

Book Review

Best Practices for Equity Research Analysts Essentials for Buy-Side and Sell-Side

Author: James J. Valentine

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If we knew what it was we were doing, it would not be called research, would it?

-Albert Einstein

Best practices for equity research analysts is a practical guide for stock market research analysts. This book is highly informative and the author's own experience as an analyst explains everything an analyst needs to know in today's competitive environment.

The book is organised into six parts

Part one of the book starts with basics of organisation and interpersonal skills to help practitioners in selecting the most favourable universe of stocks. The author has also attempted to give tips on time management, managing information flow, strategies for buy side analyst to manage and maximise benefits of the sell side relationships. The author has narrated in a very lucid style the foundation skills required by an analyst or portfolio manager for increasing the flow of good information and thereby reducing the bad information like what needs to be collected? What are the sources of data collection and how best it is organised for further analysis and interpretation.

Part two of this book is focused on identifying and monitoring critical factors and making stock recommendations. Critical factors are important elements of best practices. The author has given good guidelines for

conducting surveys, forecast scenarios for the most important critical factors and also to create sustainable sources of insights. This section concludes with discussing interviewing skills like thoughtful preparation, how to lead an interview to obtain insights, body language and documentation of the meeting for future reference.

Part three of best practices discusses the use of the quantitative elements of financial analysis to present information into earnings and cash flow forecasts. The tools that are used to identify and quantify critical factors are forensic accounting, statistical analysis and Microsoft excel. This section begins with analyst's suspicion about data because numbers look good in a company's presentation but it may not convey the same meaning for making investment decisions. The author has explained 10 common factors to be considered to avoid getting misled by numbers. The author uses the basic forensic accounting to identify yellow flags through which companies manipulate their results as well as methods to spot variances. Here the author also provides key discussion on some Microsoft excel features, best practices for setting up a worksheet and building financial models for the company.

Part four of best practices focuses on

understanding practical valuation and stock picking skills. This enables the analyst to pick stocks better than their competitors. It also highlights the benefits and shortcomings of the most common valuation methods which the author has classified into single period multiples and multi period cash flow. The author has provided valuable material to overcome challenges in creating judicious stock calls. Picking is one of the areas where sell side analysts have it better than buy side analysts. This section concludes with authors strong recommendations on leveraging technical analysis to improve fundamental analysis.

Part five of the book highlights on a very important skill required by an analysts that is reporting and communicating stock ideas to the end users. The author has emphasised on creating quality content so that message of value can be conveyed. He has provided tips for voice mail, email etiquettes to the portfolio managers. Very important aspect of this part is the 7 critical elements of stock recommendations to be followed by an analyst or practitioner.

Part six of the book has focused on identifying and resolving ethical challenges in stock recommendations. The author has given practical guidelines for the right course of action to be taken by an analysts like legal, trustworthiness with the firm's rules, maintaining transparency, and to be consistent with the CFA Institute's code of ethics and standards.

Overall best practices is an interesting read. It provides a framework for an individual with technical background and offers practical tips to get started as an analyst. The main feature of the book is that it provides fundamental training

material not only for buy side but also the sell side which is very important to manage professional relationship with the investors. The book is very useful for researchers, portfolio managers, analysts and practicing professionals.

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