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Equity

2015CFA一级知识框架图



Reading 46

Market Organization & Structure

本章知识点比较零散

Financial Market

Concepts

Main Functions of the Financial Market

- Fulfill different entities' requirements
- Determine interest rates
- Allocate capital to its most efficient uses

Intermediaries of Financial Market

- Brokers, Dealers and Exchange
- Securitizers
- Depository Institutions
- Insurance Companies
- Arbitrageurs
- Clearinghouses and Custodians
- Hedgers

概念，学会识别参与者

Well functioned financial market

- Complete markets
- Operational efficiency
- Informational efficiency
- Allocational efficiency

Market
Regulation



Problems of no regulations

Fraud and theft

Insider trading

Costly information

Defaults

Objectives of market regulations

Protect unsophisticated investors.

Prevent insiders from exploiting other investors.

Common financial reporting requirements.

honor long-term commitments.

Classification of markets

★ 3种分类，区分概念

- Primary vs. Secondary markets
- Money vs. Capital markets
- Traditional vs. Alternative markets

How securities are sold through primary market

★ 概念，投行如何发行证券

- Sold Publicly :
 - Underwritten Offering (*the most common way*)
 - Best Efforts
 - Indications of Interest
- Sold Privately
 - Private placement → *to qualified investors*
- Other transaction methods
 - Shelf registration
 - Dividend Reinvestment Plan → *existing shareholders*
 - Rights Offering → *existing shareholders*

Secondary Capital Markets

★ 概念，交易规则

When securities are traded

- Call Markets
- Continuous Markets



How securities are traded

- **Order-Driven Market**
 - Price priority
 - Secondary precedence rule
- **Quote-Driven Market**
 - Bid-Ask Spread
- **Brokered Markets**

Financial Product

Classification of assets

•Financial Assets

- Security
 - Fixed income vs. Equity Securities
 - Public vs. private
- Currency
- Derivative contracts
 - Financial derivative contracts
 - Physical derivative contracts

•Real Assets

- Commodity
- Real Estate

Positions an investor can take

- Long Position
 - Benefit from an **increase** in the price
- Short Position
 - Benefit from an **decrease** in the price
- Leveraged Position
 - Benefit from an **increase** in the price

↓ Margin Call Price

$$P_L' = P_0 \left(\frac{1 - IM}{1 - MM} \right)$$

★★ 计算，买空卖空业务

概念，注意子分类

Instructions of transaction processes

★★ 概念，注意子分类

Execution Instructions

- Market orders
- Limit orders
- All-or-nothing orders
- Hidden orders
- Iceberg orders

Validity Instructions

- Day orders
- Good-till-cancelled orders
- Immediate or cancel orders
- Good-on-close orders
- Good-on-open orders
- Stop orders ★

Clearing Instructions

standing instructions and not attached to an order



提供information

Market Information

信息透明度要求

- Pre-trade transparent → Preferred by **buy-side traders**
- Post-trade transparent → Preferred by **dealers**

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Security Market Indices

Definitions about Market Indexes

Definitions

- *Price index*
- *Return index*

How an index is constructed

- What is the target market the index is intended to measure?
- Which securities from the target market should be included in the index?
- How should the securities be weighted in the index?
- How often should the index be rebalanced?
- When should the selection and weighting of securities be re-examined?

选标的

定权重★★★

计算, 缺点

Uses of Indexes

- Reflection of investor confidence.
- Benchmark of manager performance.
- Measure of market return and risk.
- Measure of beta and risk-adjusted return.
- Model portfolio for index funds

Rebalancing and Reconstitution 区别

Weighting schemes for indexes

- Price-Weighted Index
- Equal-Weighted Index
- Market Capitalization-Weighted Index
- A Float-Adjusted Market Capitalization-Weighted Index
- Fundamental weighting

Common index

Equity Indexes

- Broad market index
- Multi-market index
- Multi-market index with fundamental weighting
- Sector Index
- Style index

Fixed-Income Indexes

- Large universe of securities
- turnover is high
- Dealer markets and infrequent trading

Alternative Indexes

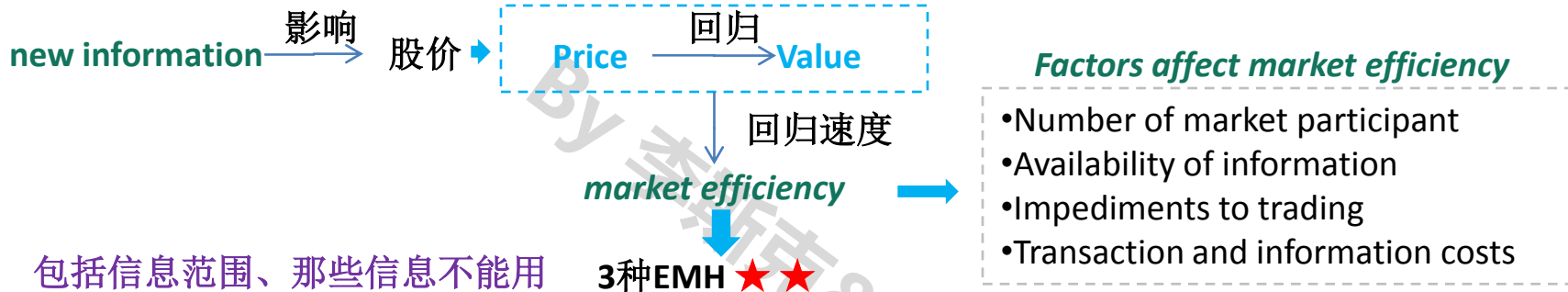
- Commodity indexes
- Real estate indexes
- Hedge Fund Indexes

