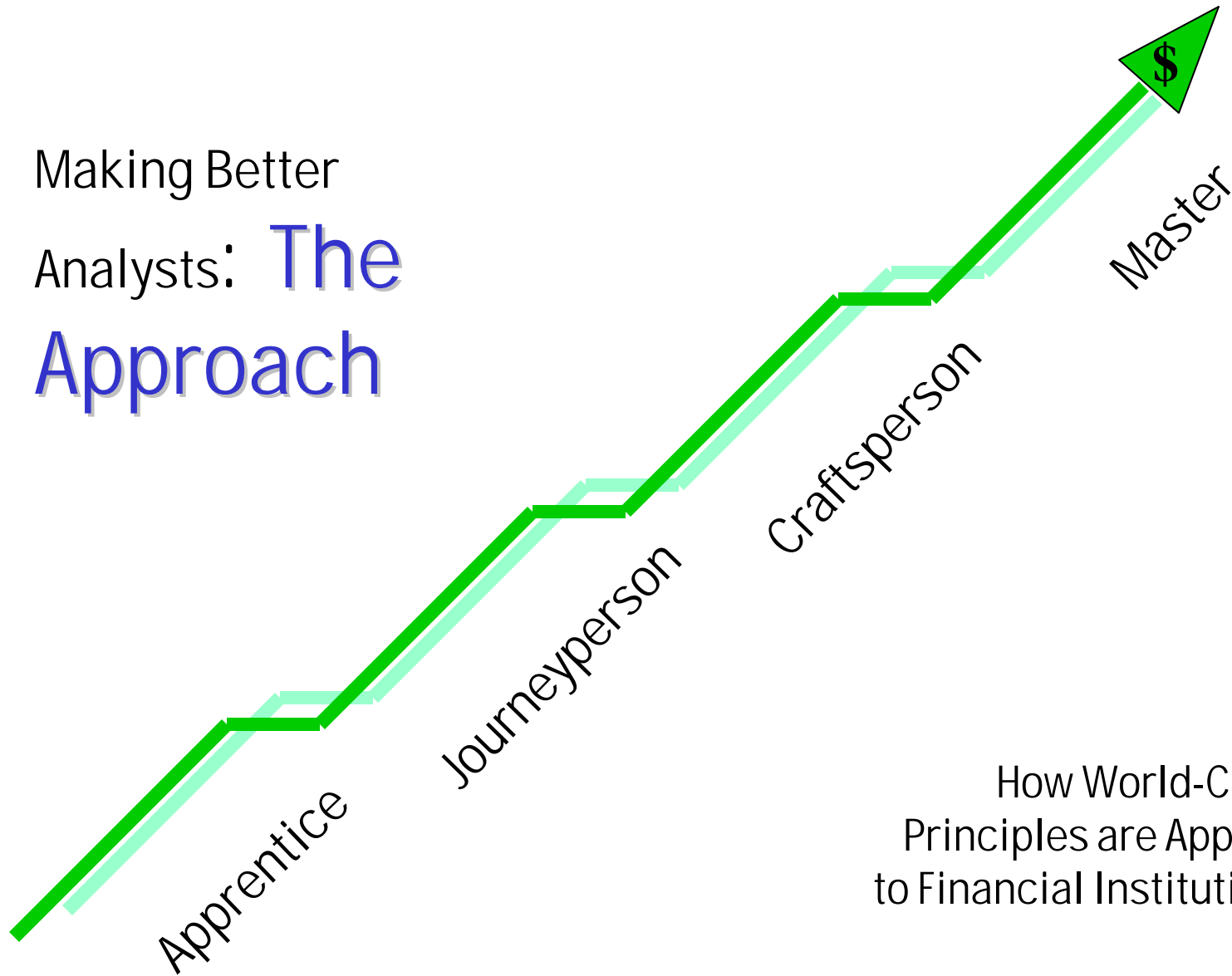


ANALYSTS AND THEIR WORK:

