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Surviving on Wall Street is baptism by fire…
…as there is no training for the young analyst…
…or single book with what one needs to know…
…as the existing corpus of literature is a tangled web of thoughts and ideas

We wanted to address that deficiency…
…by creating a familiar surprise
“To sell something familiar, make it surprising. To sell something surprising, make it familiar.”
- Derek Thompson

…my wife is a professor of finance at ____ University and, among others, she teaches a portfolio management course with a student-run allocation of the university's endowment. She’d been thinking about putting her own textbook together out of frustration--there was nothing that gathered together the essentials in one place--but now I think you’ve saved her the trouble with your outstanding new book.

- email received September 22, 2017
Book Overview

- Determine intrinsic value
- Understand market price
- Identify genuine mispricing
- Add Value through research
- Assess risk
- Craft the perfect pitch

If I have seen further, it is by standing on the shoulders of giants.

– Isaac Newton
... to create

... with very practical implications

Key themes that we felt were important

- Valuation – determine a range for intrinsic value
- Market efficiency – understand how markets function to gain an edge
- Risk and uncertainty – understand and exploit the difference
- Pitching – get your idea adopted

We felt that these subjects had not been taught in a way that was useful to the young analyst
What is the analyst trying to accomplish?

Find a “clear the desk” idea
Started by reverse engineering the process

All PMs have investment criteria

<table>
<thead>
<tr>
<th>Objective</th>
<th>Qualitative</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Quantitative</strong></td>
<td><strong>Qualitative</strong></td>
</tr>
<tr>
<td>Market cap $2-10 billion</td>
<td>Underperformed index</td>
</tr>
<tr>
<td>5 year growth &gt;7%</td>
<td>No financials or biotech</td>
</tr>
<tr>
<td>50% of sales abroad</td>
<td>Analyst coverage</td>
</tr>
<tr>
<td>Valuation</td>
<td><strong>Subjective</strong></td>
</tr>
<tr>
<td>P/E below 20</td>
<td>Valuation less than industry</td>
</tr>
<tr>
<td>Valuation less than industry</td>
<td>Undervalued</td>
</tr>
</tbody>
</table>
Just bring me stocks that will outperform …

“We try to find some set of statistics that motivate us to act. The analogy I have always used is that when you go into the beer section of the supermarket, you see 25 different brands of beer. There’s something that makes you reach for one particular brew. In the parlance of the stock market, there’s some combination of return-on-equity, growth rate, P/E ratio, dividend yield, and asset value that makes you act.”

– Graham & Doddsville interview with Leon Cooperman Fall 2011

How to address the PM’s criteria and craft the perfect pitch

<table>
<thead>
<tr>
<th>What the portfolio manager is thinking</th>
<th>Steinhardt Variant Perspective Framework</th>
<th>The Perfect Pitch</th>
</tr>
</thead>
<tbody>
<tr>
<td>How much can I make?</td>
<td>Is your view different from the consensus?</td>
<td>Compelling return</td>
</tr>
<tr>
<td>How much can I lose?</td>
<td>Are you right?</td>
<td>Accuracy of analysis</td>
</tr>
<tr>
<td>Is it too good to be true?</td>
<td>What is the market missing?</td>
<td>Justify mispricing</td>
</tr>
<tr>
<td>How will the next guy figure it out?</td>
<td>When and why will the situation change?</td>
<td>Identity catalyst</td>
</tr>
</tbody>
</table>
Answer manager’s four questions

Develop a variant perspective
Craft the perfect pitch

- What the portfolio manager is thinking
- How much can I make?
- How much can I lose?
- Is it too good to be true?
- How will the next guy figure it out?

Steinhardt Variant Perspective Framework

- Is your view different from the consensus?
- Are you right?
- What is the market missing?
- When and why will the situation change?

The Perfect Pitch

- Compelling return
- Accuracy of analysis
- Justify mispricing
- Identify catalyst

Only three ways to get an edge in investing

- Informational advantage
  - Disseminated: Information must be adequately disseminated
  - Processed: Information must be processed absent any systematic bias
  - Incorporated: Information must be incorporated into the stock price
  - Stock Mispriced

- Analytical advantage
  - Disseminated: Information must be adequately disseminated
  - Processed: Information must be processed absent any systematic bias
  - Incorporated: Information must be incorporated into the stock price
  - Stock Mispriced

- Cost / trading advantage
  - Disseminated: Information must be adequately disseminated
  - Processed: Information must be processed absent any systematic bias
  - Incorporated: Information must be incorporated into the stock price
  - Stock Mispriced
Informational advantage

Know something the market does not know

Analytical advantage

See something the market does not see
Cost / trading advantage

Willingness to trade when other investors cannot or will not

Disseminated: Information must be adequately disseminated
Processed: Information must be processed absent any systematic bias
Incorporated: Information must be incorporated into the stock price

Stock Mispriced

Delivery: appearance matters
A significant portion of the pitch is non-verbal

Do I believe him?

What the manager is thinking

- How much can I make?
- How much can I lose?
- Is it too good to be true?
- How will the next guy figure it out?

Steinhardt Framework

- Is your view different from the consensus?
- Are you right?
- What is the market missing?
- When and why will the situation change?

The Perfect Pitch

- Compelling return
- Accuracy of analysis
- Justify mispricing
- Identify catalyst

Naziing Questions

- Is the situation analyzable?
- Did he identify all the risks?
- Was the story already priced into the stock?
- Will the event close the gap?

Underlying Concerns

- Did he miss anything?
- Is he right?
- Can I trust his judgement?
- Can I trust his research?

Do I believe him?
Need to make it easy for the manager

The Pitch

- Slide deck - 8 slides!
  - Basic financial information
  - Explain what the company does
  - Answer the four questions

- Pitch Pack
  - Copy of presentation
  - Reports you have written
  - Company's financial documents (Annual Report, Press Releases, important corporate filings)
Thank you

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