Bloomberg Finance Fundamentals - Module 4

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Portfolio Management: The Pathway to Portfolio Management

What Career Paths are Available on the Buyside and Sellside?

Welcome to Module 4, where you'll follow Sofia as she works toward becoming a Portfolio Manager. Sofia is 30 years old, and her family came to the United States from Bosnia and Herzegovina when she was a baby. Last year, she graduated with a degree in Economics and earned the highest grade in her class. Although she was a mature student, her dedication paid off—she became the first in her family to graduate from university. Sofia's dream is to become a Portfolio Manager, but competition for such roles is intense, and she had no connections in the financial sector. Nevertheless, her exceptional academic record helped her land an internship. Like many graduates, Sofia has student debt and has moved back home temporarily to save money. As a first-generation American, she is highly motivated and inspired by her parents' resilience and sacrifices. Their example gives her the confidence to believe she can succeed in finance. Her internship eventually turns into a job as an analyst at a large investment bank on the sellside. She enjoys the work and has progressed well, but lately, she has been thinking more about her long-term future and what kind of role she wants. Should she stay where she is, or transition to the buyside? In this lesson, you'll follow Sofia as she considers her next career move and explores two important questions: **What career paths are available on the buyside and sellside?** and **How can you prepare for a job interview?** Let's get started.

At the start of her career, Sofia works as an analyst on the Equity Sales team at an investment bank. This places her on the sellside, where she supports the sale of stocks to clients on the buyside, including institutions like hedge funds and pension funds. Although she is currently based on the sellside, Sofia is curious about what it might be like to work on the buyside, the other half of the financial system. Before we explore how the two sides differ and help Sofia determine which path might suit her best, let's take a closer look at what the role of an analyst involves more broadly.

Analysts play a critical role in financial markets by examining and interpreting data, identifying trends, and offering recommendations to support informed investment decisions. They work closely with Portfolio Managers to align investment opportunities with objectives, strategies, and risk tolerance, and also collaborate with Traders, Risk Managers, and Compliance Officers to ensure consistency with a fund's goals. Analysts are expected to remain deeply informed about market activity, current events, and financial developments—constantly assessing what has occurred, what is happening now, and what may unfold in the future. Their role is not only to collect and analyze data but also to generate ideas and extract insights that guide planning and decision-making. Typically, analysts use two main approaches: the fundamentals approach, which involves analyzing company data such as financial statements and cashflow projections to determine intrinsic or future value; and the technical approach, which focuses on stock exchange trends to forecast price movements. Although the core responsibilities of analysts are similar across the industry, their specific roles and workflows differ depending on whether they operate within buyside or sellside institutions.

A major part of an analyst's job is determining which data is most relevant to their fund's objectives. For example, if an analyst wants to research the current supply of semiconductor chips—a key component used in cars, smartphones, game consoles, and computers—they would turn to the Bloomberg Terminal for the most up-to-date and comprehensive data. To develop a nuanced understanding of how chip availability (or shortage) might affect the products and companies that rely on them, the analyst can use Bloomberg's Document Search and Analytics tool, accessed by entering DS ¡GO¿. This tool allows analysts to cross-reference corporate reports and identify patterns or emerging trends. They might search for terms like "chip shortages" to see how frequently the topic is mentioned by companies worldwide and can adjust the date range to view this data across different time periods. For instance, setting a five-year range can provide broader context and help the analyst evaluate long-term implications.

Let's see how an analyst would use this data in their analysis of the market. Watch this video of an analyst from the research company CFRA discussing how chip shortages affected Tesla in 2021.

Sofia is eager to understand where her current sellside career pathway might lead. To gain more clarity, she turns to her line manager, Derek, who began his own career in the same role. Since they are good friends, Sofia feels confident that Derek will provide honest and helpful insights to guide her decision-making process.

One of the benefits of working on the sellside is that career progression can be rapid for those who are dedicated and hard-working. The environment is fast-paced and, with experience, becomes increasingly centered around managing client relationships. The typical career ladder on the Sales team moves from analyst to associate, then to vice president, director, and ultimately managing director (MD). The MD leads the entire Sales team and is responsible for pitching ideas, managing key client relationships, and overseeing the team's overall performance to ensure the investment bank and its clients are generating revenue. The position is highly compensated, with a strong base salary and large bonuses. However, despite its rewards, the role comes with significant demands. The job is dynamic and exciting, but also stressful, with a heavy workload that often exceeds 40 hours per week. It's far from a standard 9-to-5 role.

