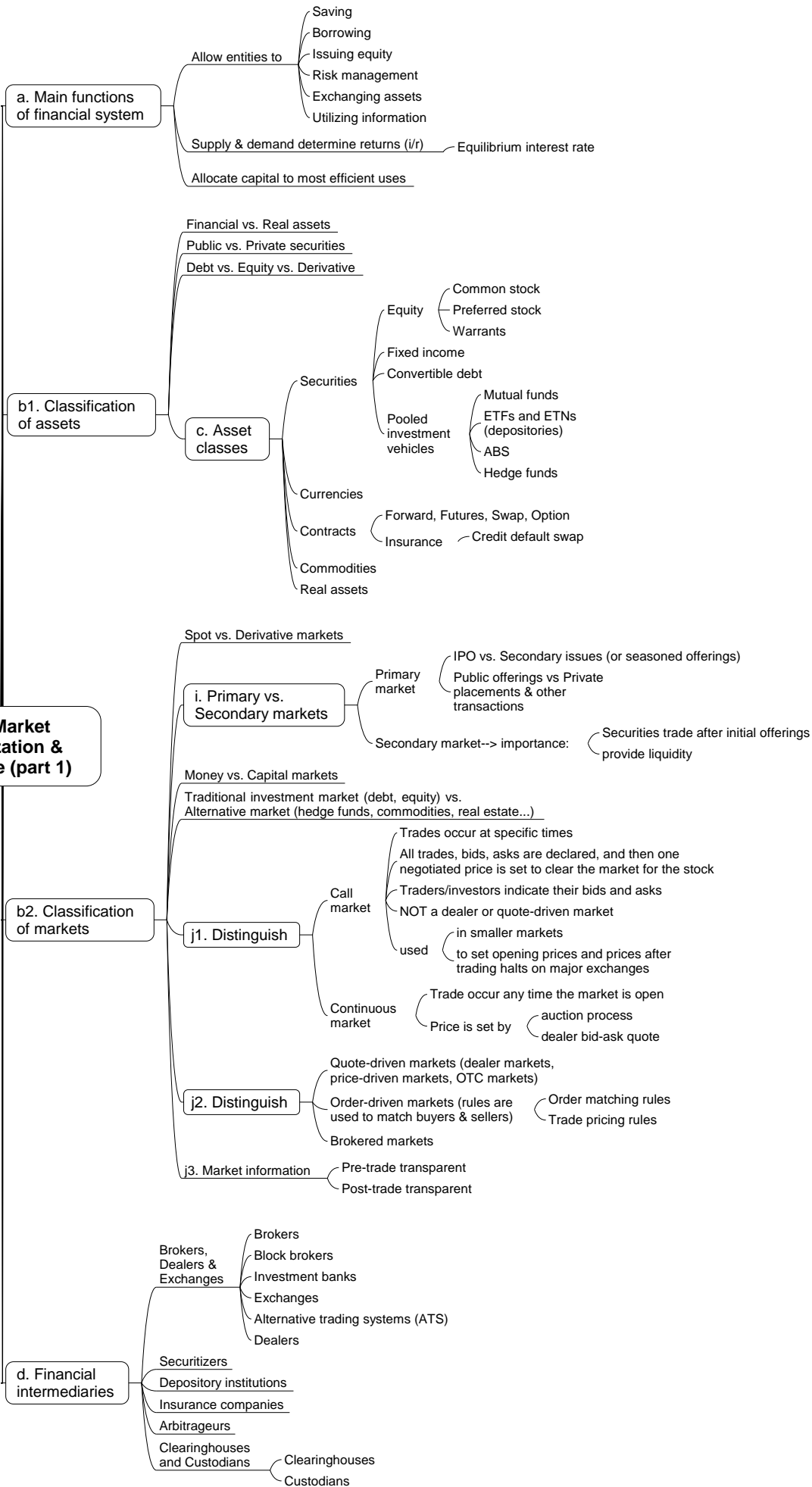


CFA LEVEL 1

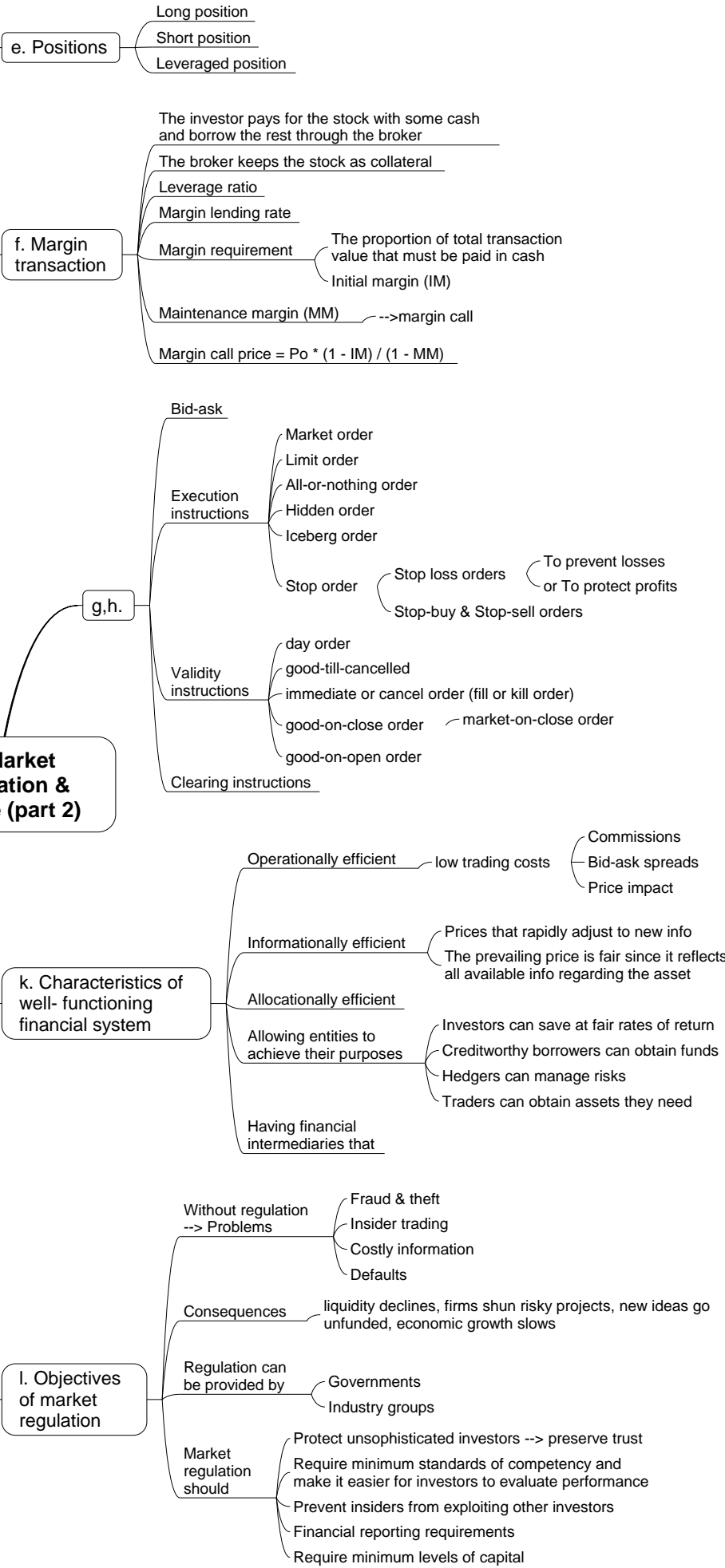
