

Research report writing

CFA Society of Brazil 2nd Investment Research Challenge

Stephen Boyd
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Know your conclusion before you begin writing

The planning stage is fundamental:

- First, try to understand the company, its industry, competitive position, and prospects. Analyze the company's published financial statements, making suitable adjustments. Build a forecast model for the next few years.
- Value the company using different approaches. Look at how the stock has performed and what has driven the stock price. What do you think will drive the stock price? Is the stock likely to outperform or underperform versus the market and sector?
- Decide what you want to say. What is your investment conclusion? What is new in your analysis? What risks or catalysts would change/reinforce your view?
- Only then should you start sketching an outline for the report.

From planning to writing

- Begin by sketching the outline of the report, writing bullet points/section headings.
- One approach is to write the front page first, and labor over it. The rest of the report should then flow more easily.
- Put the conclusion at the beginning, not at the end – a research report is not an academic essay.

The front page is by far the most important page of the report

Some key information that it should contain:

- Date of the report
- Subject company name and ticker
- Title – draw the reader in, capture the message
- Recommendation
- Latest price (with date)
- Target price/valuation
- Other key data, e.g. revenues, EPS, sector, country
- Summary of investment case and key risks – usually as bullet points
- Names of authors (in the IRC, these aren't shown to ensure unbiased marking)

Be your own critic

When you have finished the report, take a step back and imagine you are the reader – an investor interested in the stock.

Read the front page.

- Does it make you want to read on and find out more?
- Are the arguments convincing?
- If you didn't know the company, would it still be clear?
- What questions do you have?

Write responsibly

Investment research that is published and distributed to investors is covered by many laws and regulations, addressing material nonpublic information, disclosure of conflicts of interest, supervision of analysts, personal trading in securities ...

For the Investment Research Challenge, two important general principles are probably most relevant:

- Have a reasonable and adequate basis
- Distinguish between fact and opinion

Keep it clear and simple

Keep your paragraphs short. Keep your sentences shorter.

Use bullet points and charts to break up the text and simplify a complicated idea.

Use active verbs: “We forecast ...”, “ABC announced ...”.

Minimize jargon and acronyms.

As far as possible, keep numbers in charts and tables, not in the text.

Write for your readers, not for yourself

Know your audience. Who are your readers? What are they looking for?

- Write to someone: Keep your reader in mind throughout the process.
- The fact that you have devoted a lot of work to something is not in itself a reason to publish.

Put a message in every heading

Anything in bold stands out. As readers skim through the report, they should be able to understand the story and get the main points just by reading what is in bold.

Don't waste an opportunity to get the message across:

- “Our 12-month target price of R\$25 is DCF-based” rather than “Valuation”.
- “New regulations and product setbacks are the key risks” rather than “Risks”.