

REVIEW

Edited by ROBIN GOLDWYN BLUMENTHAL

It's in the Mail: *Banking on Clarity*



William Waitzman for *Barron's*.

A study of the clarity of CEO letters finds a link between a lack of candor and poor financial performance

Those who bemoan the lack of warnings leading up to the financial crisis would have done well to peruse the pre-crisis CEO letters from the firms at the center of the vortex.

In that oft-maligned corporate document, investors would have found a rising level of

obfuscation, especially by AIG, Citigroup and Wachovia—all of which had to be rescued. The CEO letters of Merrill Lynch, which was saved from extinction by Bank of America, were uniformly fuzzy for a decade preceding the financial collapse. The bleak assessment comes from New York-based Rittenhouse Rankings, which has been evaluating candor in the letters of 100 top companies since 1998.

"What our system measures is communication risk—the likelihood of weak execution and substandard financial performance due to executive communication that ranks low in candor and high in fog," says Laura Rittenhouse, an investor-relations specialist who conceived the study.

Idle Talk?

A survey of CEO letters reveals a notable correlation between straight talk and stock performance.

Indeed, Rittenhouse says that her model, which includes more than 150 topics typically found in the letters, predicted the demise of Bear Stearns.

Ominously, the latest survey indicates a deterioration in candor among one-quarter of the companies canvassed, as well as a continued decline in clarity among leading U.S. financial firms, including Wells Fargo and AIG. One that's on the upswing: Citigroup.

The survey doesn't represent mere idle chatter. Rittenhouse has found a clear link between clarity and stock performance. She points to Enron's last letter, which referred to a profit number that wasn't evident in the income statement. Enron's stock was at \$60 when the letter appeared. Six months later, it was out of business.