

## TRANSCRIPT

# Trading basics part 2: Research and analysis

*Presenters: Nicholas Delisse and Peter Jannsen*

**Nicholas Delisse:** Hello, everyone, and welcome back to our four-part session on how to trade, our trading basics class. This is actually part two of a four-part session and we have a lot of fantastic material planned for everyone today. Of course, today we're really going to be jumping in and addressing the weighty concepts of fundamental analysis, technical analysis and how, of course, they apply to your decision making process in trading. We're going to wrap up this particular session with ways to look for ideas on Fidelity.com. So, it's gonna be a great session here, of course, today. If you want to expand upon your tool set we do have other sessions that take a deeper dive into many of these tools on Fidelity.com and, of course, our group coaching sessions with the trading strategy desk. There are wonderful sessions out there, of course. With that said, let's go ahead and jump into the material. First and foremost, let's talk about a fundamental analysis, what a fundamental analysis is. Fundamental analysis is taking a look at a company's books. Taking a deeper dive into what the company is and what they do. This is a great way to take a look at and see if this is a good company to invest in. And it'll do it through many different avenues. First and foremost, you might take a look at the management of a company. Who makes up its board of directors? A great example of this on

why quality of management is important is think about what the largest company in the world is, Apple. And several years ago when Steve Jobs passed away, many traders looked at it and went and said, "Yeah, the idea man has left the room. This is going to materially impact the company for the worst and it's just not going to be as good as a company as it was before." This is why quality of management is important and you might see stocks that go up a lot or maybe drop a lot when its announced that the CEO is resigning or the CEO is being replaced. If they were seen as a good executive leader, that could cause the company stock to drop. If they were seen as a poor leader and a management shakeup could turn the company around, well you might see the value of the company appreciate. Labor relations is also important. This can encompass many different things. This could encompass things like, is it unionized or non-unionized? Do they have a great relationship with labor? Many of you might have felt the impact of airline strikes with the different labor rolls that they have, whether its baggage handlers, whether its pilots unions or some other aspect that could impact your ability to have a flight. Or your ability to profit off of your particular position if those particular strikes hurt the company's bottom line. In addition, we've seen some differences between Detroit steel with auto manufacturers and some international companies that have built factories in non-unionized states, how that might impact one company or another. Things like inventory control can

also be important. One thing that was really prevalent was back in the early -- late 90s, early 2000s Dell computers. They were revolutionary with their inventory control with something called Just-in-time manufacturing. Many of you might be familiar that computer parts, if they sit on the shelf too long, they tend to lose their value as something newer and better comes along. Well, what Dell computers would do is they literally have trucks in their parking lot and when they got an order to build new computer, well they would go off to the truck it was full of computer chips, and then would pull a computer chip off the truck, scan it in inventory, and that's when they pay for it. So, if they didn't use it for a month and the price went from 100 dollars to 90 dollars, well they paid what the price was at the time that they used it. And this has driven a lot of things within the market and how a company might be valued. Other things that are important are, of course, different valuation metrics, earnings per share, profit to debt ratios, other things associated with a company to be able to compare it with one and another. So, we can compare apples to apples like we talked about last week, or Apple to Google and see which company we like a little bit better. We can also look at things like what our company's assets are, how they are doing with what they have. How they are doing with the factories they have, how are they doing with other things that allow them to do what they do, how are they generating their returns. This, of course, helps us make a decision on is this a good company or not. Now, with that, these

things can't really determine is now a good time to purchase a company with what's going on with the global economy. Is now a good time to purchase an energy company or consumer staples? Or we might be in the business cycle. This is actually where things like technical analysis can help and we'll talk about that next. Of course, fundamental analysis also can't help answer the questions on risk versus reward. How much of my portfolio should I risk or not? Should I go ahead and close out and sell this particular position or not? These are the important questions that really a fundamental analysis can't quite answer for you. What it can help with is if you have five or ten companies that are in the same industry, that are all energy or all technology, but you only have the capital to invest in one of those. Which one of those five should you invest in? Now, that said, Peter why don't you introduce to us a little bit what technical analysis is and why it might be important to a trader?