Creating a Significant
Competitive Advantage
in Equity Analysis

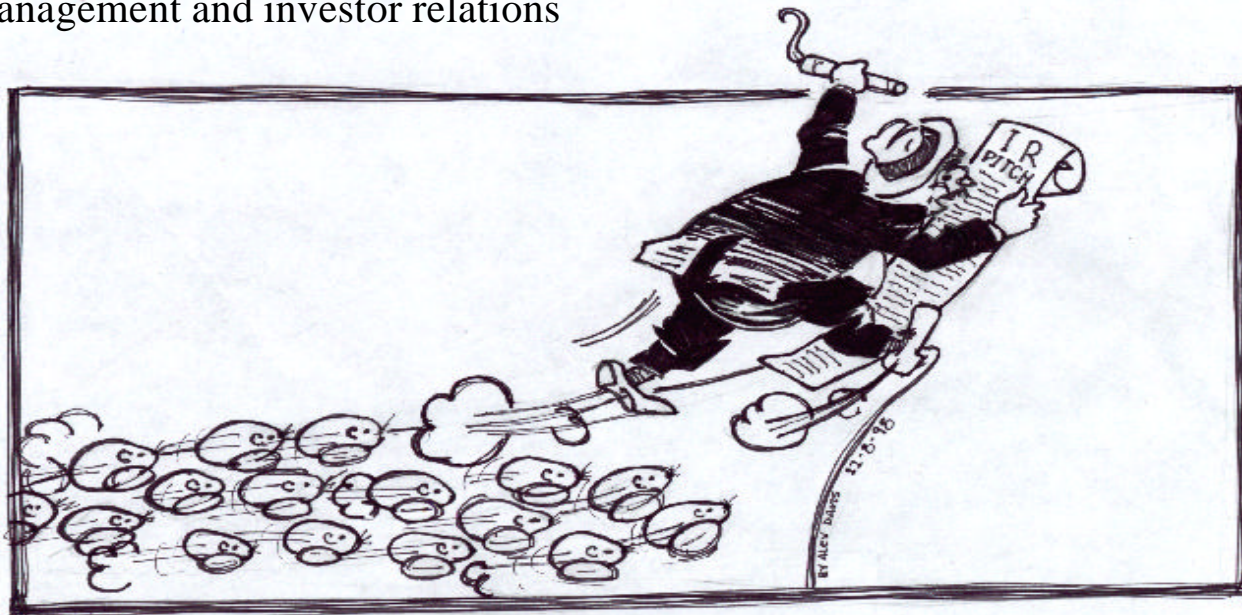
Making Better
Analysts: **The
Approach**



How World-Class
Principles are Applied
to Financial Institutions

Lemming Territory?

- **The client is not served by “Lemming” analysts. Those who...**
 - * Fail to leverage innate knowledge and experience
 - * Fail to do “due diligence” in the research process
 - * Do not go beyond investor and public relations
 - * Do not go beyond public documentation
 - * Do not go deep into the subject organization and triangulate data
 - * Do not understand modern operational methods to ask “the right” questions of management and investor relations



My desire:

- To do in your industry everything we are doing in industries within which we work...
 - Improve the value of the business (roic)
 - Garnering favorable reputation through analysts who attract and retain business
 - Capable of discerning “sell-side” prediction accuracy
 - Improved “buy-side” diagnostic accuracy
 - Targeted selection process for hiring people into your firm
 - Reducing our “COGS”
 - Shortening the leadtime for bringing your analysts “on-line”
 - Improved retention from a visible career and development path
 - Reduction in hours lost reworking predictions and analysis
 - Reduction in research hours by standardizing work

The approach...

- **“Kaizen”** the prediction process so that it is definable, repeatable and predictable.
- **Build** the capabilities of your analysts to various depths of best-in-class concepts, customized for apprentices, journeypeople, craftspeople and masters.
- **Establish** supportive infrastructure systems (selection, training, progression).

Metrics of “Better”

- *Reduction in the analyst development cycle-time*
- *Increase in percentage of “right calls” ; credibility*
- *Increase in ideas sold vs. straight research*
- *Increase in number of research votes for both responsiveness and “right calls”*

WHICH LEADS TO.....

