Is Anybody Really Listening?

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Is Anybody Really Listening?

In this age of the Internet, the spoken word is fast becoming a lost art. What you say often goes in one ear of the listener and out the other. To hold people's attention and get them to grasp what you wish to tell them requires new strategies, for the world cannot grow and prosper on text messages which turn the act of communicating into mostly a solo, silent endeavour.

If you sound excited about what you have to offer, so too will be the audience. An unemotional monotone speaking style will never do. Get to the point early; crystallize the message you want to get across. Be precise, attention spans are short. Snappy bullet points are easy to remember if limited to three. Having an arsenal of words to embellish your descriptions will make you sound articulate, interesting and knowledgeable. Stick to commonly used words. The brain demands logic, order and a sense of direction. Back tracking is distracting. Encourage dialogue, but refrain from wandering off topic. Do not get trapped by ridiculous questions. Be friendly and your fans will stay focused. Act like a cold-blooded world expert, and you might well bore them to death!

THE VALUE OF VALUES

In terms of corporate governance, it is generally understood that the factual reporting of assets and disclosure of obligations promotes transparency. To maintain the trust of investors and securities markets, it is crucial the four principles of communication be supported: clarity (the information must be unambiguous and understandable); completeness (all the relevant particulars must be included, and nothing left hidden or omitted which is important to decision-making); accuracy (the data must reflect what is, not what the issuer would wish it to be; and timeliness (the communiqué must be updated and provided in a punctual manner). While some suggest that adherence to the code and standards diminishes the need for enforcement, and that the legal system will ultimately punish egregious behaviour, chances are the capital markets will have taken their toll long before the authorities ever get any culprit to own up. That is precisely why thorough due diligence and the role of the research analyst is so important to investors.

THE POSITIVE NATURE OF SELL RECOMMENDATIONS

It is bad enough when executives refuse to take a call from a research analyst; it is worse when major shareholders turn litigious and refuse to do business with firms promoting the idea that certain stocks be sold. Investors and CEOs strive to win. They want to do better than their rivals. When a security's price fails to live up to expectations, both pocketbooks and egos suffer. It is important to remember that individuals are dependent on sell-side research analyst insights, and react strongly to both buy and sell reports. They have not the quiet comfort which comes with having a flock of competent buy-siders on staff, who are impressed by industry expertise but seldom short-term target prices.

Most sell-side research analysts much prefer to see the world through rose-coloured glasses, their forecasts tend to be quite optimistic and less accurate than those of their buy-side counterparts. They think ridding the world of nattering nabobs of negativism will make it an exciting and prosperous place. Until recently, sell recommendations by Bay and Wall street firms made up only 10 to 20 percent of the opinions proffered. The traditional buy-siders are twice as inclined to suggest a stock or income trust unit be sold. This is due in part to the vast amount of money pouring into hedge funds and long-short mutual funds, which charge robust fees and currently account for better than 50 percent of day-do-day trading. In some instances, portfolio turnover rates are so high as to be embarrassing, so they are rarely mentioned, except by the stockbrokers carrying out the trades!

While the vast majority of research analysts would prefer to initiate coverage on a company or income trust which can reasonably be expected to do well in the future, in keeping with the stock market's natural long-term upward trend, some of the new breed of cats are bent on attacking those which are doomed to fail in the next while, or are simply overvalued. They accentuate the negative, seldom the positive. But, even though these sort of recommendations are on the rise, they remain relatively insignificant. It is difficult to do battle against the research analyst fraternity's overwhelming optimism. Many of the sell suggestions to date have been of entities whose troubles were of public knowledge, the share or unit price already down-and-out for the count. Most critics fear that the publication of a sell proposal will shut them off from a company's information pipeline. This is certainly possible given the fragile nature of the typical CEO's ego. However, the act of discovery involves much more than accepting only what management is willing to say. Blackballed or not, the most competent of research analysts develop proprietary information channels: by reading between the lines of financial statements, talking to customers, competitors, suppliers, and others who may have an inkling as to what is truly going on, and what the prospects could well be. By so doing, the sleuths may eventually convince the executives in the crosshairs that they would be much better off in the long run by doing what they possibly can to develop a broad base of well-informed research analyst sponsorship, particularly when times are trying. After all, the upgrading of a sell to a buy endorsement will have far greater impact if the critics are highly regarded. Also-rans have little chance of having their reports taken seriously, one way or the other.