With her new understanding of the sellside career path, Sofia is now curious about what opportunities might exist on the buyside. To explore her options, she decides to reach out to Adele, a former buyside client she trusts, who was recently promoted to Portfolio Manager at a major pension fund.

Working as an analyst on the buyside is similar to Sofia's current sellside role, with the main difference being that she would conduct research for a Portfolio Manager rather than for a bank or individual clients. The long-term goal in this pathway is to be promoted to Portfolio Manager, a role that involves overseeing the management of various investments—collectively known as a portfolio—on behalf of clients. Adele explains that she currently manages investments for a pension fund, where the focus is on achieving steady, long-term returns. However, she notes that working as a Portfolio Manager at a hedge fund would involve a much faster-paced, high-risk environment. Although senior Portfolio Managers earn high salaries, they typically do not receive the same level of bonuses as those in Equity Sales. While the role remains demanding, Adele finds it less chaotic than her experience on the sellside.

How to Prepare for a Job Interview?

Sofia decides to transition to the buyside. With this new direction in mind, she begins updating her resume to send to buyside institutions as soon as possible. Drawing on her previous job-hunting experience, she understands the importance of tailoring her resume to match the specific role. Since analyst positions are highly data-driven, Sofia knows she must provide clear evidence of her financial expertise to support the experience listed on her resume. Furthermore, given the formal standards of the financial industry, she ensures that the tone and presentation of her resume meet professional expectations.

Armed with her updated resume, Sofia begins researching new employment opportunities and tailors cover letters for each role that interests her. She applies to five positions, carefully outlining in each letter why she is an ideal candidate and explaining her motivation for transitioning from the sellside to the buyside. Before long, she receives an email inviting her for an interview. Though slightly nervous, Sofia is excited and begins preparing in earnest.

Now that Sofia has carefully reviewed the job posting and researched the company, she begins preparing for potential interview questions. To ensure she doesn't forget important points due to nerves, she writes down her answers in advance to rehearse and memorize them. Sofia prefers using the STAR method to structure her responses. STAR stands for Situation, Task, Action, and Result. First, she outlines the Situation, typically drawing from her previous work experience. Then she describes the Task she was responsible for, followed by the specific Actions she took to address it. Finally, she presents the Result, summarizing the outcomes of her actions and supporting them with relevant data to demonstrate success.

After all her preparation, Sofia's interview goes exceptionally well. The time she spent rehearsing truly paid off—feeling confident and prepared, she was able to relax, clearly articulate why she was the right fit for the role, and let her personality shine. The very next day, Sofia receives a call with exciting news: she's been offered the job. She's overjoyed to take this next step in her career journey, moving closer to her goal of becoming a Portfolio Manager.

Plenary

In this lesson, you've been introduced to the roles and responsibilities of analysts, the similarities and differences between buyside and sellside analyst positions, and various tools and strategies to support the job application process. Now it's time to test your knowledge with a round of Financial Jeopardy—can you match each answer to the correct question? Remember, two will be incorrect, but one is right!

Portfolio Management: Managing a Portfolio for Clients

How does a Portfolio Manager Invest to Minimize Risk and Maximize Return?

Sofia has thrived since joining the large pension fund and was recently promoted from analyst to Sub-Portfolio Manager. In this role, she now oversees a portion of stock investments within the broader fund, under the supervision of a full Portfolio Manager. Her success is largely due to her prior experience in Equity Sales and her strong relationship with the investment bank, which helps her identify and secure optimal investment opportunities for her clients. Beyond professional growth, Sofia also enjoys a better work-life balance, spending more time with friends and family. If she continues performing well, she is on track to become a full Portfolio Manager in the near future—and she has no regrets about moving from the sellside to the buyside. In this lesson, you'll follow Sofia as she explores two key questions: **How does a portfolio manager invest to minimize risk and maximize returns?** and **What is responsible investing?**

Pension funds are institutions that allow households to allocate a portion of their savings toward building up retirement income. These funds pool resources from many individuals to invest in diversified portfolios of assets such as stocks, bonds, and real estate. As a Sub-Portfolio Manager at a pension fund, Sofia supports the Portfolio Manager in determining the most effective ways to allocate these contributions. The investors in Sofia's pension scheme are primarily public sector workers—teachers, paramedics, firefighters—who rely on the fund to secure their future. Sofia feels a deep sense of responsibility to manage their money wisely so they can eventually retire and enjoy a comfortable life after many years of service.

