

Tips of Answering a Level 3 Essay Question

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First, a word of advice; answer the question that is asked, not the question you wanted or expected to see. For example, you might see a concept you know well, but it is asked from a different perspective. Reading the question too quickly, you construct a beautiful, time consuming answer, but not the answer the exam asks for (e.g., answer from the perspective of the client when the question is asked from the perspective of the portfolio manager). That might have been awarded points on a mid-term or final exam from a sympathetic college professor, but showing expertise with an incorrect answer will not win any points on the CFA exam. This **also applies to listing more "items" than requested. If the question asks you to list and describe three of something, DO NOT list and describe four. No matter how well it's** written, the fourth item and description will be totally ignored. You will have wasted precious minutes!

Just like the afternoon (item set) session, the morning session of the exam is three hours (180 minutes) long. Each question on the exam is allocated points/minutes according to how long the exam writers expect the average candidate to take in writing a short, complete answer. The afternoon session will have exactly ten, 18-point item set questions, but the morning can have a different number of questions, depending upon their point values. I have seen 30-point essay questions and 10-point essay questions on the same exam.

When you first open your exam, take a deep breath and proceed calmly and efficiently. Glance **very quickly at all the questions to decide where you will start. Remember my old saying, "Get your points and give CFA Institute theirs." By glancing at all the questions first, you'll be able to pick out the easiest; the one you know you'll ace and will be able to answer quickly. That will serve to build your confidence, and once you get rolling, you'll be able to answer just about any question. Also, by doing the easiest questions first you can "bank" minutes for later in the** morning when you have to stop and think about a question.

When you have selected your starting question, look at its individual parts and be sure to note how the total points for the question are allocated (the heading to the question will contain the number of parts and the total point value of the question). Then, if Part A asks you to list and describe three characteristics and is allocated *six minutes*, you know immediately that part A is worth a total of six points (1 minute = 1 point). Also, you know that the grader will award one **point for each item correctly listed and one point for its correct description. Here's a rule of thumb: write one sentence for each minute the question is worth, no more. A 1-point description (i.e., the answer to a question for which you have been given one minute) should**

not be half a page long! One sentence, or even a part of a sentence with a bullet point, is more than likely sufficient to get that point.

This might seem obvious, but if the question asks you to choose, select, recommend, etc, be sure to do it! Many times candidates write a good answer defending their choice, without ever explicitly *stating* the choice. The problem with this is that the choice itself is usually worth a point or two, and if you do not explicitly state it, you will not get those points. Also, on a template question, remember to circle a choice if you are asked to do so (e.g., agree/disagree, correct/incorrect).

If the question asks you to calculate something, write down the equation, show each step of the calculation, and **circle** your answer. Essay questions sometimes specifically ask you to show your calculations. I recommend, however, that you always show your calculations for a quantitative essay question. If the grader sees that you set up the calculation correctly but miscalculated, you will get partial credit. Also, if you had some pieces of a formula in the wrong place and some in the right place, you will get partial credit. If you only write down your final answer, you will get the points only if you have the exact answer (no partial credit, all or nothing, etc).

This is important. Don't be afraid to state the obvious or even repeat an answer. Don't feel an answer can't possibly be correct because you are simply restating something you already said in another part of the same question or possibly even rewriting part of the question itself. Do not second-guess yourself just because you feel your answer is redundant. Repetition can be worth points.

Here's another biggie. Before you actually start writing, think about your answer and organize your thoughts. Then, write them down in an orderly, structured fashion, maybe even using bullet points. Do not worry about spelling or grammar. Just try to write legibly but do not waste precious time in doing so. Graders see hundreds of exams and are accustomed to seeing all kinds of handwriting. Surely yours is no worse than most.

If you cross out part of your answer and replace it with text somewhere else on the page, be sure to draw an arrow so the grader can follow what you did. Also, even though you can use pencil, write in blue or black ink. Whatever you do, DO NOT use red or green ink! Graders use red and green, and if you use those colors, you will upset everyone who reads your exam.

Lastly, even if you have no Earthly idea how to answer a question, never leave an essay answer totally blank! You would be amazed at how many points can be earned with a very sketchy, vague answer. Sometimes just restating the question in your own words can earn a couple points. On most essay questions, the first few points are pretty easy to get. For

example, on a 12-point question, an answer with anything resembling a coherent response could get three or four points. Give yourself a chance at these points which you originally thought would go to CFA Institute!

How an Essay Answer Is Graded

Let me begin by offering some reassuring words about the CFA exam grading process. First, all graders are CFA charter holders, so they have all been candidates at some time. These graders cannot take points away from you; they can only award points. There is a thorough system of checks and balances in the grading process that assures that essay answers are graded as consistently and as fairly as possible. For example, exams that are near the passing mark are audited to be sure nothing was missed. This audit is not just performed on a sample of exams, it is performed on all exams that are near passing, and it is performed by the more experienced graders. In short, the grading process is structured to give all candidates a fair and reliable assessment.

Here are some facts about the grading process that might help you formulate essay answers.