STUDY SESSION 13 & 14

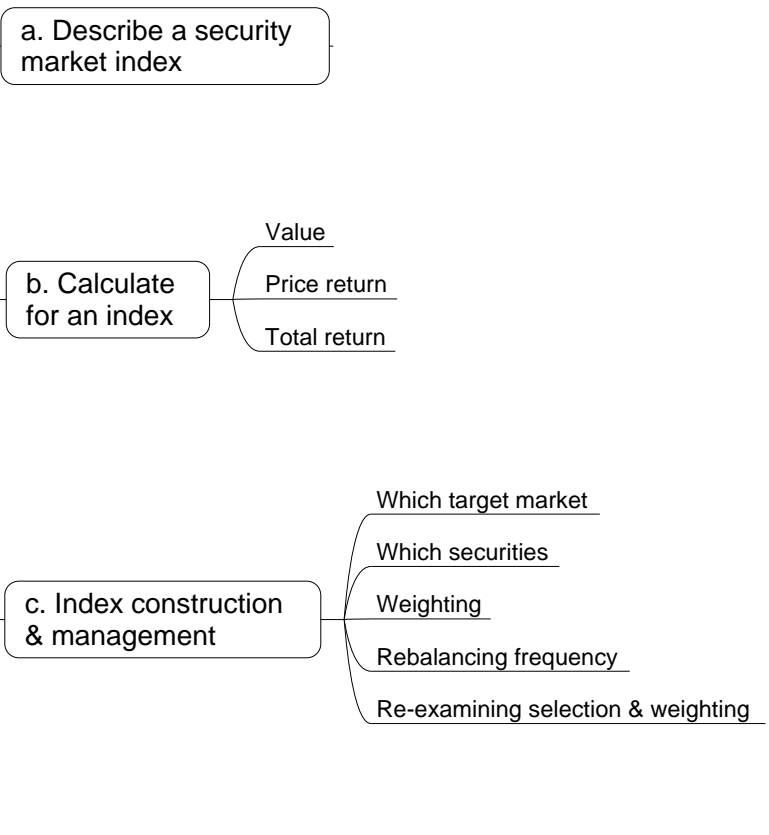
EQUITY

