

## **“Swinging Like a Pro”**

### **Four investment professionals share their experiences in preparing for the 2008 CFA® examination**

With less than a month to go until the June Chartered Financial Analyst® (CFA®) examination, candidates are now apprehensive about the final weeks of preparation leading up to the exam. Kaplan Schweser was recently able to catch up with four current CFA® candidates. Each candidate is confident as the exam draws nearer due to a diligent study regimen that began as early as last September.

Possessing confidence is tricky considering the fact that fewer than one in five investment professionals who enroll in the CFA® Program ultimately pass all three levels and become a CFA® charterholder.

Nearly eleven months removed from their experience with the Level 2 examination last June, the four candidates—Kevin Zvargulis, Adam Kindreich, Montine Jordan, and Michael Smith—have taken a multi-disciplined approach that includes: extensive use of Schweser Study Notes, the CFA Institute curriculum, review courses, and practice exams. Two of the four candidates are at Level 3; seeking the rare tri-fecta of passing all three exams on their first tries. The other two have gotten past the Level 1 exam, before succumbing to the rigor of the Level 2 exam.

#### **Keys to Success: Preparation and Focus**

“The key to success, as always, is preparation,” said Zvargulis, a securities analyst and portfolio manager at the Swarthmore Group in Philadelphia. “I wholeheartedly believe that if you put in the time you will pass.”

He gets no disagreement from Kindreich, an equity analyst at Lombard, Odier, Darier Hentsch in Geneva, Switzerland. “Doing a bit each day, at least two to three hours in the weekday evenings and more on weekends...it’s about steady preparation,” he said. “You need to slowly but surely master the various techniques and formulas and get a grasp of how questions are asked and how to answer them.”

Both Kindreich and Zvargulis are Level 3 candidates and appear confident that the same approaches they used in 2006 and 2007 at Level 1 and Level 2 will again prove successful. The other two, Jordan and Smith, did not fare quite as well on Level 2 last year, but feel the experience has only strengthened their resolve to push through and try again.

“I need to test early and often enough so that I can save the final pre-exam week for optional testing and for general review,” said Jordan, an investment generalist at Hagin Investment Management in New York. “The final week before last year’s exam was utterly hellish and I’d like to be on my game enough this year so that those early days of June can be a bit calmer. I also will take the week before the exam off again, that certainly helps as well.”

Michael Smith, a portfolio manager in the wealth management division at Bank of the West in Los Angeles, attempted the Level 2 exam last year after having passed the Level 1 exam only six months earlier. He wasn't able to devote as much time to his Level 2 preparation as he would have liked, which he said won't be a problem in 2008. "Besides the increased amount of time and attention, my 'secret weapon' this year will be the absolute mastery of a number of key mechanics that I will be able to execute on-site with speed and precision, no matter how twisted around and 'triple-negative-awkward' the questions will be," he said. "For instance, the translation of the financial results from foreign subsidiaries, the calculation of free cash flow based on incomplete financial reports, and the valuation of currency swaps will likely be essential for at least half an item set each. While it's important to cover everything to some degree, it is also essential to pick a few likely targets and get REALLY, REALLY good at them. The most frustrating moments on the exam are those where you know what they are talking about, but you just can't find the right answer because the question is focused on a technicality that you never even thought of."

### **Application and Synthesis**

"The biggest difference between Level 2 and Level 3 is the degree of subjectivity in the responses as a result of the essay format," said Zvargulis. "On numerous occasions, I have found myself completely disagreeing with the answers in the book, especially on topics in which I have expertise. I am very worried about the prospect of answering questions in a manner that is not consistent with the curriculum, but is consistent with proper practice."

"Level 3 is focused on portfolio management and draws themes from other parts of the curriculum, like behavioral finance and economics, so you have to be prepared to answer questions that stem from different parts of the curriculum," said Kindreich. "As such, it is less structured than Level 2. The other big difference is of course that there's no accounting at Level 3. Other than that, some aspects of Level 3 are actually easier, like derivatives, where the calculations and understanding required at Level 2 were more complex than at Level 3."

