Writing Guidelines for Financial Analysts

DO:

- Find the company's story and tell it in a compelling and interesting way. The story can be found in the numbers, in management's explanations for the numbers, and in the market's perceptions about the company. Your job is to find that story and tell it well!
- Assume that the reader is well versed in economics, finance, and accounting. Assume also that the reader is familiar with the analytical tools that you employ.
- Make strong statements supported by the data.
- Use charts and tables when they can help the reader understand an important point. Refer in your write-up to any charts or tables included in the report.
- Try to explain *why* ratios have behaved in a certain way. Saying that "the gross margin has declined *because* the product mix has an increasing percentage of groceries (which are sold at a lower mark-up then general merchandise)" is a useful and interesting explanation. Stating simply that "the gross margin has declined over time" leaves the reader wondering why.
- Make very clear what you mean by saying that a ratio increased by 5%. Do you mean that the ratio increased by 5 percentage *points*, or that the value of the ratio is now 1.05 times what it used to be?
- Write your report so that there is a logical connection between the various ratios, and these ratios lead to well grounded conclusions.
- State conclusions related to your preceding analysis.
- Read and edit your report several times before submitting it. Use the "buddy" system.
- Give credit to all external sources that you draw upon.

DON'T:

- Write your story mechanically as a roller-coaster list of ups and downs about ratios. If that was the job description, computers would have replaced human analysts long ago.
- Make statements that are patently incorrect. A single incorrect statement is all it takes to lose the reader's confidence.
- Make statements that are true by definition, i.e., tautologies. (Example: the profit margin is up because profits increased faster than revenues.)
- Pretend your numbers are more precise than they really are by reporting them with too many decimal places. You lose credibility by doing so.
- Make too many vague statements (indicated by words such as "maybe," "perhaps," or "possibly") that leave the reader wondering whether you truly know what you are writing about.
- State conclusions that are not supported by your preceding analysis.
- Make investment recommendations based on financial ratios alone. (Investment advice must be based on comparisons of market value with estimates of fair value under different scenarios.)

(Ref: Wal-Mart Case by Vidya Awasthi and C. A. Mello-e-Souza, Seattle University)