
A Study of Financial Analysts: Practice and Theory

Stanley B. Block

The study reported here focused on determining what analytical techniques financial analysts who are members of AIMR actually use. The study achieved a response rate of 33.75 percent. Questions covered 16 areas, including the use of present value analysis, the importance of quarterly earnings' announcements in decision making, belief in efficient markets, acceptance or rejection of market anomalies, and belief in the importance of international diversification for risk reduction.

The exams, curriculum materials, and seminars designed for the CFA[®] (Chartered Financial Analyst) Program are based on knowing what is important to practicing financial analysts. Yet, little documentation exists about what financial analysts actually believe in and do. The intent of this research was not necessarily to identify the normative approaches but, rather, to identify the most widely used approaches. Moreover, the results are not intended to suggest that future analysts be directed to the most commonly used approaches. The intention of this article is to share knowledge about what goes on in the day-to-day practice of financial analysts.

For example, use of present value analysis is heavily stressed in the CFA curriculum and is a major focus of textbooks on investments, but how widely is present value analysis actually used and by whom? Also, new techniques for analysis, such as economic value added, have received relatively less attention than traditional measures of analysis, but little is known about how widely accepted EVA is by practitioners. This survey addressed such issues.

The Study

The participants in this study came from the membership of AIMR (the Association for Investment Management and Research). Questionnaires were mailed to a random sample of 900 AIMR members in the United States in October 1998.¹ Because of address changes and other factors, 880 mailings successfully arrived at their intended destinations.

Stanley B. Block, CFA, is professor of finance at Texas Christian University.

Of that number, 297 usable responses were received, for a return ratio of 33.75 percent. A follow-up telephone survey of randomly selected nonrespondents indicated no statistically significant differences between those who initially answered the questionnaire and those who did not.

The final questionnaire, which is reproduced in Appendix A, had been previously tested in three pilot group surveys.

The questionnaire materials made clear to participants that the survey was sponsored by the author and not by any business organization or AIMR itself.²

The Respondent Group

The first three tables in this article reveal key characteristics of those who responded to the questionnaire. In **Table 1**, the 297 respondents are delineated by the type of firm for which they worked. The largest number of responding financial analysts were employed by brokerage firms and private money management groups. Investment management counseling firms, mutual funds, and bank trust departments are also represented substantially. Although no attempt was made in this study to stratify the sample by industry classification in advance, the composition of respondents does reasonably represent the membership profile by industry classification as reported by the more than 32,000 AIMR members in the *1998 Membership Directory*.³

As indicated in **Table 2**, 67.7 percent of the respondents were CFA charterholders and 53.9 percent held M.B.A. degrees. The charterholder number in this sample is slightly smaller than for the total organization (70 percent), whereas the M.B.A. degree number is slightly larger than for the

Table 1. Respondent Breakdown by Industry Classification

Industry	Number	Percent
Brokerage	77	25.9
Private money management group	75	25.2
Investment management counseling	39	13.1
Mutual fund	39	13.1
Bank trust department	32	10.8
Investment banking	18	6.1
Other	12	4.1
Pension fund	5	1.7
Total	297	100.0

total membership (47 percent). Note that the average experience of the respondents is 15.3 years.

Table 3 reports the undergraduate majors of the respondents. A large percentage of the respondents (and perhaps, inferentially, a large percentage of AIMR members, although no industry data

Table 2. Respondent Breakdown by Certification, Education, and Experience

Characteristic	Number	Percent
<i>A. Certification</i>		
Charterholder	201	67.7
Noncharterholder	96	32.3
Total	297	100.0
<i>B. Highest degree</i>		
M.B.A.	160	53.9
Master	4	1.3
Doctor of Jurisprudence (J.D.)	2	0.7
Bachelor	131	44.1
Total	297	100.0
<i>C. Experience (years)</i>		
0-5	30	
6-10	81	
11-15	78	
16-20	36	
21-25	18	
26-30	15	
More than 30	39	
Total	297	
Average	15.3 years	

are available with which to compare these data) had undergraduate degrees in business and economics. The notion that the typical route to becoming a financial analyst is for an individual to get a liberal arts degree and then use that broad-based background to concentrate later on financial analysis is not supported by these data.

