LEARNING OUTCOMES

Market Organization and Structure

The candidate should be able to:

☐ explain the main functions of the financial system
☐ describe classifications of assets and markets
☐ describe the major types of securities, currencies, contracts, commodities, and real assets that trade in organized markets, including their distinguishing characteristics and major subtypes
☐ describe types of financial intermediaries and services that they provide
☐ compare positions an investor can take in an asset
☐ calculate and interpret the leverage ratio, the rate of return on a margin transaction, and the security price at which the investor would receive a margin call
☐ compare execution, validity, and clearing instructions
☐ compare market orders with limit orders
☐ define primary and secondary markets and explain how secondary markets support primary markets
☐ describe how securities, contracts, and currencies are traded in quote-driven, order-driven, and brokered markets
☐ describe characteristics of a well-functioning financial system
☐ describe objectives of market regulation

Security Market Indexes

The candidate should be able to:

☐ describe a security market index
calculate and interpret the value, price return, and total return of an index
describe the choices and issues in index construction and management
compare the different weighting methods used in index construction
calculate and analyze the value and return of an index given its weighting method
describe rebalancing and reconstitution of an index
describe uses of security market indexes
describe types of equity indexes
compare types of security market indexes
describe types of fixed-income indexes
describe indexes representing alternative investments

Market Efficiency
The candidate should be able to:
describe market efficiency and related concepts, including their importance to investment practitioners
contrast market value and intrinsic value
explain factors that affect a market's efficiency
contrast weak-form, semi-strong-form, and strong-form market efficiency
explain the implications of each form of market efficiency for fundamental analysis, technical analysis, and the choice between active and passive portfolio management
describe market anomalies
describe behavioral finance and its potential relevance to understanding market anomalies

Overview of Equity Securities
The candidate should be able to:
describe characteristics of types of equity securities
describe differences in voting rights and other ownership characteristics among different equity classes
compare and contrast public and private equity securities
describe methods for investing in non-domestic equity securities
compare the risk and return characteristics of different types of equity securitiesexplain the role of equity securities in the financing of a company’s assets
contrast the market value and book value of equity securities
compare a company’s cost of equity, its (accounting) return on equity, and investors’ required rates of return

Introduction to Industry and Company Analysis
The candidate should be able to:
explain uses of industry analysis and the relation of industry analysis to company analysis
compare methods by which companies can be grouped
explain the factors that affect the sensitivity of a company to the business cycle and the uses and limitations of industry and company descriptors such as “growth,” “defensive,” and “cyclical”
describe current industry classification systems, and identify how a company should be classified, given a description of its activities and the classification system
explain how a company’s industry classification can be used to identify a potential “peer group” for equity valuation
describe the elements that need to be covered in a thorough industry analysis
describe the principles of strategic analysis of an industry
explain the effects of barriers to entry, industry concentration, industry capacity, and market share stability on pricing power and price competition
describe industry life-cycle models, classify an industry as to life-cycle stage, and describe limitations of the life-cycle concept in forecasting industry performance
describe macroeconomic, technological, demographic, governmental, social, and environmental influences on industry growth, profitability, and risk
compare characteristics of representative industries from the various economic sectors
describe the elements that should be covered in a thorough company analysis

**Equity Valuation: Concepts and Basic Tools**

*The candidate should be able to:*

evaluate whether a security, given its current market price and a value estimate, is overvalued, fairly valued, or undervalued by the market
describe major categories of equity valuation models
describe regular cash dividends, extra dividends, stock dividends, stock splits, reverse stock splits, and share repurchases
describe dividend payment chronologyexplain the rationale for using present value models to value equity and describe the dividend discount and free-cash-flow-to-equity modelsexplain advantages and disadvantages of each category of valuation modelcalculate the intrinsic value of a non-callable, non-convertible preferred stockcalculate and interpret the intrinsic value of an equity security based on the Gordon (constant) growth dividend discount model or a two-stage dividend discount model, as appropriateidentify characteristics of companies for which the constant growth or a multistage dividend discount model is appropriateexplain the rationale for using price multiples to value equity, how the price to earnings multiple relates to fundamentals, and the use of multiples based on comparablescalculate and interpret the following multiples: price to earnings, price to an estimate of operating cash flow, price to sales, and price to book valuedescribe enterprise value multiples and their use in estimating equity valuedescribe asset-based valuation models and their use in estimating equity value