Many CEOs wonder if a series of sell reports will result in an increase in short selling. This is improbable as the investment dealers earn a great deal of money in commissions and fees by raising funds for public companies and income trusts, and relatively little by supporting short sellers. This is unlikely to change in the future, as the cloak of secrecy and disdain is sure to continue to surround those who go against the grain. Furthermore, short selling is only profitable if one acts well ahead of the stock market coming to the realization that an outfit's securities are about to collapse in price. As it now stands, there is little evidence that such is so, the usual sell announcement a trailing indicator at best. In fact, mighty Merrill Lynch's sells outperformed its buys by a substantial margin once the stock market turned bullish in the fall of 2002!

GETTING THE FINANCIAL PRESS ONSIDE

The financial section of newspapers, tip sheets, and business magazines frequently mention the names of research analysts and their firms, and note what they may have to say about the outlook for various and sundry industries, and specific stocks or income trusts they cover. With the advent of radio and television channels dedicated to keeping investors in the know, their expertise fills the media's need for knowledgeable sources. Although it takes time and money to hire professionals, or retain independent advisors to develop direct contacts with highly respected journalists, many major outfits believe the benefits outweigh the costs, particularly when something goes wrong and damage control is required. However, there would appear to be little correlation, if any, as to gaining high-net-worth individual investors as clients for either the investment dealer or the portfolio management company whose partner's savvy advice was featured on CNBC, ROBTV, et cetera. The exposure can, however, improve an issuer's credibility as to marketing its products and services, by fortifying relationships with existing customers and referral sources.

Those who wish to gain the media's attention are advised to learn how to approach the members of the fourth estate, and to put their oar in the water only when they have an interesting story worth telling. Informative quarterly reports, charitable donation and scholarship contribution announcements can pave the way. Publishing articles hoping the press will bite is not recommended, as spoon-feeding does not work. Given as most scribes face daily deadlines, e-mail is a better method to use in trying to arouse their interest. It is also the most likely way to get one of them to call you back when they have the time to do so. Never talk down to a member of the media. Give them the information they need to prove they are on the right wavelength in writing or speaking about your enterprise. Even so, it is unreasonable to expect front-page coverage or prime-time television exposure. That will only come once the reporter in question gains confidence in what you have to say, and his or her favourite investment community contacts happen to concur. In fact, no article or commentary will ever have any real impact, positive or negative, unless it is verified by research analysts, mention of their names and firm affiliations an absolute must. As one would expect, those issuers who also provide comprehensive background information are less likely to be misquoted.

In the final analysis, it is better to be known than unknown in just about any business. Constructive media coverage is nearly as valuable as propitious word of mouth. However, it only counts for 15 to 20 percent of the investment decision-making process. Respectable research analyst coverage is still the most important factor in attracting and keeping longer-term investors onside, being about 40 to 50 percent of the total equation. It is they who you must ultimately get to sit up and pay close attention to what you have to say about your outfit's operations and prospects. Without their concurrence, you will be just spinning your wheels and wasting money in catering to the press, hoping to be mentioned in a favourable way.

IT'S A CRUEL WORLD OUT THERE

Every good business requires great customers. Without their support there would be little in the way of profits and dividends paid to the shareholders. If you have never been out on the road peddling your wares, it may come as a surprise to learn that marketing requires aptitude, training, and persistence. It is a challenging pursuit. Few are regarded as being masters of the profession. It is not simply a matter of getting a first order and then sitting back waiting for more to pour in over time. Instead, the power of the buyer will eventually kick in, playing one supplier against the others, and certain to demand the best possible price and quality, liberal credit arrangements and on-demand delivery, promotional and comprehensive technical support. Not often does the provider prevail over the purchaser.