Pension funds are often compared to apple seeds—given enough time and care, they can grow into a strong, fruitful tree. Figuratively speaking, individuals plant this seed at the beginning of their working life by making small, regular contributions from their wages. Over time, these consistent contributions grow into a substantial pension that can support them in retirement. While individuals can manage this growth themselves, it's easy to neglect, which is why Pension Fund Managers—acting like skilled gardeners—help cultivate these investments by selecting strategies that balance return and risk. Just as plants require the right mix of soil, water, sunlight, and nutrients, pension funds also rely on a combination of conditions. The soil represents the fund's foundation, defined by a mandate that limits risk exposure; water symbolizes the consistent flow of wage contributions; sunlight stands for economic influences such as inflation and interest rates, which can fluctuate in intensity; and nutrients represent the strategic investments used to generate growth. The constant across both a pension fund and an apple seed is time—most individuals work until around age 60 to 65, at which point the pension reaches maturity and the "fruit" can be harvested as the pension pay-out.

Sofia's sub-portfolio has been performing well, benefiting from increased savings during the pandemic as people spent less on holidays, events, and commuting. Recently, she has delivered strong returns by investing in online retail stocks. However, one morning she receives an urgent email from Amir, a fellow analyst, alerting her to a breaking news story about a ponzi scheme involving EDGY, a company enticing young people to join an "exclusive VIP influencer team" on TikTok. Although Sofia's fund didn't hold EDGY shares, the scandal has severely shaken investor confidence, leading to panic selling across the entire online retail sector and a sharp drop in stock prices. Sofia is stunned that such large-scale fraud went undetected, especially since EDGY had positioned itself as an environmentally responsible company—a factor she always considers when evaluating investments due to the retail industry's impact on global emissions. She's especially troubled by EDGY's greenwashing and how close she came to including them in her portfolio. As losses mount and uncertainty spreads, her Portfolio Manager, Celeste, calls her in to discuss the impact on her sub-portfolio and to plan a course of action.

A Portfolio Manager is responsible for overseeing a collection of securities with the aim of achieving performance objectives while minimizing or optimizing risk to maximize returns. The acceptable level of risk is typically defined by a client mandate, and with the help of analysts, Portfolio Managers track how individual securities and the portfolio as a whole perform over time. They respond to fluctuations in the financial markets—commonly referred to as the investment cycle—using strategies tailored to client needs. The two main approaches are active management and passive management. Active management involves attempting to outperform the market by strategically selecting securities expected to perform better than others, often charging higher fees for the added effort and expertise, as is typical of Hedge Fund Managers. In contrast, passive management relies on mirroring market trends and decisions made by other managers, requiring less day-to-day involvement. This approach aims to replicate the market rather than beat it, reducing costs and effort while often delivering returns comparable to active strategies. The financial community remains divided on which method offers the best outcomes for investors.

What is Responsible Investing?

Sofia's manager Celeste asks her to take a more active role in managing the assets within her first buyside fund, noting that Sofia's concentrated investments are creating avoidable risks for clients. She assigns Sofia three key tasks: to catch up on recent developments in Environmental, Social, and Governance (ESG) investing, to assess the ESG credentials of the companies currently in her sub-portfolio, and to suggest ways to diversify her sub-portfolio with ESG investments. Sofia understands that ESG investing promotes responsible investment by incorporating criteria that socially-conscious investors use to evaluate companies. ESG has grown in popularity as more investors seek to avoid funding activities linked to serious global issues such as climate change, inequality, governance failures, biodiversity loss, human rights violations, and threats to essential resources like food and water. Eager to impress Celeste and aware of how much there is to learn, Sofia begins researching ESG and its relevance in portfolio management, eventually discovering a related Bloomberg video.

Now that Sofia understands what ESG is, she's confident that responsible investing strategies are the key to mitigating risk for her clients. She consults her colleague Marvin from the Compliance department to investigate all the companies in her portfolio. Compliance plays a vital role in ensuring that investments adhere to regulatory requirements. Their mission is to protect investors by upholding transparency and accountability across market transactions, ensuring that all portfolio activities align with the rules set by financial authorities.

