

Financial Analysts Journal >  
Volume 74, 2018 - Issue 2604 5 23  
Views CrossRef citations to date Altmetric

Equity Investments

# Sell-Side Financial Analysts and the CFA<sup>®</sup> Program

Qiang Kang, Xi Li &amp; Tie Su, CFA

Pages 70-83 | Published online: 12 Dec 2018

Cite this article <https://doi.org/10.2469/faj.v74.n2.2>

Check for updates

Sample our  
Tourism, Hospitality and  
Events Journals

>> [Sign in here](#) to start your access  
to the latest two volumes for 14 days

[Full Article](#) [Figures & data](#) [References](#) [Citations](#) [Metrics](#) [Reprints & Permissions](#)[Read this article](#)

## Abstract

We examine the effects the Chartered Financial Analyst<sup>®</sup> (CFA) designation program has on recommendation performance and career outcomes of the analysts who complete the CFA Program and become CFA charterholders. For these analysts, both their recommendation performance and their chances of making Institutional Investor's All-America Research Team increased during the 1993–2015 period. These effects are attributable to the CFA Program curriculum. The results remain largely stable over the pre- and post-2000 subperiods, and they survive an array of robustness checks.

Disclosure: The authors report no conflicts of interest.

## Editor's Note

Submitted

Accepted

Acknowledgments

### About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our [Privacy Policy](#).

Accept All

Essential Only

Settings

We are thankful for comments and suggestions from Stephen Brown (editor), Daniel Giamouridis (co-editor), two anonymous referees, Wayne Ferson, John D. Stowe, CFA, and seminar participants at the China International Conference in Finance, the National Taiwan University International Conference on Finance, and the International Symposium on Economics and Social Science. We are grateful to Alok Kumar and Yibin Zhou for sharing their data with us and to Yan Jin for valuable research assistance. We also thank Jonathan Moore for editorial help. Any errors are our own responsibility.

## Notes

<sup>1</sup> CFA Institute is the professional organization of both buy-side and sell-side analysts. Buy-side analysts work for money managers and provide research for in-house use by money managers, and sell-side analysts work for brokerage firms and provide research for the firms' clients. Unless otherwise stated, in this article, we use the term "analysts" to refer to sell-side analysts. Also, we use "brokerage firm" or "firm" to refer to an analyst's employer, and we use "company" to refer to the entity that an analyst covers.

<sup>2</sup> Relatively little literature on the CFA Program exists. This literature often uses small samples and focuses on buy-side analysts (see Shukla and Singh 1994; Brockman and Brooks 1998; Miller and Tobe 1999). De Franco and Zhou (2009) compared forecast performance, as measured by timeliness and accuracy, of sell-side equity analysts with and without a CFA designation.

<sup>3</sup> US regulators introduced six major changes to analyst research in the early 2000s: Regulation Fair Disclosure (Reg FD) in 2000, NASD Rule 2711 and NYSE Rule 4722 in 2002, the Sarbanes-Oxley Act of 2002, the Global Analyst Research Settlement (Global Settlement) of 2003, and the SEC's Regulation Analyst Certification of 2003.

<sup>4</sup> CFA Institute, "The CFA Charter," CFA charter factsheet (2016), [www.cfainstitute.org/programs/cfaprogram/Documents/cfa\\_charter\\_factsheet.pdf](http://www.cfainstitute.org/programs/cfaprogram/Documents/cfa_charter_factsheet.pdf).

<sup>5</sup> See [www.cfainstitute.org/programs/cfaprogram/Pages/cfa\\_candidate\\_insights.aspx](http://www.cfainstitute.org/programs/cfaprogram/Pages/cfa_candidate_insights.aspx).

<sup>6</sup> The four parts of the Candidate Body of Knowledge are ethical and professional standards, tools, as a difference in financial inclusion, and Level I and II ethical a parts, but with economics, tion, which estments. eights to

### About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our [Privacy Policy](#).

Accept All

Essential Only

Settings

<sup>7</sup> See

[www.cfainstitute.org/programs/cfaprogram/Documents/1963\\_current\\_candidate\\_exam\\_results.pdf](http://www.cfainstitute.org/programs/cfaprogram/Documents/1963_current_candidate_exam_results.pdf).

<sup>8</sup> See [www.cfainstitute.org/community/membership/process/Pages/work\\_experience.aspx](http://www.cfainstitute.org/community/membership/process/Pages/work_experience.aspx).

