



## Seek Truth, Not Truthiness, From CEOs

**Selena Maranjian**  
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Darn those vexing annual reports! They arrive each year, piling up on our desks or coffee tables. We *mean* to read them, but we often just don't make the time to do so. That's too bad, because they can be rather informative. [Warren Buffett](#), for example, gleans a lot from the many annual reports he reads. Just imagine if we could pore through the annual reports of 100 of the world's biggest companies each year. Imagine the impressions we could form of the various CEOs, after reading their letters to shareholders.

Well, here's some good news: The folks at Rittenhouse Rankings do that reading for us each year, and they recently released the results of their 2007 Rittenhouse Rankings CEO Candor Survey. I [reviewed](#) their 2006 results, where they found CEO candor to be slipping. Well, the situation doesn't seem to have improved. This year, they cite higher levels of "truthiness," which is a term coined by comedian Stephen Colbert to reflect not the truth, but "something that seems like truth -- the truth we want to exist."

They also claim that "dangerous fog," defined as confusing and misleading statements, is up 66% from five years ago. Meanwhile, "benign fog" -- statements needing a little more explanation, or statements that add clutter -- has fallen sharply. Overall, "fog" is up 21% in the past year and 85% over the past five years. This is a big deal, reflecting much movement away from clarity. (And clear communications are what we need if we're to be able to assess a company and its management.)

Here are the five companies that were ranked best for CEO candor, based on efficiency, comprehensive content, and fog:

- **Eaton** (NYSE: [ETN](#))
- **Entergy** (NYSE: [ETR](#))
- **Wells Fargo** (NYSE: [WFC](#))
- **Novartis**
- **Target**

And the five at the bottom:

- **Humana** (NYSE: [HUM](#))
- **ServiceMaster**
- **Boeing** (NYSE: [BA](#))
- **Estée Lauder** (NYSE: [EL](#))
- **News Corp.** (NYSE: [NWS](#))

## **Fog gets in my eyes**

Seeing the list made me eager to seek out some examples of fog, so off I went. Let's start with Humana Chairman David Jones and CEO Michael McCallister. Note that the health benefits company has actually done well until recently. Over the past five years, it has averaged a whopping 29.7% annual gain, but it's fallen more than 30% so far this year. Here's a snippet from the men's 2007 letter to shareholders addressing the potential business impact of the 2008 presidential election:

[W]e believe each of the [presidential] candidates brings a thoughtful perspective to the many health care challenges our nation faces. All of their proposed plans can lead to opportunities for our sector as a whole and Humana specifically. With respect to Medicare, we have a long history of working successfully with leaders of both parties in Congress and the White House.

That might ease shareholder worries, but it offers no specific information.

But I actually liked much of what I saw in their letter, including the words "Significant Shareholder" under both of the executives' names. They clearly want us to see that their interests are aligned with shareholders'.

And don't forget that size can matter. While CEO letters often go on for several pages, Estée Lauder CEO Leonard Lauder's 2007 letter to shareholders was a mere 264 words, about as long as the first three paragraphs of this article. As you might suspect, there were few details in it.

## **A shareholder letter with substance**

Here's a snippet from the 2007 letter to shareholders from Eaton CEO Alexander Cutler, laying out the company's strategy: "Since this decade began, Eaton has been on a mission to achieve diversification across three key dimensions: business balance, geographic balance and balance through the three phases of the economic cycle."

He offers many specific numbers reflecting the company's growth and progress, and outlines a list of acquisitions and what they bring to the company. One interesting tidbit stood out to me:

For the first time in Eaton's modern history, Eaton's profits increased in a year in which the North American heavy-duty truck business declined. During the year, North American heavy-duty truck markets declined by a whopping 44% while our fully diluted EPS grew by 6%.

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