Pashupati K Advani's Views on Managing Investor Sentiment

…among the individual and institutional investor…

There are two types of investors.

- ***The first is the institutional investor***
- ***The second, the individual investor***

They both have the same desire to make money, so they obviously want to invest in stocks that go up rather than in stocks that go down. But in terms of needs, in terms of requirements of information, there is a subtle difference. Institutions are basically more demanding in terms of the quality of information. If Unit Trust of India is a shareholder in your company, they are now, as part of their corporate governance strategy, actually demanding a seat on the board. Institutions can also punish the company in a sense that if you have GIC or LIC who have 5 or 7 per cent of the company, nothing stops them from selling their shares and walking away.

…institutions are more demanding…

In the US today, with quarterly reporting, forecasting of 5 per cent + or – is the accepted norm. If you're anywhere more than 5 per cent off, then people begin to disbelieve your company. If the company is indicating that their dividend is going to be Rs. 10 per share for the October through December quarter and suddenly in the month of March, you come up with minus Rs 10 per share, you're going to have a lot of unhappy analysts and therefore a lot of unhappy institutions. *What they demand is consistency in your predictions.*

…expect transparency of operations with no surprises…

Investors want you obviously to be as transparent as possible and they don't want strategic surprises. Ideally, you get good multiples in your stock price by leaving nothing as a complete surprise. If everything is predictable and things are going smoothly, then you have investors who are less likely to take risk, as your genuine stockholders. They become your long-term investors. This is something that has to be impressed upon the senior management.

A lot of mutual funds have core holding, which they put away for a long time and forget about it because they know they won't get any surprises. If your companies achieves this level of confidence, then you earn a reliable investor, your stock price becomes less volatile and you are less susceptible to the vagaries of the market and that is what the objective should be.

In the Indian capital market, institutions, particularly the

…insider trading is of concern…

foreign ones, are primarily concerned with the issue of insider trading. The minute an insider sells, it gives a signal that they feel that their returns are better elsewhere and that is not a signal that you want to give. This is an area where corporate PR professionals can make a difference.

…international norms provide security to FIIs…

The world is moving towards some common internationally accepted norms as far as accountability is concerned. Foreign investors considering investments in a company would like to see the same norms. The norms regarding insider trading clearly mandate that when insiders are selling shares, all investors should know about it. It should be advertised in some form or another. After the announcement is made, there should be a cooling off period before the selling actually starts. So if the managing director of the company wants to sell 50,000 shares, or the promoter of the company wants to sell 50,000 shares, they announce that they want to sell it over the next three months, then they wait two to three weeks after the announcement before selling them. Obviously, there must be a reason attributed to their sale.

PR professionals have to get this message across to their senior management in the right manner. Consider developing a systematic programme where all employee purchases and sales are informed. This is something very relevant, useful and will be appreciated by long-term investors in your company.

Certain companies in the U.S. for example, ask all employees to sign a bond when they join. Any trading they do in the company stock has to be done by either giving the order to some one in the office who is a compliance person or be given to that single broker who only does in-house trading of people of that company. This is to make sure that all the reporting is correct, that everyone fills the requisite forms, takes the requisite permissions, and that the level of information that they have access to precludes them from taking a decision that would be based on a sensitive information. The minute you announce that you have done something like this, then the investors perception of the company suddenly changes for the better. They realize that this company recognises their investors as their partners and are going to share the risks or rewards of what happens. You cannot have insiders who have started the company, let us say Infosys, who have become Indian millionaires, deciding to sell their shares tomorrow. When people find out about it, the price will plummet from three thousand rupees to one thousand rupees, because the action reflects a complete lack of confidence.

…regulators are in place for the individual investor…

Individuals are not as demanding in terms of information, they do want the information to be provided on a level playing field, but more importantly, they have the watch dog such as SEBI and overseas the SCC or the SFA. Basically these ensure that certain norms are adhered to and that things must be done in a certain manner, you cannot give preferential information to any one shareholder or to any non-shareholder. If you do not follow these norms, then you may face the HLL problem.
At the moment in India we have scarcity of information because information is not being disseminated properly. Overseas, you get too much information, you have to then learn how to sieve through the clutter and here we get too little. I am not sure which is worse. In a world where a surplus of information is readily available to business professionals, many industry experts feel that **scarcity** and **relevance** are two key factors in determining the **value** of information. In a perfect world, information is available and processed **instantaneously.** Moreover, in the perfect world you actually get paid to process it faster, and make investment decisions based on it.

…sentiment = value of stock or shareholder value…

In the old days, the popular view was that companies had to keep their employees happy first and their shareholders happy last. That perception has changed. The answer lies in the question *why should stock trade at a P/E multiple of 50, and another at 30, in the same sector*?

In developed markets, the employees have become shareholders, so actually the employees share the same objective. Thus if the price of the stock goes up for example, then the people who work at Microsoft, or AOL become multimillionaires too. It is not through salary, but it is due to appreciation in the value of their stocks earned/purchased over the years.