**Peter Janssen:** Of course, Nick. You know, technical analysis as you see here is the study of past market data, and more specifically it comes down to a few main components. It's the study of price, study of time, and volume. When we put those values together we get a chart which is more or less a graphical representation that helps us visualize this information over time and provides a stamp or imprint, so to speak of, where buyers and sellers agreed on price at least at that moment in time. And at the end of the day, what drives price

movement is the economic principle, really, of supply and demand. You know, the shifts or imbalance of market participants and their expectation as well as their emotions. You can think about this like an auction. As more buyers come to market, or perhaps more aggressive buyers who are willing to spend more, demand will rise and in turn prices will rise as well. The opposite is true for sellers that are willing to accept less in cash, less for their asset, which leads to falling prices. Over periods of time we can observe these general directions that buyers and seller will push prices either up or down, and that's what's referred to as a trend and that thought process there, that trends are thought to continue for periods of time which can create patterns on the chart. And technicians believe that these patterns, just like human emotions and human behaviors, will tend to repeat themselves over time. Now with that being said, keep in mind technical analysis is not about predicting the future and what will happen next. It's a practice that traders use to make decisions based on what has already occurred and what's already taken place. And going on what Nick had said, in addition to technical analysis many investors actually find a combination of both fundamental analysis to uncover some of those best fundamental companies along with technical analysis to help out with the timing and risk control can really be a great combination. And technical analysis does make a few assumptions. One of them is what is already factored into the price. And it goes back to the

efficient market hypothesis which states that price discounts everything and includes all information. This means that the price we observe includes all known information and possible outcomes which are made in risk analysis. What it doesn't include are potential geopolitical risks or natural disasters, however. Things that are more unforeseen. And this thought though of price including all known information we see with earnings announcement. Information comes out and becomes public, investors react to the information, price moves accordingly. Price also accounts for these buyers and sellers and situations that are potentially anxious or emotional as I mentioned before. And it's all accounted for given that the chart itself captures these price fluctuations whether they might've been quote unquote rational or not. Human behavior absolutely can fuel the shifts of supply and demand and price movement and these emotions like fear and greed, herd mentality, they all come into play. One of the biggest benefits to technical analysis is what Nick discussed previously. It's the fact that it can help with our investment decisions from the standpoint of entry and exit. Creating a process for buying and selling securities and truly a repeatable process for identifying specific signals that will prompt us to take action or potentially not to take action in certain situations. This is why it's important to create a system and have a calculated risk reward measure that allows us to stay disciplined and to keep our emotions in check. Lastly, we've talked a little bit about it already but of

course want to emphasize the fact here that it is not there to predict the future. We're never going to look at a chart and 100 percent guarantee that a certain outcome will occur or transpire. Once again, it's that practice that traders need to use to make decisions based on what has already occurred. We also want to be aware that there is a human element or interpretation here, meaning that if you were to show me a chart and then show Nick a chart just moments later we could also formulate two different opinions or points of interest, especially if our time horizon is different. Now, for those of you that might be interested in learning more, I would encourage you to attend one of our four week classes that's dedicated entirely to technical analysis which can be found at [Fidelity.com/classroom](https://www.fidelity.com/classroom). I think that anyone who perhaps is more familiar with this would gain a lot and anyone who might be on the ground level looking to learn more would, of course, build some of those strong foundations and work on it from there. Nick, having that said, I know that there are few things on Fidelity's website that we'd like to show folks and demonstrate here and now. I'll let you take over from here.

**Nicholas Delisse:** Absolutely. One thing I do of course want to underline with technical analysis is something that Peter of course just mention that it does not attempt to predict the future. Technical analysis is looking at what's happened in the past, looking for trends to continue, it is not looking to predict

the future. Now with that said let's go ahead and shift over to Fidelity.com. one thing I do want to mention again echoing what Peter said is that we have online group sessions that dive deeper into many of these tools. So, if we wind up being too brief in this particular session you can of course look at some of our other recorded content, look at some of our group coaching sessions where we'll dive into these in significant additional depth. What I've now pulled up is I've pulled up Fidelity.com, specifically the Stock Research Center. Now you can get here by going to News and Research and down to Stocks. And there's some really, really interesting things that are on here. If you remember in our previous session we talked about the business cycle approach to investing and we addressed how different sectors might perform better or worse than the broader market during different parts of the business cycle. If you're utilizing this particular approach to investing and you're wanting to identify securities that might be of interest to you, this is a great way to do this. We have all the sectors listed here, then we have the top symbol in each sector according to the equity summary score methodology. Now, for those who might not be familiar with the equity symbol score, let's take a little bit of a deeper dive into this and we'll start looking at healthcare. We have PFE is the symbol here for Pfizer. Now, what I'm going to do, I'm going to open this up in a new window to leave our stock research streamer here and simply pull up this other particular tab. If you did notice we can