Using the Bloomberg ESG function, Marvin identifies a number of issues with the online retail companies Sofia has invested in for her clients. Despite claims of a low carbon footprint, these companies exhibit other ESG risks that make them unsuitable for a pension portfolio. Marvin highlights the problem of greenwashing—where companies exaggerate or misrepresent their environmental friendliness to gain favor with lenders or investors. He explains that these misleading claims are becoming more common because loans tied to ESG targets often have better borrowing terms. One company in Sofia's portfolio falsely reported its carbon emissions by excluding the emissions from its supply chain, which, if included, would significantly raise its environmental impact. Another company overstated its Diversity & Inclusion efforts by claiming progress while maintaining a leadership team lacking diversity and silencing dissent with NDAs. Furthermore, Marvin uncovers that a manufacturer in Sofia's portfolio operates a sweatshop employing children. Shocked and disappointed, Sofia realizes that her investments supported unethical practices and concealed truths, betraying the trust of the hardworking clients in her sub-portfolio.

Working with Amir, her analyst, Sofia creates a new portfolio that incorporates companies with vetted and valid ESG credentials. Because her clients are public-sector workers, she makes the social aspects a priority, seeking out companies who do not exploit people and are truly inclusive. She also ensures that her sub-portfolio is diversified across a variety of industries and markets to protect her clients' investments from unexpected fraud, scandals, or environmental disasters. After implementing these changes, her new sub-portfolio proves to be a huge success, and her active ESG approach begins yielding excellent returns. As a result, Sofia is promoted to Portfolio Manager. Reflecting on the journey, Sofia realizes she narrowly avoided a serious misstep; had it not been for the EDGY scandal bringing attention to the flaws in her previous portfolio, the consequences for her clients and career could have been severe. Now, she feels proud of the companies her investments support and confident in the ethical direction of her work.

Plenary

In this lesson, you've learned how a pension fund operates, the role and responsibilities of Portfolio Managers, and the differences between active and passive portfolio management strategies. You've also explored what ESG investing is and the benefits it offers to individuals, businesses, and society. Finally, you've come to understand the importance of maintaining a diverse portfolio of investments to manage risk and enhance long-term returns.

Portfolio Management: The Fundamentals of Finance

What Have You Learned?

In this final lesson, you're going to put your newfound knowledge into practice by considering two questions: what have you learned, and what would you do? You'll take part in challenges inspired by the journeys of the course's four main characters. You'll reflect on who you learned the most from and how well you followed their career paths. You'll also apply strategies you've picked up to invest an imaginary sum of money successfully. Ready for round one? Let's revisit Amina—she set up a thriving small business by impressing investors and managing her finances effectively. She regularly contributed time and money to her business and sought expert advice whenever she was unsure about which direction to take next.

When Amina first took her company public, she made a significant amount of money. Since then, she's become interested in investing some of this money for herself and her future, rather than her business. To aid this process, her Financial Advisor Kayvan has researched a couple of investment opportunities he thinks she might be interested in. But Amina is quite conservative and isn't comfortable taking too much risk, especially on things she doesn't understand. Using everything you've learned, help Kayvan decide which of the investments he should recommend. The first opportunity is buying shares in a company called e-Vape.

The second opportunity Amina's Financial Advisor might want her to consider is investing in palladium, one of our planet's most precious metals. Kayvan has pulled this graph from the Bloomberg Terminal. He can see right away that it shows how drastically the price of palladium has increased in recent years, which could mean it's a good investment opportunity for Amina. Everything looks good on paper so far, but this isn't nearly enough information to make a recommendation to Amina. So he finds a Bloomberg QuickTake video with more information. Finally, he finds this article on Bloomberg, showing a rather pessimistic outlook.

But is the palladium party really over?

Through Ben's journey we saw him progress into Corporate Treasury. It was up to Ben to ensure the financial success of his company by anticipating and minimizing its financial risk. This meant he had to have a broad overview of the financial markets and the global economy.

A large part of Ben's success resulted from him having helpful mentors. Now he is a mentor himself to a new apprentice, Nancy. Help Ben explain the circular flow of income to his new mentee by mapping out the institutions that manage the financial markets.

