YOUR FIRST RESEARCH REPORT

PRESENTED BY MELVIN TAN, CFA
AGENDA

I. Report Writing
II. Research
III. Organizing your thoughts
IV. Company analysis
REPORT WRITING
WRITE FOR THE READER

• Who is reading?

• Why read this particular report?

• so What action?

• KISS
RESEARCH
FACTS VS OPINIONS

• What is an opinion?
  Merriam Webster:
  - a view, judgement, or appraisal formed in the mind about a particular matter

• Forward looking, subjective, not measurable
• Cannot be proved to be correct or incorrect
FACTS VS OPINIONS

• What is a Fact?
  • “If all the facts line up (about Valeant) … … you should put the same trade on and if all the facts don’t line up, you should probably take the other side.” John Hempton, little-known fund manager on taking the opposing trade against USD 20 Bn Hedge Fund Pershing Square

Merriam Webster Dictionary:
  - a piece of information presented as having objective reality
  - i.e. You can prove it to be correct
Bitcoin (₿) is a cryptocurrency, a form of electronic cash. It is a decentralized digital currency without a central bank or single administrator that can be sent from user to user on the peer-to-peer bitcoin network without the need for intermediaries.

Transactions are verified by network nodes through cryptography and recorded in a public distributed ledger called a blockchain. Bitcoin was invented by an unknown person or group of people using the name Satoshi Nakamoto and released as open-source software in 2009.

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Source: https://en.wikipedia.org/wiki/Bitcoin on 24 Sept 2018
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(D) Bitcoin was invented by an unknown person or group of people using the name Satoshi Nakamoto and released as open-source software in 2009.
Throughout the rest of the first half of 2018, bitcoin's price fluctuated between $11,480 and $5,848. On 1 July 2018 bitcoin's price was $6,469. Bitcoin prices were negatively affected by several hacks or thefts from cryptocurrency exchanges, including thefts from Coincheck in January 2018, Coinrail and Bithumb in June, and Bancor in July. For the first six months of 2018, $761 million worth of cryptocurrencies was reported stolen from exchanges. Bitcoin's price was affected even though other cryptocurrencies were stolen at Coinrail and Bancor, as investors worried about the security of cryptocurrency exchanges. … …

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FACT OR OPINION

• This stock will do well because its addressable market is huge
FACT- FOCUS AREAS

• Industry - Customers / Suppliers / Competition / Externalities / Barriers to Entry

• Company – Shareholding structure / Management competency / Incentives / Operational structure

• Stock – Liquidity / Capital stack / Dividend Payout
RESEARCH APPROACH

• OBSERVE- Identify relevant fact (Market big or small? Market is growing or shrinking?)

• OPINE- Analyse and answer So What?

• OPPOSE- Actively search for counterfactuals to your conclusion
“‘Invert, always invert’ It is in the nature of things, as Jacoby knew, that many hard problems are best solved only when they are addressed backward.”

Charlie Munger, 1986
KISS
Tell me what I need to know, not everything you know.
ORGANIZING YOUR REPORT

• SUMMARY first
  - 1 to 2 key takeaways
  - 2 to 4 supporting bullet points per takeaway

• SIMPLE language
  - Arguments must be understood by non-financial, pre-university reader. Otherwise, revise.

• SIMPLIFY exhibits
  - Charts / Tables / Graphs reduce the need for text. Use them.
  - Clear conclusion in title for each exhibit.
ORGANIZING YOUR PARAGRAPHS

• State a thesis- Either in opening sentence or closing.
• Highlight supporting evidence- 2 to 3 points, keep sentences short.
• Conclude paragraph by emphasizing main point (optional)
COMPANY ANALYSIS
DO THE EASY STUFF FIRST

• Read all filings
• As you read, look for “deltas” - change in numbers/text/people
• Take a note of key elements to follow up later
• Consider all public sources beyond filings
HISTORICAL NUMBERS

• Review numbers 5y / 10y
  - Absolute
  - Versus itself over time and seasons
  - Versus peers

• Ratios- inventory ratios, working capital levels, receivable days, return of and on capital

• Financials should gel with business as you understand it. Anything (Growth / Margin/ Ratio) strike you as high / low?

• Take a note of these for follow up later
CASHFLOW IS KING

• Do profits match with Cashflow?
• Identify non-cash items
• Capital track record:
  - How has the company financed itself?
  - How has it returned money to shareholders?
• Does the pattern of Cashflow fit with the nature of the business and the income statement?
Q & A