

# **Analyst Opinions**

## **How do we use them?**

## **Why do we trust them?**

### **Discussion For the Investment Forum**

**Lou Coglianesse, September 8, 2021**

This presentation will be sent to Jim Coile to be added to the forum website

# Agenda

- What is an independent analyst or research firm?
- How do we use analyst opinions and research?
- Do research firms have biases?
- How are research firms rated?

# Independent Analyst - Investopedia Definition

- **Sell-Side** Analysts
  - Employed by brokerage houses
  - In-depth reports on a few stocks
  - Used to sell ideas to individuals and institutions
- **Buy-Side** Analysts
  - Employed by fund managers
  - Shorter reports but on 2-3 times more stocks than the sell-side analysts
  - Used to make fund investment decisions
- **Independent** Analysts
  - May be employed by research firms but not employed by brokerages nor funds
  - May have subscriptions, fees or trade based compensation from funds
  - They must include a disclosure at the end of each report (its often in the fine print)

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# How do we use Analyst Opinions?

- Source of fundamental metrics?
- **Forecasts (yes)**
  - Revenue growth, earnings
  - Target price
  - Dividend growth and safety
- Discussions of...?
  - **Market/sector/industry outlook/insights**
  - Positioning in the sector/industry
  - Potential M&A & other news
  - **Risks for the company**
  - **Company plans**
  - **Negative analyses esp Seeking Alpha**
  - **Reader comments on Seeking Alpha posts**
  - **Reasons, not to buy (esp from Zacks)**
- History and trends?
- **Recommendations (yes)**
  - Buy/Hold/Sell
  - Strong Buy/Buy/Hold/Underperform/Sell
  - Overweight/Neutral/Underweight
  - Scores (eg, 1-5)
- Consensus or Favorites?
  - Follow a guy you know is good
  - **Look for consensus across analysts**
  - **Side-by-side comparison of analyst reports for a given company**
- Screens or **Due Diligence**
  - **AI noted that analyst views get about a 5% weighting in his decisions**

Bold font denotes feedback from members during the forum discussion

# Whose analysis do we use?

- Individuals (eg, Seeking Alpha)
- Research Firms
  - Morningstar, Value Line
  - Argus, CFRA, Zacks, Ford Equity, Refinitiv Verus (aka Thompson Reuters/Verus), ISS-EVA, Jefferson, McLean Capital, Refinitiv I/B/E/S,...
- Summary Scorecards
  - “Tip Ranks” for individual investors (Bob discussed this last week)
  - Starmine
  - Investars
  - Integrity Research Associates

# Do analysts have a bias to Value or Growth?

- Fidelity thinks so, but
  - They have no insights into this when I called them
- The “?” for help just give a general discussion of Value vs Growth investing
- But it may be that we like some firms better because our biases match their biases

People also use:

- Value Line,
- Motley Fool,
- Morningstar,
- Newsletters

Research Firm	Methodology	Approach	Equity Style	Report Types
Argus Analyst	Analyst Driven, Quantitative Model Driven	Fundamental Analysis	Growth	Economic, Market, Stock
CFRA	Analyst Driven, Quantitative Model Driven	Fundamental Analysis	Growth	Market, Sector, Industry, Stock
Ford Equity Research	Quantitative Model Driven	Fundamental Analysis	Growth	Stock
I/B/E/S From Refinitiv	Consensus Recommendation And Earnings Estimates	Fundamental Analysis	n/a	Stock
Integrity Research Associates, LLC	Research Firm Performance Analysis	n/a	n/a	n/a
Investars	Research Firm Performance Analysis	n/a	n/a	n/a
ISS-EVA	Quantitative Model Driven	Fundamental Analysis	Value	Stock
Jefferson Research	Quantitative Model Driven	Fundamental Analysis	Value	Stock
McLean Capital Management	Quantitative Model Driven	Fundamental Analysis	Value	Stock
MSCI	Quantitative Model Driven	n/a	n/a	ESG Environmental, Social, Governance
Recognia	Chart Pattern Recognition	Technical Analysis	n/a	n/a
Refinitiv/Verus	Quantitative Model Driven	Fundamental Analysis	Value	Stock
Social Market Analytics	Quantitative Model Driven	n/a	n/a	Equities
StarMine from Refinitiv	Recommendations Accuracy Analysis	n/a	n/a	n/a
The Hightower Report	Analyst Driven	Fundamental Analysis, Technical Analysis	n/a	Market
Trading Central	Analyst Driven, Quantitative Model Driven	Technical Analysis	n/a	Ratings and Trend Forecast
Zacks Investment Research	Analyst Driven, Quantitative Model Driven	Fundamental Analysis	Value	Economic, Market, Sector, Industry, Stock

