

YBPS Equity Research Club

Meeting Notes 12.05.2007

THE TRANSITION FROM SCIENCE TO WALL STREET by Dr. Jordan Verdis

1) Will discuss how someone with a science background (having no business credentials) can enter the financial world (buy side/sell side)

-Discussion of the strange situation of scientist or medical professionals entering the analyst position. The issue is:

If you wanted to be an analyst why did you go to school for so many years to study an entirely different topic instead of following one of the established paths to the profession (e.g. MBA, or undergraduate business degree and work)?

-Be aware that this career change will strongly influence the interviewer. The applicant needs to address this issue and justify it in presenting themselves

-Don't be hesitant to state the obvious: be frank and clearly present why you are making the career transition

2) Who is qualified to be an analyst?

There are a number of paths to this profession:

- a) someone who has previously done it
- b) someone who has been trained to do it (MBA → work training → become and analyst)
- c) people who have worked in the industry, with first-hand business experience in the area that you plan to be an analyst for (5-10 years experience)

However, for an analyst job, we have none of these credentials... so it is our responsibility to articulate that "I can do the job and don't worry."

To get an analyst job you need to prepare getting (a) the skills, (b) the credentials.

How can we achieve this:

1. Get the skills
 - a. Accounting 101
 - i. (night school/audit courses)
 - b. Read the Wall Street Journal: column "**Heard on the Street**"
 - i. Follow it daily for 2-3 years
 1. Look up what you don't understand
 2. Will provide info on corporate strategy
 - c. Peter Lynch book: "**One up on Wall Street**": A good, plain language introduction of how analysts look at company.
 - d. Follow companies over a long period of time
 - i. Read their filings, annual reports, etc.
 - ii. Understand their finances and their business
 - iii. Write your own investment report on the company
 - e. Always have a few good investment ideas ready
 - i. Need to be able to defend these ideas and support your investment theses. Future employers will judge you on that.
 - f. Take advice from people already working in this industry.

2. Get the credentials:

What can you do to prove that you have the skill set?

- a. CFA: (Chartered Financial Analyst).
 - i. <http://www.cfainstitute.org> for information and to register as a candidate
 - ii. most prestigious professional designation for analysts
 - iii. Best way to demonstrate financial knowledge without a business degree
 - iv. Shows that you are serious about becoming an analyst
 - v. To become a CFA charterholder one needs to: pass three exams, held every June, have four years investing experience and comply with the CFA institute code of ethics
 - vi. Anyone can register and take the exams (you do not need to be an analyst)
 - vii. CFA candidate status makes your resume stand out, especially once you have passed one or two exams.
 - viii. *How do you prepare?*
 - study groups, prep courses, books, etc.
 - 6 hour exam, covers topics such as: ethics, statistics, accounting, financial analysis, bonds, derivatives, corporate finance, portfolio theory
- a. Jordan advises against paper trading (mock portfolios)
 - i. Nobody cares about mock portfolio, and nobody will believe you
 - ii. The biggest challenge is emotional, and this is more real when you are dealing with real \$\$
 - iii. The only beneficial use of a mock portfolio is to learn a particular trading platform (eg how to place orders, which button to click, how the broker's website works, etc.) But this is irrelevant to you as analysts.
- b. Even real money portfolios will not help as credentials: Retail investing is very different from institutional investing. But it can benefit yourself:
 - i. With real money that you actually care about, you learn about yourself and how to manage your emotions.
 - ii. Will give you exposure and experience in the markets.
 - iii. You will make mistakes and will learn from them.
- c. You do not have actual work experience as an analyst. So, simulate it as much as you can:
 - i. Follow companies, write investment reports. The employer wants to know your **Investment Thesis**:
 - a. What you want to buy
 - b. Why you want to buy
 - c. When you want to buy
 - d. When or what will make you sell itThis should be in writing. You need a *written report* for every company you consider buying

Thoughts about working in the industry:

- Industry Experience counts! However, it is preferable if you are near the profit center or in a managerial position, e.g. worked with FDA approval, organizational experience, sales, deals and contracts
- The speaker does not consider a PhD-level scientific background as an advantage (people from the audience disagreed). His reasons:
 - In most industries, the scientific challenge is minimal.