If Smith and Jordan had thought repeating Level 2 of the program would involve a simple review of the material they covered last year, they would have been wrong.

"Level 2 seems more conceptually oriented than last year and it's also MUCH broader" said Jordan. "I don't understand the logic of pushing so much Level 1 material up to Level 2, and then also expanding the content, for example, the quant and portfolio management topics with big sections previously at Level 3. How much can we be expected to master at one time? It was a hard exam before; it feels just ridiculously so now. I'm just thankful I had a 'head start' by having to repeat."

By contrast, Smith doesn't view the changes at Level 2 as excessive from 2007 to 2008, but agrees there's more material to cover. "It would *not* be a good idea to try to reuse older materials," he said. "The core material may be the same, but the numerous changes to the 'dark arts of GAAP' alone all but require that you start over from scratch."

“Compared to Level 1”, continued Smith, “I find the Level 2 material to be significantly more difficult. In Level 2, it is definitely *not* enough to just have a good grip on the general concepts, plus a little logic and luck. There are countless relationships and formulas to remember, and if you can’t get them down to almost the *gut-reflex* level, you are going to have a really hard time.” Again, this means spending an inordinate amount of time with the material.

### **Candidate Viewpoints of the CFA® Institute Curriculum**

For the 2008 exam cycle, CFA Institute implemented a fundamental change to its past practices by bundling the official curriculum with enrollment fees. In the case of these four candidates, however, each had purchased the official curriculum in years past, so it didn’t represent a major change for them personally. But there definitely are mixed feelings about the utility of the CFA Institute-issued textbooks.

All use the CFA Institute text as supplements to Kaplan Schweser Study Notes rather than the other way around. “I actually have referred to the CFA®-issued texts much more than I did at Level 2,” said Zvargulis. “I rely on the text for clarification of points that I do not completely understand in the Schweser notes.”

“I haven’t really been using CFA Institute materials at all, just like previous years,” said Kindreich.

Jordan and Smith are a bit more forthcoming in their assessments of the CFA Institute materials. “Like last year, I’ve been consistently disappointed by the CFA®-issued readings,” said Jordan. “I flip through them, just to make certain that I don’t get bitten by topics that Schweser thought too minor to cover. But I have to force myself to do even that. The readings feel inconsolably dull to me; I just can’t keep my head focused when I’m trying to go through them. Schweser keeps my attention. For whatever reason, I can hang with their books for hours—I really learn from them—and the CFA® readings have me nodding off in minutes. I’m not proud of that, but it’s true.”

“The CFA Institute materials are not consistently good,” said Smith. “Some readings are outstanding, but others just stink. Most of the official readings would benefit from tighter editing—the stuff just goes on too long. Also, there seems to be a serious problem with the people who are writing the learning outcome statements (LOS). Some readings only have two or three vague items, while others have dozens of complex, multi-point statements. The worst readings end up leaving you with the feeling that you just wasted several hours of time looking at words that mean nothing without gaining the upper hand on a single LOS to show for it. The best readings are those with clearly articulated LOS that are well served by the text that follows, accompanied by examples and questions that actually illuminate the core proficiencies under consideration.”

## **Challenges and Difficulties for CFA® Candidates**

“The bond section was quite tough, apart from the numerical part therein which is easy,” said Kindreich. “Ethics is quite easy in the sense that I’m studying it for the third consecutive time. That’s not to say that the questions are easy, simply the material.”

“Nothing has been particularly difficult to grasp, and that has been a major difference in the curriculum for me this year,” said Zvargulis. “There were no entirely new concepts. At Level 1 and Level 2, I spent a great deal of time just trying to understand statistics and accounting. Without those two topics, this has been a breeze, and I am worried that it has been a little too easy.”

“Derivatives bit me last year, but I’m finding them much clearer the second go-round,” said Jordan. “All the topics are more comprehensible and straight-forward to me this year, as they should be.”

A curveball for which the four candidates say they must prepare is that, on the exam itself, CFA Institute will mentally test candidates’ abilities with unorthodox wording of questions. In practice, candidates say this emphasizes the need to “over-prepare.”

