

# Data Delivery

## Ford Equity Research Team Relies on the Fundamentals

by Sandy Serva

FOR SOME FIRMS, THE EVER-POPULAR TERM “independent research” isn’t just a trend; it’s a chosen methodology.

Founded in 1970, Ford Equity Research’s goal has been to focus on developing solid, fundamental research to produce superior investment returns — and its long years of hard work are paying off. In 2002, Ford was selected by the *CNN/Money Web* site as one of the five best independent research shops with stock picks that were up an average of 20.2% for that year.

The key to the firm’s success can be found in its data. “When we first started out, we were running a dividend discount model or putting what we called an intrinsic value on common stocks,” says President and Chief Operating Officer Tim Alward. “We were also collecting fundamental data to make this calculation.”

Initially, the firm created a newsletter that ranked 800 common stocks by their valuation as well as other fundamental statistics. While building and customizing databases is a necessary part of doing business in today’s corporate environment, back in the ‘70s it was definitely a pioneer effort for financial firms such as Ford. In 1974, the firm had distributed samples of their newsletter which propelled them into the spotlight. “When one of the big money management firms in Boston saw it, they realized we had a computer-generated database that was ranking common stocks based on their fundamentals,” Alward says. “That’s how we got started in the institutional business. Now, approximately 98% of our revenues comes from the institutional side — it took over the whole business.”

Ford’s information tracking has also improved over time. “We started building more quantitative models to rank common stocks based on different things we saw — earnings trends, price momentum, quality rankings — and as we did this we kept collecting more fundamental data to use in making those calculations,” Alward says. “We ended up with a nice, clean database. Now, a lot of investment managers hire us just for this fundamental data.”

The Ford team also continues to create quantitative models to select stocks. “We currently have 15 to 20 proprietary processes or models we use to select stocks that a lot of our clients also use,” he says. “Again, this has made us a little bit different because we have both the fundamental



President and Chief Operating Officer  
Tim Alward

data and the quantitative models to rely on to select stocks. So, our clients either come to us to build their own selection processes or they use the processes we have built. And then a lot of them mix and match the information.”

Ford currently has 18 employees; half of them work on analysis and collecting data. What has all these years of cleaning and storing financial information taught the team about finding good stock ideas? Alward says that while valuation had always been a critical component of the firm’s research efforts, when undervalued companies remained so for long periods of time it became crucial to develop other criteria to determine if these companies would recover or their earnings would only decline further. “We then started to use a combination of value, earnings trend and quality,” says Alward. “Later on, we added price momentum. Today, we rank each one of these elements separately so you can see what the inputs are. If a company is rated a Strong Buy it usually has good earnings acceleration, decent valuations based on that earnings acceleration and good price momentum.”

While many research firms are cleaning house, Ford is doing business as usual — cleaning and storing data. “We always have an opinion on a company,” he says. “It may be a Neutral, but we always have an opinion. Today, with the performance of the markets and the distrust regarding some analytical techniques, independent firms like ours has gained popularity because they do have opinions.” ✦