55.1. Market Organization & Structure (part 1)

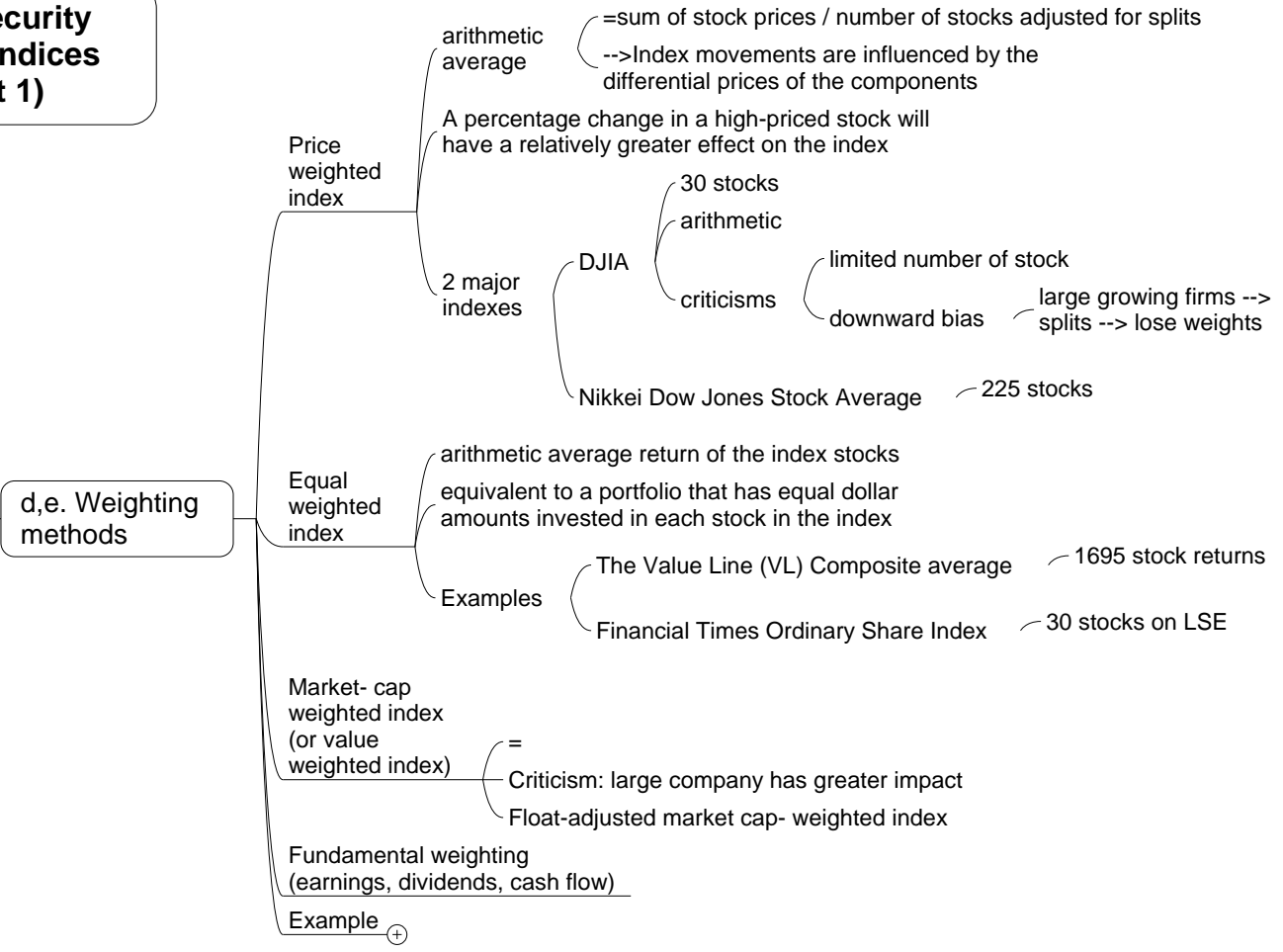


