

CFALA Review Program: Level III CFA Exam Writing Workshop (and Test Taking Skills)

My Background

Why am I qualified to talk about this subject? I spent five years on the Ethics Subcommittee of the Candidate Curriculum Committee (now the Education Advisory Committee), creating the Ethics Curriculum and participating as one of the authors of the Standards of Practice Casebook, which was retired in 2018 after 25 years in service and used as the template for the Item Set methodology. I graded Level III exams for the CFA Institute for twelve years, as well. I served on the Disciplinary Review Committee for six years, the final three as Chair.

I served as President and on the Board of Governors of the CFA Society of Los Angeles, the Board of Governors of the Association of Investment Management and Research (the entity created to combine the ICFA and the FAF), the Board of Trustees of the Institute of Chartered Financial Analysts (“ICFA”), the Board of Governors of the Financial Analysts Federation (“FAF”), and the Board of Governors of the CFA Institute. I was an instructor for the 2020 and 2022 USC/CFALA Review Program for Level III Ethics.

Ground Rules for Today’s Workshop

Caitlin Topkis of the CFA Society of Los Angeles will be managing the Zoom Room today and recording the Workshop. She will also be providing a copy of this presentation to participants.

There are many slides and a lot of material to cover. I have included screenshots of pages from the CFA Institute’s website and included the “links” on the final slides, so I won’t spend much time on them. There are examples in the Essay Writing section slides, as well as another piece where the case does not conveniently fit on a slide.

In the section on Essay Writing where there are examples, I will pause briefly for the Command Word question to give you a moment to consider what your response might be and then proceed to the presentation for the response. You don’t have to respond; it is meant to provide a mental opportunity for “how would I approach this”?

I intend to cover the pressing issues in the workshop.

With the number of participants that are expected on the Zoom call, I will not have the chance to monitor “Chat”. Caitlin will be doing so. Please submit any questions you have through the Chat function. They should be specific questions, not general “hypotheticals”. Caitlin will combine similar questions to be addressed and answered after the formal presentation.

We are scheduled for two hours. The presentation should run an hour and a half, with about thirty minutes for the Q&A. You can sign off and still receive the content.

The time allotted for the Q&A section at the end of the workshop should be sufficient, however, if there are other questions to address, I will be happy to stay on to answer questions.

General Comments

The CFA Institute is very direct in telling the Candidates all they need to know to pass each level of the exam: curriculum and reading, studying and preparation, and, now, a personal study program called the Program Learning Ecosystem (“LES”), where there are enormous candidate resources. The Learning Outcome Statement is used to tie the area of the reading on which the CFAI wants to focus attention to

the possible area of questioning on the exam – these are the road maps. The amount of technical reading required at each level is daunting, especially at Level III, and the page count is around 2,500 pages. Use the LOS to your advantage and focus on what it is suggesting. Pay attention to the End of Reading Questions – it is a refinement of the LOS.

In 2021, with the advent of Computer Based Testing, the CFA Institute went to a shorter exam of 180 items from 240. All Topic Areas are included and the weightings have remained the same. This has been evaluated by an independent psychometric testing organization to ensure total exam reliability, that is, to ensure the consistency and degree of difficulty remain the same from year to year.

This year, the CFA Institute changed the manner of studying the curriculum to be “Learning Modules” that keep the Topic Areas intact and are recommended to be studied module by module. There were minor changes in the Candidate Body of Knowledge and, thus, the curriculum. The Learning Outcome Statement is still the road map to focus attention on the reading for questions on the exam.

The list of Curriculum changes are restricted to Candidates only – search for them on the CFAI website (the slide is as far as I could get).

Use the Personal Study Program (LES) as an “orderly, systematic approach to exam preparation”. There is an enormous amount of reading and material to absorb – use the tools that are made available to concentrate your study efforts. The Candidate Body of Knowledge (CBOK) is very broad, and that breadth makes the reading and studying a daunting task. Use the tools that the CFA Institute provides to aid your studying, breaking the readings into more manageable portions.

