

Broker Recommendations Explained

A CSS INVESTMENTS GUIDE TO INVESTING



A Modern Stockbroker
with Traditional Values



Whether you are a new investor or a seasoned professional, you will have come across terms with a meaning or context which you might not be sure about. We feel every investor should have their own guide to terms and jargon that they know well enough to use in every day research and analysis.

Broker recommendations are in effect summaries of investment research reports that identify a stance taken by the broker in respect of the company. Broadly these can be a “buy”, “sell” or “hold” or variations of these such as “overweight”, “underweight” with the report going into more depth as to the reasoning for a given recommendation. Often a “price target” is provided in each case which gives a view on where the research thinks the share price will move over a given period.

When a broker “initiates coverage”, the analyst for the first time writes a research report on the company and its prospects, concluding with a given stance on the company’s shares.

The stance taken in investment research is reviewed periodically, but usually at least twice a year. It is possible that the recommendation changes over the course of the year, in response to changes in company performance, or that broker “drops coverage” of the company and withdraws a recommendation.

Most investment institutions are likely to update their recommendations in the light of significant changes at the company in question, specifically when corporate activity takes place, the board embark on a new strategy or otherwise provides trading updates or company results.

The investment analyst is often a member of a team of analysts that write investment research which comprises meeting the company, making company forecasts and writing research reports. When this takes place the analyst is said to be “covering the company”, and his forecasts are included in the “broker consensus”, which comprises an average forecast of all analysts covering the company.

The company will be aware of the “broker consensus” as this comprises the market expectations of the company’s revenues, profits, and earnings. It will need to advise the market if its expectations significantly differ (+/- 10%) from the “broker consensus”. It is entirely possible that different analysts reach different conclusions about the company but it is unlikely that the collective judgement is too far wrong.

Any individual broker recommendation and profit forecast needs to be viewed in relation to the consensus forecast and not treated in isolation as suggesting one outcome only.

We provide a summary of broker recommendations made on the day in question in our Morning Call and Market Close newsletters which are free to subscribe to.

Descriptive terms vary and will be given in the definitions area of the report. Typically to simplify:-

BUY AND STRONG BUY

These two recommendations indicate that the analyst is recommending a particular company, usually suggesting it is a good time to consider buying or adding to the holding you already have.

This recommendation usually indicates a strong conviction that the shares are inexpensive relative to that financial institution's expectations for that company.

Usually the **"buy"** or **"strong buy"** recommendation is accompanied with significant reasoning explaining why the analyst has arrived at this opinion.

It is possible that the recommendation is based on a particular insight into that company's major drivers. That insight enables the analyst to project profit forecasts that differ from the average profit forecast, "the consensus forecast" for that company.

OUTPERFORM, ACCUMULATE, OVER-WEIGHT AND ADD

These recommendations do not necessarily indicate that the covering analyst is recommending you buy this particular company, however it may be a good company to consider if you are already looking at the sector or balancing your portfolio so that you are weighted towards the sector.

These descriptive terms vary and will be given in the definitions area of the report. Typically to simplify:-

OUTPERFORM

is a relative term suggesting the company's return should exceed that of its industry peers or of a given benchmark index.

ACCUMULATE

is a descriptive term that suggests the shares should be added, within certain parameters. It may be the stock is worth buying only under a given price level.

OVERWEIGHT

is a relative term that suggests the "weight" of the shares in the portfolio should exceed that of the "weight" of the shares in the index. If for example BP represents 4% of the UK 100 index but 6% of your portfolio –you can be said to be "overweight" BP

ADD

is a descriptive term rather like "moderate buy" that suggests caution to adding to the holding.

These recommendations suggest there might be potential appreciation in the company's shares according to the definition of the recommendation in the Disclaimers/ Definitions.

HOLD, NEUTRAL, IN-LINE AND EQUAL-WEIGHT

There are two sides to these recommendations, first is that the holdings in a particular company should be equal to other holdings in that sector. This would only apply to someone that is already invested into the particular company.

These descriptive terms vary and will be given in the definitions area of the report. Typically to simplify:-

HOLD

the reader/ investor should await key developments at the company, but do nothing in the short term.

IN LINE

the company is reporting numbers that are very similar to previous forecasts for that company.

NEUTRAL

the financial institution does not have a view or is not convinced in its view as to whether the company's shares are too high or too low. A Neutral rating suggests the share price is "up with events" and reflects current and expected developments.

EQUAL WEIGHT

the investor should hold this company in proportion to its index weight.

The second side of these recommendations is that the potential return on equity is expected to have a variation of +5% - (-5%) against the sector or index over the covering period.

UNDERPERFORM, UNDERWEIGHT AND REDUCE

Again, these recommendations suggest some factor has changed at the company and the financial institution now expects future profits to be lower than current expectations.

These descriptive terms vary and will be given in the definitions area of the report. Typically to simplify:-

UNDERPERFORM

this is a relative term suggesting the company's performance in terms of total return will be less than its peer group companies or a given index or sector index.

UNDERWEIGHT

see above, the opposite of "Overweight".

REDUCE

the shareholding should be lower than the relevant index "weight" or the previous holding.

SELL AND STRONG SELL

These recommendations, being the most negative, should be interpreted literally. They suggest you sell out of the particular company and rebalance your portfolio so that it does not include the particular company subject to a sell recommendation.

SUMMARY

We do hope this has helped you clarify broker views and that particular section on our newsletters.

It may be worth reviewing a few of your holdings to see if your weightings and performance is in line with what most brokers would recommend, this is something we can help with, get started by clicking the button below.

[Free Review](#)

Different financial institutions have different recommendations on the same company. What is important to consider is the consensus movement in those recommendations. At the end of the day a stock's price will either rise, stay constant or fall. The views of other brokers are only an indication of future price movements – ultimately it is for the markets to set the price based on the liquidity as well as supply demand for the stock.

General Risk Warning

Trading in the products and services offered by Collins Sarri Statham Investments Ltd (CSS) may, result in losses as well as profits as the value of investments may go down as well as up. You may not get back the full amount you have invested. Any reference to past performance should not be viewed as an indication of any future performance. Investments held in overseas markets are subject to the effects of changes in exchange rates which will impact on the value of the underlying investment. Investments made in AIM and penny shares carry an increased risk due to the difficulty in creating a market in these shares. There may be a substantial difference in the buy and sell price. Leveraged products such as Contracts for Difference (CFDs), derivatives, commodities & Foreign Exchange (FX), carry a higher risk to your capital and they can lose their value rapidly.



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