

# ANALYSIS OF EQUITY INVESTMENTS: VALUATION

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# PREFACE

*Analysis of Equity Investments: Valuation* represents the third step in an effort by the Association for Investment Management and Research® (AIMR®) to produce a set of coordinated, comprehensive, and practitioner-oriented textbook readings specifically designed for the three levels of the Chartered Financial Analyst® Program. The first step was the publication in June 2000 of two volumes on fixed income analysis and portfolio management: *Fixed Income Analysis for the Chartered Financial Analyst Program* and *Fixed Income Readings for the Chartered Financial Analyst Program*. The second step was the publication in August 2001 of *Quantitative Methods for Investment Analysis*. Given the favorable reception of these books and the expected favorable reception of the current book, similar textbooks in other topic areas are planned for the future.

This book uses a blend of theory and practice to deliver the CFA® Candidate Body of Knowledge (CBOK) in the equity analysis portion of the curriculum. The CBOK is the result of an extensive job analysis conducted periodically, most recently during 2000–01. Regional job analysis panels of CFA practitioners were formed in ten cities around the world: Boston, Chicago, Hong Kong, London, Los Angeles, New York, Toronto, Seattle, Tokyo, and Zurich. These and other panels of practitioners specified what the expert needs to know as the Global Body of Knowledge, and what the generalist needs to know as the CBOK. *Analysis of Equity Investments: Valuation* is a book reflecting the work of these expert panels.

In producing this book, AIMR drew on input from numerous CFA charterholder reviewers, equity analysis specialist consultants, and AIMR professional staff members. The chapters were designed to include detailed learning outcome statements at the outset, illustrative in-chapter problems with solutions, and extensive end-of-chapter questions and problems with complete solutions, all prepared with CFA candidate distance learning in mind. This treatment of equity analysis represents a substantial improvement for CFA candidates compared to the previous readings. Although designed with the CFA candidate in mind, the book should have broad appeal in both the academic and practitioner marketplaces.

AIMR Vice President Dennis McLeavey, CFA, spearheaded the effort to develop this book. Dennis has a long and distinguished history of involvement with the CFA Program. Before joining AIMR full-time, Dennis served as a member of the Council of Examiners (the group that writes the CFA examinations), an examination reviewer, and an examination grader. Co-authors John Stowe, Tom Robinson, and Jerry Pinto bring unique perspectives to the equity analysis process. John is a professor of finance and associate dean at the University of Missouri. Tom is an associate professor of accounting at the University of Miami. Jerry is an investment practitioner who has a successful consulting practice specializing in portfolio management. All three are CFA charterholders and have served as CFA examination graders. In addition, Tom and John have served on the Council of Examiners, and Jerry and John have served as CFA examination standard setters (the group that provides a recommended minimum passing score for the CFA examinations to the Board of Governors). We were fortunate that Jerry was able to take a leave of absence to work at AIMR on this project.

The treatment in this volume is intended to communicate a practical equity valuation process for the investment generalist. Unlike many alternative works, the book integrates accounting and finance concepts, providing the evenness of subject matter treatment, consistency of notation, and continuity of topic coverage so critical to the learning process. The book does not simply deliver a collection of valuation models, but challenges the reader to determine which models are most appropriate for specific companies and situations. Perhaps the greatest improvement over previous materials is that this book contains many real-life worked examples and problems with complete solutions. In addition, the examples and problems reflect the global investment community. Starting from a U.S.-based program of approximately 2,000 examinees each year during the 1960s and 1970s, the CFA Program has evolved into a pervasive global certification program that currently involves over 101,000 candidates from 149 countries. Through curriculum improvements such as this book, the CFA Program should continue to appeal to new candidates across the globe in future years.

Finally, the strong support of Tom Bowman and the AIMR Board of Governors through their authorization of this book should be acknowledged. Without their encouragement and support, this project, intended to materially enhance the CFA Program, could not have been possible.

*Robert R. Johnson, Ph.D., CFA*  
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We would like to acknowledge the assistance of many individuals who played a role in producing this book.

Robert R. Johnson, CFA, Senior Vice President of Curriculum and Examinations (C&E) at AIMR, saw the need for specialized curriculum materials and initiated this project at AIMR. Jan R. Squires, CFA, Vice President in C&E, contributed an orientation stressing motivation and testability. His ideas, suggestions, and chapter reviews have helped to shape the project. Philip J. Young, CFA, Vice President in C&E, provided a great deal of assistance with learning outcome statements. Mary K. Erickson, CFA, Vice President in C&E, provided chapter reviews with a concentration in accounting. Donald L. Tuttle, CFA, Vice President in C&E, oversaw the entire job analysis project and provided invaluable guidance on what the generalist needs to know.

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Wanda Lauziere, C&E Associate at AIMR, served as project manager and guided the book through production.

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