When I took the CFA exams, each Level was essay only. There were no multiple-choice questions. There were very few review courses, and none were offered by the CFA Society of LA at that time. Passing Rates on the Exam have been dropping over the course of time, and there are many theories about this trend or reasons given. The CFA Institute is very careful to maintain and ensure that the degree of difficulty of the Examination remains the same each year, at each Level, however, the breadth of the CBOK has expanded as practitioners feel CFA Members should be fully prepared for newer techniques and investment areas.

The CFA Exams and the material from the Candidate Body of Knowledge (CBOK) develop from Level to Level. While not tested on the prior Level’s reading and information, it is expected that the Candidate retain the knowledge and be able to use it in the investment decision-making process. As one of the slides expresses, these are Exams that evolve in complexity.

In a new policy, the CFA Institute has restricted the Candidate’s ability to continuously retake a Level Exam after failing. The new policy gives the Candidate six attempts to pass at each Level before removing the Candidate from the CFA Examination Program. It is more important than ever to pass the Level III Exam (and the others, as well, but our workshop today is discussing Level III only).

The topic area weights are given in the Study Guides. These will be used to determine the quantity of questions on the Level III Exam. A question may start in one topic area and then segue into another, so be prepared to adapt to a new topic area. There are seven topic areas for Level III, in order of their weightings: Portfolio Management; Equity; Fixed Income; Ethics; Economics; Derivatives; and, Alternative Investments. The pages and links from the CFA Institute I have used in preparing this are included on the final slide. Anything in my presentation that appears to be redundant is purposeful or a matter of not being able to take CFA Institute materials without the entire context.

Reasons Why Candidates Fail Level III

The CFA Institute is very honest in addressing this issue, but the major reasons are: 1) not enough time is spent on reading the material and paying attention to the LOS (some Candidates recommend a study course which condenses and highlights the readings); 2) there isn't a personal study plan to allocate study hours and that addresses the most difficult topic areas; 3) not enough time is spent taking the practice exams under timed conditions (emulating the stress and time management that the Exam creates) and having three or four weeks to spend on topic areas where your knowledge is weaker, and, especially, using the tools that the LES provides; and, 4) the Candidate is sleep-deprived or trying to balance work and study hours.

After the reading of the material assigned in the Study Sessions, the practice questions and mock exams are a huge help – there is a bank of practice questions, and these and the mock exams can “provide immediate feedback so you can assess areas of weakness”. Spend time using the feedback from the Mock Exams and the LES to sharpen your knowledge in areas of difficulty. The topic areas and the Study Sessions that are your personal or professional interest should be fine, but the feedback from the LES may expose a need for more study.

After the first three reasons (who among the Candidates is not sleep-deprived and trying to balance their work and study schedules), I should add a fifth, and the reason most Candidates have trouble on Exam day, assuming the candidate has mastered the reading. Have you heard the phrase “time is of the essence” before? It may be true on legal documents, but it is REALLY TRUE on the CFA Exam. Time wasted equates to points lost since the Exam – questions and responses – is measured in minutes per question. The allocation of minutes is equal to the award of points, and accumulated points lead to your score. You can't get any more points from your response to a question than what are assigned to that question. It may be that you are an expert on that particular subject, but try to SAVE minutes by having brief but complete answers.

One pointer that I have given for over thirty years is my “pet project”: study the Ethics area completely and become VERY familiar with it. When you think of the Minimum Passing Score, would another 2% make a difference in terms of passing the Exam? Another 3%, another 4%? There are some nuances in the Ethics area, but the readings and the material are straightforward, and these nuances can be resolved by knowledge of the Code of Ethics and the Standards of Professional Conduct. The CFA Institute has placed the Ethics in Study Sessions 15 and 16 for a reason – it is at the end so that on Exam day, retention of the readings and the problems are more current.

Pick up points in Ethics to boost your overall score. There are 264 minutes on the Exam. The Ethics topic area weightings range from 10% to 15%; 10% is 27 minutes, 15% is 40, therefore, the 2% I refer to above is just less than six minutes – the right answer on a six-minute question or two parts of a question. You get the concept, I'm sure.

The Level III Exam

There are two sessions that are equal in terms of the time allotted and degree of difficulty, roughly equal in terms of the subject weightings. The intent of this presentation is to predominantly address the “Constructed Response” or “Essay” half, the morning session. The “Item Set” or “Multiple Choice” will be discussed below briefly, and the material will be on slides where we may or may not have time to go over the content.