Today, everyone is slowly realising the importance of shareholder and shareholder value, and that the shareholder is king. Basically, shareholder value is the value of your company, the ability of your company to approach the capital markets time and time again to fuel growth plans, whether it is for debt or for equity. A high stock price never deterred anyone from investing. Modern financial theory amply illustrates that stock price is supreme, and that realisation has come to India at last.

In the old days there were disincentives for higher share prices for promoters including the wealth tax on shares. Today, these have been removed, in fact, the Finance

Minister has reduced the capital gains tax to 10 per cent from the financial year 1999.

…use real time media to manage investor sentiment…..

The use of electronic media like Bloomberg and Reuters provides a window for the world to review the company's information as soon as it is put up. Business professionals rely on this first, because they are intra-day. The print media, the next best thing, gives us the information received only the next morning. Press should be advised in advance of any impeding event.

The timeliness of the information is very important. If the company is planning a bonus issue, ensure that the agenda is handed out outside market hours because these things have a way of leaking. Secondly, if the result of the Board meeting is to be announced, restrain the directors from making cellphone calls in the middle of the meeting. It is difficult to do, but that is what the law requires, and PR professionals have to ensure.

Electronic service providers are the prime distribution media that gather local news, company /industry information, financial markets data and macroeconomic analysis. That's the media that all business professionals use. It is also the media that is most timely from emerging markets like Latin America and Asia, including India (e.g. Reuters, Bloomberg etc.).

If you're looking at the nuances of information, particularly with an international audience who are looking at comparisons. For example, the comparison of Hindustan Lever versus Unilever, or Hindustan Petroleum versus Royal Dutch Shell. These audiences want to see what works and what does not. Thus if they have all these information at their disposal electronically, they can certainly look at it, and use it for their analysis.

Results declared on Reuters or Bloomberg give you a headstart over the rest of the world because there are maybe three or four hundred terminals country-wide, so those three hundred/four hundred do get a leg up. I am not referring to the other thousand who have got the results one day earlier at home but that is a different story.

…leveraging the newer info medium…

Today we have got what I call infomediums, where you can distribute using websites. This is a very powerful medium. E-mail is another very powerful medium. Certain companies have share brokers, analysts in their e-mail list, and as soon as the results are declared they send it out immediately and we receive the results in a couple of minutes. It is now up to analysts to look at it and decide. Brokers too play a part in this because they spread the news verbally to general investors as well as to institutions. The job of the analyst is to spread the news to clients who have the shares so that you know they may or may not take investment decision.

Mergers and acquisitions are going to be an order of the day, starting April 1, because of the favourable tax considerations. A recent article in the Economic Times says that there is almost one every couple of days. That means for those in the PR business, there is going to be a lot of side-stepping to do as well as some hard work as to what information to share and not to give.

…avoid SHOCKS with an M&A…

If the M&A is friendly, you as a PR practitioner have to release information about the M&A. The information has to be transparent and there should be no **SHOCKS**. If things are smooth, everybody is happy, and but if it is hostile you have all sorts of difficulties. In any case try and stick to facts, do not create any uncertainty, avoid saying no comment - because if you say no comment - it leads to conjecture and don't get caught flat-footed by senior management.

If you give key financial analysts in-depth information, it helps. There are some people who closely follow your company and those people should be encouraged. These are your friends and they are the people many others listen to and who read their articles in an effort to keep track of what the company is doing. You have to make sure that you are not giving them advance or sensitive information. If you know it is within the public domain, if it is filed somewhere or if it has come as a newspaper article, then you are free to give it to them.

Considering the more recent hostile M&As - Indal & Sterlite was a complete PR disaster. Even Templeton and Emerging Markets handed their shares to Sterlite at the last minute. There was total misinformation and confusion from all sides. Saurashtra Cement and Autoriders are still fighting, and some of it will lead to financial reforms. The messiest merger of the millenium I feel will be that of BNP, SocGen and Paribas.

Employee talk of option-plans and stock options, is going to be a reality. The Government has made it a little bit difficult, but that will get ironed out, within the next six months to a year. On ESOPS and stock-options, appoint someone within or outside the company to monitor all employee transactions in the company's stocks. If you take a positive decision to this regard it gives the investor perception that you are doing the right thing. Secondly, make employees compliant by forcing them to use the same person to execute all transactions, and thirdly, make sure that the person is responsible for all statutory filings and other requirements. Thus you as a company are off the hook and hopefully everything is being taken care of whether you do it in-house or externally. If you can do that, then that is worth at least a 10 percent move in your stock.

…quarterly results make companies more transparent…

Quarterly results that put pressure on companies to be more transparent. Every quarter companies have to make sure that the results are put out correctly at the right time and that nobody feels that they have got the results earlier and that there is no volatility in the stock price around the results time until the announcement is made.