“Given that this is my second time through Level 2, I’m pretty OK with all of the concepts,” said Smith. “I now just have to get a good enough grip on them to withstand the question writer’s maniacal efforts to disarm me. There are boatloads of ridiculous formulas and obscure accounting rules to contend with, none of which are presented in anything less than the most abstract and confusing syntax. There is nothing as certain as the fact that the ONE you skip is the ONE that will be on the test. But just memorizing these things is not enough; you also must be able to employ them in the context of questions written with double- and triple-negative structures: *‘Is Berchtold wrong to say that Barney is right about disagreeing with Bah’lmarpha about his third statement in reply to what Bridget said about the client to which the Norwegian Mid Cap will soon be received as a tender offer as mentioned in the previous item set?’* So, it’s not just about the content; it’s about your ability to ‘swing it like a pro.’”

## **Preparing for Exam Day**

“I started with the more technical aspects of the curriculum and left GIPS and ethics for the end,” said Zvargulis. “The last two years I ended up studying ethics furiously at the end anyway despite the amount of time I had already invested in the topic at the beginning of the process. I am on schedule and have left three weeks for review.” A self-professed index-card fanatic, Zvargulis once again has pulled out the cards as a key component of his study. “I created a massive amount of index cards that I will rely on for review in the coming weeks. I am also hoping to spend a great deal of time on practice exams.”

“I’ve actually enjoyed having to hit the same curriculum (Level 2) this year as last,” said Jordan. “Though I have to say, I’m bitter about having to re-study things I passed in Level 1 two years ago. I’m finding that I understand things at an entirely different level this year, so it was good I was forced into a ‘do-over.’ That said, I finished all Schweser

readings by “Tax Day” (April 15<sup>th</sup> in the U.S.) and now I've pushed on to serious topic-by-topic reviews and QBank tests. I'm ahead of where I was last year at this point, but I should be. It's staggering to me how much additional information they collapsed into Level 2 this year. There's no way I could have passed this year if it was my first try.”

“At this point I have completed my work with the official (CFA Institute) texts, and worked through about 85 percent of the Schweser study guides,” said Smith. “I have started in on the QBank stuff and taken the first half of the first practice exam. As of last night, I was up to 381 hours of study, which is just over my target for this point. Overall, since the middle of September, I have averaged about 11.7 hours of study per week. For the last four weeks and going forward, I am aiming more at the 18- to 22-hour range. My total target for hours is 500, but I will probably end up with a few more than that. The key right now for me is to maintain my focus, get in a good three hours a day or so, and to start attacking my weaknesses as illuminated by the practice exams.”

“I've finished all the Schweser readings and am now doing revision,” said Kindreich. “I was slightly behind schedule as I started a review course recently without having finished the Schweser readings, but I've managed to catch up by working in the evenings last week and all this weekend. As I didn't really focus on the core CFA readings at all, I'm spending the next two weeks going through the questions at the end of each of the CFA study sections, though I'm already very familiar with the material and will not be spending much time on the readings themselves. Then I will attack Schweser's exam questions. But I'll leave that for the last four weeks before the exam.”

Not surprisingly, the two candidates who passed Level 1 and Level 2 on their first tries have not made major changes to the approach that has worked for them in the past.

“My previous years' formula worked well, so I didn't feel a particular need to change anything this time round,” said Kindreich. “What's different is that I have six full weeks between the CFA<sup>®</sup> review course I have attended and the exam this year, compared to four previously, giving me an extra two weeks to prepare.”

“I have not materially altered my methods,” said Zvargulis, “but one change is that I was sure to leave more time for review in May and I am planning on completing more of the practice exams this year.”

If the definition of insanity is using the same approach and expecting a different result, Jordan and Smith appear to be, well, sane.

“At Level 1, I needed umpteen test questions to reinforce all the terminology,” said Jordan, “but the item sets are an entirely different skill set, one I had not sufficiently mastered last year. I thought I had, but had not. I'm putting more focus on the concepts this year, pounding things into my humble mind deeply enough that I really understand all the different ways a given theory or model or formula can be applied or manipulated. I needed one more month of immersion last year to get there, and didn't have it.”