Minutes are points and vice versa. Don't spend more than the allotted minutes on any question unless one more minute will finish the answer and complete it. Spending more than the allotted minutes takes time away from another question being answered. If you can take the questions/vignettes out of order in the computer-based exam, do the questions/topic areas/vignettes that you know best first to gain some time (minutes) which can be "spent" later to answer a question that you don't know as well. It's like the triage in an emergency room in opposite order, taking the hardest to remember or least familiar cases last.

One of the reference points from the CFA Institute that you will see in a slide below suggests the break between the morning and afternoon sessions is optional. While it may be optional, my suggestion is to take the break – you will need it to refresh and restore your memory. The Exam rarely addresses the same subject twice, therefore, what topic areas you experienced in the morning session will, most likely, not be repeated in the afternoon session, giving the Candidate an opportunity to focus attention on the topic areas not covered.

The exam materials talk about 8 to 11 vignettes. If using an average of the two, that will be 9 vignettes. The point range will be between 10 points (or minutes) and 25 points (or minutes) – if the portfolio management topic area gets 40% of the weight of the exam and half is addressed in the morning session, then 20% of 132 minutes equals 26.4 minutes. I would round down to 25. There probably is not an essay question with a point value below 10 – if it is a question, it fits better into the Item-Set session.

Essay Writing Skills

Pay close attention to the 17 Command Words used in the CFA Program, both in your preparation utilizing the LOS and on Exam day. Review these as much as practicable and as part of your final review. Concentrate on the specific meaning and intent with which the Command Words are used when composing your response. I would suggest printing these out and review them each time you review your notes before the Exam.

Also, pay attention to what the question asks for as a response. If it asks for two "Compare" and "Contrast" responses, give two (and only two) Compare responses and two (and only two) Contrast responses. The Contrast responses are meant to show the differences but may be similar in terms of the context. The answers should be unique and distinct. In many instances, Compare and Contrast are nearly mirror images, Compare is from a certain perspective and Contrast from the opposite perspective.

The next few slides will "Compare and Contrast" the idea of using a Paragraph versus Bullet Points. In its materials, the CFA Institute offers the Candidates a choice of using a paragraph-style response or "bullet points". See the Johansson problem below for an example. Remember, saving time in your responses makes a huge difference.

As an example of this in paragraph form:

To compare, the two are nearly similar and convey the same information. Each response should be in a paragraph of its own. In contrast, however, bullet points can be structured so that each response is on its own, and it takes much less time to put down an answer. (Word count = 49)

As an example of using bullet points:

Compare:

- The two are nearly similar
- They convey the same information

Contrast:

- Each response can be on its own
- Bullet points take less time

(Word count = 24)

I have not experienced the new computer-based system from the CFA Institute, but I am familiar with SEC and FINRA exams which are computer-based. However, if there is the opportunity to take five minutes (or less) and read through the morning session (and afternoon session later), do it quickly and set priorities in terms of questions that should be answered first, mentally deciding which you can answer best, quickest, easiest. Familiarizing yourself with the topic areas on that session will start to focus your thoughts.

Take the questions out of order or skip a question to come back later. Pick up minutes on questions/topic areas that you know better. Don't get bogged down or have your confidence shaken by trying to answer questions that you don't know well enough. Pick up points, minutes, and, particularly, gain confidence by answering questions you know at the beginning. Picking up time is a question-by-question part of managing the Exam. Once you have answered the easier ones, then move to the remainder of the questions in that session. To reiterate my earlier statement, time is of the essence on the Level III CFA Exam.

In contrast, time wasted on trying to dive deep on an answer is minutes and points lost. The Exam, questions and responses, is measured in minutes. The allocation of minutes is equal to the maximum points to be awarded for correct responses – you can't get any more points than are designated for the question or that section. My seventh-grade English teacher was a wonderful woman from Charleston, South Carolina. She had an amazing vocabulary, a wonderful way of using words, and an awesome Southern lilt to her voice. She started each class with the saying "Clarity, Brevity and Quality" are the essential elements to English as a language and the important characteristics in your writing. You want to convey "hard" information that will answer the question, not a lot of filler or excess verbiage, since it takes too much time. Be clear, be brief, and have a high-quality answer that addresses the question asked.

