

EDUCATION FOR TOMORROW'S SECURITY ANALYST

By R. Peterson

(Mr. R. Peterson, Lecturer in Accounting & Financial Management at the University of New England, gave this address to a meeting of the New South Wales Branch on 30 September 1970).

The subject I want to discuss tonight is education - education for some very important people, tomorrow's security analysts. There is little need to emphasize the importance of education to members of this Society; indeed one of the matters currently receiving consideration by the Executive Committee is a long range educational programme for the Society. In addition every activity organised by the Society is of an educational nature with one aim in mind - to improve the standard of work performed by Security Analysts.

However, these educational activities currently organized by the Society are of an informal type and I think you will agree that there is a limit to the standard which can be achieved by the use of informal educational measures alone. This poses the need for formal education in this area. Let me make it clear at this point that the aim of formal business education is not to provide a classroom version of on-the-job training, but rather to increase the educability of people after they enter professional life and thus provide a foundation upon which continuing education programmes may be built.

JUSTIFICATION FOR THE TEACHING OF INVESTMENT ANALYSIS IN TERTIARY EDUCATION INSTITUTIONS

Assuming that we, as analysts, accept the need for formal education in our specialized area can we also justify the inclusion of courses in investment analysis in our tertiary education institutions? I think we can.

One obvious reason is the growing interest in investment in securities by our affluent society. Surveys in the U.S.A. indicate that in 1952 approximately 1 in 25 adults were shareholders and that this figure had jumped to 1 in 7 adults in 1969.¹

Comparable figures are not available in Australia but if the increase in activity on our stock exchanges is any indication it is probably that we in Australia are following the U.S. trend. In addition as the Chairman remarked at the annual general meeting of Sanders Chemical Ltd. last week.

"In Australia, particularly, every man and woman is a public company shareholder, either directly or indirectly, through their life policy with a life assurance society, or interest in a superannuation fund, which nowadays top the list of major

shareholders in public companies".

It seems almost certain that in the case of people in the middle and upper income groups their interest in investment will be a direct one and on this basis I am prepared to forecast that virtually every university student of today can look forward to the ownership of either shares, debentures or government bonds during his lifetime. I am assuming that only a small minority of students will be unemployed and thus be forced to take on underpaid academic posts.

A further justification is apparent from a perusal of the "Situations Vacant" columns of our daily newspapers or more simply that there are jobs in the various sectors of the securities industry for qualified analysts. In fact all of you are no doubt aware of the growth in the investment departments of financial institutions over the past five years. In this regard also, with the growing trend towards the institutionalization of the investment process we can logically expect society to demand that investment advisers in these institutions must possess formal qualifications in their area of speciality.

It is interesting to observe that in the case of our sister organization, the Financial Analysts Society in the U.S.A., a recent survey indicated that 91.5 percent of the members of the Society were graduates and of these a further 48.2 percent possessed post-graduate qualifications.²

Acceptance of the trends observed above provide ample justification for the inclusion of courses in investment analysis in the curriculum of our universities. In addition these trends provide a partial answer to our next question - for whom should these courses be designed to cater.

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If most people are going to be participants either directly or indirectly in the investment process it would seem imminently desirable that all students pursuing a university education should be exposed to some study in this field in the form of a general service course. Although this does not directly concern the profession it is interesting to speculate as to whether as strong a case could be made in any other field for a required course for ALL students.

The second group, as indicated by the above analysis, which must be catered for is, of course, those students who plan to become professional analysts or specialists in the area of investments. This group is of utmost importance to the Society because, hopefully, it is from this group that the Society will draw its future members. To cater for a student in this group there should not merely be a single course in security analysis but an entire

programme which adequately equips him to enter professional life. In addition the programme should provide mind-building analytical training which is at least a fair substitute for the training in arts and sciences which the student has to forego.

Before turning to the interesting question of the actual composition of such programmes there is a further group to be considered. This group consists of the present day analysts who have had, say, eight to ten years professional experience. These people, until recently, have been largely neglected by universities in Australia primarily because the universities have had to cope with the post war boom in tertiary education. In many cases people in this category have been denied the opportunity to participate in up-to-date training programmes commensurate with their ability because of one or both of the following reasons:

- (a) They do not possess the prerequisite qualifications to enter the universities at the level at which they gain the maximum benefit. When these people entered professional life there was no requirement for a tertiary education but with the rapid advance in knowledge which has occurred, particularly over the last decade, they now find themselves at a serious disadvantage as compared with younger and more junior colleagues.
- (b) Regardless of the possession of prerequisite qualifications there are many senior analysts who just cannot afford the time to spend say a year at a university on a refresher course or on a post-graduate degree. This is particularly true of our more senior analysts who occupy middle and top management positions. Here pressure of work and professional commitments must take precedence over personal desires to improve qualifications.

Experience in the U.K. has shown that most businessmen in this category can obtain substantial benefits from short courses specifically tailored to suit their needs. The field of security analysis appears to be a particularly fertile area for this type of course in view of the fact that courses in business finance have only recently been introduced into the curriculum of most of our universities. We shall refer to these courses as post-experience courses.