always mouse over this, come down to Research and this will pull this up within this same window if we so desire. We can always go back and forth however we might wish. Now, on here this is of course our new Stock Research Center. Those in the audience might be on our old Research Center. You can of course change that up here in the top right hand corner by going back and forth between the new and the old. But the big thing I want to show everyone is coming down to the analyst opinions and reports. We're going to click on this and now we see down here below the equity summary score along with our research reports. And this will show a little bit of a better breakdown of the equity summary score. Coming to more, this expands it even more. And we can see the equity summary score ranges from 0.1 to 10 and this is from zero to 10. This gives us a much more granular approach to what an analyst opinion might be as opposed to simply buy, sell, hold, or maybe one through five stars. We can see more granularly where we might be on the scale. Anything from, of course, three to seven is considered to be neutral. But if a company has an equity summary score 6.9, that's still considered to be neutral and another analyst might say simply hold or neutral or three stars. Or we can see a 6.9 as almost seven, it's almost bullish and is different from it being a 3.1 and being almost bearish but still falling within that neutral category. With this, as we look further down, we see relative accuracy scores based on Thompson Reuters StarMine. What this will do is this will look at

these different analysts and within the different sectors, of course, they'll look at their particular recommendations and how it performed relative to the broader sector. So, if an analysts recommendations tended to perform better they'll get a heavier weighting. If they tend to underperform the sector they'll get a lower rating. And if you want to dive deeper into those specifics you can always click the little question mark and that'll pop up a glossary and it'll explain it a little bit more. Now, these specific breakdowns are unique to this particular sector and so since Pfizer is within healthcare, if we take a look at technology -- well, Ford Equity Research has a 100 rating or ISS EVA has a 95. Maybe if we went to a different sector their relative accuracy score might be different and might be lower. And I've seen that before, where on one sector one analyst might have a 90 rating where in another sector they have a 20 rating. So, with this we can then see what those ratings are and that standardized opinion. You can also look and compare and visually see that if everybody is neutral except for two analysts, and the one analyst that is buying has a higher relative accuracy than the one that says sell, this'll then show you that. It'll then show you that's what's causing this to be more bullish versus bearish. But if it were to flip, those relative accuracy on those analysts might then seem to be more bearish versus bullish. A great, great, great resource for those traders that maybe might not know enough to actually dig through the books, you can lean on these third parties providing their particular

recommendations for you. Now, coming back over here to the landing page of the Stock Research Center, you can also dig more into the research reports. So, if you want to see what Trading Central, what ISS EVA mentions, what Ford Equity mentions, you can actually pull up these particular reports in PDF format to see their particular thought process, which is a great way to learn more on how to actually do a lot of this on your own. It's also a great way to take a look at the -- maybe you have some experience and you would prefer to lean more heavily on the analysts that have a similar thought process that you do. We can look at that through these particular reports. Now, some of these analysts might be fundamentally based, some might be technically based. And we can actually see that there are similar analysts -- Trading Central is one that there actually are two separate analysts there where one is more algorithmically based, which is more computer driven, and the other might actually have a person looking through the data. With this again, this is just a tool that can help you look at what to purchase. Should we purchase Pfizer as a healthcare company compared to a competitor within this same industry? Which one might have a higher score? To help you make that decision, to narrow it down. Still, of course, doesn't quite answer the question of timing that technical analysis can help with. Now, coming back to the Stock Research page we have, there are ways you can take a deeper dive to look for other companies. Now, we looked at healthcare, we saw the highest rated in

