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Conference Calls: A Direct Line to the CEO

By Natasha Gural, Contributor, BetterInvesting Magazine On June 25, 2012 · 0 Comment · In Investing, Stock Studies



Companies use conference calls to either boast about profits or fend off fears that follow a loss. Most public companies hold a call each quarter when earnings are announced so that management can communicate to institutional and individual investors, analysts and journalists. The calls are usually posted to the company's investor relations website and are open to all for listening — though not everyone gets to ask questions. Most companies keep replays available for at least a quarter.

It's helpful to hear key decision-makers speak rather than just reading their quotes in a press release. Conference calls allow some participants to ask questions pertaining to the earnings report. Although obtaining information directly is always best, it's important to consider the company's motivation and how management controls what information is released. Reading a transcript of the call can provide additional insight that might not appear in a press release, particularly executives' responses to questions.

Naturally, companies always keep lawyers and compliance personnel in the room to keep the executives on script, especially during a Q&A session. The call usually begins with the vice president of investor relations outlining the content of the call and acknowledging that it'll likely contain predictions about the future of the business. Then management presents a summary of the events and circumstances that affected the company's performance during the quarter, and there's usually a forecast for upcoming quarters. The call generally ends with the Q&A.

"Using Earnings Conference Calls to Identify Analysts with Superior Private Information," a November 2011 report by William J. Mayew and Mohan Venkatachalam of the Fuqua School of Business at Duke University, along with Nathan Y. Sharp of the Mays Business School at Texas A&M University, found that analysts who participate in earnings conference calls by asking questions issue more accurate and timelier independent forecasts than analysts who don't ask questions.

"Collectively, our evidence suggests that conference call participation provides an additional observable signal to identify analysts that possess relatively superior private information about a firm," the professors wrote. The study found, however, that the benefits from being allowed to ask questions versus not being granted this ability were small. The researchers also found that analysts who were able to ask questions were more likely to upgrade a stock recommendation after receiving good news about a firm in the subsequent 90 days.

Conference calls can offer valuable insight into a company's previous and future earnings, especially when it comes to questions asked by independent analysts or journalists. Still, just

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as there's an obvious bias by the reporting company to highlight gains and hide losses or other troubles, analysts may also have incentive to spin their forecasts in favor of a manager with whom they have a relationship.

Although analysts are perceived as experts on the companies they cover, they often have professional interests that guide their predictions of a company's future earnings. They rely on company history and guidance from management to make their predictions, and management benefits by encouraging analysts to issue a beatable forecast.

Keep in mind that the majority of earnings estimates on major corporations come from brokerage or sell-side analysts, who are encouraged to get investors to trade stocks.

BetterInvesting members know to look at fundamental data when evaluating a company's overall health and potential for future growth instead of relying on an analyst's estimate. Conference calls, however, can add color to stock studies and provide a context for the data.

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BetterInvesting is a national nonprofit organization that has been empowering individual investors since 1951. Founded in Detroit, the association (formerly known as National Association of Investors Corporation) was borne out of the conviction that anyone can become a successful long-term investor by following commonsense investing practices. BetterInvesting has helped more than 5 million people become better, more informed investors by providing webinars, in-person events, easy-to-use online tools for analyzing stocks and mutual funds, a monthly magazine and a community of volunteers and like-minded investors. For more information about BetterInvesting, visit its website at www.betterinvesting.org or call toll free (877) 275-6242.

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