

## Can You Make Great Sushi Out of Crappy Fish?

By Mariko Gordon

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With both boys at boarding school, we sometimes find ourselves at loose ends on weekends and unable to get off the couch. Even when my sons *are* home, we still don't do a whole lot, as they keep vampire hours, stay tethered to no fewer than three electronic devices at a time and partake in adolescent activities with their friends (parents most definitely not invited).

So I was delighted when on his most recent visit home, my eldest, Haden, suggested that we all go see [Jiro Dreams of Sushi](#), a documentary about an 85-year-old sushi chef. Procuring tickets involved complicated logistics (what movie theater is cash only, for pete's sake?), including the "rousing of the undead" ceremony needed to get Lucas up in time for a 4 p.m. showing.

Whether you find the concept of raw fish appealing or not, go see this movie.

Jiro Ono left home at 9 to apprentice in a sushi restaurant and dedicated his entire life to the pursuit of excellence in his craft. His 10-seat restaurant in the Ginza subway station in Tokyo was the first to receive 3-stars from the Michelin guide.

He serves nothing but sushi, reservations need to be made months in advance, and dinner will set you back at least \$300. His sushi is art masquerading as food.

In a culture where perfectionism is most decidedly *not* viewed as neurosis, Jiro Ono is hardly an outlier. Still, the way he spoke of his life's work almost made me cry. His desire to continually take sushi to new heights is a spiritual calling - that striving is what gives his life meaning, which takes it way beyond the realm of mere obsessive compulsiveness.

Part of being able to serve fabulous sushi is using fabulous ingredients. In Tokyo, this means going to the [Tsukiji fish market](#), the largest fish market in the world (400 species sold, 700,000 metric tons moved in a year, \$5.5B worth of annual sales).

The movie follows Jiro's 54-year-old son, Yoshikazu - who like Prince Charles lives in suspended career animation as heir apparent - as he makes the rounds of the market.

Of course, Yoshikazu only buys from vendors who share the family's obsession with



quality. At one point, for example, their tuna wholesaler says something along the lines of, "There's only one tuna that's the best at every auction and that's the one I want to buy. If there isn't anything good, I won't buy at all."

Every vendor in the market is a specialist, from octopus to eels, and they trot out only their best for Jiro's son.

All of which got me thinking... if stock picking were like making sushi, and if we were worthy of Michelin 3 stars, who would *our* favorite purveyors be?

After all, every day in the stock market is like navigating Tsukiji, a place of controlled chaos, subcultures, and gamesmanship. If the key ingredient to *investment* sushi is new ideas, then we too need to understand which "idea vendors" have the most to offer.

And while we prefer to catch our own fish (find our own ideas), we *have* to shop the Tsukiji of stocks, if only to know what the going price for merchandise is or to educate ourselves on whether or not that red spotted fish with the purple fins (a company in an industry we may not know well) is edible.

Over the past few months, I've spent a lot of time talking to the Street. I am doing a review of who are the most helpful in our perpetual hunt for new ideas; given our low-turnover strategy and concentrated portfolio, we have to be strategic with our clients' commission dollars.

Most of our commission budget pays for meetings brokers arrange with companies, as well as research conferences. We allocate what's left to their sell-side analysts and, as there's only so much time in the day and so many dollars to play with, we have to pick and choose who's worth talking to.

These are the key things I keep in mind when shopping for worthy analysts:

1. You have to pinpoint the "axe" for a given stock. That is, the person most people listen to, whether you think they should or not. You want to know if they're the type to hold a grudge; if they are, you have to find out if the CEO has ever dissed them.
2. You have to talk to analysts whose firms aren't investment bankers for the company. Thanks to new rules, sell-side research doesn't have to flog their investment banking clients. What can I say? My old habits die hard. I still like to talk to those without banking relationships.
3. You have to know the analyst's brokerage firm policy in terms of the mandatory number of buy, sell and hold ratings, as well as their required target ranges. That's how you'll know how emotional that last downgrade was, or why that particular analyst whips his or her ratings around every time the stock moves a few points.



4. You have to know what's going on in the *Institutional Investor* sweepstakes and how that might influence behavior. [Institutional Investor](#) is a trade magazine whose subscribers get to vote on their favorite sell-side analysts. Rank and compensation go hand in hand, naturally. Not that that should influence behavior (wink).
5. You have to sort out who has a nose for stocks that go up, even if their models are riddled with lots of formulas to nowhere. Some analysts are best in laying out the quantitative case. Others traffic in the "human side" of investing, from knowing where the bodies are buried to who's sleeping with whom.
6. You have to figure out who has the attention span of a golden retriever surrounded by squirrels in Central Park. These sorts of analysts are prone to think of the upside/downside in a stock as measured over days; they enjoy deriving only negative conclusions from the most innocuous news item (not that the shorts generate lots of commissions, or anything).
7. Finally, you have to find out who does credible and original channel checks vs. just recycling the earnings release and conference call into more dead trees; whose valuation work is based on sound principles of finance vs. relying on the greater fool theory; and who is the first to downgrade or upgrade and who is the last.

Don't get me wrong - I'm not putting down the occupation of sell-side analyst. Rather, I list all of the above to show just how *difficult* it is to be one, given so many conflicting forces pulling in real time. Indeed, two of my Daruma colleagues have done sell-side stints, so I have some inside perspective that causes me to have great respect for the profession.

Having said that, not every octopus, even after having been massaged by hand for 45 minutes, will make the best sushi. I would be letting our clients down if I didn't re-evaluate our vendors every so often to make sure we are getting the best ingredients possible.

After all, you can't make great sushi out of crappy fish. Just ask Jiro.

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