<sup>9</sup> See, e.g., Rottenberg (1980) for a review of earlier literature and Card (1999), Goldhaber and Brewer (2000), Angrist and Guryan (2004), and Kugler and Sauer (2005) for more recent examples. Note that this literature differentiates between mandatory licensing and voluntary certification, such as mandatory licensing/certification for lawyers, dentists, physicians, and teachers and voluntary certification for auto mechanics.

<sup>10</sup> Our study focuses on investment recommendations for the following reasons. Recommendations provide an important assessment of companies by sell-side analysts (see Bradshaw 2004), and they are highly valued by investors (see Womack 1996; Francis and Soffer 1997; Barber, Lehavy, McNichols, and Trueman 2001). Bradshaw (2009) illustrated a simple schematic of analysts' actual decision making, which starts with publicly available information and ends with a justifiable recommendation released to investors that during the process of earnings forecasting is an intermediate product. Bradley, Clarke, Lee, and Ornathanalai (2014) found that compared with management guidance and earnings announcements, analysts' recommendations are the most important information disclosure channel.

<sup>11</sup> With [Equation 1](#), we essentially use a diff-in-diff approach for estimations (see Bertrand and Mullainathan 2003).

<sup>12</sup> Some researchers have also used instrumental variables and Heckman's (1979) two-step procedure to deal with selection bias (see Heckman, Ichimura, Smith, and Todd 1998). The two methods face practical challenges here. Appropriate instrumental variables, such as measures of innate ability, are not readily available. The decision to complete the CFA Program again is not available to CFA charterholders, which is likely to render Heckman's (1979) procedure inaccurate. Moreover, the timing of an analyst's decision to go through the CFA Program is unknown, further weakening the efficacy of Heckman's procedure.

<sup>13</sup> Because each level of the CFA Program exams is offered once a year (Level I has been offered twice a year since 2003) and analysts need to have at least three years of relevant work

experien  
time lim  
the prep  
progr  
before  
experien

#### About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our [Privacy Policy](#).

Accept All

Essential Only

Settings

<sup>14</sup> Our approach is similar to that of the Wall Street Journal’s rankings, which give a weight of 2, 1, 0, -1, and -2 to stocks that the analysts rated 1 through 5. Alternative weighting schemes of recommended stocks do not affect our results.

<sup>15</sup> In our empirical exercises, after controlling for analyst and year fixed effects in the regressions, the results barely changed with or without brokerage fixed effects. This outcome reflects the fact that the brokerage fixed effects are highly correlated with the analyst fixed effects. The results with brokerage fixed effects are available on request.

<sup>16</sup> The results in [Table 4](#) show that the identical empirical model appears to have greater explanatory power in the earlier subperiod than in the later subperiod. A further investigation found that much of the explanatory power derives from the analyst fixed effects, and the fixed effects happen to produce a better fit in the earlier subperiod. Several economic forces could jointly contribute to the different roles of the analyst fixed effects for the two subperiods. A series of regulatory reforms have been introduced and implemented since the early 2000s, which have inevitably affected analysts’ research and behavior. Also, the financial markets have evolved dramatically since the turn of the century, especially with innovations and technological advances in the financial sector that have reshaped the microstructure of trading and processing and the dissemination of information. Additionally, the later subperiod featured several big market swings and two economic recessions, including the 2008 financial crisis and the ensuing Great Recession. Those episodes had profound and long-lasting effects on the financial sector as a whole. Because these economic forces overlap with each other and tend to work jointly, it is not easy to isolate the effect of each force on the explanatory power of the analyst fixed effects.

<sup>17</sup> In particular, controlling for selection bias by using the Heckman (1979) approach does not change any of the findings in the article. The results are available on request.

Related research ⓘ

People also read	Recommended articles	Cited by 5
------------------	----------------------	---------------



About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click “Settings”. For further information about the data we collect from you, please see our [Privacy Policy](#).

- Accept All
- Essential Only
- Settings

## Information for

Authors  
R&D professionals  
Editors  
Librarians  
Societies

## Opportunities

Reprints and e-prints  
Advertising solutions  
Accelerated publication  
Corporate access solutions

## Open access

Overview  
Open journals  
Open Select  
Dove Medical Press  
F1000Research




## Help and information

Help and contact  
Newsroom  
All journals  
Books

## Keep up to date

Register to receive personalised research and resources by email

 Sign me up

Copyright © 2024 Informa UK Limited [Privacy policy](#) [Cookies](#) [Terms & conditions](#)

[Accessibility](#)



Taylor & Francis Group  
an informa business

Registered in England & Wales No. 3099067  
5 Howick Place | London | SW1P 1WG

### About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click “Settings”. For further information about the data we collect from you, please see our [Privacy Policy](#).

Accept All 

Essential Only

Settings