- *Increase in analyst generated transaction revenues*
- *Increase in analyst-supported investment banking revenues*
- *Increase in analyst-supported M&A activities*
- *Improved retention of “good” analysts and reduction in turnover*

We Believe

It is possible to **enhance competitive advantage in money management and equity/debt analysis by **applying world-class** concepts to the **prediction process** and to the people involved in generating those predictions.**

What we mean by “world-class” concepts

World-class means applying the concepts of

takt time (the beat of customer demand),

flow (the movement of ideas and information back and forth between supplier to customer), and

pull (the replenishing of ideas and information at the minimum cost).

These concepts lead to the application of

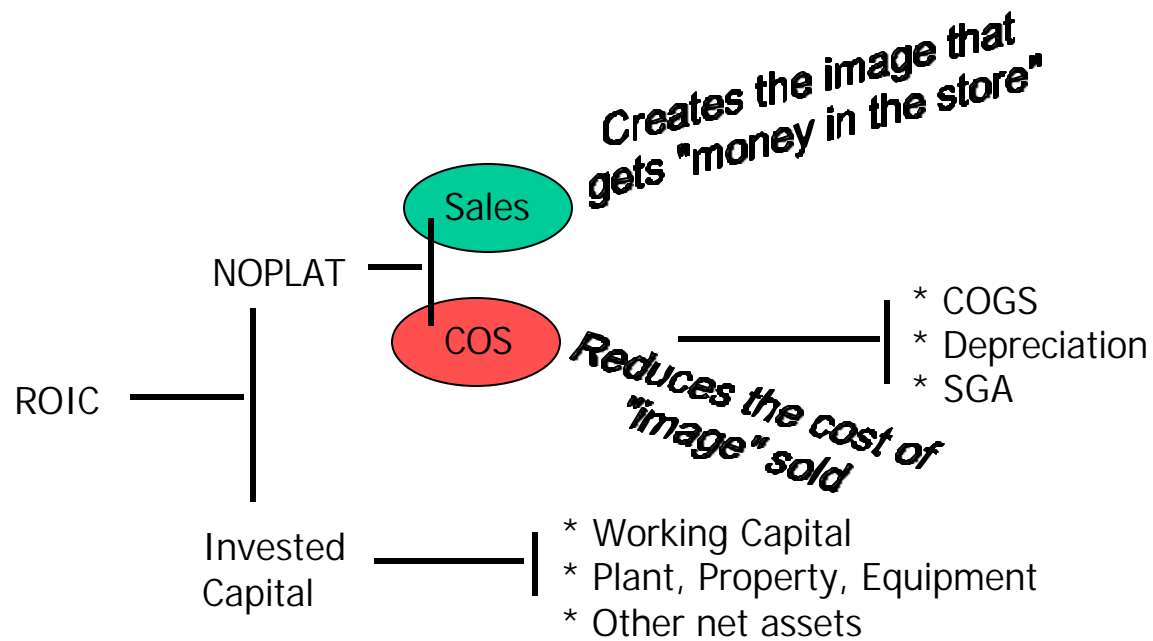
- 5S (orderliness and discipline in the approach to work)
- total productive maintenance (maintaining databases, models, formulas, spreadsheets);
- set-up reduction (minimizing the amount of time to get started with value-added effort);
- poke-yoke (making things fail-safe so that they are done repetitively in a particular way);
- standard work (insuring that discipline is established in the way we do our work);
- visual management (making the world around us and our requirements evident);
- total quality (assuring that we maintain highest standards in serving customers).

The companies who apply these concepts concurrently with an employee development strategy accelerate their competitive advantage.

Why we believe this work is important

- A future **differentiator** of sell-side analysis will be the ability to innovate and streamline the predictive process, getting accurate predictions to the market first, and developing new, more effective relationships with customers.
- World-class concepts applied to the analytical industry can **improve** the industry as it has improved other industries.
- These concepts have been applied first to those companies that experienced the greatest investment and competitive pressures; pressures increasing on financial oriented firms today.
- The financial services companies that apply these concepts first will lead the game in the financial services industry.
- The infrastructure of financial services companies will continue to be shaken and challenged.
- If analysts are to be a formidable future force, they must be developed to live in this increasingly competitive corporate world and be out in front of those whom they analyze.
- There is a very strong relationship between the **development of analysts** and the development of analytical infrastructure. Both need to be worked at once.

Why Better Analysts?



Why Better Analysts?

