Read Their Lips: How to Profit from Exec Speak

By Bennett Voyles

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For all the information advisors use to make investing decisions — research reports, news stories, magazine profiles, earnings squawks — the odds of a rep spotting trouble in a company before it's apparent in the stock are very low. The analysts, pundits and journalists continually miss the signs.

But there may be a simpler gauge to predict an upcoming blip in performance: the performance of the CEO. How the boss talks or writes about the company, and even the gestures he or she uses in public appearances, can be more revealing than all those analyst prognostications and the fine print in the annual report.

Or so say experts in psychology and communications. Psychoanalyst and executive coach Michael Maccoby, for example, says one indication a CEO is growing out of touch with the goals of a company is a not-so-subtle shift in pronouns: “The number of I's goes up, and so do the me's and mine's,” he says.

You can also learn a lot by watching the CEO's body language, says Wood. For example:

Hiding hands

“If you're trying to withhold your emotions, you'll try to hide your hands,” Wood says.

Sucking in lips before answering a question

Ordinary jitters “tend to be light, fast and feathery in their movements,” Wood says. By contrast, a deliberate sucking-in mannerism shows that the person knows something he is not sharing.

Licking lips after a statement

Typically, people lick their lips before answering a question. If they lick their lips afterward, Wood says, watch out.

Of course, most CEOs are not going to betray their anxiety when speaking to the press or investors. They spend hours polishing their presentation skills and hours more being coached for major events. When dealing with the carefully coached, Wood suggests writing down your initial impression right away, because executives at the beginning of presentations often have not yet settled into their practiced rhythms. If you are watching someone on video, try looking without the sound, she says.

Get It In Writing

Writings by (or attributed to) CEOs are another venue for spin-detection. For the past five years, L. J. Rittenhouse, CEO of the investor relations consultancy andBEYOND Communications, has graded 100 shareholder letters of the Fortune 500 and rated them according to their clarity and completeness.

Rittenhouse has found that companies that receive good grades on their letters tend to do better in the market. Rittenhouse measured “corporate fog” — jargon and business-speak that are telltale signs of evasiveness. In the top 25 letters, she found 11 percent of the text involved such obfuscation, compared to more than 50 percent for the bottom 25. The 25 companies with the best letters in 2001, went on to outperform the 25 worst in 2002's rough market — falling 13 percent in value versus 18 percent.

Another telltale sign, says Rittenhouse, is how forthright the company is about its problems. A company that talks openly about its challenges is sending another message: This is a strong management team, she says. Rittenhouse notes that in his latest shareholder letter, Warren Buffett identified 12 problems Berkshire Hathaway's businesses faced, and what he planned to do about them. “Not just one, not just two, but 12,” she says. By contrast, Ford Motor Co.'s shareholder letter simply acknowledged that “We had a big loss” in 2002, but didn't explain why or how it planned to fix the problem.

“It's human nature — none of us likes to expose vulnerability or weakness, particularly if you're supposed to be an all-powerful CEO. And yet the paradox is that investors love it,” she says. “If you want to build credibility, you do so by showing your vulnerability, showing that you're really on top of your business.”

Lastly, pay attention to how the CEO describes earnings in the shareholder letter. If it cites a different number than you see in the earnings statement, there better be an explanation. About a quarter of the time those numbers don't, Rittenhouse says. And run, don't walk, from a company whose CEO doesn't mention earnings. It happens more than you might expect. “They don't even mention it!” she says. “That's like saying, ‘Look, Mom, I graduated, but I don't know where my report card is.’”

Personality Cues

Maccoby, a Washington-based management consultant, also looks at the CEO's personality for clues as to how successful the company will be. IA boss who is obsessed with productivity — a person who wants to make an old-school company better and better — is not likely to do well at a growth company. Conversely, Maccoby says, the kind of visionary, change-the-world executive he writes about in his book *The Productive Narcissist* (Broadway Books, $18.87) is the wrong person to lead an established business.

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