Market Dynamics

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Performance Management System

Four Years Of TPARC Reports—Lessons Learned

Portfolios heavy with under-performing stocks almost never outperform the market.

Ignat's Law

"Trust but verify" by President Ronald Reagan

A collection of recent newsletters is available on the web site.

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Early in my career as a professional investment manager, I learned to distrust Wall Street analysts. Four years ago, I started a regular report that covered Wall Street analysts' investment rating changes. The past four years have only reinforced my distrust of Wall Street analyst's recommendations.

The most important observation that has been confirmed by the TPARC reports, is that Wall Street analysts ignore the trends of performance of the stocks they follow. Wall Street analysts regularly recommend the purchase of stocks that are trending down. Do they believe that all the other investors are stupid or uninformed? It seems so!

I do not believe that investors intentionally buy stocks that are losers. They want to buy bargains and that is what Wall Street analysts recommend. Is this because their customers will not buy stocks that are trending up or are they in the bargain trap as well?

The TPARC report covers Wall Street analyst's rating changes and I would guess that 20 technical trend opinions are prepared every day. The analyst's ratings show how they previously rated the stock and many of those ratings were just plain wrong. I would guess that the analysts are wrong more than fifty percent of the time.

When I worked as a broker, I was always curious about the other brokers in my office grousing about the fundamental research department. A magazine called "Registered Rep" for stock brokers used to prepare surveys of how the brokers rated their firm's research department and these surveys confirmed that the brokers were disenchanted with their firm's research department. The poor recommendations from the research department forced the brokers to constantly prospect for new customers.

All the CFAs and other academic achievements have not changed this situation. The individual investor is playing against a stacked deck. The professional portfolio manager is not much better off! The trend of performance by the stock is what should be used to verify or reject the opinions of the Wall Street analysts.

The preparation of the TPARC reports since August 8, 2005 has confirmed these opinions completely. Probably 20,000 opinions have been prepared and the record is there for all to see. Some of the trend opinions over the past four years have been astounding. A downtrend on WB, FNM, AIG, GM, FITB, CFC, FRE and NEW confirm the validity of this technique.

The academics can argue about randomness all they want, but the major trends tell the tale. The best rule is to not buy and do not hold stocks that exhibit a trend of bad performance. The TPARC reports have provided an archive of technical trend opinions that confirm the truth of this method. I have been following long-term charts for many years and the effectiveness of these methods is no longer in doubt for me. The only way to verify whether Wall Street analysts are correct is to follow the trends of performance on a long-term chart.

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