Since it is a computer-based Exam, if you think of another, better response, be sure to erase the less-than-optimal response from the answer box. There may be instances where there can be more potential answers than the question calls for, and all are valid responses. Choose the required number from among them.

All major topical subjects will be covered in both the morning and afternoon sessions. Choose which ones you can answer more quickly, where you are more familiar, or because you have studied that topic more. The intent is to pick up some time, save some minutes for topic areas that are more challenging to your knowledge or memory. "Best guess" is not really an answer, nor is the "spaghetti on the wall" or shotgun approach. If the question wants two answers, that is all it requires. If you are spewing information, it's taking time and only the first two answers will count – "the order presented by the

Candidate”. Remember to put each response in a separate paragraph where more than one answer is required. *Or a separate bullet point!*

In the computer-based system, if there isn’t a function allowing the entry of “bullet points”, I suggest using the hyphen or dash (“-”) or the equals sign (“=”) as an alternative to your bullet point.

Please note that the Graders are instructed to “cut off” grading when they reach the required number for the response. If the question asks for “two” give two responses. If it asks for “three”, give three responses. Any more responses, or a fuller detail, will not earn any extra points and will burn “time”. The Graders for Level III are looking for knowledge and comprehension of the subject matter. The computer-based exam environment will alleviate handwriting issues. Help them (and yourself) by highlighting a response that is the essence of the answer. There is a comment about highlighting on the slides. Be as brief as possible but complete.

Red Herrings and Dead Ends: at times there is extraneous information in a vignette, something that is a distraction, or some background that can be useful under certain circumstances but doesn’t provide insight as to the answer. Be aware of what is needed to respond and what is interesting but not useful. Additionally, there are some instances where an action appears to be problematic and it isn’t, or it can be alleviated through proper disclosure. The Exam is not written to always provide a direct path to the answer; it is testing knowledge, comprehension, and judgement. The Lionsgate case is a good example of this. We will review it later in the workshop.

Some of the Constructed Response or Essay questions will be in two or more parts, such as, “**Recommend** the portfolio that best suits the Jones’ current financial situation and **Justify** your choice with three examples of how the portfolio meets their needs”. This Waterfall or Cascading Concept can be tricky because there may be two answers that are satisfactory, however, one will be preferable or optimal over the other. If the question continues along these lines, it becomes more difficult to get points. Choose the most optimal answer at the onset to get full points.

The secondary choice will not receive full credit, either initially (“Recommend”) or along the way (“Justify”). Referring to the Johannson case again, the “Recommend” answer is critical – if the wrong portfolio is chosen, there will be no way to receive any points. The Moose case has four funds to choose from, but one is inappropriate – if chosen, there will be no points for the choice and fewer points for the asset allocation question.

Full Credit – what does it mean? There are going to be nuances implied by the question that a Level III candidate should be able to pick up from the context of the vignette. Easter Eggs, small nuggets to mine, or whatever you want to call them are going to add a point to your score. I have highlighted two in the Moose/Albright case later. You as the candidate are expected to consider all important aspects from your reading and studying in giving a response to the question, *AND* from all three Levels. These are not identified – you have to think of different facets while developing your response. “What other elements might be imbedded in this vignette” is a good way of proceeding, but do it quickly while you are formulating the response. Your time will be better spent getting the most important “points”, but if these come up, another point or two is important to your overall score.

Guideline Answers: How much do I need to put in to get full credit? The CFA Institute’s Guideline Answers are generally more than is required to answer the question, however, when graders are looking at your response, there may be extra answers, such as, there are four valid reasons for an answer, but

the question only asks for three. All four are correct, so pick the three that first come to your mind. In the Ethics area, there may be a number of Standards that are violated by one action – choose the one that is primary and use it. The secondary Standards are also violations but take time to write down and are not going to give you more points. See the Mason Dixon/Langhorne Advisors case for an example of this.

In regard to the vignettes, there isn't any highlighting available for the questions on the Exam, just the responses. There is a way to flip back and forth from the vignette to the response area. The responses are directed to questions about one part of the vignette, even though all the parts are related or follow one another in the sense of developing a story. Refer back to the section of the vignette that allows you to answer the question or questions.