- Most important, high scientific standards or innovation does not necessarily mean the company will be profitable. In many industries companies with scientifically unimpressive and not so innovative products dominate. Eg Microsoft, MacDonalds, etc.
- Examples where our background may hurt us: One can place undue importance to the science and forget about the factors that make a company successful in the marketplace.
- The point: it is not all about the science, there are many more factors
 - such as competition for company and the market for the product
- You don't need to always be an expert to read between the lines, just some common sense (and the ability to understand what the experts say).***

How to get an interview?

Networking is vital for getting a job as an analyst, especially buy-side

- look around for old friends, roommates, classmates, Yale alumni etc

Explaining the different types of analysts:

An analyst is someone who makes investment recommendations (can be stocks, bonds, derivatives, whatever).

Buy-side: Makes investment recommendations for the company they work for

Sell-side: (usually brokers or independent equity analysis outfits) they follow the companies and issue reports/recommendations to other individuals/companies

- they are selling their product
- has a sales component that is essential for the job
- is easier to enter than the buy-side
- they typically do not invest (conflict of interest), just sell the recommendations

The **portfolio manager** decides whether or not to buy/sell a stock based on the **analyst's** recommendations (sometimes the PM is also the analyst), and gives instructions to the **Trader**. The **Trader** (almost always a different person or department) executes the buying/selling trades based on the PM's instructions.

Desk Traders, buy-sell all the time, trying to exploit abnormalities in the market.

- decisiveness and good at numbers* are important for trading desk jobs. Very intensive, not suitable for your typical PhD personality.

Arbitrage/options, options pricing is an open-end area that science PhDs often do well (also very math intensive). Needs good math background, statistics, PDs, etc

What happens after you get the job? How do you manage the life?

- be aware: companies that are experienced in hiring people with Advanced Degrees are probably better suited for scientists.

Two types of companies:

1. Hire trained analysts
2. Just hire smart people, and then train them to become analysts
 - If you do end up at a company that has no other PhDs, FIND A MENTOR. Also do social networking within the industry.

Q&A: (missed a couple Q's, but got the A's)

1. *How do you handle the pressure? How are mistakes tolerated? How do you evaluate yourself?*

This is dependent on the style of investing you do (on the investment horizon – long or short term).

If a stock goes up or down, and you did not anticipate it, the question becomes: why not? Is it something you should have foreseen or was it completely unpredictable? Did you do a good analysis or did you miss something? Did you alert the Portfolio Manager on time? What is the quality of your analysis?

2. *How do you decide which company to analyze?*

Your companies to invest in are selected based on the type of fund you run. Usually you follow an investment policy statement and follow the guidelines of the company with respect to sector, capitalization, growth or value, etc.

3. *What is the amount of companies you follow at a given time?*

You look at all of the companies in your investment universe and decide which match the criteria. This also has to do with your fund's investment policy, how many companies they will own at any given time.

4. The speaker advises against a part-time (“executive”) MBA as a step to an analyst job. Especially if it is not from a top school.

5. *What is a challenge of the buy side?*

When you are a buy-side analyst, you are accountable to the investors in your fund. If the investment goes bad, your every action will be scrutinized.

6. *What is the criteria of assessing your work?*

The quality of your analysis; how good are your recommendations over time? You do not have to always show a profit: every fund has a benchmark (usually an index) and you have perform better than that.

7. *Is industrial experience a plus when you are considered for an analyst job?*

The closer you are to the money making part of the company the better.

8. *Do you prefer largely examined companies or diamonds in the rough?*

Take a look at everything, just do your best at the job you are asked. All companies in your investing universe are fair game. This depends on your fund's investment policy.

9. *Working hours?*

Generally you have to be available from before market opening till the end. Yes, there are crazy hours out there. Depends on the corporate culture.

10. *Issues for foreigners, with respect to American counterparts?*

Visa issues, the company may not sponsor you for a visa (in fact, they may require that you are authorized to work in the US already).

Thank you for joining this YERC talk, and hope to see you next semester, too!

***Check out our Spring Schedule at:
<http://www.yale.edu/ybps/YERC.htm>***