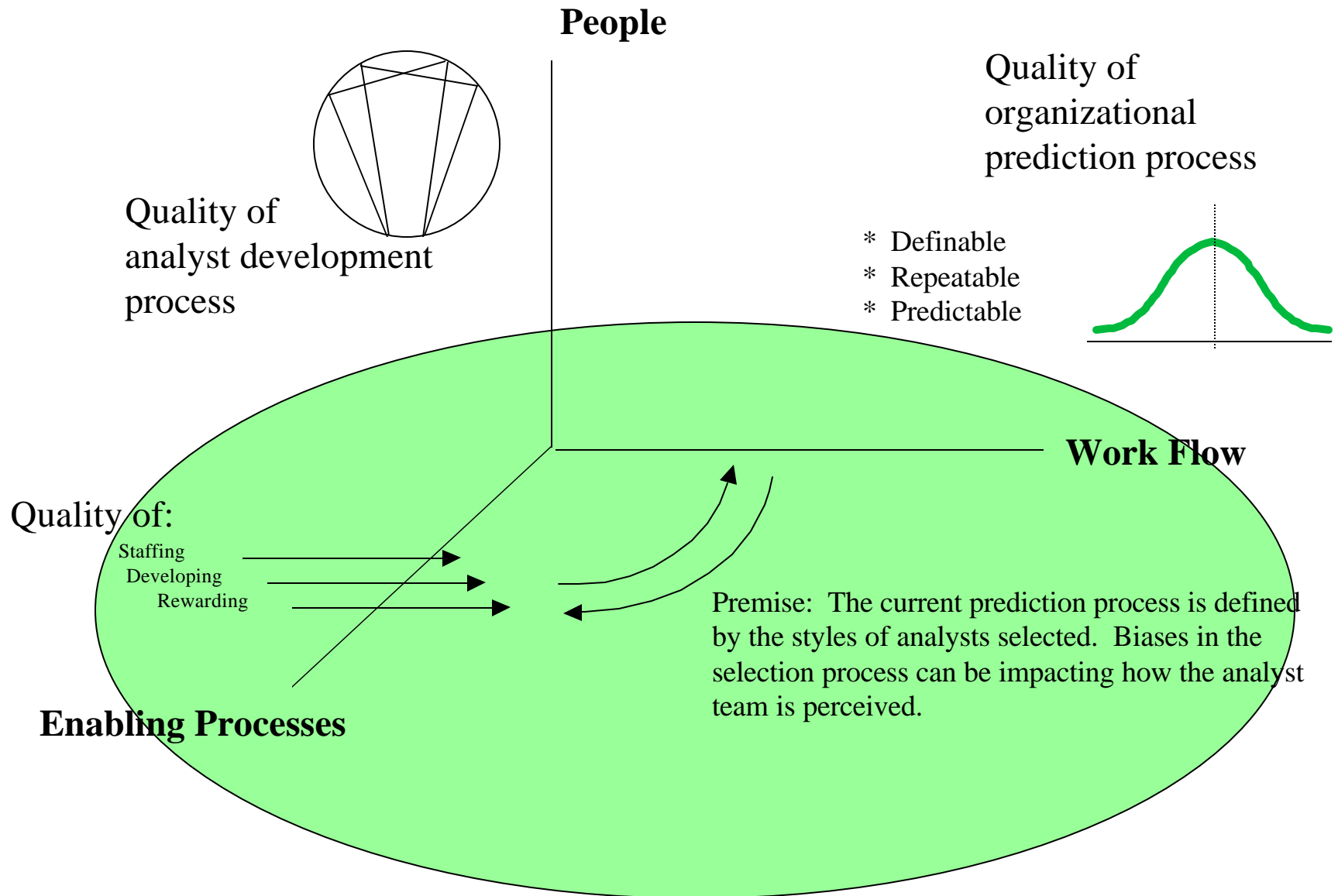
- Analysts help garner the favorable reputation required to attract and retain business through their stature, accuracy, and public presence.
- Analysts help create the image of the firm...the public “face.”
- Analysts help generate the appearance of a confident, solid, capable firm ready to handle all the transactional and money management needs of the customer.

“Better” means...

