



## Legent Clearing Offers Argus Research

*Legent Clearing is pleased to provide a valuable source of independent research to assist you in today's rapidly changing market place. Argus Research is an independent research firm, which includes producing, distributing and marketing high-quality investment and economic research.*

*Argus Research is a forward-thinking, long-standing independent investment research firm that offers forecasts and ratings on the US economy, interest rates and hundreds of leading blue chip companies. They have developed a six-point system for analyzing the stocks in their Universe of Coverage. The research Universe of Coverage features approximately 500 leading US companies spread across more than 60 industries. This system, combined with their independence, gives them an edge as they develop their ideas, forecasts and ratings.*

*Argus Research is a leading provider of independent research.*

The system, a blend of top-down analysis, begins with **Industry Analysis**. The first step is to formulate a forecast for the economy and interest rates, then collaborate that with the Industry Analysts to determine which industries are expected to perform well over the next one-to-two years. Within the industry an Analyst will determine a specific company's competitive position and its prospects.

**Growth Analysis** is the second step in the process. Looking forward, they forecast growth in sales, earnings (operating and/or GAAP), dividends and cash flow for each company by studying growth in individual product lines, in margins, in the industry and in the economy. Looking backward, they smooth a company's historical growth rates in numerous metrics, including balance sheet items, and analyze them versus the company's peers and the market. In their analyses, they comment about the "quality" of a company's earnings.

**Financial Strength Analysis** is the third step. They determine a Financial Strength rating for each company in their Universe of Coverage. To assess financial strength, they conduct an elaborate ratio analysis, moving beyond the financial statements and into the footnotes of a company's publicly available documents to fully flesh out obligations and opportunities.

The fourth step is a qualitative **Management Assessment**. In short, their analysts need to know management in order to make a recommendation on a stock. To get to know management, they attend meetings, presentations and road shows with senior managers, travel to corporate facilities and participate in conference calls.

**Risk Analysis** is the fifth step. Argus considers risk from both a qualitative and quantitative standpoint. On a qualitative basis, they review each company in the context of Harvard Professor Michael Porter's Five Forces model to determine potential threats. On a quantitative basis, they analyze proprietary data from their sister company, Vickers Stock Research, regarding institutional and insider ownership trends. They conduct a regression analysis to determine the correlation of a company's stock returns with the market's returns, and they determine the predictability of the relationship. They also measure the volatility of key financial statistics such as sales and earnings growth and margins. Lastly, they determine a fundamental floor for every stock in their universe through their Valuation Analysis.

**Valuation Analysis** is the final step. Over the years, they have developed a multi-pronged model to help with valuation. In a first step, they compare a company against its peers on metrics such as P/E and Price/Sales ratios, and dividend yields. Second, they analyze stock price activity in terms of annual sales, cash flow, dividends, book value, earnings, and earnings relative to the S&P 500. They determine normal ratio “ranges” for these various parameters, and then adjust the ranges going forward based on trends in a company’s growth and profitability. They apply the adjusted ranges to their key sales, earnings and cash flow forecasts to arrive at a normal trading range. Once the range has been determined, they use two-stage and three-stage dividend discount modeling to arrive at a target price, which they estimate can be achieved over a 12-month period.

A company in their Universe can be designated a SELL for not passing any of the steps. Most often, stocks rated SELL are either fully valued, face extraordinary risks, or are in an industry that is expected to under perform the broad market.

Argus does not bring companies’ public, advise companies on mergers and acquisitions, broker trades, make markets in stock or manage money. Their independence allows them to make critical judgments about companies that they might not be so free to make were they competing for a firm’s underwriting business. Because they’re not a broker/dealer, they don’t have the “inventory” of a stock that they have to move with a tainted recommendation.

They employ a simple rating structure: BUY, HOLD and SELL. In order to receive a BUY rating, a stock must be estimated to deliver a risk-adjusted return that beats the market over the next 12 months. A HOLD-rated stock is estimated to perform in line with the market, on a risk-adjusted basis, and a SELL-rated stock is expected to under-perform.

Argus Research is one place to find investment research that is not influenced by investment banking relationships. The firm’s long history of independence and its commitment to top-down fundamental equity analysis make it a good choice for investors who demand objectivity.



**CORPORATE HEADQUARTERS**

9300 Underwood Ave, Ste 400

Omaha, NE 68114

**(800) 811-3487**

[legentclearing.com](http://legentclearing.com)