Ben was blindsided by the ponzi scheme carried out by one of their affiliate retailers, EDGY. The ensuing fallout threatened the survival of his entire company. Having learned much from navigating this experience, he now wants to help his mentee, Nancy, figure out how to avoid these situations in the first place. He decides to share a case study with her, picking Bernie Madoff's ponzi scheme because it rocked the entire economy and showed that even experts can fall for a scam.

Now to round 3 of our 20 question challenge! You'll remember Arjun as the journalist who worked to uncover a financial scam and learned about the various mechanisms used to identify and prevent such fraudulent activities along the way.

Arjun is looking for some fresh inspiration for his social media posts. He wants to find some stories in the news from the last few years that can help teach his followers about some more of the different risks encountered when investing. As a journalist, and especially with so much fake news around, Arjun knows the importance of fact-checking. His initial search produces three interesting stories about investing, but before he gets much further he realizes something — one story is fake.

Finally we reach round 4 of our 20 question challenge! Ever since Sofia was promoted to be a Portfolio Manager, she has taken an interest in responsible investing. This means she looks at more than just asset price and company valuation information when deciding on investments for the public-sector pension fund she oversees.

Sofia likes to dig deeper into a company's business model to determine if they're aligned with her, and perhaps more importantly, her clients' ethics and values. Recently, she has taken on a new Sub-Portfolio Manager, Diego. She's training him to help her screen out unsuitable securities: ones that don't meet her ESG standards.

What Would You Do?

You've come into some unexpected money! A letter arrives from a Probate Researcher—whose role is to find the family connections of deceased individuals—informing you that you are the closest living relative to someone you've never met or heard of. This person has passed away and left behind a large, currently unclaimed sum of money, and you are entitled to inherit it. After confirming the legitimacy of the Probate Researcher through your lawyer, you learn that a $250,000 deposit is heading to your account. Since you already have an emergency fund, no debt, a house, and a pension set up, you decide to invest the money. But with every investment decision, you must determine the level of risk you're willing to accept. So how risk-averse are you, really? How strong is your tendency to avoid the unknown or take a chance and risk it all?

Considering all you've recently learned about finance, where will you invest your inheritance? Well, that depends on where you are in your life and your goals and risk tolerance at that point in time. Next up you'll consider your approach to investing for three different stages in your life. Scenario 1: Imagine you are 20 years old (whether that's actually the case or not!). Currently, you're finishing an apprenticeship and have a few years of study remaining. You already know you want to launch your own business and start investing.

Scenario 2: A few years have passed, and you're now 30. Your business is all set up, you just got married, and you and your partner are expecting a new baby. In the next three years, you'd also like to buy a home.

Scenario 3: You are now 65 years old and after decades of running your own business, you've sold it for a decent lump sum of money. It'll be important for you to invest this money wisely to better secure your quality of life and enjoy traveling throughout your retirement.

There's no right or wrong answer when it comes to investing, just what's right for you with careful consideration for your financial goals and life circumstances. Remember: When making higher-risk investments, only put in what you can afford to lose. If you can't afford to lose some (or all) of your money, then opt for lower-risk investments.

The sooner you can get yourself into a good position to start investing, the more time your money has to grow. You can't open a brokerage account until you're 18, but you might still be able to start investing with parental or family support. If you're interested in starting, there are a few questions you'll need to address first: Have you got an emergency fund and paid off any debts? Do you have the support of a trusted adult who can help if you're under the age of 18? Is there any extra money coming in that you don't need access to immediately? Investing is a longer-term commitment. It's not so much about timing the market but time in the market that counts. Could you afford to lose this money if it doesn't play out as you hope it will? Never forget: there's no such thing as a risk-free investment. Do you feel like you understand how your chosen financial instrument works? If you don't understand, don't invest. Finally, have you checked if it's legitimate? Always follow up using your local regulator's website for more information. Once you've worked through these considerations, you might just be ready to take your first steps into investing!

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Equipped with all the new financial knowledge, you should now be able to learn how money flows through an economy; discover some of the investment strategies that can help individuals and businesses grow their money while navigating the varying risks associated with them; define responsible investing and its benefits to individuals, businesses, and society; and explore different career paths alongside some tools and strategies to help you pursue them. We hope that you'll use what you've learned here to navigate the financial markets successfully.