# Help from Fidelity?

## **Growth**

[Value](#)

[How To Choose](#)

## **Growth**

A research firm that adheres to a growth style believes that growth prospects or growth history is the most important factor in valuing a company. They may look at revenue growth, profit growth, or margin growth, but they all try to identify stocks worth owning based on growth that is not being recognized in a company's stock price.

[Growth](#)

## **Value**

[How To Choose](#)

## **Value**

A research firm that adheres to a value style tries to buy companies whose assets are underpriced. Those assets may be physical assets, like equipment and real estate or streams of revenue and profits from customers. They may also include intangibles such as brand or reputation. Value investing is often associated with Graham and Dodd, and their book *Security Analysis*.

[Growth](#)

[Value](#)

## **How To Choose**

## **How to Choose**

While investors may be comfortable with a growth or a value approach to investing, it's also important to look at the markets and see whether value or growth stocks are being favored. During periods when growth stocks are leading, you may see the performance of value-oriented research firms lag. Conversely, when value stocks are leading, growth-oriented research firms' performance may lag. Also, in certain industries or sectors, one of the approaches may be more typically used. Or conversely, when value stocks are leading, growth-oriented research firms' performance may lag. Also, in certain industries or sectors, one approach or the other may be more typically used.

# Do Scorecards help us choose research firms

- Fidelity provides several scorecards
- Some try to summarize recommendations in a sector
- Some try to score a research firm's results sector by sector
- Some try to score a research firm's general results

## Equity Summary Score Scorecard



**Updated monthly** —A scorecard, produced by [StarMine from Refinitiv](#), representing aggregate, theoretical performance of the Equity Summary Score across all covered stocks.

[View Equity Summary Score Scorecard](#)

## Firm Sector Performance

PROVIDED BY [INVESTARS](#)

Research Provider	Consumer Discretionary Performance (Buy Only)	Turn Over (Buy Only)	Total Coverage (All Recomm.)	Take Action
Sector Performance	-0.32%	--	--	Research Sector
Advo Research	-0.32%	2.7%	53	Current Buys
Channel Trend	+0.02%	2.0%	56	Current Buys
Columbine Capital Serv.	-0.15%	1.6%	57	Current Buys
Ford Equity Research	-0.32%	4.4%	6	Current Buys
Market Edge	+0.07%	3.7%	56	Current Buys
Ned Davis Research	+0.01%	2.9%	58	Current Buys
Standard & Poor's	-0.21%	7.6%	79	Current Buys
Thomas H.Muller Global Cap.	0.00%	7.0%	10	Current Buys

For illustrative purposes only.

**Updated Daily:** Sector-based performance of research firms' recommendations for the last 1, 2, or 3 years.

[View Sector Scorecard](#)

## Firm Performance Analysis

PROVIDED BY [INTEGRITY RESEARCH](#)

### FULL QUARTERLY SCORECARDS

- Q2 2021 Firm Scorecard (PDF)
- Q1 2021 Firm Scorecard (PDF)
- Q4 2020 Firm Scorecard (PDF)
- Q3 2020 Firm Scorecard (PDF)

**Updated Quarterly:** Insight on various dimensions of research firms' recommendation performance for the last 1 and 3 years.

# Investars Scorecard \*

- Measures performance in 3 recommendation categories - Buy, Hold, Sell
  - But, Fidelity reports only the “buy recommendations” results
- Methodology
  - Measures 2-year performance of all Buy recommendations
  - Keeps a hypothetical portfolio of all buy recommendations
    - Equal Weighted, Rebalanced monthly
    - New positions added and rebalanced on all new Buy recommendations
    - If a position goes Neutral or Sell it is removed from the portfolio

\* See <http://investars.com/files/SmartIndexMethodology.pdf>

# Investars Scorecard as published at Fidelity

## Shows absolute performance of buy recommendations by sector by firm

BUY RECOMMENDATION PERFORMANCE BY SECTOR — AS OF 11:16 AM ET 09/07/21

[How are these table values calculated?](#)