“My first attempt at Level 2 in 2007 was a dead sprint,” said Smith. “I passed Level 1 in December of 2006 at did not start up for Level 2 until the middle of February (2007). This was a disaster in terms of total time I was able to commit to the process. I had to do some triage on the amount of attention I gave each subject and I gave at least two-thirds of the official materials no more than a thin scan. My preparation with the Schweser materials was also rushed and I definitely did not have enough time left at the end to fully review and make use of the practice exams. This year, second time around, I started much earlier, lavished as much time as my brain needed on the CFA Institute texts, and plan on having all of May to reinforce both my strengths and weaknesses with aggressive use of QBank and practice exams.”

### **What Motivates CFA® Candidates?**

“The fear of failure or even getting tougher than expected questions is enough to keep me on the right tracks,” said Kindreich. “The last thing I want is to be in the exam and get a question I can't answer, wishing I'd put more work in earlier.”

“My motivation has been to not have to do this again next year,” said Zvargulis. “This has been an incredibly valuable experience and I am glad that I am doing it, but I'll be glad when it's behind me. I feel like once I have this designation I will be able to start truly establishing my career in the financial industry. This is the end of the beginning and I'm ready for it.”

“What keeps me going is my stubborn determination NOT to let this test beat me,” said Jordan, “and the unbelievably delicious feeling that comes when you close the exam and it's all over. After all the difficult preparations, it's a pretty heady feeling and I'm living for that right now. It's a feeling that has no parallel, at least not for me.”

“Generally, I am pushing hard against too much overtime at work in order to find study time on the weeknights,” said Smith. “My previous interests in things related to ‘recreation’ on the weekends have been replaced by a desire to just sort of sit somewhere and stare into space after I put the books down. This is definitely much bigger than I thought it would be when I started out on Level 1 in the fall of 2006.”

### **Level of Preparation (on a scale of one to ten)**

“I'm at a nine,” said Jordan, “hell-bent on passing this year. I will probably be grossly over-prepared, and there's nothing that says I may not still fail, but it will NOT be for lack of preparation. I've been plugging away steadily, but when April arrived, that clock ticking in my head definitely got louder. With May looming, it's getting pretty deafening. I so vividly remember how every moment counts as we get closer to exam day, so I'm being smart now and staying disciplined to hit my prime come exam day.”

“Mentally, I'm around a seven on the scale,” said Kindreich, “feeling quite prepared and ready. Previously, I felt the approaching exam was a bit intimidating and I was wondering how I could get through it. Now, just freshly back home after a review course, I feel more confident, and that steady work over the next five weeks will result in the same success I've come to know at the previous two levels. Five weeks is a long

time, a buffer of security, and should be enough to memorize remaining formulas and perfect the various concepts. Prior to the review course, I felt swamped by the quantity of information I had to take in.”

“I am working somewhere between an eight and a nine,” said Smith. “I am thinking about the material and the test pretty much constantly at this point, but I’m still working at a pretty comfortable pace. Starting earlier has allowed me to build up a lot more confidence than last year, and I am not expecting to do any monster, 12-hour cram sessions that leave me with bleeding eyes and a liquefied brain. I may end up attacking a little harder during the middle of May, but I think I’ve got a pace going that is just about right.”

“I have found Level 3 much less rigorous than either of the other two levels and that worries me,” said Zvargulis. “I have been much more relaxed and perhaps as a result less diligent in my studies. That’s not to say I haven’t been studying; it’s just that I have been able to stay on schedule with a lot less effort. On a scale of one to ten, my preparedness at this point is a seven.”

Worth noting, however, is that Zvargulis previously has acknowledged convincing himself that he was less prepared than he might have actually been as a mental tool for driving himself to study harder. His “seven” might be another candidate’s “nine” or “ten.” But, after passing Level 1 and Level 2 on his first try, you can hardly blame him for playing mental games with himself that have worked in the past.