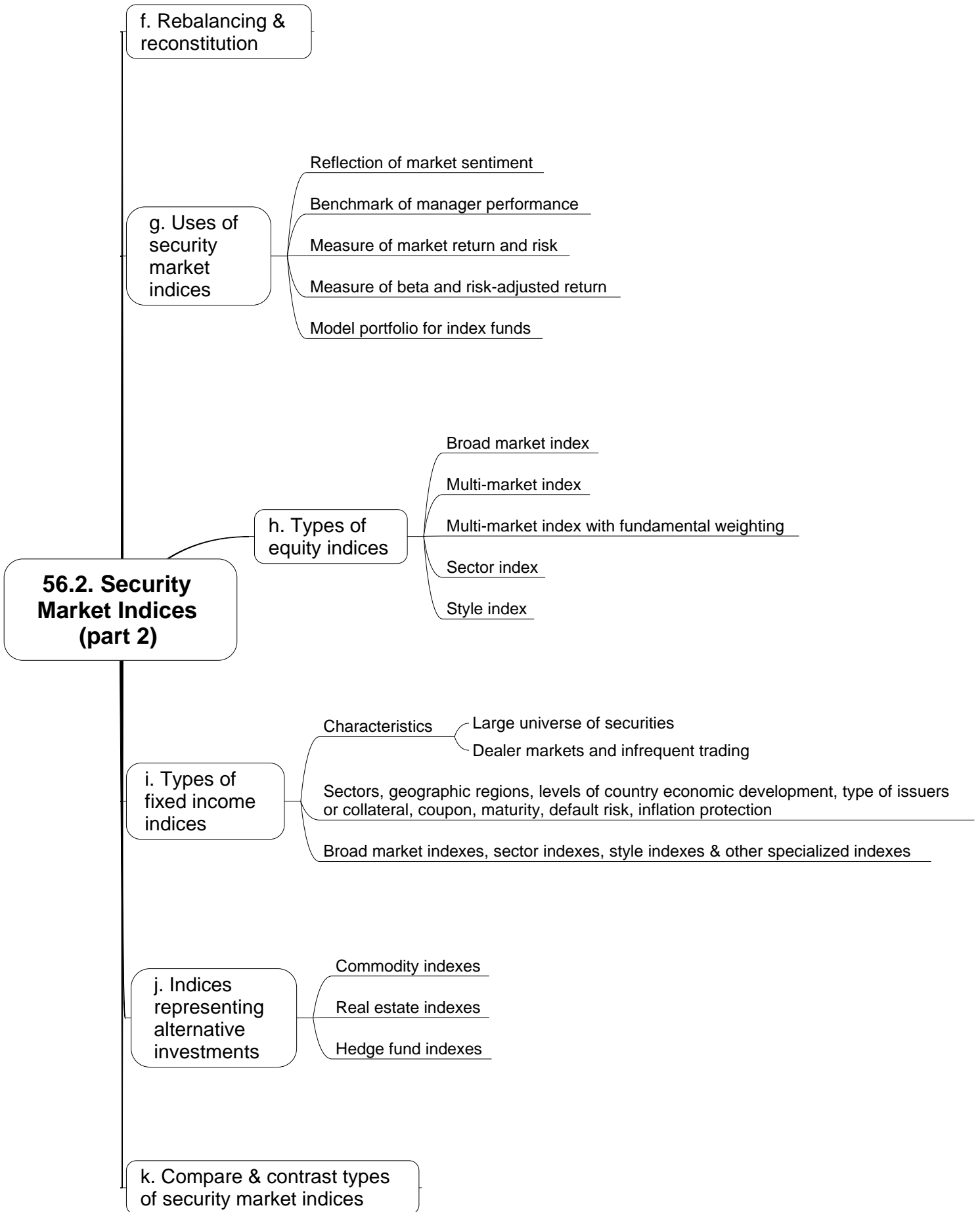
55.2. Market Organization & Structure (part 2)