Research Provider	Communication Services	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials
Sector Performance	72.96%	88.25%	35.63%	7.48%	30.36%	63.22%	60.70%	72.56%	51.33%
Argus Research A6/Quantitative	! 44.63%	43.17%	18.42%	! -18.11%	32.54%	! 49.91%	32.83%	58.50%	! 39.52%
Ford Equity Research	27.28%	74.08%	27.13%	-13.55%	38.92%	45.52%	56.75%	78.89%	68.33%
ISS-EVA	! 22.90%	! 52.93%	! 32.22%	! -19.55%	! 27.95%	! 43.22%	! 41.89%	! 74.10%	! 31.25%
Jefferson Research	! 42.42%	51.42%	41.52%	-36.02%	--	71.39%	50.30%	78.35%	27.95%
McLean Capital Management	25.80%	36.89%	! 25.91%	-16.55%	28.69%	94.54%	30.32%	62.78%	38.62%
Thomson Reuters/Verus	66.41%	137.16%	36.73%	! -2.73%	32.32%	40.83%	66.67%	199.18%	67.77%
Trading Central	! 71.89%	! 51.08%	-38.45%	! -1.84%	! 47.49%	! 57.52%	! 56.19%	! 44.44%	! -2.31%
Zacks Investment Research, Inc.	81.08%	82.75%	59.12%	-27.15%	27.77%	89.73%	64.33%	102.86%	76.61%

These performance values look back two years and displays absolute performance. [Explore all research firms.](#)

[Expand All](#) | [Collapse All](#)

These performance values assume **monthly** rebalancing of portfolios.

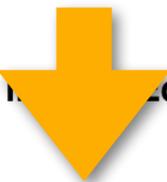
Notes:

“!” means “Insufficient Data” the research firm covered less than 25% of the sector (not industry in the sector)

# StarMine Relative Accuracy from Refinitiv

- Tries to define how well a research firm predicts performance in a sector
- Looks at 2 year Buy and Sell Recommendations relative to other firms
- Grades firms by how well they did
- Normalizes grade from 1-100
- Not a lot of info to tell you how this is calculated
- **100 DOES NOT MEAN THAT THEY ARE RIGHT 100% OF THE TIME**

Firm Opinions Used in Equity Summary  
Score ?



Firm	Thomson Reuters StarMine Relative Accuracy ?	Standardized Opinion ?
ISS-EVA (i)	100	Buy
Ford Equity Research (i)	98	Buy
McLean Capital Management (i)	79	Neutral
Refinitiv/Verus (i)	70	Buy
Zacks Investment Research, Inc (i)	69	Outperform
Trading Central (i)	37	Buy
Argus Research A6/Quantitative (i)	30	Buy

(i) Independent Firm

# Integrity Research Associates - multi-component scorecard

- Has a 3 year performance Buys, Buys+Sells, Sectors, Holding period until they change the recommendation, Volatility of the recommended stock

## Research Award Scores, Second Quarter 2021

Research Provider	Award Score (100 pts)	Buys (36 pts)	Buys +Sells (32 pts)	Sectors (13 pts)	Holding (9 pts)	Volatility (10 pts)	Q1 '21 Rank
<b>Refinitiv/Verus</b>	67	34.3	20.6	11.6	0.0	-1.5	<b>2</b>
<b>Zacks Investment</b>	66	32.7	21.4	11.6	0.1	0.4	<b>1</b>
<b>Ford Equity Research</b>	44	22.8	12.0	9.2	0.1	-0.3	<b>3</b>
<b>ISS – EVA</b>	38	15.7	12.2	9.6	0.1	0.6	<b>5</b>
<b>Jefferson Research &amp;</b>	36	19.6	9.6	7.1	0.1	1.8	<b>4</b>
<b>Argus Research</b>	31	10.8	13.6	6.4	0.1	3.5	<b>6</b>
<b>McLean Capital</b>	29	8.5	13.5	6.8	0.1	3.1	<b>7</b>
<b>Trading Central</b>	26	11.1	7.4	7.7	0.1	3.1	<b>8</b>

# Integrity Research Associates - some details

## Sector Ranking

Energy	Rank	1 Yr Performance
Refinitiv/Verus	1	198.1
Trading Central	2	146.1
Zacks Investment Research, Inc.	3	134.9

