



BANNED WORDS AND PHRASES

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Introduction

Having been involved in financial analysis for nearly four decades, I have increasingly formed the view that there are some words and phrases which are used by company management, analysts and commentators which investors should be wary of. Apart from being an abuse of the English language, they represent a combination of woolly thinking and a desire to disguise or divert attention from a problem.

Take Wal-Mart, the US based retailer. In a recent results presentation the management used the term leverage no less than 80 times. Click [here](#) to access their IR website.

Leverage, deleverage, leveraging, and lever – 55 times during the analyst’s conference call, a further nine times in the earnings release and 16 times in the media call.

Now leverage has a legitimate meaning. It can mean to use a rigid bar to move an object. Or it can mean the use of borrowing for finance which magnifies or leverages the operating results of a business. It should not be used, as Wal-Mart did, to say “ASDA is a leader in online grocery delivery, and we’ve leveraged that experience in the US”. Copied, relied upon, benefitted or learnt from, but not leveraged. Other examples from the Wal-Mart call include:

- “we will continue to invest in leverage initiatives”
- “our global leverage teams”
- “global leverage services”
- “our store operations team continued to leverage technology”
- “Japan also leveraged operating expenses”

It is probably no coincidence that this mass outbreak of Banned Word Syndrome (or BWS - as you have to have a three letter acronym) accompanied a set of results in which Wal-Mart revealed falling sales.

But this is only one of several categories or words or phrases which should be not be used by sensible management, analysts and commentators. When they are used, and particularly when there is a proliferation of them, as an investor your defence mechanism should be fully engaged.

Words that don’t exist

The simplest category of words that you should be wary of are those which do not exist. Their use almost certainly means that you have encountered management gobbledegook. If you are typing something yourself a small clue is that if the word becomes underlined in red or otherwise highlighted, your software application is trying to tell you either that the word is mis-spelt or that it doesn’t exist. If it is one of the following, it is because there is no such word:

Agenderise

Folderise

Futurisation

Words which are used for a purpose other than their true meaning

Another category of words which shouldn't be used, and which should raise your suspicions when they are, is words which are used for a meaning beyond their original purpose.

Cadence: if you listen in to companies' quarterly or half yearly earnings calls with analysts, sooner or later you will hear an analyst ask about "the cadence of the quarter". What they mean is "You have given us the quarterly sales figures but can you tell us the monthly figures", as well as exemplifying analysts' obsession with short term performance. Cadence describes the rhythm of a beat, sounds or words.

Ecosystem: you will hear a lot about the Apple "ecosystem" or the Google "ecosystem" primarily from bulls of their shares. Coincidentally, or not, I can remember bulls of Nokia's stock using exactly the same term to describe its mobile phones in 2000 before it began its slide to near oblivion. An ecosystem is a system formed by the interaction of organisms with their environment.

Footprint: should only be used in relation to feet or footwear, not the area of operations of a business.

Holistic: used to suggest that in operating or making a decision a business takes all factors into account. Its use should be limited to types of therapy.

Key: you should only describe something as "key" if it relates to a lock, so no "key objectives" or Key Performance Indicators (a banned expression which can be used as a three letter acronym is double jeopardy).

Leverage: as mentioned in the introduction.

Pot: I have lost count of the number of failed bankers and CEOs whose pension "pot" has been the subject of critical reporting and subsequent rage. I wonder if they would have suffered the same fate if it was correctly described as a pension fund. A pot is a type of container.

Runway: used to describe the scope for development of a product or service as in "There's plenty of runway to develop sales for this product". A runway is a strip on which an aircraft lands or takes off.

Space: businesses will sometimes describe themselves as in the "fund management space". Space is what exists beyond the Earth's atmosphere. Businesses operate in sectors.

Talent: often used erroneously in substitution for the word staff in an effort to imply that the staff are talented.

Words which are meant to sound profound when a simpler word will do

Another category is words which are used when a much simpler word exists in an effort to sound profound. You will often hear management and investment analysts talking about granular data or granularity. Detail is a perfectly good word. Other examples are:

Circle back: in a discussion or management meeting you will sometimes be told that you will “circle back” to a topic later. Why we have to “circle” is beyond me. Why not just go back or even return.