So let's go through the cases where you will be writing an essay answer. Some are here in the presentation, the remainder will be in a separate handout provided by CFALA.

Read the question carefully. Pay close attention to the Command Words in the question, and use them to formulate your response, and you have to do this when "time is of the essence". Also, pay attention to what the question asks for as a response. Read the question carefully and have it in your mind when reading through the vignette. The answers should be unique and distinct.

You will encounter nuances, red herrings, and dead ends, however, being aware that these are included, focus on the question and your response. As a Level 3 Candidate, you are expected to show a mastery of the Curriculum and be able to look for the nuances that might give you additional points.

Final Thoughts

The CFA Institute has put up a page on their site which has a series of short YouTube videos of Chris Wiese talking about the Level III exam. The couple of pointers that I gleaned from reviewing them are: 1) exam scores within a bell curve distribution that are on the "minimum passing score margin" are re-graded by a different grader - if there is a difference, that exam is reevaluated a third time by still another grader to ensure fairness; 2) formulas are not required but partial credit can be gained by using the equation editor to show your work; 3) multi-part questions on the computer-based test will be placed on the same screen so that the entire question is available to you; and 4) the distribution of exam results is not the center of the bell curve.

Other than having worked for the CFA Institute for twenty years, I don't have any insight to the current process except for what I have read in the CFAI materials. You, as a candidate, have access to full information that is reserved for Candidates and many more CFAI resources than I have – Member access is restricted since they have gotten their Charter.

You are welcome to call or text me if you have additional questions about this presentation. My contact information is on the first slide, and I will try to respond quickly.

The final slide is what you are hoping to achieve.

Thanks for joining me today. Good luck to you on the Exam!

All material contained in this presentation is from the CFA Institute website at:

<https://www.cfainstitute.org/en/programs/cfa>

<https://www.cfainstitute.org/-/media/documents/support/programs/cfa/cfa-program-theory-meets-practice.pdf>

<https://www.cfainstitute.org/en/programs/cfa/exam>

https://www.cfainstitute.org/-/media/documents/support/programs/cfa/CFA-Program-Quick-Start-Guide_Level-III-CBT.pdf

<https://www.cfainstitute.org/en/about/governance/policies/cfa-exam-eligibility-policy#:~:text=Candidates%20are%20permitted%20to%20take,maximum%20attempts%20per%20exam%20level.>

<https://www.cfainstitute.org/-/media/documents/support/programs/cfa/cfa-exam-results-since-1963.pdf>

<https://www.cfainstitute.org/en/programs/cfa/curriculum/cbok>

<https://www.cfainstitute.org/en/programs/cfa/curriculum/practice-analysis>

<https://www.cfainstitute.org/en/programs/cfa/curriculum/cbok/cbok-2022>

<https://www.cfainstitute.org/programs/cfa/candidate/2022-level-iii-curriculum-changes>

<https://www.cfainstitute.org/-/media/documents/support/programs/cfa/2022-level-iii-curriculum-changes.pdf>

<https://www.cfainstitute.org/-/media/documents/support/programs/cfa/2022-cfa-program-curriculum-changes-guide.pdf>

<https://www.cfainstitute.org/programs/cfa/candidate>

<https://www.cfainstitute.org/programs/cfa/curriculum>

<https://www.cfainstitute.org/programs/cfa/curriculum/study-tips>

<https://www.cfainstitute.org/en/programs/cfa/exam-support>

<https://www.cfainstitute.org/programs/cfa/mock-exam-and-practice-questions>

<https://www.cfainstitute.org/programs/cfa/exam/level-iii>

<https://www.cfainstitute.org/en/programs/cfa/exam/computer-based-exams>

<https://www.cfainstitute.org/en/programs/cfa/exam/exam-day-screens>

<https://www.cfainstitute.org/-/media/documents/support/programs/cfa-and-cipm-los-command-words.pdf>

<https://www.cfainstitute.org/-/media/documents/support/programs/cfa/sample-level-III-itemset-questions.pdf>

<https://www.cfainstitute.org/programs/cfa/exam/inside-the-cfa-program>

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