

The June 2008 CFA® Season in Retrospect

Four CFA candidates talk about their experiences with the June 2008 exam

Most CFA candidates can relate to the overwhelming feeling of relief that washes over them as they complete the final session of the CFA exam. The past several months have been spent maintaining the delicate balance between work and cramming for the impending exam; free-time was a luxury that many could not afford during that crucial time.

Now that the exam is over with, leisurely activities that have once been pushed aside can start to take precedence again. Along with the release that coincides with finishing the CFA Exam, one can't help but contemplate its intricate details. The following questions will most likely come to mind as candidates mull over the complexities of the exam that has once dominated an entire year of their lives: what topics seemed particularly difficult or easy?, what would they do differently if they could start the process over again?, or what lessons have they pulled from their experiences?

“In terms of content, I thought the exam was skewed toward material that didn't play to my strengths,” said Adam Kindreich, a Level 3 candidate and an equity analyst at Lombard, Odier, Darier Hentsch in Geneva, Switzerland, “like the more technical aspects of hedging, futures, and bonds. I saw nothing on portfolio performance attribution between currencies, markets and sectors, or simple derivative pay-off strategies (bull-call spread), which would have been easy questions for me. I thought the first case study was easy as I wasn't even required to compose a full investment policy statement, just comment on different sensitivities of the investor. I also had a relatively easy pensions case study with fairly typical questions if you'd reviewed that material properly.”

Don't ask Kevin Zvargulis, a securities analyst and portfolio manager at the Swarthmore Group in Philadelphia, what he thinks about the Level 3 exam because he's still not sure. “I really cannot tell you what I'm thinking,” he said. “One thing that I really did not like about this test was that the curriculum was divided into about three broad topic areas: ethics, asset valuation, and portfolio management. Last year, at Level 2, there were eight areas and I knew exactly which topic—financial statement analysis—was going to account for the majority of the test. For Level 2, I studied financial statement analysis more than anything else and it paid off. This year, the guidance was much less precise, which made it difficult to know which area to focus on.”

Montine Jordan, an investment generalist at Hagin Investment Management in New York, and Michael Smith, a portfolio manager in the wealth management division of Bank of the West in Los Angeles, have both completed their second attempts at the Level 2 exam.

“I feel really good about the morning session,” said Jordan, “no problems with time. I was able to calculate my answers and then re-calculate through a different method to verify answers to several questions just to confirm my results. I went into lunch feeling like I was *on* my game, but the afternoon was different. Time was a huge issue. The

questions felt esoteric and a little vague in places. Perhaps it was stamina, but I realize now, as these questions keep percolating in my mind, easy things I missed. Those things haunt me.”

Jordan felt the least comfortable with her performance on derivatives. “Even though I felt I’d studied them adequately, the derivatives material still proved to be the toughest for me,” she said. “International applications of *swaption* strategies and interim determinations of value...that shouldn’t be that hard, but somehow I found these item sets tough. I hammered the equity valuation and financial statement analysis material, and that served me well. Overall, that material was pretty easy. And I was fortunate to have guessed correctly that they’d hit the real estate material. They did and I was ready for them.”

Smith finished the Level 2 exam confident that his overall preparation was sufficient to tackle the exam’s unusual idiosyncrasies more so this year than the year before. “Previously, I was a little thrown off by the sheer weirdness of the test setting,” he said. “At this point, all the strange rituals that accompany the test itself are no longer threatening. This actually matters; I think that it’s a lot harder to think clearly and recall the data that you *do* know when you are overly intimidated by the environment itself. This time I was also able to keep enough focus to really use the extra time to check my work. The format of the questions is always a surprise, but this is something you can prepare for to some degree. Sometimes there are questions that just seem *so* easy, you know you must be missing something!”

An Absolute Necessity

Each candidate will agree that preparation is the key to success on the CFA exam. Therefore, the main questions to ask yourself are: how should you prepare for the exam, how much time to invest in it, and what areas should you focus on.

“I put in over 500 hours this year,” said Smith. “I don’t regret a single hour of it, and if I could have found room for another 50, that would have been great. Spending as much time as possible on practice questions is really important and I’m glad I saved most of the last six weeks for just this sort of thing. In my mind, I think 25 to 35 percent of your time is well spent on quizzes and practice-exam type work.”

“I should have spent more time on calculations, like the return from currency hedging through futures,” said Kindreich. “This was the last question on the morning session and I got that part wrong because I was focusing more on managing time than thinking about how to do the calculation. I probably wasn’t thinking straight at that precise moment. Also I was unsure how to calculate a swap price in the credit-risk question in the morning session.”

But, overall, Kindreich appears confident that his intense preparation paid off on exam day. “I am glad I spent so much time on private wealth management,” he said, “as it is a big point earner on the morning session. I thought doing all the Schweser mock exams

under strict exam conditions was also a good use of time and a great learning experience. Once you get something wrong, you should never make that same mistake again.”