Makes more Money

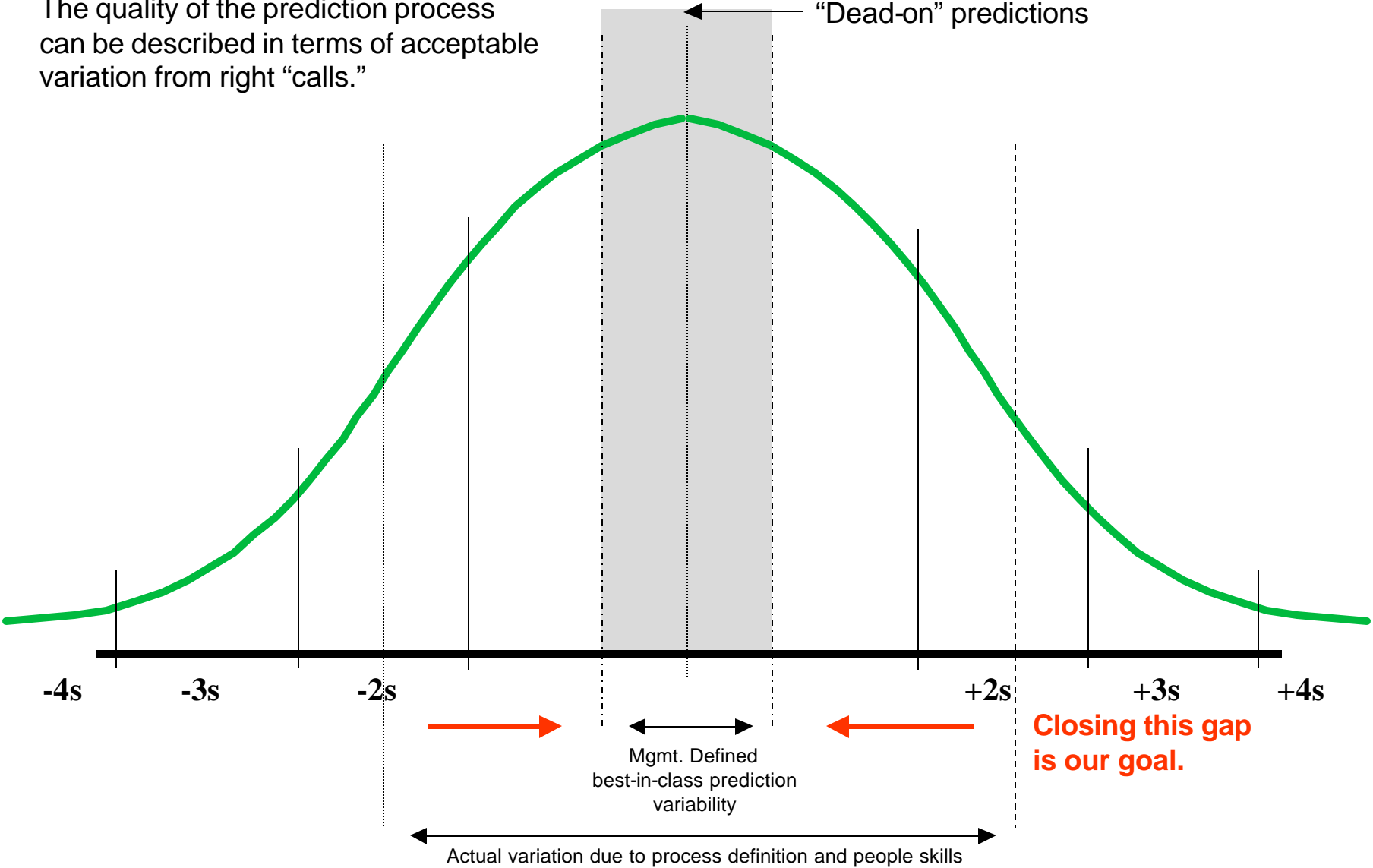
- Getting an analyst “on-line” generating content in 9-12 months vs. 18-24 months
- Retaining analysts after we have trained them
- Analysts who meet their customers’ expectations
- Analysts who can generate “meaning” not just data because they know the broader context of the businesses being followed
- Predictability in the quality of analysts work
- Prediction quality not solely dependent on personalities
- A hierarchy of analysts as a core competency of the business--apprentice to master
- Branding and image relative to seasoning
- More capable and knowledgeable analysts
- Analysts who operate by and understand “world-class” operating thinking
- Analysts who have a broad “systems” view of corporations