CONTENT OF A PROGRAMME FOR AN ANALYST

According to the most recent calendars and handbooks available about 50 percent of Australian universities are now offering courses in the area of security analysis. In most cases study in this area is included in Business Finance/Managerial Economics courses and I suspect that in the case of universities not currently offering these courses some treatment of investments is covered

in their accounting courses. Because of this difficulty of identifying course structures I will confine my remarks in this section primarily to the course offerings at the University of New England.

(A) Undergraduate Programmes

Currently the Bachelor of Economics course is a three year degree course and it is possible within the degree structure to select a programme which, I believe, would be suitable for a student who plans to enter some phase of the investment business.

An example of such a programme is set out in Exhibit 1. I stress here that this is an example and NOT a model programme and some people might emphasize slightly different aspects. The programme outlined emphasizes a number of points:

- (i) That the student must receive preparation in other subjects such as Statistics, Accounting, Economics and Business Law in order to obtain the maximum benefits from actual courses in Finance/Investments.
- (ii) General economic principles underlie all investment decisions.
- (iii) A further fundamental theme is the dual concept of risk and profitability.
- (iv) The significant role of the computer.

Completion of such a programme would, I believe, go a long way towards equipping tomorrow's security analyst to meet the challenges of the future. However, there are a number of deficiencies in this programme. Although the student in his security analysis is carried through to security valuation and although he has been introduced to risk and utility, little attention has been devoted to actual portfolio selection. The programme, too, is entirely quantitative with no attention at all devoted to the behavioural sciences. These deficiencies can only be overcome by the introduction of a four year undergraduate course as it is just impossible to include the desired number of units within a three year structure. Such a course is at present under consideration at the University of New England. although development of such a course is not yet past the drawing board stage it is likely that it will provide for specialization in various applied areas of economics. This would enable a student to specialize in depth in the area of his choice and at the same time undertake study in a fairly broad cross-section of subjects.

(B) Graduate Programmes

It is difficult to generalize on course programmes for the graduate student since much depends on the student's previous background. It is possible in all of the present graduate schools in economics and/or business administration to specialize in the area of finance/investments. Particularly is this true where it is possible to proceed to a post-graduate degree by a combination of course work and dissertation. In this case the course work would consist of subject in the areas previously mentioned but at an advanced level.

(C) Post-Experience Programmes

Mention has previous been made of the justification of these courses, but what should be their form and content. It is suggested there should be two forms of post-experience courses:-

- (a) Short concentrated courses of up to 10 days duration, combining lecture and discussion periods dealing largely with theoretical and conceptual issues.
- (b) Brief one and two day workshop sessions consisting primarily of discussion periods aimed at applying theory to practice (e.g. via the case study technique).

It is emphasized that these courses would not be of the "convention" type but would involve participants in a considerable amount of rigorous intellectual exercise. Such a programme in the area of security analysis is presently being carried out by the Department of Accounting & Financial Management at the University of New England and the first of our lecture-type courses was carried out last January. It is hoped that workshop sessions will be available in 1971.

As far as the content of the courses are concerned the type of course envisaged is not of the "How to Beat the Market" variety nor is it specifically job oriented such as a course on Grocery Store Management. Rather the course should attempt to come to grips with some of the conceptual and analytical issues confronting the profession.

Examples of topics which could be handled in the workshop session would include case studies of various business problems, business games, critiques of business law as it affects the securities industry and discussion of contemporary issues.

From the enthusiasm of participants in our last course and from discussions with members of the profession we feel that there is or would be a

substantial demand for courses of this nature and there can be little doubt that the profession as a whole would benefit from them.

SUMMARY AND CONCLUSIONS

In this paper I have attempted to justify the teaching of investment type course in universities. In the belief that these courses are justified I have outlined a programme of education suitable for tomorrow's security analyst. This programme in the main follows logically from the trends observed earlier in this paper. The underlying theme being the necessary preparations in Economics, Accounting, Law and Statistics before tackling actual courses.

As many of our present day investment analysts will also be around tomorrow provision has also been made to cater for their needs and examples have been given of the type of post-experience courses envisaged. Although some of the pattern of formal education for tomorrow's security analyst is still developing much of it is an established fact today, e.g. there are students at my own University studying the type of programme I have outlined.

In conclusion, therefore, I would strongly recommend that the Society

- (a) give serious consideration to the introduction of a requirement for formal education of the nature outlined as a prerequisite for entry to the profession.
- (b) that it encourage its existing members to participate in post-experience courses of the nature also outlined. If the Society is not prepared to take this action I cannot see how it can continue to expect its members to abide by standards of conduct demanded by the public of all true professionals. In which case the public may well demand that these standards be enforced by some other measure, perhaps by more stringent provisions in our laws governing securities.

¹ DeWitt C. Morrill, "How to build and maintain shareholder Relations", Financial Executive, October 1969, p. 48.

² William C. Norby, "Profile of the Financial Analyst", Financial Analysts Journal, July-August 1968, p. 12.