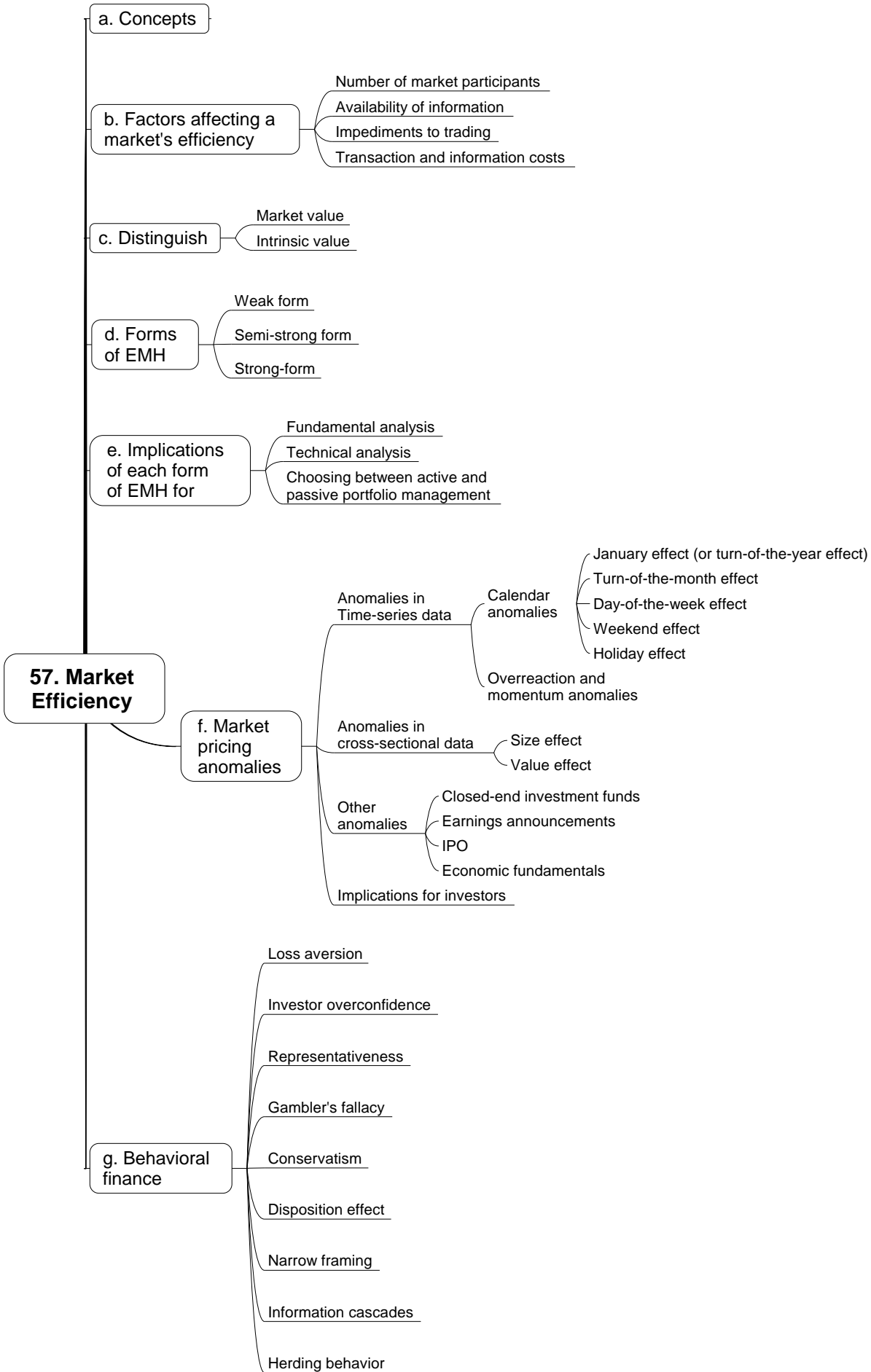


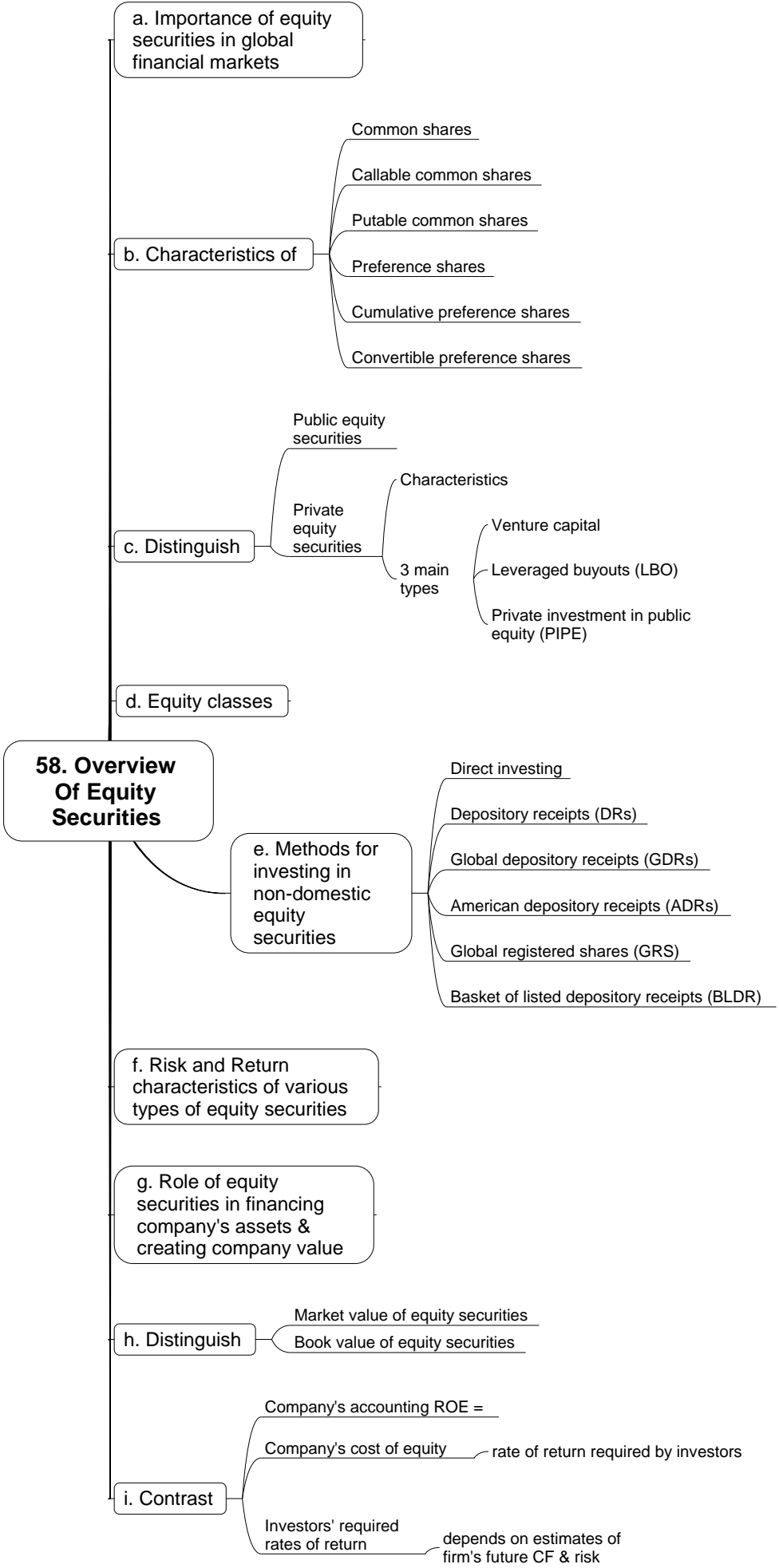


56.1. Security Market Indices (part 1)









a. Importance of equity securities in global financial markets

b. Characteristics of

- Common shares
- Callable common shares
- Puttable common shares
- Preference shares
- Cumulative preference shares
- Convertible preference shares

c. Distinguish

- Public equity securities
- Private equity securities
 - Characteristics
 - 3 main types
 - Venture capital
 - Leveraged buyouts (LBO)
 - Private investment in public equity (PIPE)

d. Equity classes

58. Overview Of Equity Securities

e. Methods for investing in non-domestic equity securities

- Direct investing
- Depository receipts (DRs)
- Global depository receipts (GDRs)
- American depository receipts (ADRs)
- Global registered shares (GRS)
- Basket of listed depository receipts (BLDR)