The Results

This section contains discussion of the survey findings regarding the variables (or inputs to valuation)

Table 3. Respondent Breakdown by Type of Undergraduate Degree

Discipline	Number	Percent
Finance	96	32.3
Economics	76	25.6
General business	38	12.8
Accounting	29	9.8
Liberal arts	28	9.4
Math, science, engineering	17	5.7
Other (psychology, public affairs, etc.)	13	4.4
Total	297	100.0

and tools financial analysts use in equity valuation, their attitudes toward issues important in portfolio management, and their attitudes toward market efficiency versus market anomalies.

Valuation Inputs. Respondents were asked about their use of several variables and tools in analyzing securities. Among the most important was present value (PV) analysis; others included corporate earnings and cash flow.

■ *Present value.* The use of PV analysis is a central theme in valuation theory. There is probably not a CFA exam preparation course being taught around the world or an investments course being offered at a university that does not include PV analysis techniques. But as Panel A of Table 4 indicates, only 15.2 percent of respondents always use PV analysis and for 45.7 percent, it is not part of their normal procedures. Apparently, practitioners split about 50/50 in their use of PV techniques.

Should this finding be taken as an indictment of the profession? Hardly. When faced with the reality of valuation in the marketplace, the task of projecting earnings, dividends, and a stock price into the future and determining an appropriate discount rate may be too fraught with uncertainty for analysts to rely on discounted cash flow (DCF) analysis in the determination of value. As noted financial economist Stewart Myers (1984) of the Massachusetts Institute of Technology has suggested, "DCF is sensible, and widely used, for valuing relatively safe stocks paying regular dividends, but DCF is not as helpful in valuing companies with significant growth opportunities" (pp. 126-137).

Nevertheless, because PV analysis is part of the foundation of finance, I decided to analyze its use by various categories of participants. Shown in Panels B and C of Table 4 are the use and nonuse of PV analysis by CFA charterholders (hereafter, simply "charterholders") versus noncharterholders and M.B.A.s versus non-M.B.A.s. Although the charterholder group indicated a slightly larger tendency to use PV analysis than the noncharterholder group, the difference is not statistically significant at any

Table 4. Use of PV Techniques

Answer	Numbers	Percent
<i>A. Overall sample</i>		
Always	45	15.2
Sometimes	116	39.1
Never	<u>136</u>	<u>45.7</u>
Total	297	100.0
<i>B. Charterholders versus noncharterholders</i>		
Charterholders		
Always	38	18.9
Sometimes	70	34.8
Never	<u>93</u>	<u>46.3</u>
Total	201	100.0
Noncharterholders		
Always	7	7.3
Sometimes	46	47.9
Never	<u>43</u>	<u>44.8</u>
Total	96	100.0
<i>C. M.B.A.s versus non-M.B.A.s</i>		
M.B.A.s		
Always	17	10.6
Sometimes	71	44.4
Never	<u>72</u>	<u>45.0</u>
Total	160	100.0
Non-M.B.A.s		
Always	28	20.4
Sometimes	44	32.1
Never	<u>65</u>	<u>47.4</u>
Total	137 ^a	100.0

^aIncluded 131 bachelor, 4 master, and 2 J.D. degrees for a total of 137.

reasonable level of significance on the basis of a chi-square independence of classification test (reported in Appendix B). The same conclusion applies in regard to the use of PV analysis by M.B.A.s versus non-M.B.A.s. If anything, non-M.B.A.s appear to be slightly higher users of PV analysis.

