

Patron Training: Morningstar Stock Reports



Agenda

Morningstar's Approach to Stocks

Accessing Stock Reports

Navigating a Report

Quote

Snapshot

Data Interpreter

Analyst Research

Financial Statements/Key Ratios

Charts & Returns

SEC Filings

Owners & Estimates

Formatted Reports

Morningstar's Approach to Stocks

Morningstar is best known for its fund reports. However, Morningstar also has been analyzing stocks and publishing information about them for about a decade—half of the company's life. Morningstar takes a fundamental approach to mutual funds: The company treats them as the baskets of stocks, bonds, or some combination thereof, that they are. Morningstar analysts seek to understand funds and their strategies from the inside out, believing that only by understanding a fund's portfolio can an investor know what to expect of that fund's future performance.

Morningstar's founder, Joe Mansueto, has said Morningstar brings "a stock perspective to the mutual fund world." It was only natural, then, for Morningstar to analyze stocks.

Morningstar has about 75 stock analysts on staff actively covering roughly 1,500 stocks. Morningstar's approach to stock analysis builds on the Ben Graham and Warren Buffett schools of equity analysis. From these two stock-picking masters, Morningstar has taken the concepts of economic moat and margin of safety. Morningstar then adds value by systematizing and relating Graham's and Buffett's approaches to individual companies—assigning a fair value estimate to a stock. Morningstar's analysts aren't momentum investors or technical analysts. They recommend great companies at low prices and advocate that investors hold them for the long term.

Morningstar's Stock Reports, therefore, showcase the data and analysis that's required to determine what companies are great and what the fair value estimates of these companies are.

Accessing Stock Reports

Direction: Speaker will review with patrons how to access Morningstar.com Library Edition via the library's site.

Once in Morningstar.com Library Edition, you can access reports two ways:

1. The Reports tab
2. Typing the stock's name or ticker into the report box on the home page

For our session today, let's use Microsoft (ticker: MSFT) as our example.

Direction: Type MSFT into the reports box on the home page; click Go.

This is one of the most widely held stocks and tends to be very popular and often searched for—and perhaps even a stock some of you own.

From an individual stock report, you can always access a different stock report by typing the name or ticker of that stock in the ticker box that appears atop the report page. You don't have to return to the home page to access another report.

Navigating a Report

Understanding the navigation of a stock report is critical because it's how you can unlock the value of the reports.

The left-hand navigation bar leads you to the key pages of the report. For example, we can access the Analyst Research page by clicking on that link.

Direction: Click the Analyst Research link in left-hand navigation bar.

Many pages of a stock report include secondary navigation tabs that appear atop the page. These tabs lead you to secondary sections of main pages. You can see a secondary section on the Analyst Research page. We'll review the details of this area later in our session.

Let's go to the Snapshot page for a moment.

Direction: Click the Snapshot link in the left-hand navigation bar.

Throughout the pages of the stock report, you'll find many underlined terms and question marks. Click one of these and a window will appear defining the term. At the bottom of every page, you'll find a Data Definitions link. When you click on this link, you'll find definitions or explanations for every term that appears on this page.

Today, we won't be able to review every single page in a Stock Report. However, I'm going to focus on the pages of the Stock Reports that are of most interest to most investors.

Quote

The first page of the report I'd like to review is the Quote page.

Direction: Click Quote in the left-hand navigation bar.

This is the first page you see when you access a stock report. Think of it as the stock's home page. The Quote page is the default page for Morningstar's Stock Reports because, more than anything else, stock investors want to know where a company's shares are trading for the day. That's the information Morningstar gives you first. The Quote page focuses on price data, including the latest price, opening price, and price ranges. Stock quotes are delayed 20 minutes, which is just about as timely as you'll find online.

Snapshot

On this page, you can find quick answers to some common questions you might have about a company and its stock. This includes industry and sector, historical performance, valuation based on a series of popular yardsticks including price/earnings and price/book ratios, growth measures such as earnings per share, profitability measures including ROA and ROE, and the trends in earnings. Subsequent pages of the Stock Report provide more detail on most of the data you see on the Snapshot page.

Data Interpreter

Our library's user base—and perhaps this audience—includes investors with a wide range of investment experience. Some of you may have been investing for years while others may not yet have invested your first dollar. Morningstar's Stock Reports are built to appeal to investors of many levels of investment expertise.

Direction: Click the Data Interpreter link in the left-hand navigation bar.

The Data Interpreter page of a Morningstar Stock Report was built for patrons who aren't as familiar with investment information. Data Interpreter puts data in context. You don't have to figure out what the raw data means because Data Interpreter explains it for you. Morningstar includes a Data Interpreter page for the nearly 6,000 stocks included in Morningstar.com Library Edition.

Analyst Research

In addition to the interpretive text that appears in Data Interpreter, Morningstar provides in-depth analysis of the 1,500 largest and most popular stocks. Patrons access this analysis via the Analyst Research link. This analysis tells patrons whether the stock is a good investment and, if so, at what price.

