

Triple-letter scoring

Do individual investors gain when financial advisers boast a higher pedigree?

By Jonathan Burton, MarketWatch

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SAN FRANCISCO (MarketWatch) -- Scott Kays has spent what he estimates to be about 700 hours scaling the investment profession's equivalent of Mt. Everest, yet he's no more than two-thirds of the way there.

The Atlanta-based investment adviser recently took the second of three rigorous tests to attain the coveted chartered financial analyst, or CFA, designation. The distinction is a career pinnacle for anyone absorbed in nitty-gritty investment research and analysis, and the route to the top is demanding.



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On his examination day in early June, Kays and about 675 other hopefuls filled a large room in Atlanta's World Congress Center. For three hours in the morning and another three in the afternoon the test-takers would be grilled about the inner workings and valuation of stocks, bonds, hedge funds, derivatives and other exotic investments. In 89 countries around the world that day, almost 100,000 people faced the same hurdle.

Kays will find out in August how he did. If he passes, he'll advance to the third, final test. But why would Kays, who attained the certified financial planner, or CFP, mark more than two decades ago, knock himself out in this grueling quest for the whole grail?

With apologies to Sir Edmund Hillary: Because it's there.

"For someone who really wants to expand their knowledge, especially of the investment area, the CFA curriculum is just great," Kays says. "It's helped me do a much better job of actually analyzing the investments themselves. I have a much better understanding of what drives valuation, different markets and investment returns."

The CFA exam takes a hard, analytical look at stocks, bonds, hedging strategies and company financial statements. People who achieve the designation typically manage institutional money and mutual funds or become involved with corporate finance. So if you have an adviser who is among the few who has earned the CFA designation, or if his or her firm has a CFA on the payroll, consider it a plus.

Wide range of issues

In contrast, certified financial planners maintain a broad-based approach to retirement, education, taxes, insurance, estates and other life issues. Investing is a major part -- but just one part -- of the big picture.

"You can't just be crackerjack on investments and get through the CFP certification exam," says Karen Schaeffer, a Rockville, Md.-based financial planner and chairman of the CFP Board of Standards, which regulates CFP practitioners. "It would be hard to do financial planning without understanding investments, but there's a great deal of financial planning that goes on" besides investment strategies.

Yet with many financial advisers now steering clients beyond mutual funds and exchange-traded funds into individual stocks and bonds, there can be a need for the expertise the CFA mark endorses.

"If I were looking for someone who was going to manage a portfolio of individual common stocks and do the selection and analysis, I'd look for the CFA designation," says John Markese, president of the American Association of Individual Investors. "The CFA has the ability to look at the financial statements and arrive at an informed opinion," he adds.

Of course, you have to understand stocks, bonds and other investments to attain the CFP certification, but it's a more generalized knowledge that's relevant to straightforward personal finance. If your adviser starts promoting highly specialized portfolio strategies, Markese recommends asking what in his experience and education makes him qualified for the task.

"If someone has the CFA on board," he says, "that's all the more evidence that they have the confidence to do it."

Portfolio creation

Deciding to put clients into individual securities prompted Kays to pursue the CFA charter. His Level 2 exam in June, for example, covered derivatives, currencies and other sophisticated investing topics. Plus, he's logged many hours poring over balance sheets and income statements to get to the root of a company's accounting and valuation.

"The CFA takes one area and goes into tremendous detail," Kays says of the process. "You dig a two-foot hole 10 feet deep. The focus is on investments -- hard-core investments, not estate planning or life planning."

That finer appreciation of investment techniques also led David Strege to obtain the CFA mark 20 years ago. The West Des Moines, Iowa-based adviser is a rare investment professional with both the CFP and CFA distinctions.

"The CFP certification is more about comprehensive financial planning, helping individuals with all facets of their financial life," he says. "The CFA really focuses more in-depth with the creation of investment portfolios and manager or individual securities selection. It helped train me to ask appropriate questions."

Still, only about 2% of the 55,000 CFP holders in the U.S. also claim the CFA charter. Just one in five CFA aspirants completes all three levels; there are currently a total of 90,000 CFA designees worldwide.

"The CFA program is the ultimate meritocracy," says Bob Johnson, managing director of the Education Division at the CFA Institute, the CFA program's governing body. "Anyone can enter; you have to prove your way out."

"It's the Big A -- analysis," Johnson says. "It has always been extremely challenging, but the investment-management profession has gotten nothing but more complex over time." ■

Jonathan Burton is MarketWatch's investments editor, based in San Francisco.

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