Table 5 shows the breakdown of the use of PV analysis by respondents' industry classifications. In this case, the chi-square test (see Appendix B) indi-

cated a statistically significant difference between the categories. A null hypothesis of no relationship between industry classification and the use of PV analysis could be rejected at the 5 percent level of significance. In this sample, individuals employed by mutual funds and bank trust departments appear to be relatively high users of PV analysis whereas those working for brokerage firms, private money management groups, and investment banking firms do not.⁴

■ *Other inputs.* The respondents were also asked to determine the relative importance of other inputs in analyzing securities. **Table 6** shows how the survey participants ranked the importance of earnings, cash flow, book value, and dividends. The average ranking for the input is shown in the far right column. Earnings and cash flow are considered far more important than book value and dividends.

The lack of importance these respondents assigned to dividends is interesting. As reported in Table 6, only 3 of the 297 respondents considered dividends to be the most important variable in valuing a security. One hypothesis is that such conclusions by analysts are linked to the irrelevance of dividends theory initially postulated by Modigliani and Miller (1961)—and debated ever since. But a far more likely cause of the low dividends ranking is that in the momentum-driven environment of 20–30 percent annual returns of the mid-to-late 1990s, dividends do not count for much in the minds of analysts. Furthermore, the sharply lower capital gains rates specified in the Taxpayer Relief Act of 1997 all but wiped out the equalization of taxing investment dividends and capital gains that was an essential element of the Reagan Tax Reform Act of 1986. Finally, the desire by corporations to buy back shares rather than increase cash dividends appears to be a distinctive feature of the 1990s.

Table 5. Industry Classification and Use of PV Techniques

Industry ^a	Always		Sometimes		Never	
	Number	Percent	Number	Percent	Number	Percent
Brokerage (77)	5	6.5	32	41.6	40	51.9
Private money management (75)	11	14.7	25	33.3	39	52.0
Investment management counseling (39)	3	7.7	19	48.7	17	43.6
Mutual fund (39)	12	30.8	16	41.0	11	28.2
Bank trust department (32)	10	31.2	8	25.0	14	43.8
Investment banking (18)	0	0.0	3	16.7	15	83.3
Other (12)	4	33.0	8	66.7	0	0.0
Pension fund (5)	<u>0</u>	0.0	<u>5</u>	100.0	<u>0</u>	0.0
Total	45		116		136	

^aTotal number in category in parentheses.

Table 6. Rank of Inputs in Importance

Variable	First	Second	Third	Fourth	Average Ranking
Earnings	156	118	23	0	1.55
Cash flow	133	140	19	5	1.65
Book value	5	32	133	127	3.29
Dividends	3	7	122	165	3.51

Not all would agree with the lack of importance of dividends. Bernstein (1998) made a strong case that management creates additional reinvestment and earnings risk for shareholders when the company retains a progressively larger percentage of earnings. The unimportance of dividends to this sample of analysts is further reflected, however, in **Table 7**, in which the respondents ranked the most significant inputs in determining a stock's P/E. Only 3 of the 297 respondents ranked dividend policy first among the five inputs listed; 276 ranked it last. Although analysts might change the rankings shown in **Table 7** when valuing a real estate investment trust or a company in the later stages of its life cycle, the classification of dividends as unimportant is clear in **Tables 6** and **7**.

Also in **Table 7**, the growth potential for the company has a strong #1 ranking as a determinant of a stock's multiplier. The #2 ranking of quality of earnings (above quality of management, risks, and dividend policy) appears to reaffirm the strong concern that practicing analysts have for the legitimacy of reported earnings.

In another question related to valuation, I asked the respondents to rank the importance of the three inputs shown in **Table 8** as part of the determination of whether a stock should be bought, sold, or held. The long-term outlook for the company and the current value of the stock versus its historical trading range received top rankings; next quarter's EPS number was last by a large margin. This

response is somewhat surprising; a click on the Internet will bring a deluge of under- and overperformance of quarterly earnings against expected earnings. Perhaps the 15.3 years average experience of the respondents allows them to overcome the hype of the moment.