The sharing of information really depends on where the company is on the scale, whether it needs the capital markets or not, whether it is going to reach out to the market soon, whether it is for debt or equity and whether it is private or public. You have to look at all these three things and ask what is the objective of having PR or managing investor sentiment through PR. You then have to decide whether you are going to do it externally or in-house. Weigh the work to be generated versus the confidential nature of the work, because the more people that know ahead of time, the messier it can be when things happen that should not happen.

Question & Answer

One most common complaint against analysts is about their herd mentality. When stock is going good, you find recommendations for strong buys and vice versa when it is not so?

Mr Advani added that India did not have the depth of market required and that if there is bad news, everybody is caught. Barring 30 stocks where there is serious liquidity, one will be able to get out of a large position. Bad news will bring sell from everybody. He further added that part of being consistent is having your quarterly results what ever they are in the same newspapers eliminates any inconsistency. Mr Advani also said that there should be no shocks between unaudited quarterly reports and audited results when they come out at the end of the year.

What about corporate governance in India? Is the regulator doing anything to enforce this?

Mr Advani replied that India has a swadeshi mentality and is just only beginning to realise that India is committed to sign GATT and open trade barriers by 2002. The point is that SEBI has an insurmountable job and are not as well staffed, as they would like to be and think that there are other things that have a higher priority. For example, they would rather chase HLL for 2000 shares from UTI than to deliberate what should be the right norm. An illustration is the fact that SEBI's website was shut for three days, and you couldn’t get into it because the server was down.

What is the kind of plan that ensures that the right kind of information is supplied to the analyst at the right time.

Mr Advani replied that like having a company’s report on the website having annual reports of the last five years on website would take care of a lot of the questions. Some analysts prefer it to be in both the text form which they can print so as to analyse the numbers as well as scanned to look at. They like to see the layout as well, so, offer both options and then 75 per cent of the questions that they may want to ask are already answered. If you have got the quarterlies also there, very little is left to be answered.

What does a PR person or company need to be careful about when they interact with media. What are the kinds of things that can be misinterpreted, misconstrued or misreported? As there are enough instances where companies have shared information & have actually got into trouble because of coming out clean.

Mr Advani added that unfortunately one couldn’t hide the truth forever. Truth always comes up to the surface and has to be dealt with sooner rather than later. Regarding accountability of the media may be if a CFO has concerns, the conversation should be taped, as this in itself will make the journalist extra careful about what they write. So even if the journalist feels like writing something which was hinted at but not actually said, then the CFO can say that he did not make that statement.

How should a person respond to a query when they can't really say any thing at that point of time?

Mr Advani answered that it would be wiser to say that you would have to get back to the caller. He advised that the relationship with the media is going to be based on how you deal with them. The media will not want to call up a person if they know that they are not going to get anything from them and in this respect that person would be useless in their function. Ideally, one should appear open even though you may not be saying anything.

What are the responsibilities of the regulator? Especially in the cases where investors frequently absolve themselves of the responsibility of investing in a stock.

Mr Advani replied that he didn’t think it was SEBI's responsibility to retrieve money. However, it was SEBI’s responsibility to ensure that all disclosures are made properly and if they are not, to hold somebody accountable. For example, in theory you can state in your prospectus that you are floating a company and the object of the company is to lose money. You can file this prospectus with SEBI and the general public can come and invest in it. In fact we were just toying with this idea in today's context to have your own sub mutual fund within a mutual fund because the way the tax laws are written, if you invest in a mutual fund, you can enjoy tax free income. On the other hand, if you invest yourself, you are subject to tax on the profits you make. So in theory it is worth setting up your own mutual fund just for your own money. In that case to discourage everybody else you will put in a statement that our objective is to lose 20 per cent per annum and file it. SEBI is not in a position to say that you are making a wrong statement but as long as somebody puts his money into it & you lose 40 per cent, they can't help you to recover the money, after all the prospectus said it.

SEBI's rule is to make sure that if an underwriter is making an underwriting commitment, they fulfil it, or if a company is making a disclosure, it should be the honest truth and they should be enforcing that. If shares are not transferred to a company, then it is their responsibility to make sure that the mechanics of the market work properly and that all intermediaries involved do their job properly. If there is a misrepresentation made, it should be taken care of.

For example, in the US, every time you file a prospectus, you will also have to file it state-wise. It is called Blue Sky laws. If you sell an investment in a state where it is not registered the regulators can hold you financially accountable.

A lot of our business is done on telephone & the solicitations are made on the telephone. In India we don't even have the regulation to show the difference between solicited and unsolicited business, whether the customer has been coerced into buying something or whether the customer has knowingly bought something or whether the customer has called up to say that they want to buy. There is no differentiation yet in the rule. Even today in the share market, it is **buyer's beware** because the quality of paper is still not sacrosanct. These reforms are in progress and SEBI is trying to do a reasonable job in trying to put the number of scams down.

(Excerpted from the presentation made by Pashupati K Advani, Director, Advani Share Brokers Pvt. Ltd., at PR Pundit's workshop – The Contemporary Portfolio, held in Mumbai on March 17, 1999)