2026 Level I Topic Outlines

Equity Investments

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 securities
□ explain 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

Company Analysis: Past and Present

The candidate should be able to:

□ describe the elements that should be covered in a thorough company research report
□ determine a company's business model
□ evaluate a company's revenue and revenue drivers, including pricing power
□ evaluate a company's operating profitability and working capital using key measures
□ evaluate a company's capital investments and capital structure

Industry and Competitive Analysis

The candidate should be able to:

☐ describe the purposes of, and steps involved in, industry and competitive analysis

☐ describe industry classification methods and compare methods by which companies can be grouped

☐ determine an industry's size, growth characteristics, profitability, and market share trends

☐ analyze an industry's structure and external influences using Porter's Five Forces and PESTLE frameworks

☐ evaluate the competitive strategy and position of a company

Company Analysis: Forecasting

The candidate should be able to:

☐ explain principles and approaches to forecasting a company's financial results and position

☐ explain approaches to forecasting a company's revenues

☐ explain approaches to forecasting a company's operating expenses and working capital

☐ explain approaches to forecasting a company's capital investments and capital structure

☐ describe the use of scenario analysis in forecasting

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 chronology

☐ explain the rationale for using present value models to value equity and describe the dividend discount and free-cash-flow-to-equity models

☐ explain advantages and disadvantages of each category of valuation model

☐ calculate the intrinsic value of a non-callable, non-convertible preferred stock

☐ calculate 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 appropriate

☐ identify characteristics of companies for which the constant growth or a multistage dividend discount model is appropriate

☐ explain 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 comparables

☐ calculate and interpret the following multiples: price to earnings, price to an estimate of operating cash flow, price to sales, and price to book value

☐ describe enterprise value multiples and their use in estimating equity value

☐ describe asset-based valuation models and their use in estimating equity value