

WHAT IS QUALITATIVE ANALYSIS?



Qualitative analysis uses subjective judgment to analyze a company's value based on non-quantifiable information, such as management expertise, industry cycles, and research and development strength.

The two techniques, however, will often be used together to examine a company's operations and evaluate its potential as an investment opportunity.



The distinction between qualitative and quantitative approaches is similar to the difference between human and artificial intelligence.

Quantitative analysis uses exact inputs such as profit margins, debt ratios, earnings multiples, and the like.

These can be plugged into a computerized model to find an exact result, such as the fair value of a stock or a forecast for earnings growth.



Of course, a human has to write the program that uses these numbers, and that involves a fair degree of subjective judgment.

Once they are programmed, models can perform quantitative analysis in fractions of a second, while it might take even the most highly-trained humans minutes or hours.



Qualitative analysis, on the other hand, deals with intangible, inexact concerns that belong to the social and experiential domain rather than the mathematical one.

This approach depends on the kind of intelligence that machines (currently) lack, since things like positive associations with a brand, management trustworthiness, customer satisfaction, competitive advantage, and cultural shifts are difficult, arguably impossible, to capture with numerical inputs.



Qualitative analysis may sound almost like "listening to your gut," and in fact, many qualitative analysts would argue that gut feelings have their place in the process. That does not mean, however, that it is not a rigorous approach. It can consume much more time and energy than quantitative analysis.



People are central to qualitative analysis. An investor might start by getting to know a company's management, including their educational and professional backgrounds. One of the most important factors is their experience in the industry.

Do they have a record of hard work and prudent decision-making, or are they better at knowing—or being related to—the right people?



Their reputations are also key: do their colleagues and peers respect them? Their relationships with business partners are also worth exploring since these can have a direct impact on operations.



Company Culture and Qualitative Analysis

The way employees view the company and its management is important.

Are they satisfied and motivated, or they do not like their bosses? The rate of employee turnover can indicate employees' loyalty or lack thereof. What does workplace culture say about the company?



Overly hierarchical offices promote interest and competition and reduce productive energy; a sleepy, unmotivated environment can mean employees are mainly concerned with punching the clock. The ideal is a vibrant, creative culture that attracts top talent.



Qualitative Data

Gathering data for qualitative analysis can sometimes be difficult. Fortune 500 CEOs do not sit with retail investors for a chat or show them around the corporate headquarters.

Warren Buffett can use qualitative analysis effectively because people are willing to give him access to their time and information. The rest of us have to go through news reports and companies' filings to get a sense of managers' records, strategies, and philosophies.



The management discussion and analysis (MD&A) section of a company's annual reports and quarterly earnings conference calls provide a window into strategies and communication styles. Clear, transparent communication and coherent strategies are useful. Buzzwords, unclear words, and short-termism are not useful.



Qualitative data can also be collected in a number of other ways including interviews, panel groups, participant observation, archival work, and document analysis. Qualitative data is often read carefully and coded thematically to identify themes, patterns, and trends.



Qualitative Analysis in the Business Context

Customers are more crucial to a company's success than management and employees since they are the source of its revenue.

If a company places customers' interests before shareholders, it may be a better long-term investment. If feasible, it's a good idea to try being a customer.



Say you're considering investing in an airline that has lowered its costs, beat earnings estimates in three consecutive quarters, and plans to buy back shares.

Say you're considering investing in an airline that has lowered its costs, beat earnings estimates in three consecutive quarters, and plans to buy back shares.



When you try to use the airline, however, you find the website is having bugs, the customer service representatives do not respond properly, and your fellow passengers are irritated.

The negative experience tells you that the company has a lack of priority for its customers and to be careful investing in the airline.



A company's business model and competitive advantage are vital components of qualitative analysis.

What gives the firm an edge over its rivals? Has it invented a new technology that competitors will find hard to replicate, or that has intellectual property protection?

Does it have a unique approach to solving a problem for its customers? Is its brand globally recognized? Will there still be a market for it in twenty years?



If you can imagine another company stepping in and doing what this one does just a little bit better, then the barrier to entry may be too low. Why will an unestablished company be the one to create or disrupt its chosen market, and why won't it then be replaced in turn?



Example of Qualitative Analysis in Business

A CEO who dropped out of college would be a red flag in some cases, but Mark Zuckerberg and Steve Jobs are exceptions.

A look at McDonald's Corp's (MCD) financials a few years ago would have told you nothing about a looming backlash against cheap, unhealthy food.



The qualitative approach is vulnerable to distortion by blind spots and personal biases. Quantitative measures can act as a check on these tendencies.



**THANK YOU
FOR READING**



**LEARNED
SOMETHING NEW?**



**FOLLOW ME FOR
SUCH CONTENT**

