Perspective
Investment Management

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Gaming the game – Why word recognition is not necessarily intelligence

US credit card telemarketing company, Compucredit, provides a great case study. In 2007 it was promoted as a top investment idea at a global investment conference by a respected professional investor renowned for diligent research and a narrow focus on the financial sector. The company said and wrote all the 'right' things in the annual reports and results announcements. It would all prove too good to be true.

The professional investor's analysis was wrong, and the company simply was not doing as it said and wrote. Compucredit was eventually charged by the US industry regulator for misleading its customers, the share price collapsed from $45 to $2 and it has not recovered since. It was renamed Atlanticus Holdings in 2012.

A Swiss business school recently developed a new measure of corporate governance, scoring stewardship using 'natural language analysis' on public statements like annual reports, formal company announcements and regulatory filings. Words like "currently" and "quarterly" scored poorly, while words like "future" and "decade" scored well. Some market participants even use software trawling social media for trending news flow.

How long did it take investor relations firms, professional annual report ghost writers and various other interested parties to figure out how to game this game? The CEO of a particularly poorly performing small listed JSE company in the FMCG industry even quotes Benjamin Graham in their latest annual report! Seriously.

I believe the most important things in business and in life, such as integrity, are about the attitudes and actions of people. At the very best businesses in the world it becomes baked into the DNA of the entire organization and carried over multiple generations of its people. However, whatever I choose to say and write down does not constitute proof as to whether it is consistently practiced. Only my action or inaction matters.

Our work continues…

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