Each question is graded by a team of graders who grade only that question, so they are familiar with the assigned material related to that question. Because they review hundreds of exams, they quickly learn to look for certain features in answers, such as key words or phrases. Remember, because graders see only one question, they will not be aware of things you said on other parts of the exam. Do not be afraid to repeat a point you feel you have already made—this may be new information to the grader of this question.

As graders work through exams looking for the components of the grading key, their search **often narrows to terminology, or “buzzwords.” While a buzzword by itself may not earn points,** graders will generally be more inclined to allow points if they see the term included in any semi-appropriate context. In other words, be sure to include any key terminology in your answer.

Graders do see a version of the “guideline answer.” In fact, the guideline answer is frequently revised and refined during the grading process, and the grader key is derived from the final guideline answer. Rest assured, however, that graders do not see any candidate answers that are identical to the guideline answer. The guideline answer is written by the authors of the question, who have all of the assigned materials in front of them and hours to work on it. Graders do not expect to see anything resembling the guideline answer, and you should not expect your answer to be anywhere near as comprehensive. Do not hesitate to use very short, incomplete sentences, phrases, or even bullet points, as long as you convey the answer.

Time Management

Candidates who fail the CFA exam usually cite time management as their biggest downfall. Do not let poor time management determine your exam results. The following will help you manage your time wisely:

- Do not let positive results on practice exams lull you into overconfidence. The stress of exam day plus distractions like outside noises, unpleasant and/or changing room temperature, or other candidates' noises can make a big difference in how fast you work.
- As I mentioned earlier, one way to alleviate time pressure is to bank a few minutes by doing an easy topic first. Select a topic with which you feel comfortable, and go there first. If you start to struggle, move to another topic. This strategy should help you gain confidence as you progress through the exam and will allow you to get a little ahead with your time allocation.
- I like the idea of doing an easy topic or question first to get going, but be VERY careful if you skip around as you work through the exam. Skipping back and forth can break your concentration and consume valuable time as you try to figure out what you have and have not done. Also, skipping around increases the chance of marking the wrong space on the answer sheet or even forgetting to answer a question altogether. There is no feeling worse than discovering an unanswered essay question two minutes before time is called!
- Remain calm. Even if you fall behind, panic will **only make things worse; you won't think clearly and you'll miss easy questions. If you need a short break, put down your pen/pencil and take a few deep breaths. This will take about 30 seconds, and may very well help you think clearly enough to answer several additional questions correctly. In fact don't be afraid to take a mind-clearing water break. Just don't overdo it.**
- Monitor your progress and keep an eye on the time as you work through the exam. Bear in mind, however, that you do not have all 15 minutes to answer a 15-point question—you will need some of that time to read the question and think about your answer.
- Last, but definitely not least, pay attention to the points allowed for each question, and DO NOT get carried away with a topic you know well. If you spend ten minutes answering a 4-point question, you are not helping yourself. In fact, you are penalizing yourself by reducing the time you have available for other, more difficult questions.

LOS :

- a) explain the function of strategic asset allocation in portfolio management **and discuss its role in relation to specifying and controlling the investor's exposures to systematic risk;**
- b) compare and contrast strategic and tactical asset allocation;
- c) discuss the importance of asset allocation for portfolio performance;

WHAT IS ASSET ALLOCATION?

A. Strategic Asset Allocation (SAA)

- Strategic asset allocation is an integrative element of the planning step in portfolio management.
- To establish exposures to IPS-permissible asset classes.
- Produces a set of portfolio weights for asset classes; we call this set of weights the strategic asset allocation (or the policy portfolio). See Exhibit 1 as an example of SAA. (p.179)
- **“Strategic asset allocation”** may refer to either a process or its end result.
 - A starting point for portfolio construction and a step of the portfolio management process.

B. The Role of Strategic Asset Allocation (SAA) in Relation to System Risk

- A keystone of investment analysis is that systematic risk is rewarded. In the long run, investors expect compensation for bearing risk that they cannot diversify away.
- EXAMPLE 1: Horse Race vs. SAA → Policy portfolio reflects what the investors believe is the best asset mix to achieve its return objectives given its risk tolerance. Horse Race system creates incentives for investment manager to take higher risks. (p.180)
- **The strategic asset allocation specifies the investor's desired exposures to systematic risk.**

C. SAA vs. Tactical Asset Allocation (TAA)

- Tactical asset allocation (TAA), which involves making short-term adjustments to asset-class weights based on short-term expected relative performance among asset classes.
- TAA often refers to investment disciplines involving short-term (such as quarterly or monthly) adjustments to the proportions invested in equities, bonds, and cash.
- The expectations involved in strategic asset allocation are long term. → 5 years
- Taking as the benchmark the policy portfolio invested in passively managed indexes for the asset classes, TAA creates active risk (variability of active returns—i.e., portfolio returns minus benchmark returns).
- TAA is an active investment strategy.

D. Empirical Debate on the Importance of Asset Allocation

- Brinson, Hood, and Beebower (1986). → concluded that asset allocation explained an average 93.6 percent of the variation of returns over time. On average timing and security selection explained 6.4 percent.

	Strategic Asset Allocation	Tactical Asset Allocation
Horizon	Long term	Short term
Risk	Systematic risk	Expectation and prediction
Focus	Long term performance	Relative performance
Style	Passive investment	Active investment