Valuation Models. In addition to questions about the inputs to stock evaluation, the questionnaire asked respondents about their use of three valuation models. Panels A and B of **Table 9** provide the results for two traditional models—the dividend valuation (dividend discount) model and the capital asset pricing model (CAPM). Neither model fared well in the survey. The dividend model was viewed as very important or moderately important by 42 percent of the respondents, and the same two opinions totaled 31.1 percent for the CAPM.

The model that received the highest number of very or moderately important opinions, as indicated in Panel C of **Table 9**, is the economic value added (EVA) model developed by Stern Stewart and Company. Strictly speaking, EVA is not a valuation model, but it does have implications for describing stock price behavior. Based on these survey results, EVA may take on increasing importance for analysts. Whether the respondents understood that EVA is primarily a method for splitting earnings between required returns and excess returns is not evident from the questionnaire. Further inquiry about how analysts use EVA would thus be useful.

Portfolio Management

The issues discussed so far have dealt with valuing individual securities. The three items tabulated in **Table 10**—beliefs about market timing, the appeal

Table 7. Rank of Variables in Determining P/E

Variable	First	Second	Third	Fourth	Fifth	Average Ranking
Growth potential	205	62	18	12	0	1.45
Quality of earnings	43	104	115	35	0	2.48
Quality of management	31	74	112	71	9	2.84
Risks	15	56	44	170	12	3.36
Dividend policy	3	2	8	9	276	4.87

Table 8. Rank of Variables in Determining Buy, Hold, and Sell Decisions

Variable	First	Second	Third	Average Ranking
Current versus historical trading range	216	67	14	1.32
Long-term outlook for the company	76	171	50	1.91
Next quarter's EPS	5	59	233	2.77

Table 9. Importance of Models of Stock Price Behavior

Model	Number	Percent
<i>A. Dividend valuation model</i>		
Very important	34	11.8
Moderately important	87	30.2
Not very important	112	38.9
Unimportant	<u>55</u>	<u>19.1</u>
Total	288 ^a	100.0
<i>B. Capital asset pricing model</i>		
Very important	5	1.8
Moderately important	83	29.3
Not very important	135	47.7
Unimportant	<u>60</u>	<u>21.2</u>
Total	283 ^b	100.0
<i>C. Economic value added</i>		
Very important	41	14.4
Moderately important	151	53.2
Not very important	62	21.9
Unimportant	<u>30</u>	<u>10.5</u>
Total	284 ^c	100.0

^aNine participants chose not to answer.

^bFourteen participants chose not to answer.

^cThirteen participants chose not to answer.

of global investing, and near-term reversion to the mean—relate more to portfolio management.

Panel A of Table 10 indicates that only 28.6 percent of the respondents believed that attempts at market timing are likely to enhance portfolio returns (the value is 32.7 percent if only those *with* opinions are included). The consistency of this response with the results shown in Panel C will be discussed shortly.

Table 10. Beliefs about Portfolio Management

Belief	Number	Percent	Among Those with Opinions
<i>A. Does market timing enhance portfolio return?</i>			
Yes	85	28.6	32.7%
No	175	58.9	67.3
No opinion	<u>37</u>	<u>12.5</u>	—
Total	297	100.0	100.0%
<i>B. Has global investing lost appeal in more closely linked markets?</i>			
No	37	12.5	
Some loss	202	68.2	
Substantial loss	<u>57</u>	<u>19.3</u>	
Total	296 ^a	100.0	
<i>C. Will there be a reversion to the mean in the next decade for yields and P/Es?</i>			
Yes	171	57.6	71.6%
No	68	22.9	28.4
No opinion	<u>58</u>	<u>19.5</u>	—
Total	297	100.0	100.0%

^aOne participant chose not to answer.