When it comes to gaining shareholders willing to pay a premium price, there are more players competing in the money game than any enterprise will ever have to face plying its trade. Not only must you convince the investment community that your outfit is one of the best of its kind, management has to prove such is so quarter over quarter, ad infinitum. Absolutely nothing can be taken for granted. Given as the factors which affect the performance of the capital markets are forever changing, standing pat will never be enough to carry the day, and allow one to maintain a prize position in the pecking order. Rather, those with the wherewithal to buy will pass you by in favour of a better known competitor, though not necessarily a better company. If that happens, you may be left with little more than the dregs – the quick-buckers and day-traders – who could care less about sound corporate strategies and longer-term success, or failure.

Pension, mutual, and insurance funds are seldom criticized for owning the big names. They can, however, be hung out to dry for having invested even a relatively small amount of money in an up-and-coming mid- or small-cap that fails to make the grade. Notwithstanding, the blue chips cannot afford to rest on their laurels. To do so could be very expensive in terms of the cost of capital should there be a hiccup in the results, and the shareholders caught offside. That is with the possible exception of the cunning value investors with a sound understanding of the company in question who will, characteristically, pounce on opportunities to buy at bargain prices. They are the opposite of those who panic, or the industry-specific mutual funds having to cope with a flood of redemptions and with no choice but to knock out all the bids in sight, exacerbating the decline in stock or trust unit prices. It can be a cruel world out there if you have not taken the time to cover the bases, and fail to hit a home run any time you get a chance to come up to bat against the critics.

SECURING RESEARCH ANALYST SPONSORSHIP

Whereas all CEOs are interested in gaining research analyst sponsorship, few understand how to go about achieving such. Nor do they comprehend what impact the specific investment dealers have on the various investor audiences. Though the *Institutional Investor* magazine and the Brendan Woods International line-ups of the first, second and third team all-stars are readily available, do these people really have the time or inclination to initiate coverage of your company or income trust? Unless there has been a raft of mergers and takeovers amongst those outfits they know well, the chances are they do not, at least not immediately. While their focus is portfolio managers, what about individual investors, the very ones who set the closing price of every listed stock or trust unit each working day of the year?

In our experience, the best method to gain research analyst awareness and support is to hold a regular series of information meetings, thus assuring existing and prospective investors get a fair shake. Conference calls, though convenient, are really not the answer, as there is no eye-to-eye contact. The audience does not know for sure who else is plugged in, and you have no way of knowing if they paying attention or how they are reacting to what you have to say.

If you want a true measure of how successful you are in preaching to the masses, a follow-up survey by a respected firm of independent investor relations advisors is essential. Though few attendees will criticize you face-to-face, they will, however, talk to us. This is never possible if the meeting is sponsored by an investment dealer, for if a guest portfolio manager was to declare their intention it would be shopped about and immediately upset the apple cart. Furthermore, given as the competing sell-side research analysts are not included at such gatherings, they would never be in a position to promote your cause by learning from what you might have had to say.

When it comes to investor conferences, not only do you get a great chance to tell the outfit's story, you have a golden opportunity to hear competitors plead their case. Given as the vast majority of the investment dealers' fire power will be in attendance, why put yourself at a disadvantage by being dragged about town for one-on-one meetings, and miss the boat to better stock and trust unit prices? So don't be so foolish the next time you are invited to speak at a meeting of your peers. Stay put and learn all you possibly can by being an active participant, and not just a drop-in-for-drinks type. If you must get out and about, do so before or after the event.

Furthermore, these sorts of happenings also have a long history of triggering new ideas and opportunities, food for thought about the future. By doing so at one of RAPPORT's COPIC conferences you are exposed to all the Bay Street firms. Though quite a number of portfolio managers may at various times attend an investment dealer organized gathering, your message will die on the vine if the competing sell-siders are not up to date as to recommending your company or income trust to both institutional and individual investors. Do as you wish, but never lose sight of the primary objective: to gain and nurture an ever growing list of competent research analysts and stockbrokers selling your story to people with plenty of money to invest.