Direction: Click the Analyst Research link in the left-hand navigation bar.

The Analyst Research area of a Stock Report is a favorite among Morningstar.com Library Edition users. In fact, users often want to know more about Morningstar's analyses. Here are answers to a few common questions:

Q: How many stock analysts does Morningstar have on staff?

A: Morningstar maintains a staff of about 75 stock analysts. The analysts specialize in particular industries.

Q: How often are fund analyses updated?

A: As news warrants—usually at least quarterly.

Q: How do Morningstar analysts conduct their research?

A: Morningstar analysts rely heavily on all publicly available documents when conducting their research. They then apply their knowledge of the company and management's strategy, their understanding of the company's competitive advantages in its industry, and their assessment of a business' risk to determine what they think is a fair value for the company's stock. An analyst will support his or her case for the stock's fair value estimate in the analysis itself.

I'd like to point to some of the secondary navigation on the Analyst Research page that I referred to earlier, navigation that appears atop this page. It's the Analyst Report Archive. Morningstar provides a complete archive of all stock analysis written for a company since 1999. This feature provides a history of Morningstar's opinion of that stock through the years.

I'd also like to draw your attention to the Top Rated Stocks in Sector tab atop the report. Here, patrons

can find a list of other stocks in the same sector. They can see for themselves how a stock's rating compares with those of other stocks in the same industry.

That's right: Morningstar rates stocks as well as mutual funds. However, the Morningstar Rating for funds and the Morningstar Rating for stocks are very different measures and are calculated entirely differently.

The mutual fund rating is based strictly on a fund's risk-adjusted performance: Morningstar examines how well a fund performed in the past, adjusts that performance for the risk the fund took during that period, and assigns stars. It's a quantitative rating. Morningstar's fund analysts don't assign the stars. The company issues stars based on risk-adjusted returns. And those ratings are updated monthly.

The Morningstar Rating for stocks, in contrast, is a qualitative rating that can change daily, based on the price at which a stock is trading. The stock analysts assign the ratings to a stock: The stars are based on the analyst's fair value estimate of the stock relative to where that stock is trading.

In addition, the rating is adjusted for business risk. Business risk is based on the size of the company's economic moat (a fancy term for determining how entrenched a company is in its industry and how high the barriers to entry are) plus an evaluation of event risk (which is the chance that a non-financial issue could materially affect the company's fortunes). If you click on the Morningstar Rating link, the methodology behind the rating is explained.

In a nutshell, 5-star stocks should offer an investor a return that exceeds the company's cost of equity. On average, Morningstar expects 5-star stocks with below-average risk to return at least 15.5% annualized over the next three years.

Though the Analyst Research area is the crown jewel of the stock reports, I'd like to walk you through a few other pages in the report that should interest you.

Financial Statements/Key Ratios

Two particularly data-rich areas of the stock report are the Financial Statements and Key Ratios pages.

Direction: Click Financial Statements in left-hand navigation bar.

Those of you who enjoy historical information will gravitate to these pages. Morningstar provides 10 years of historical data in these sections, which is unheard of on many other financial Web sites. Morningstar provides every piece of data from the income statement, the cash-flow statement, and the balance sheet, going back 10 years.

You'll find the raw data from these documents on the Financial Statements page. You'll find ratios derived from this data in the Key Ratios page.

Charts & Returns

Another popular page is Charts & Returns, for a couple of reasons.

Direction: Click Charts & Returns in the left-hand navigation bar.

First, you can customize the interactive graph in a variety of ways: You can view stock returns over a particular time period, compare the stock's return to that of an index or another stock of your choosing, and display any dividend payments or stock splits.

Also on this page you'll find the daily price history for this stock for the current year and the four previous years. Finally, a five-year history of split and dividend data is on this page, as well.

SEC Filings

Direction: Click SEC Filings in the left-hand navigation bar.

The SEC Filings area plays into the idea that convenience matters: Here, you can find a direct link to all of the official EDGAR documents you might want to see, including 10Ks and 10Qs. In just a couple of clicks, you can download the original source documents for a particular company.

Owners & Estimates

Finally, I'd like to briefly discuss the Owners and Estimates page.

Direction: Click Owners & Estimates in the left-hand navigation bar.

Insider Activity data is a relatively new area of this page. Here, patrons can find out if and when insiders have bought or sold shares in the company, or expressed an intention to sell shares. An insider is a person inside a company with access to nonpublic material and information that could move the stock price. The government requires insiders to report their transactions to guard against unethical trading and to let other investors know about changes in ownership by the management of the company.

The navigation tabs on top of the Owners & Estimates page also provide insight into which mutual funds own or are buying and selling a given company's stock.

And finally, here is where you can find what Wall Street analysts estimate earnings will be for the company.

Formatted Reports

As a final note: If you want to print a Stock Report, I recommend you click on the Formatted Report link in the left-hand navigation bar.

Direction: Click Formatted Report in the left-hand navigation bar.

You will launch a print-friendly PDF report for the stock you're researching. This report includes much of the data that we discussed in our session today, including the Analyst Research.