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Connecting the Dots

It's not enough for savers and investors to leave their money with fund managers with a good track record and sterling research capability. It is important for the investor herself to understand risk, time horizon, and what the stock market is all about. This investment literacy, which is an advocacy of this corner and the company it represents, is critical in managing expectations as well as being informed of how markets and listed companies behave.

More than the numbers in the financial statements and disclosure of major moves that will affect them, the investor should be able to connect the dots and find out how the numbers are shaping up. How these dots are connected tell a story that guides the investor.

Listed companies are aware of this need not just for data, but actionable information. The task of informing the public usually rests with the CEO and for the nitty-gritty with the CFO.

Maybe because CFOs are not hired for their communications skills or verbosity, except when making a case of credit worthiness to banks and rating agencies, they tend to just let their numbers explain themselves. Of course there are some auditors who claim to see numbers zumba in front of them. Still others just miss billion-peso holes in a bank's balance sheet—I feel a breeze.

The function of the recently created role of "Investor Relations" (IR) is to brief stockholders of publicly listed companies on the meaning of the numbers. This function by default usually ends up under Finance. So, the one in charge tends to let numbers speak for themselves, like performing "Merchant of Venice" as a collection story involving problematic collateral.

The inherent secretiveness of finance people (that's confidential) as well as a built-in reluctance to explain anything, except revenue projections with banks, conspires to dismiss the importance of a compelling narrative for the company.

Should the function of investor relations then be under corporate communications instead of Finance? Maybe then the full narrative of the company will have some consistency and context, so that the spokesperson can answer questions on reorganization, contractual employees, outsourcing strategies, declining market share, disruptive technology, and internal fraud investigations and the impact of all these on the company. A single story teller can present a more cogent plot that connects the relevant dots. But of course he needs to be comfortable with numbers and be able to dance with them.

Even investors with managed assets of billions and a fully functioning research department tend to characterize companies that they track, buy, or unload with a simple plot line. Short-hand stereotypes tend to be simplistic--too much debt; opportunistic acquisitions with no strategic fit; bleeding subsidiaries; quarrelling siblings in family corporations; and that all-purpose: declining market share.

Of course, these shortcuts can also be positive—consistent growth strategy; succession plan in place; deep management bench; and market dominance.

Without a financial communications program, the numbers can't really be viewed in the proper context. A high debt level for instance needs to consider the term line of the loans, the cash flow to service them, and the comparison of the leverage ratios to peer companies. Thus "high" is not an absolute value but relative to other factors which a good financial communicator should point out when dealing with investors.

The skills set for the corporate or even public policy communicators need to veer away from mere glibness and cosy relationship with media. It has to include familiarity and even comfort with numbers so that a narrative is supported by facts.

As in regular PR, the importance of constant communications, which is routinely putting the company in a positive light, is underrated. It seems that only in a crisis when firemen and bomb squads are needed is PR invoked on panic mode, if only to get the CEO out of the line of fire. By this time, it is crisis PR practitioners that take over. And the only numbers they're interested in is the contingency fund for the operation.

A numbers-based narrative for investor relations is directed at a very small and knowledgeable audience of researchers, stockholders, and large funds. The goal is not to hype up a stock but to allow it to be priced for its value. While majority stockholders of listed companies may scoff at the cosmetics of communication (I know what my company is worth) some appreciation of the value of the narrative begins to sink in when the stock price is trapped in a 52-week low as the rest of the market is rising.

Sometimes, it is ego, and the grating realization that less worthy companies are trading at premiums, that spur the insulated CEO to give financial communications a more elevated role.

The "theory of efficient markets" states that even if the market is not fully informed and properly valued, it is still right.

Still, giving the market the meaning of the numbers should price the stock more fairly. Of course a bad stock may have numbers too stark to explain away. However, turnaround stories are like horror movies. They are not for the faint of heart.

Whatever shapes the numbers or connected dots reveal, it's for the investors to decide whether the story has a particular appeal...and a happy ending.

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