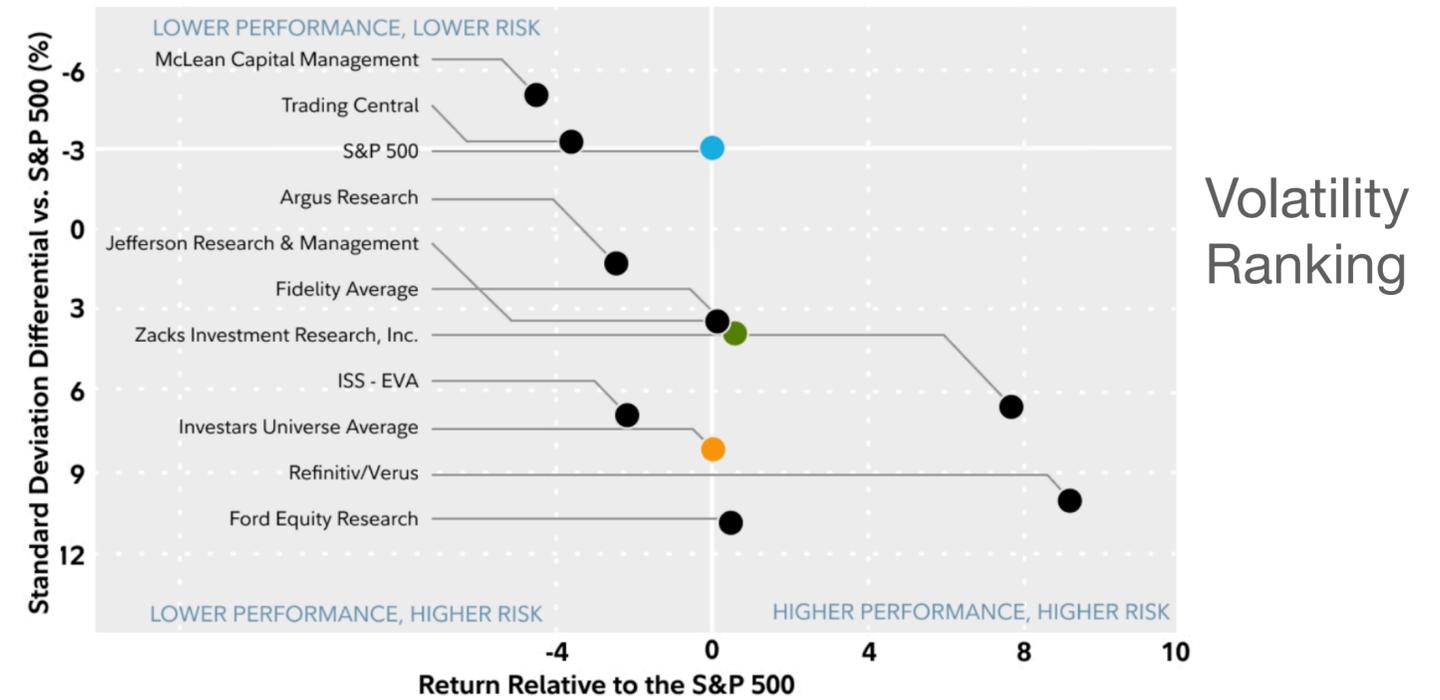
Materials	Rank	1 Yr Performance
Refinitiv/Verus	1	117.2
McLean Capital Management	2	94.6
Zacks Investment Research, Inc.	3	91.7

Industrials	Rank	1 Yr Performance
Refinitiv/Verus	1	112.7
Zacks Investment Research, Inc.	2	102.9
Ford Equity Research	3	79.8

Consumer Discretionary	Rank	1 Yr Performance
Refinitiv/Verus	1	150.2
ISS - EVA	2	92.0
Ford Equity Research	3	89.4

Consumer Staples	Rank	1 Yr Performance
Trading Central	1	110.8
Refinitiv/Verus	2	71.3
Zacks Investment Research, Inc.	3	57.4

Health Care	Rank	1 Yr Performance
Refinitiv/Verus	1	64.8
Zacks Investment Research, Inc.	2	60.1
McLean Capital Management	3	56.2



## Holding Period Ranking

