

UTEFA – A Guide for Selecting Stocks

How to pick a company to analyze?



November 29, 2018

Motivation:

A full in-depth analysis of any company can be significantly time consuming making it worthwhile to initially identify companies that are more likely to present investment opportunities.

Stock Selection Techniques



Stock Screeners



Event Driven

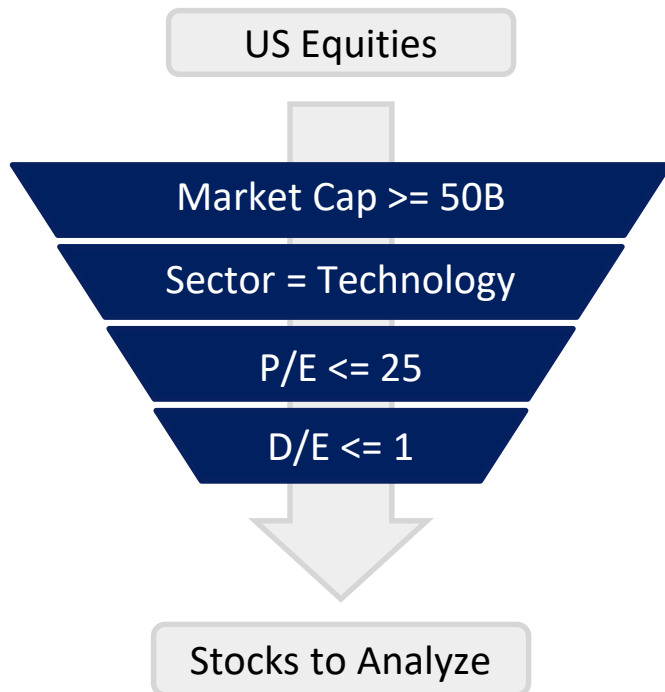


Expert Following

Note: These methods are not independent and should be used in combination for optimal results

Description:

Stock screeners allow users to filter down a large universe of stocks to a subset based on various company characteristics, as well as fundamental and technical parameters.



Advantages:

- Useful for quickly narrowing down scope and converting general views into specific stocks
- Removes bias of always focusing on better known companies (equities are an extremely large universe!)

Drawbacks:

- Requires understanding of what parameters are and which ones to filter for
- Can expose you to missing unique opportunities that do not meet standard criteria

Recommended Stock Screeners: [finviz](#), [TradingView](#)

Description:

When making investments we are looking to take advantage of perceived inefficiencies in the market. The overreaction or underreaction to events by the market and investors can create these inefficiencies.

Approaches	
Top - down	Bottom - up
<ul style="list-style-type: none">• Based on macroeconomic news and events identify relevant companies that have been or should have been affected• Event examples: interest rate announcements, trade deals, government regulations...• <i>Note: stock screeners can be used to effectively translate high-level views to specific stocks</i>	<ul style="list-style-type: none">• Based on company specific news and events verify that the price accurately incorporates new information• Event examples: company earnings reports, lawsuits, product announcements...• <i>Note: large price actions moves in the absence of any significant events are in themselves important</i>

Description:

Follow trusted investor recommendations and views to inform stock selection. Trusted investors can be individual investors, financial institutions or other companies.

Tracking the Smart-Money:

- Money managers with more than \$100 million in AUM are required to report stock holdings every quarter in a report known as a 13F Filing
- Report provides a snapshot of long positions in equities, calls, outs, ADRs and convertible bonds
- Can identify companies that are in the portfolios of well-proven managers (i.e. Warren Buffet, Ray Dalio, Joel Greenblatt, Cliff Asness...)

Important Considerations:

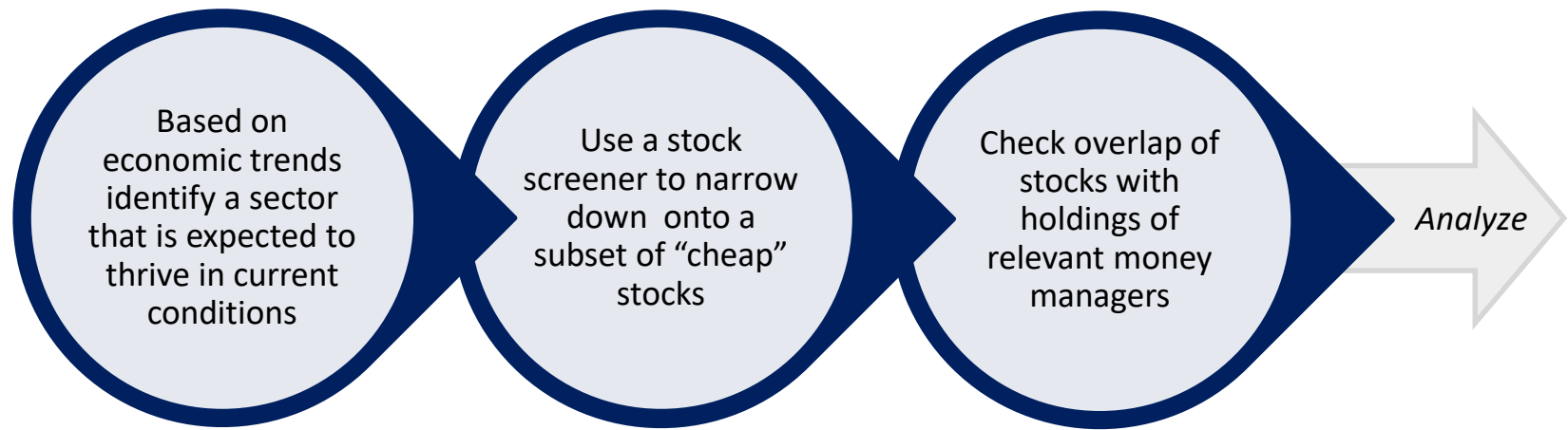
- Position data is delayed (minimum 45 days); focus should be on managers who tend to have longer term horizons
- Short positions are not reported; should be aware that a long position may only be part of the picture (i.e. managers might be expressing a view on relative outperformance, hedging risk that a long only investor would be exposed to)

Useful Links: [13F Monitor](#)

Putting it all Together



Example Stock Selection Process:



Disclaimer:

The techniques and processes highlighted are just some of the ways stocks can be selected. Every investor should experiment and come up with their own process.

| Additional Resources



What is it?

Investext is an online database system containing analyst reports for companies and industries from more than 600 investment banks, brokerage houses and consulting firms worldwide.

Why and when to use it?

Analyst reports can give a comprehensive overview of a company including current outlook, environment and valuation. Once you have company to analyze in mind, reading some reports is useful before deciding to do a full in-depth quantitative and qualitative analysis.

How to use it?

- 1) Go to [Investext](#) in *Internet Explorer*, login with your U of T credentials
- 2) Enter desired company name in the search bar located in the upper left corner
- 3) Select Research > Company Research to view available reports by contributor and date (recommended contributor: Morningstar)
- 4) View report to open (reports can be saved as pdf after doing so)

Who has access to it?

Access to Investext is available to all current U of T students, unfortunately the system can only be accessed through Internet Explorer.

Questions?