“Last year, I started testing during the last couple weeks before the exam, which was way too late,” said Jordan. “This simply was because I was having such a hard time getting all the material under my belt. At such a late hour, I couldn't really regroup afterwards and study up on my weaknesses. This year, I took every Schweser practice exam and used my corrected notes from those exams as my final prep material. This helped me enormously in terms of ‘how *many* ways can they trip me up on the exam?’ It also helped me to understand how the CFA folks might intertwine the topics on exam day. If I passed, and hopefully I did, it will be singularly because of those practice exams.”

One of the major challenges of the Level 3 exam is, by far, the constructed response essays. Many struggle with the notion of not only knowing the material, but being able to articulate their responses in a short amount of time. This was something that Zvargulis had great difficulty with. “I wish I had spent more time on learning how to take the essay portion of the test, quickly, efficiently, and accurately,” he said. “To give you a sense for how unbalanced this test was for me, I finished the multiple choice section in less than two hours, and they give you three. I failed to finish the essay portion of the test in the same amount of time. My relative scores on each half of the test will not be a reflection of my knowledge so much as my test-taking technique.”

Even though Smith appears to be confident about his preparation and performance, he still wishes he'd put more time into drills and practice quizzes to get a better grasp of basic definitions and formulas. “The most demoralizing questions are the ones you end up guessing on but that you *know you should know*,” he said. “The CFA exam requires you to quickly identify *what* they are talking about and sometimes *how* it is calculated. I think it is possible to spend too much time at the ‘high-concept level’ and not enough time just building a mental encyclopedia of basic terms and equations. The test-taking experience goes a lot better when you can instantly recognize the weird terms they choose to throw at you, and move quickly from that recognition to a correct answer.”

“I would have worked to a greater extent on speed on the essay section,” said Zvargulis. “In my practice exams, of which I took six, I had trouble finishing in under three hours, and I was never able to come up with a good system to approach these questions.”

Advice to Incoming Candidates

Oftentimes, CFA candidates are eager to share their anecdotes, experiences, and wisdom to those that are new to the program. Some even find the process cathartic.

“I'd caution successful Level 2 candidates against assuming they are about to have an easy or easier time with Level 3,” said Kindreich. “I didn't find it any easier, and felt that Level 3 will be the exam that I've come closest to failing out of all three levels. The subject matter is no more difficult. In fact, certain parts are much easier than Level 2, like derivatives. The biggest challenge is how to deal with three hours of intense writing in

this computer- and keyboard-driven age. Who do you know who writes solidly for three hours? If this exam had been 100 percent multiple choice, I'd have no hesitation saying I'd passed hands down, but I can't say that."

"Map out your calendar for the time remaining until your next test NOW," said Smith, "find all the time to attack the readings as efficiently as possible as early as possible, and find a good resource to provide you with good review and practice materials to sharpen your skills. For the person just starting the program, I would say to focus on the definitions of the terms and the basic concepts first. Build lists of things to know and remember from each reading, and mumble them to yourself constantly until they are burned into your brain. For someone who just took Level 1, I would say start reading for Level 2 today, even before you get your results."

"Put in the time, that's the biggest thing," said Jordan. "Level 1 is primarily definitional. You have to master the language of this field to move on. So there's no substitute for time. Level 2 is an entirely different animal. The Schweser notes make the curriculum understandable. I found that I just had to 'cuddle up' to those notes and get it ALL under my belt. It wasn't until I was truly immersed in the material that the concepts bubbled together and began to *really* make sense."

"If you study hard for Level 1, more than 300 hours, and use the Schweser curriculum and take the Schweser practice tests, you will pass," said Zvargulis. "At Level 2, you have to know your financial statement analysis inside and out. You have to put in the time and Schweser will guide you well. At Level 3, my biggest piece of advice is to be disciplined in your time management in the essay section."

Now What?

Now that the CFA exam is all said and done with, the question of what to do next remains.

"I'm going to make some music, put some more overtime into the day job, and spend a little more time as a regular human being," said Smith. "By October first, the party will be over and it will be time to attack Level 3."

"I'll be catching up on my work," said Jordan. "The folks around me were kind enough to let me slide these last couple of months. I owe a lot of productivity to a lot of people. But I'll also tend my garden and get in some travel. This has been a long, hard grind."

"I am so anxious at this point, I can't think about it," said Zvargulis.

"You can't believe how much of a relief it is to get on the train in the morning for work and actually have the luxury to read a novel on the journey, as opposed to being hung over my Schweser Study Notes," said Kindreich, who stopped to emphasize how much he actually likes his Study Notes. "The sun's out and I'm thinking about summer vacation. I don't need to rush home from work every evening to get stuck into the books, and once I

get home, I can relax on my balcony, reading and sipping a cool glass of wine as I watch the sun go down.”