Panel B of Table 10 deals with global investing. A major phenomenon portfolio managers have witnessed in the mid-to-late 1990s is the speed at which international financial markets react to each other. Market performance in the United States on a given day appears to start a chain reaction in London, Tokyo, and other major markets. The sequence may also move in the other direction. The internationalization of the world economy through reduced trading barriers and the increased merger activity between financial institutions in various countries appears to add to this chain reaction. The responses to Question 14 reported in Panel B give strong support to the notion that global investing may have lost some of its appeal in the closely linked markets as a means to achieve better risk–return outcomes through diversification. Slightly more than 87 percent of respondents believed there has been some loss or substantial loss of appeal.

Finally, Panel C of Table 10 addresses a question that all portfolio managers and analysts appear to be asking in the financial press—whether there will be a reversion to the mean for P/Es and dividend yields within the next decade. With the P/E for the S&P 500 Index in the 24–28 range and dividend yields in the 1.6–1.8 percent range in late 1998, this question is timely and of great interest to the profession and investors. Among the respondents, as indicated in Panel C, 57.6 percent expected a reversion to the mean. This statistic suggests that many believe equity values will be lower in the future, but responses to Question 7 (not reported here) indicate that respondents believe high values may be sustainable as long as interest rates and inflation remain low. The reversion is perhaps most likely to come when these mitigating variables are no longer in place.

The totality of information in Table 10 may reveal an inconsistency on the part of respondents. The majority did not believe in market timing but did believe in a coming reversion to the mean. Presumably, a reversion to the mean has implications for the timing of decisions.

Market Efficiency

The respondents were asked to indicate their acceptance or rejection of the efficient market hypothesis (EMH), which in its broadest (semistrong) form suggests that public information is impounded in the current price of the stock and that any additional analysis by an individual analyst is likely to produce little or nothing in the way of added value.⁵ The EMH was initially postulated in the 1960s, and it has been under severe attack ever since as researchers claimed to identify anomalies in

almost every area of investments. As shown in **Table 11**, close to 100 percent of practicing analysts in this survey were neutral or strongly disagreed with the EMH.

Table 11. Opinion of the Efficient Market Hypothesis

Opinion	Number	Percent
Strongly agree	8	2.7
Neutral	101	34.2
Strongly Disagree	186	63.1
Total	295 ^a	100.0

^aTwo participants chose not to answer this question.

The responses to an allied topic are presented in **Table 12**. In answering a question about the most important variable in determining portfolio returns, more than 60 percent of the respondents chose the skill and training of the portfolio manager as most important. Despite the emphasis on the risk component often found in the academic literature, risk in the portfolio came in at about half the percentage of skill and training. And the amount of trading in the portfolio came in a poor third. These responses are generally in line with the rejection of the EMH reported in Table 11 but at variance with the responses to the usefulness of the CAPM shown in Table 9.

Table 12. Most Important Variable in Determining Portfolio Return

Variable	Number	Percent
The skill and training of the portfolio manager	179	60.3
The amount of risk in the portfolio	116	39.1
The amount of trading in the portfolio	2	0.6
Total	297	100.0

A number of respondents who indicated that skill and training was the most important variable in determining portfolio return suggested that ego might have played a role in their opinion. Such a suggestion would be consistent with the empirical research in this area in the past decades (Fama 1991; Kandel and Stambaugh 1996). Perhaps hope triumphed over reality for the majority of respondents.

To inquire into analysts' attitudes toward anomalies that tend to disprove the EMH, the respondents were given four market strategies from which to choose (Question 12). These four were by no means inclusive of all the possible

strategies, and in spite of research in this area, no one answer can be assumed to be correct. The answers are presented in **Table 13**.