了解特征

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Market Efficiency

Common index



Types	Assumption	Implication
Weak-Form EMH	Market info.	Technical Analysis ×
Semi Strong-Form EMH	Public info.	Fundamental Analysis ×
Strong-Form EMH	All info.	Nobody can win the market



试图推翻EMH ★不能推翻EMH, 概念

Market Anomalies

- Calendar anomalies
- The overreaction effect
- Momentum anomalies
- Size effect
- Value effect
- Closed-end investment funds
- Earnings announcements
- Initial public offerings
- Economic fundamentals

Behavioral Finance

- Loss aversion
- Overconfidence bias
- Representativeness
- Gambler's fallacy
- Mental accounting
- Conservatism
- Disposition effect
- Narrow framing
- Herding behavior

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Overview of Equity Securities

Classification★

Publicly traded

- Common Shares
- Callable common shares
- Putable common shares
- Preference shares
- Cumulative preference shares
- Convertible preference shares

Privately traded

- Venture Capital
- Leverage Buyout
- PIPE

Overseas Traded

- Direct investing
- Global registered shares
- Depository receipts ★
- BLDR

不同类型投资风险区别

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Introduction to Industry and company Analysis

Top-down process

Step 1: Economic Analysis

- Macroeconomic
- Technology
- Demographics
- Governments
- Social influence



Step 2: Industry Analysis



五力模型 概念

Competitive Advantage

- Rivalry among existing competitors
- Threat of new entrants
- Threat of substitute products
- Bargaining power of buyers
- Bargaining power of suppliers

Peer
Group



Industry Classification

• Industry Life Cycle ★

- Embryonic stage
- Growth stage
- Shakeout stage
- Mature stage
- Decline stage

各阶段特
征识别

• Sensitivity of Business Cycle

- Cyclical firm
- Non-cyclical firm
 - Defensive industries
 - Growth industries

• statistical methods

- limitations

缺点



Step 3: Company Analysis

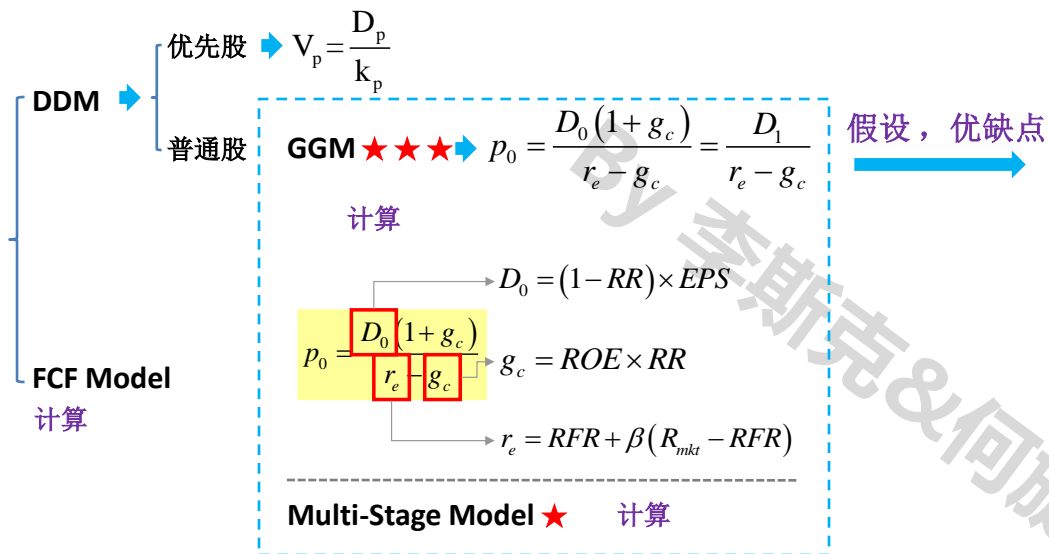
- Three generic competitive strategies
 - Cost leadership
 - Differentiation
 - Focus

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Equity Valuation: Concept and Basic Tool

Valuation Methods

Method 1: DCF



Assumption

- Dividends grow at a constant rate
- The constant growth rate will continue for an infinite period.
- The required rate of return r is greater than growth rate g

Limitations

- Very sensitive to r and g
- Difficult with non-dividend stocks
- Difficult with unpredictable growth patterns

Method 2: Price Multiple Approach

Advantages

- Easily calculated
- Can be used in time series
- Cross session comparable

Disadvantages

- Reflect only past

Calculation

- Price multiples based on comparables
- Price multiples based on fundamentals

Leading P/E

$$\frac{P_0}{E_1} = \frac{D_1/E_1}{k-g} = \frac{1-b}{k-g}$$

Trailing P/E

$$\frac{P_0}{E_0} = \frac{(1-b)(1+g)}{k-g}$$

★计算

Enterprise value ★ 计算

EV = market value of common stock + market value of preferred equity + market value of debt – cash and short-term investments

Method 3: Asset-based valuation

计算，有市场价格用市场价格，无则账面价值

- primarily tangible short-term assets
- assets with ready market values
- The firm will cease to operate and is being liquidated.



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