerage firms. All full service brokerage firms (and some discount firms) have an in house research capability. Investors can request a report on a particular company or give their brokers a list of securities of interest and ask to receive reports on these firms as they are produced.

**The Popular Press:**

***1. The Wall Street Journal:***

The wall street journal probably needs no description. Even non-investors have usually heard of it and seen it at the newsstand. The journal appears in three sections. The first section is a general overview of the top domestic and international news. Dow Jones calls the second section “Marketplace” and describes its content as “How companies complete and sell how managers and consumer cope”. This section contains in index of all companies mentioned anywhere in that day’s edition of the paper. The third section “Money & Investing” contains the bulk of the financial data closing price, indexes, exchange rates, earnings reports and more.

***2. Barron’s:***

Barron’s is like a weekly version of The Wall Street journal with less coverage of political events and general news and more coverage of financial statistics. It contains a great deal of market statistical data which is one of the reason s it is so popular Dow Jones publishers both the WSJ and Barron’s both publications are available at most newsstands.

The part of Barron’s that some investor’s use the most is the “Market Laboratory” section a complete and complex collection of market statistic snot easily found elsewhere. The technical analyst finds a lot of interesting material here.

***3. Investors Daily:***

Investors Daily is a competition of the WSJ it is rich with financial statistics and detail on individual securities. This newsprint publication is quite common in New York City, Chicago, and other financial centers but is less common in other areas.

***4. Forbes:***

Forbes is a popular twice monthly magazine directed almost exclusively at the investor. A thick magazine the articles include corporate case studies, profiles of prominent executives investment tutorials and a variety of excellent columns designed to educate the invoice and professional alike.

***5. Smart Money:***

Another Dow Jones publication is Smart Money an excellent relatively new magazine. No matter what the level of market solicitation investors is likely to find something of interest in virtually every issue. The magazine is inexpensive and will help anyone be better informed.

***6. Other Magazine:***

Numerous other sources can also be extremely useful. Many people are loyal subscribers to Money Magazine, The Economist, Fortune, Business Week or Financial World. All are respected publications covering a wide range of investment related topics.

Some who is a genuine student of the financial markets will find the Financial Analysis Journal useful and informative. This quasi-academic journal features a good mix of articles from professors and practitioners in each issue. It is published six times per year. Many academic journals are inaccessible to the average investor; the FAJ is an exception and well worth its subscription price. It is a publication of the Association for Investment Management and Research and is well known to those involved with the Charted Financial Analyst program.

International Investor is an expensive publication; current regular rates are $ 405 per year. This magazine is for seasoned money managers; its articles are not tutorial in nature. Rather, they deal with strategic investment issue, with the legal and regularity framework, and with complex institutional issues. Still, anyone interested in the capital market is likely to find something useful and interesting in virtually every issue.

***7. Television:***

Louis Rukeyser and Frank Capiello, popular names in the investment community host a popular weekly television show called “Wall Street Week”. A public television production, it is 30 minutes of market analysis highlighted by an interview of prominent Wall Street Figure each week, complete with probing questions by the hosts.

During the business day many county club snack bars, airport, kiosks and office waiting rooms tune to the Financial News Network. The exchange tickertape runs continuously across the bottom of the screen while commentators give updates on what is going on in the world markets.

**COMPUTER SERVICES:**

Computer services fall into groups. One group is primarily used for securities screening and is a static database with periodic updates. This type usually augments the result of the other security selection activities.

**Screening Services:**

***1. Value Line Investment Survey Windows:***

Both the basic and the expended versions of Value Line are available online with weekly updates. Users can screen the entire Value Line database by dozen variables and rapidly reduce the security universe to a workable number. Value Line provides a number of subjects of the database, including such handy groupings as timely stocks in timely industries and stock moving up in rank. The program also permits the preparation of statistical summaries and detailed tabular reports. This is a very handy tool by many investors and investment advisors.

***2. Compustat:***

Academic researchers know the S&P Compustat tapes. There are both mainframe computer and microcomputer versions of this information source. Both types enable the screening of thousands of stocks for specific financial statement information. The screen can include anything from familiar statistics. Like the current ration or retained earnings, to less frequently used values such as unfunded pension liabilities. Accounting researcher use this service in conjunction with lest of the market’s response to accounting changes. At least 150 categories of information are available on more than 6,500 firms in the compustat database.