Momentarily: we are sometimes told, mainly by Americans, that something will occur “momentarily”. They mean soon.

Reach out: if someone tells you they are “Reaching out” to you, you might ask how this is different to or better than contacting you.

Verbs used as nouns

Beat: analysts and some “investors” (I use the term loosely) are obsessed with whether or not companies beat or miss analysts’ revenue and earnings forecasts. It seems never to have occurred to them that a) the expectations are mostly set by either i) the companies telling the analysts what to forecast - not much chance of missing that, or ii) the analyst extrapolating past performance; and b) that it rarely matters how a company performs in any one quarter, or even year. However, this has not stopped analysts becoming so obsessed with this subject that they have turned the word beat from a verb into a noun - so you will hear analysts say when referring to a company’s results “That was a beat”. A beat has several meanings but to exceed earnings expectation isn’t one of them.

Hyperbole

Global: “global” is a common example of hyperbole. Very few businesses are truly global. They may be international, but that is not the same. And when “global” is used in job titles it is almost always an example of status inflation. Whenever I am given the business card of a Head of Global Sales I am tempted to ask how many globes he or she has sold.

Iconic: a newspaper this year ran a cycling event which it described in its advertising as “iconic” even though it was the first time it had run it. The Tour de France is iconic, a ride around the Surrey Hills isn’t.

Just plain silly

Sit down: how often are you asked “Can we sit down and discuss xyz”. Why do you have to sit down to discuss something? The Privy Council doesn’t (other than the Queen). I think what the questioner means is “can we meet?”

Steering Committee: always be wary of any organisation which is run by a Steering Committee. Would you ever steer a boat or a car by committee, and what do you think the outcome would be if you did? Organisations run by steering committees are unlikely to achieve good results in my view.

Smith’s Law

Which brings me onto a type of expression for which I am laying claim to a new law. Smith’s Law is that you should never use an expression if its opposite is so nonsensical that you would never say it. I have seen innumerable companies say they have a strategy of “select acquisitions”. Would anyone ever admit to a policy of indiscriminate acquisitions (although it seems that’s what many of them actually do)? The new Governor of the Bank of England, Mark Carney, has been struggling to get the markets to accept his “forward guidance” on interest rates. He might like to pause to think whether he would ever use backward guidance.

Affordable housing: we are constantly told that government policy and local planners attempt to promote “affordable housing”. The opposite is unaffordable housing, but presumably someone can afford it or no one would own it.

Completely turned off: next time you are on a flight prior to take off listen carefully to the announcement in which the cabin staff will tell you that your phone and other electronic devices must be “completely switched off”. Is there a way of incompletely switching them off then?

Forward planning: do you ever plan for the past?

Freshly prepared: often used for food. Did anyone ever advertise food which was prepared a lot earlier and allowed to become stale?

Group together: can you group apart?

Natural cheese: branding and marketing is not exempt from this. Kraft has a product called “Kraft Natural Cheese”. Do they have a product which contains unnatural cheese? If so, I hope I never eat it.



Order ahead: can you order for past delivery?

Pre marketing: in stockbroking you will hear people talk about “pre marketing” a new issue of shares. So that’s the marketing you do before the marketing then.

Positive growth: what is “negative growth”? I think the answer is shrinkage.

To be honest: implies that when you are not using this introductory phrase you may be doing something other than being honest, and would you start by saying “To be dishonest”?

At Fundsmith we keep a banned word count for the companies we analyse because we think they provide an insight into their management. Our investment approach is about investing in good companies. They are best spotted by their good results-we do not need managements to tell us how good they are-but when we do listen to management, the straight talkers get our vote and our money. A classic example is Domino’s Pizza which began a turnaround in 2009 by publishing harsh criticism from its customers such as ‘Pizza was cardboard’. You only do that if you intend to change. Since then the shares have risen from \$8.50 to \$68. It has been one of our largest holdings since the inception of the Fund.