Leder, Michelle – Financial Fine Print

Wiley, 2003, [Equity Investing] Grade ★★★

Reading *Financial Fine Print* takes me down memory lane to the early noughties when this reviewer – deemed "a sceptic and perma-bear" – created several "Black Lists" consisting of companies with multiple red flags in minefields like pension debt, option schemes, goodwill, GAAP-gaps, off-balance sheet debt etc. Michelle Leder, the author of *Financial Fine Print*, found her early lessons in the tragic sagas of Key Florida Bank and Qwest Communications, putting footnote reading and 10-K digging front and center. As the book was researched and written in 2002-03, it is heavily influenced by the ebullient "New Era" of 1995-99.

The book is organized around the topics mentioned above, albeit with racier chapter headings (*Pensions in Wonderland, Optical Illusions*). No order of importance is assigned to the different hot spots, which likely is correct. It is not the size of the cockroach but the number of them that would signal hidden garbage. Again it is crucial to note that forensic accounting rarely means detecting outright fraud but mainly about interpreting a company's real business behavior through the language of its accounts. Earnings purity often means business purity. "*If you had the right numbers on your income statement, you didn't need as many footnotes*". In this sense, merely utilizing the red flags identified in the book can give you valuable hints.

But too often, *Financial Fine Print* falls into the "tabloid trap" of how to discover the next Enron. These events are thankfully rare species and by promoting this angle books and articles do their investor-readers a disservice. Instead, an even bigger part could have been spent on the theme of longevity of accounting information. "*The idea, in this age of real-time numbers and analysis, that something like a 10-K could still be useful six months after its release is an important one to think about. Many investors tend to approach investing like the 100-yard dash, where speed is everything. But sometimes the tortoise can really beat the hare*". Especially, one might add, if everyone trains to be a hare.

Henrik, Andersson, January 13, 2015

Financial Fine Print is very much linked to Thornton O'glove´s *Quality of Earnings*, both spiritually and literally. O'glove has written the foreword to the book and the author explicitly states the inspirational aspect of *Quality of Earnings*. But while the latter was written with the benefit of over 20 years of experience, *Financial Fine Print* comes from almost the opposite angle. Subsequent to the publishing, Leder followed in the footsteps of O'glove and started a professional newsletter called Footnoted* which analyzes and highlights companies with question marks in their filings.

And in the name of division of labor, it is a needed service in an increasingly headline-dominant world. Indeed, reading footnotes takes time, is of asymmetrical usage and demands an intense focus. From experience, even going through the footnotes in the last three annual reports of an American company widely viewed as a "straight shooter" took 4-5 hours. Reading the entire 10-Ks took two full days. Regulations and the cult of shareholder value maximization have rendered these filings into monsters. But some are soldiering on. "*I want those Ks and Qs read from the back. If you go to one less [overcrowded] analyst conference in order to sit in your office reading footnotes and asking tough questions about what those footnotes do and don't say, you're going to be much more likely to catch the next problem*" (J. Thomas Madden, Federated Investors).

Signing the Sarbanes-Oxley into law, George W. Bush said: *"This law says to shareholders that the financial information you receive from a company will be true and reliable"*. Let's just say we are not quite there yet, even with the noughties' second meltdown and its own tombstone in form of The Volcker Act. Will we ever get there? Not until they take the "Capital" out of Modern Capital Markets. *"They'll never be able to legislate against dishonesty."*

So if only to add some protective coatings to your investor armour, you could do a lot worse than reading *Financial Fine Print*. But an even better layer is provided by *Quality of Earnings*.