***3. CRSP Tapes:***

The University of Chicago’s Center for Research in Security Prices produces a set of computer tapes commonly known as the CRSP tapes, pronounced “crisp”. This data set contains data on all New York Stock Exchange stocks from 1926 to the present. Much of the academic research produced at leading research universities throughout the world relies on CRSP data.

***4. Expended Academic Index:***

An increasing number of public libraries are establishing connections to large database. One particularly useful database for the investor is the Expended Academic Index. This index includes details on the articles in more than 2,500 journals. The user can screen through the entire database by title, author, subject, or key word For example, a recent search of the index for the subject “earning” produced 255 entries, ranging from the New York Times, PC Week, and a number of academic journals. Author search on “price earning ration analysis” produced 65 articles with these words in the title.

***5. Disclosure:***

Disclosure, Inc. produces a CD-ROM disk containing a wealth of company information. For each covered firm, investor can obtain a company profile, its line of business, the exchange on which its stock trades, its five year growth in sales and net income, and many financial statement details. Investor can also search the database using their own criteria. For instance, in a search for electric utilities in the state of the New York, the system will find this information in a matter of seconds. Disclosure is particularly helpful when looking for other terms comparable to a particular firm of interest.

**Online Computer Services:**

***1. CompuServe, Yahoo and American Online:***

These services provide ready access to historical price database and to analyst’s estimates. Via CompuServe or Yahoo! For instance a subscriber can access historical price information on virtually any listed security and on most NASDAQ issues. The L/B/E/S database is also accessible to determine consensus growth rates or review company profile through S&P Online. These services provide price quotations that are usually delayed 15 or 20 minutes rather than real time prices. Delayed quotations are much cheaper to provide.

**SEMINARS:**

**Brokerage Firms:**

In most communities, the local brokerage firms hold periodic educational seminars for their current and prospective customers. These seminars often feature one of their research stars from New York or one of the firm’s mutual fund managers. Even though such seminars always involve a bit of a sales pitch, they invariably are enjoyable and informative.

**Bank Trust Department:**

Band trust departments do the same thing as the brokerage firms. Evening seminars are an attractive way to motivate existing clients and to persuade other in the community to take advantage of their bank’s trust department. The trust department has investment people in addition to legal people, and these seminars often include a blend of both investment issues and estate planning topics.

**Employee Relation Programs:**

Because financial security is associated with good employee moral, some firms make it a practice of providing investment information as part of the overall corporate benefits package. These information sessions may be during the day or evening, but are free benefit to the employee.

**Exchange Seminars:**

The securities exchanges also get into the act by offering, educational sessions throughout the year. Sometime the exchanges charge a free for these events; sometimes they are free. These sessions can range from basic information on how the stock market works to technical discussions on risk management at financial institutions.

**Summary:**

A research philosophy is helpful in marketing the best use of research time. Many analysis use a combination of fundamental, technical and wise man techniques. Regardless of the approach taken, analyst/investors need to decide upon what type of information they want to gather and to be clear why this information should be useful.

Stock screening is necessary in order to reduce the huge number of possible investments to smaller number that can be investigated carefully. Standard & Poor’s and Moody’s are the two big names in investment sources found in libraries. These two services largely duplicate each other.

Companies prepare annual reports to their shareholders and report to the SEC, all of which can be useful in forming investment decisions. Some companies make their annual reports available to WSJ readers via a toll-free call.

Many investment letters that offer investment advice are available. The Value Line Investment Survey is among the best known of these. Many people are especially interested in Value Line’s timeliness and safety ranking of a stock.

Earnings forecasts are the meat of the I/E/B/S and Zack’s services. A great many other sources of information are available through magazines, newspapers, or television shows. Computer services fall into two main groups: static services for security screening and dynamic, online services providing current information. Yahoo!, Disclosure, the Expanded Academic Index, and the Value Line Investment Survey for Windows are particularly popular.