The Approach has Three Dimensions



Dimension: Work Flow

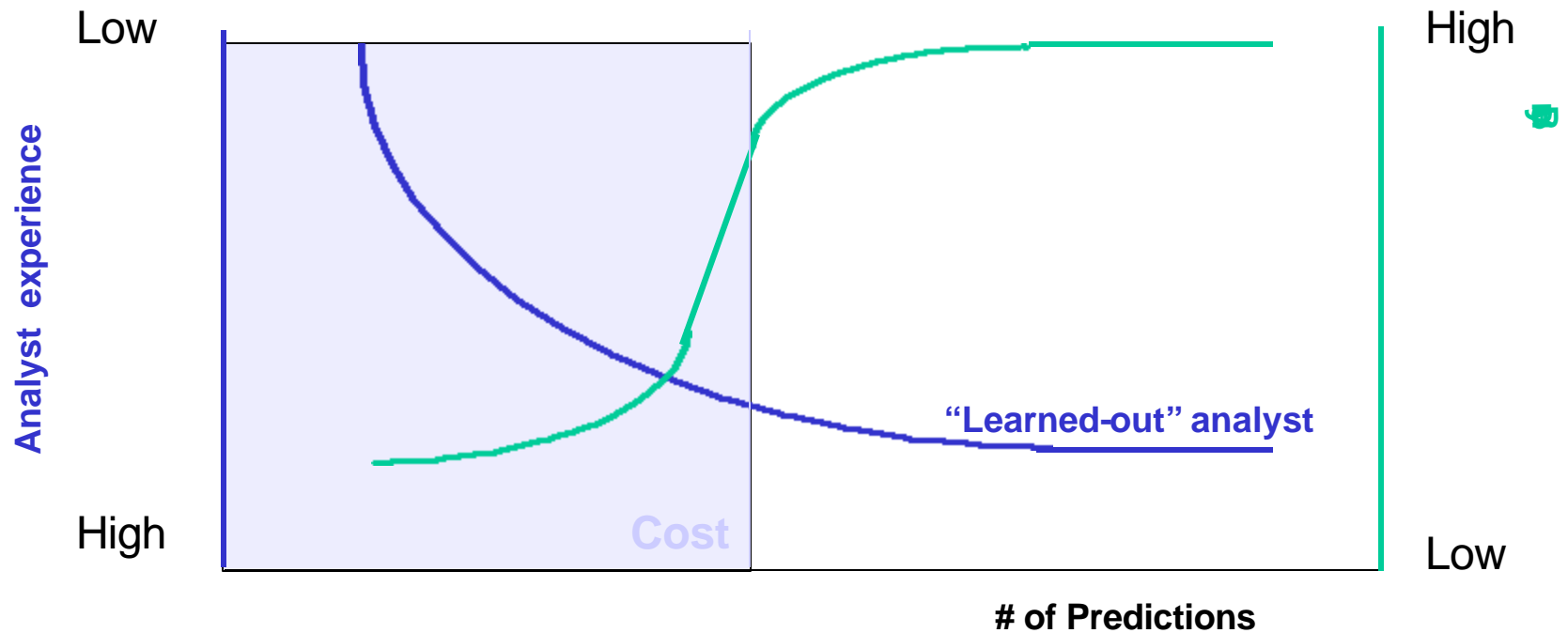
The quality of the prediction process can be described in terms of acceptable variation from right "calls."



Application of world-in-class principles to work processes and talent development can reduce process variation.

Key Premises

- 1. The product sold is predictions.
- 2. Value and demand are proportional to accuracy.
- 3. Credibility lost through bad predictions can take 4Q's to recoup.
- 4. Reducing the lead-time for bringing an analyst on-line minimizes both cost and risk.
- 5. People doing the work know how to improve the work.



To shift our current performance we must have the capacity to value...