f. Risk and Return characteristics of various types of equity securities

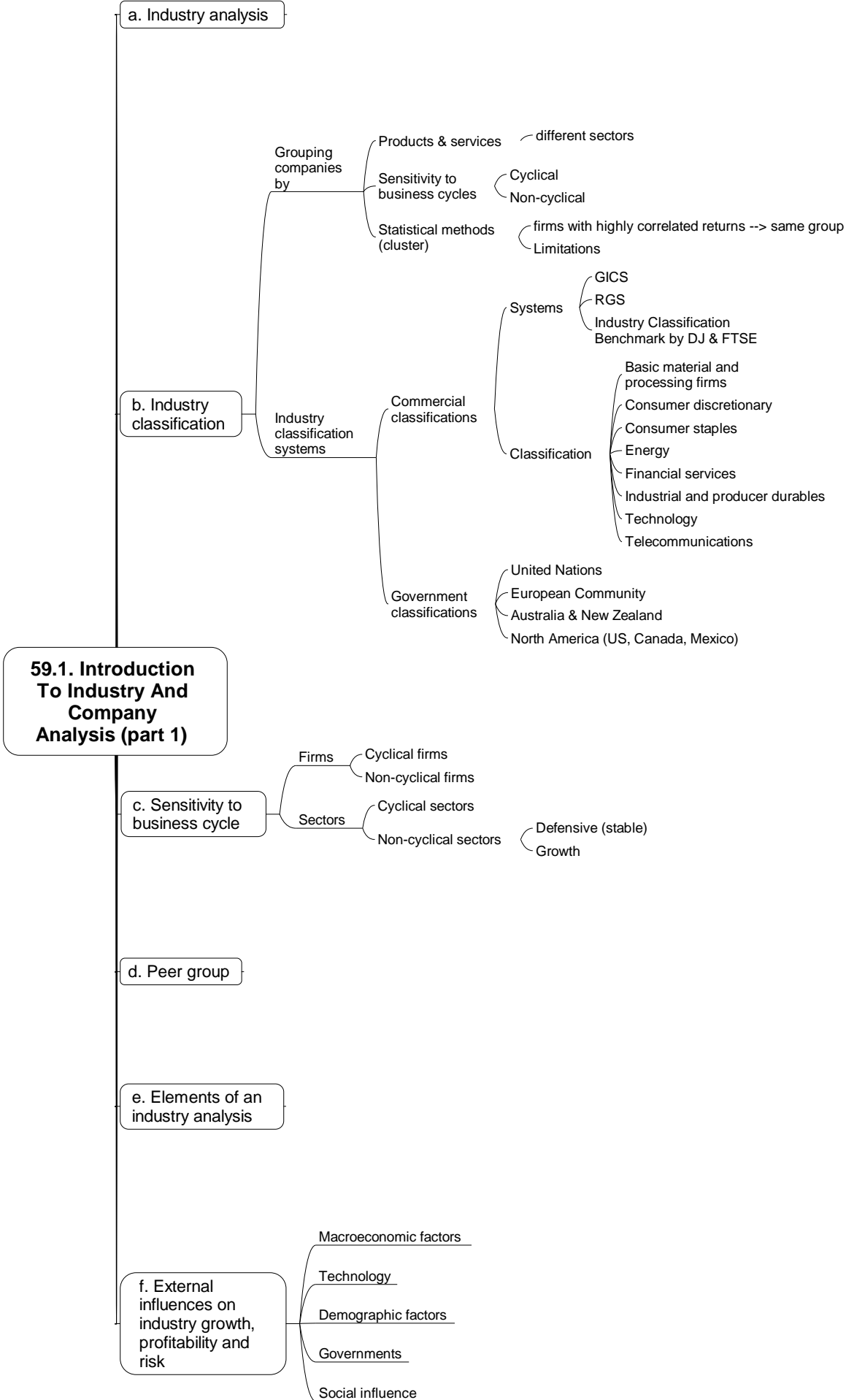
g. Role of equity securities in financing company's assets & creating company value

h. Distinguish

- Market value of equity securities
- Book value of equity securities

i. Contrast

- Company's accounting ROE =
- Company's cost of equity — rate of return required by investors
- Investors' required rates of return — depends on estimates of firm's future CF & risk



a. Industry analysis

b. Industry classification

c. Sensitivity to business cycle

d. Peer group

e. Elements of an industry analysis

f. External influences on industry growth, profitability and risk

Grouping companies by

- Products & services — different sectors
- Sensitivity to business cycles
 - Cyclical
 - Non-cyclical
- Statistical methods (cluster)
 - firms with highly correlated returns --> same group
 - Limitations