healthcare was, of course, Pfizer. Well, we can see that there are 10 other stocks in healthcare that are rated very bullish, that are that 9.1 to 10. If we click on this, this will actually pull up the stock streamer to show us what those other companies are. I'm going to go ahead and do that now so we can take a look at other companies we might have ideas on. With this, of course, we can see what's being screened here, looking at all common stocks. And it breaks us down into the equity summary score, that 9.1 to 10. Security price, of course, healthcare, market capitalization, and so on. Maybe, of course, we're looking at this and going, "Well, this is just 10 different companies. I'd like a few more." You can actually edit some of this screening criteria, coming up to equity summary score and saying, "Well, let's look at 8.1 to 10 to give ourselves additional securities." Make the criteria a little bit looser. We can also check these boxes and simply go bullish and very bullish, making it 7.1 to 10. Now, with this we see there are 33 companies now instead of 10 companies because we've loosened the criteria. We can also go back and tighten the criteria again. From a market capitalization standpoint this is looking at companies from 1 billion to 900 billion. Maybe we want to limit this to simply large cap and mega cap securities as opposed to medium, small, and even smaller if we're looking at only 1 billion plus. This has actually reduced it back down from the 30 securities to simply 11 securities on this particular list, and we can see there's a lot of ways we can customize this to stream for

securities we would like to look for. Now, this is just one particular pre-built screener. Now, Peter, why don't you walk us through a couple other things we can look at when leveraging these tools?

**Peter Janssen:** Yeah, absolutely, and I'm glad that you had shown that as far as the navigation and being able to modify these because once you understand the basics there, the possibilities are really endless as far as what you can search for. So, as Nick had already walked us through, we took a look at the ability to view this front and center via the equity summary score and off towards the right you see this here. You can actually have some saved screens that you have already actually worked on. You could also dive straight into the equity summary score. Perhaps there's a specific sector that you're looking for your exposure on. You could also do this by a number of other categories as you see here. But staying with the theme of potentially a preset, I guess, screen off towards the left, make no mistake there's what's referred to as preset expert strategies. And if you hadn't clicked here before I would certainly encourage you to do so. When we click this, what it will do is actually launch this page that some of you might've seen in the background of Nick's. This itself is tremendous, I think, for a number of reasons. In working with clients over the years, whether it's clients that know specifically what it is that they're adding exposure to, whether it be growth, whether it be value, whether it be a mixture

of both. Perhaps you're going to implement some thought process for technicals like we had discussed previously. There's also the most popular which are generally seen, and I'm gonna click on here one for example's sake. And what this'll do actually is go ahead and pull up, more or less, a screen that we had seen on Nick's before. So, for instance, if we wanted to click on income and growth, you're gonna notice that it's actually powered by Zacks Investment Research specifically, this is one of those analysts that was mentioned listed previously, and if you click here what it will do is a number of things. It's going to reiterate where this research is coming from and the firm specifically, and it's also going to let you know how the firm and the analysts actually use it. What is the objective here? Once again, that's for income and growth but it's going to go into a little more about that overall as well as the strategy that it uses. Things to watch out for as well as a quick summary towards the bottom. And what has this done? Well, it's factored in this strategy itself and this analyst's firm actually used this Fidelity screener to build out specifically that thought process looking for income and growth. Much like Nick had on his screen, we noticed that it already has some criteria that are listed for us. It gives us the number of results and then just as he had mentioned, if you want the ability to look into these further or dial up specifically what it is that's going to kind of fit the need of your specific portfolio for your unique set of circumstances, then you have the ability here

on the left hand side, of course, to go ahead and actually navigate through, changing everything from basic company facts to details about dividends once again. Some of those technicals that we had talked about previously, among other things. And that's why I really feel like for investors of all ranges, whether you are one who knows specifically what it is that you're looking into or perhaps maybe you're newer to this and looking for reflection on an investment company who actually puts these screeners to the test each and every day, you've got the ability to refer back to these time and time again and then actually save them as well under some of your own previous screens. But Nick, having that said, I know that's just one example. There are so many that you can go through. I'll give you the last word if you'd like to add anything here on this screen or share some of your experiences.

**Nicholas Delisse:** Fantastic, Peter. Really appreciate that and maybe one last thought I want to leave everyone with, you can of course screen for technical data if you'd like. The technical analysis data through the technicals on there. Again, if you want to take a deeper dive on what maybe you might want to screen for when it comes to technical analysis, please take a look at our group sessions. With that said I want to thank everyone for joining us. We definitely look forward to seeing everyone in the next part of this series.

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Technical analysis focuses on market action — specifically, volume and price. Technical analysis is only one approach to analyzing stocks. When considering which stocks to buy or sell, you should use the approach that you're most comfortable with. As with all your investments, you must make your own determination as to whether an investment in any particular security or securities is right for you based on your investment objectives, risk tolerance, and financial situation. Past performance is no guarantee of future results.

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