- Organizational learning
- Knowledge management
- Creating competitive white collar tools

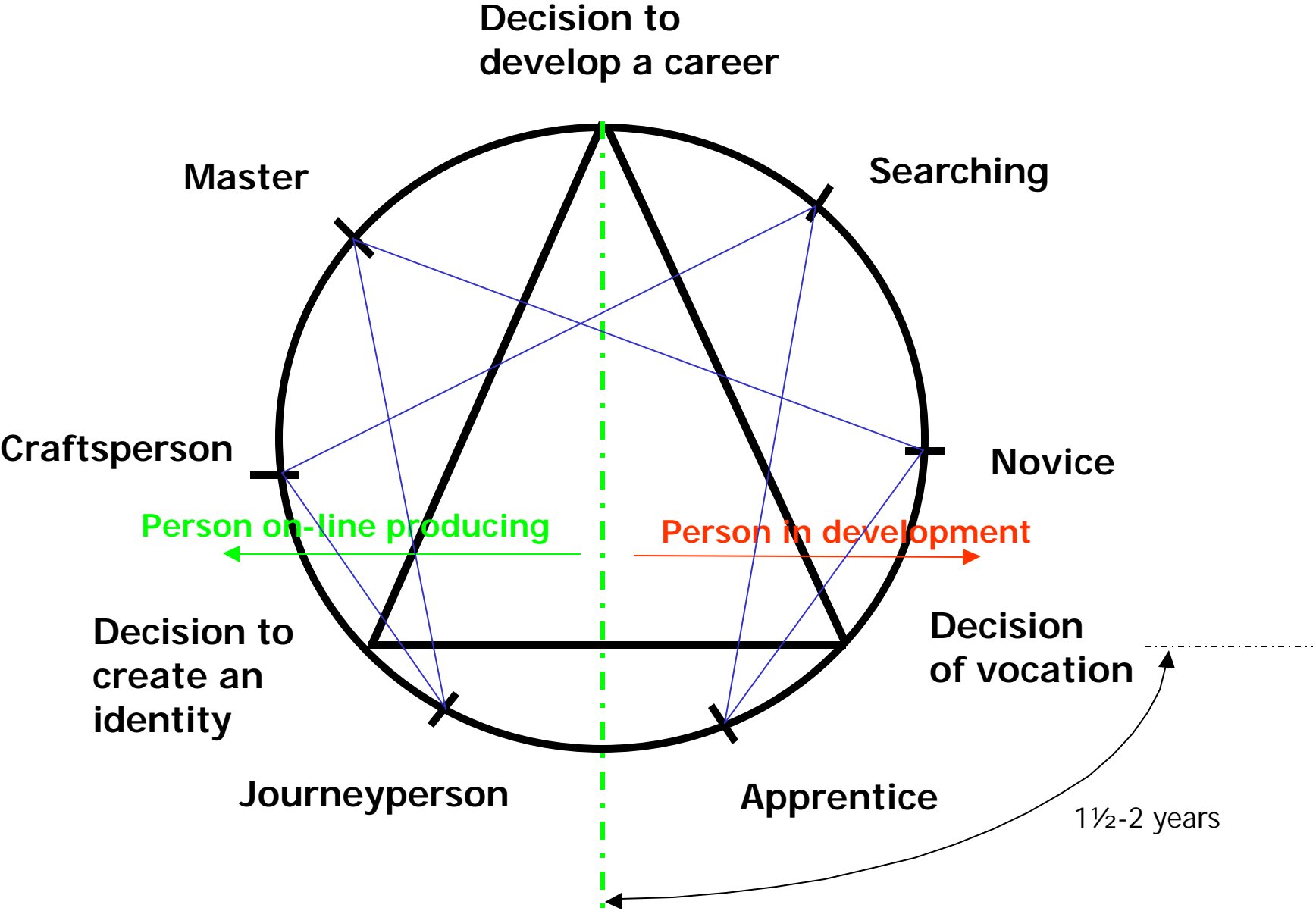
Management defines the “givens” in the business...

...do we have what it takes to shift them?