Industry classification systems

- Commercial classifications
 - Systems
 - GICS
 - RGS
 - Industry Classification
 - Benchmark by DJ & FTSE
 - Classification
 - Basic material and processing firms
 - Consumer discretionary
 - Consumer staples
 - Energy
 - Financial services
 - Industrial and producer durables
 - Technology
 - Telecommunications
- Government classifications
 - United Nations
 - European Community
 - Australia & New Zealand
 - North America (US, Canada, Mexico)

Firms

- Cyclical firms
- Non-cyclical firms

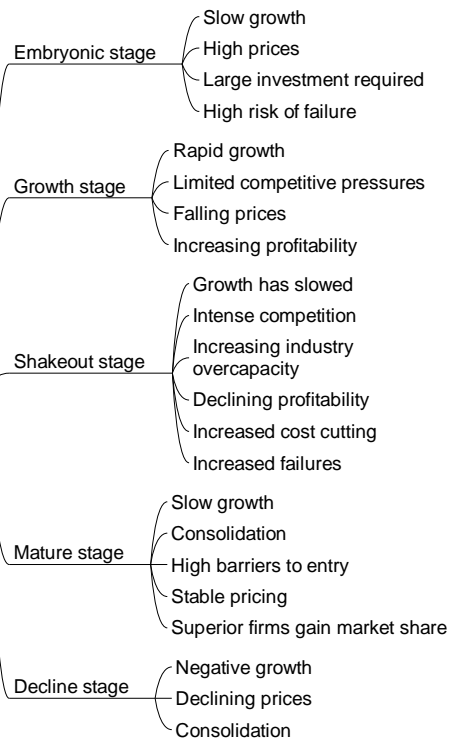
Sectors

- Cyclical sectors
- Non-cyclical sectors
 - Defensive (stable)
 - Growth

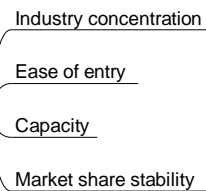
- Macroeconomic factors
- Technology
- Demographic factors
- Governments
- Social influence

59.2. Introduction To Industry And Company Analysis (part 2)

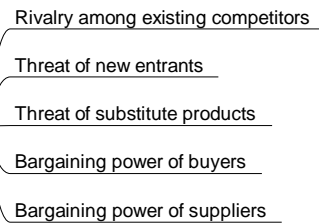
g. Product & industry life cycle



h. Effects on return on invested capital and pricing power of

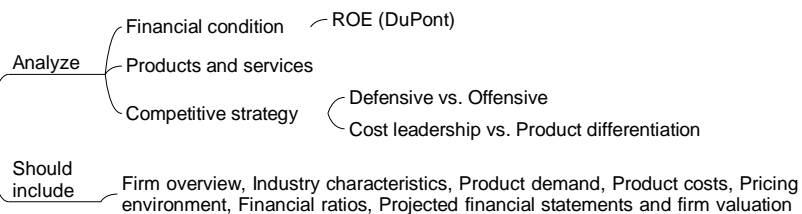


i. Principles of strategic industry analysis- Michael Porter's five forces



j. Example of the candy/confections industry

k. Elements of a company analysis



60. Equity Valuation: Concepts And Basic Tools

a. Factors to consider when exploiting mispricing

- Size of differences between market price and intrinsic value
- Confidence about valuation model
- Confidence about the inputs
- Why stock is mispriced
- If market price will move toward intrinsic value

b. Equity valuation models

Discounted cash flow models

c. Rationale

Types of models

Dividend discount models

d. Preferred stock

e. Common stock

f. Appropriate for companies that are

- Stable & mature
- Non-cyclical
- Dividend-paying

Free cash flow to equity models

k. Advantages
Disadvantages

Multiplier models (or market multiple models)

g. Rationale

Types of models

h. Stock price / fundamentals

e. Enterprise value / EBITDA or revenue

k. Advantages
Disadvantages

j. Asset-based models

Explain
k. Advantages
Disadvantages