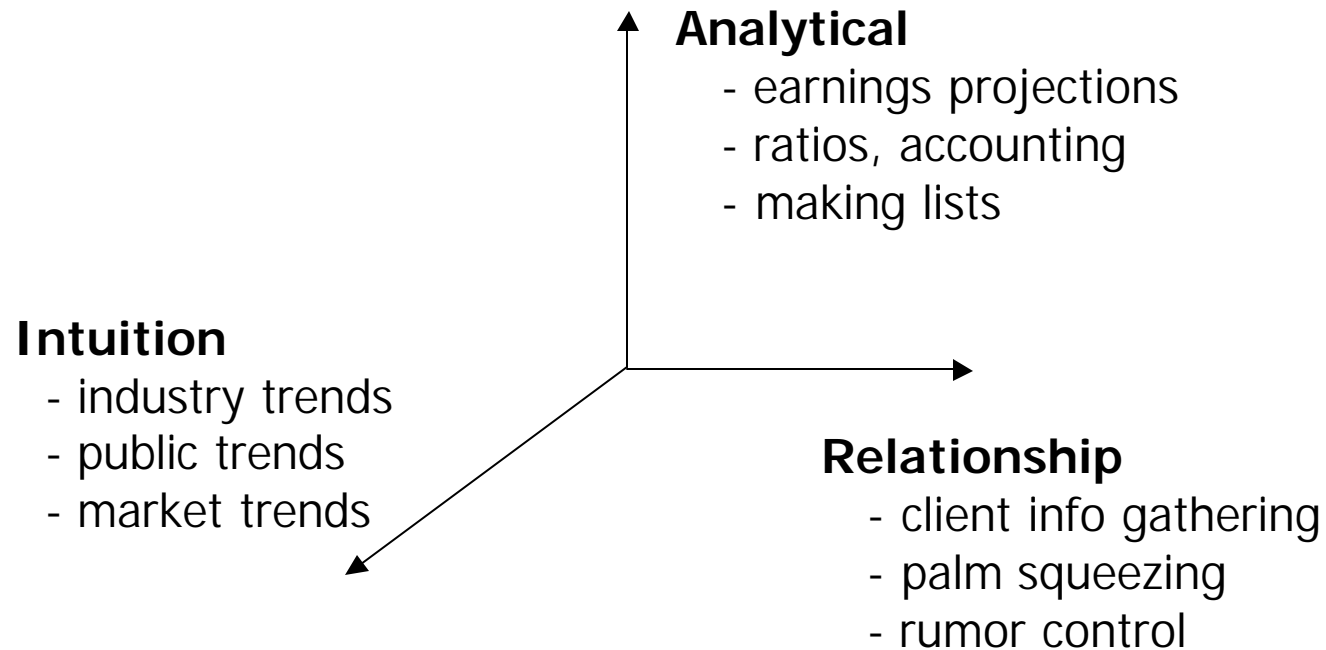
Who is targeted to become “Better?”

- A “better” apprentice is one who is “publishable” within half the normal development time and predictably competent in using the tools provided to generate sound judgements for the businesses tracked (inductive predictions; generates facts)
- A “better” journeyman is one capable of boring-down, mining data and generating conclusions and predictions about a company noticeably unique from others (inductive predictions; generates information)
- A “better” craftsman is one who is capable of finding industry trends within which companies fit and creating predictions (deductive predictions; generates knowledge/meaning)
- A “better” master is one capable of framing experiential knowledge in a way which is readily usable by craftspeople and journeymen thereby enriching the art for others (deductive predictions; wisdom)

Analyst's Progression



Analyst Styles



What we could do in analyst development

	Apprentice	JourneyPerson	Craftsperson	Master
Informing	Prediction process tutorial and practice; Report synthesis 101	World-Class tutorial, data mining & linkages to value-tree analysis	Overview of World-class, data mining, and linkages to value tree-analysis	
Equipping		Model Airplane Factory 101	Developing apprentices and journeymen; Team leadership	Process leadership and competitive effectiveness
	Mentoring 101			
Guiding	Styles rotation & mentoring; Supporting the senior analyst	Model Airplane Factory 201; Craftsman and Masters	Flow Mapping 101: Creation of prediction Process & Development Process;	
				Creation of “schools” of thought and practice
Extending	World-Class tutorial	Value Chaining & Industry Flow Maps	Flow Mapping 201: Advanced prognostication on industries;	
			Across team synergy and linkage	Creativity and innovation

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