Table 13 shows that the low-P/E effect and the small-firm effect received the greatest allegiance. This response to the small-firm effect is of particular interest because the small-firm effect has been called too time-period specific and overly dependent on the month of January for high returns. As an example of the time-period specificity, research

Table 13. Statements about Market Anomalies with Which Respondents Agreed

Statement	Number Agreeing
Low-P/E stocks tend to outperform the market	184
Small-cap stocks tend to outperform the market	165
High-P/E growth stocks tend to outperform the market	39
Large-cap stocks tend to outperform the market	30
	418 ^a

^aRespondents could select more than one answer.

has found that between 1975 and 1983, small-capitalization stocks averaged a 35.3 percent annual return, more than twice the 15.7 percent return of large-cap stocks. During the same time period, compounded total returns on small-cap stocks exceeded 1,400 percent.⁶ However, from 1984 to 1997, small-cap stocks (as defined by Ibbotson and Associates 1998) increased by 526.9 percent while large-cap stocks (S&P 500) were up 902.8 percent. When one strips the 1975–83 period out of the Ibbotson and Associates data, small-cap stocks fell one-third below large-cap stocks from 1926 through 1997.

The intent here is not to castigate small-cap stocks; clearly, such stocks as Microsoft, Intel, and Home Depot had to start as small-cap stocks. Furthermore, for the particularly astute analyst, smaller companies may represent especially good areas for study, in that even the strongest advocates of the EMH would admit that small companies provide opportunities. The important point is that the strong support for the small-firm (and low-P/E) anomaly in this study may indicate that many practicing financial analysts maintain a belief in these concepts and a belief that a different market environment may bring the opportunity for strong small-cap performance to reappear. Also, the loyalty that some investors have shown to large-cap high-P/E stocks (such as Coca Cola and General Electric) is not necessarily felt by respondents in this study, who appear to be more value-stock than growth-stock oriented.

Conclusions

The most important conclusion from this survey is that PV techniques are not as widely used in practice as they are in theory. Only 54.3 percent of the respondents said they use PV analysis as part of their normal analytical process. The cause may be that the difficulties of projecting future cash flows and selecting an appropriate discount rate simply make use of PV analysis appear to be too difficult for real-life decisions. Although the length of forecasting periods was not specifically covered in the questionnaire, my observation is that few analysts project earnings or dividends more than two (or at most three) years into the future because of uncertainty. Also, they rarely project future P/Es. The industry practice is to divide the current price by future earnings to create a multiple of future earnings. This approach is, of course, very different from projecting a future P/E that can be used to discount a future stock price back to the present.

Answers to a number of questions indicate that

the dividend-paying policy of a company is relatively unimportant in the analytical process. This attitude may be related to the current environment. In addition, although quarterly earnings announcements have received much attention in the financial press, 292 of the 297 analysts said quarterly earnings carry less weight than the long-term outlook for the company or its current versus historical trading range. The respondents gave high marks for importance to the EVA approach to valuation and low marks to the dividend valuation model and CAPM.

The respondents adhere to the notion that the most important variable in determining return on a portfolio is the skill and training of the portfolio manager and that this consideration overweighs theories about stock market efficiency. Finally, respondents believe that global investing has lost some appeal as a risk-return optimizer in a world that appears to be increasingly integrated.

Notes

1. The original database from which names were drawn was the 1998 *Membership Directory* of AIMR.
2. Although I am a CFA charterholder, I did not communicate that information to participants because of the concern that it could cause bias in answers.
3. The latest profile of AIMR membership can be found on AIMR's World Wide Web site: www.aimr.org.
4. Readers should not conclude anything beyond preliminary observations from these data because some of the industry classifications had relatively low numbers of respondents.
5. The semistrong form of the EMH asserts that only public information is impounded in the price. Some may suggest that the EMH is merely an unbiased estimator of current value, but the major thrust of the semistrong definition and the definition in Question 5 is the same.
6. For more discussion of the small-firm effect, see Chapter 6 in Siegel (1998).

References

- Bernstein, Peter L. 1998. "The Hidden Risks in Low Payouts." *Journal of Portfolio Management*, vol. 25, no. 1 (Fall):1.
- Fama, Eugene F. 1991. "Efficient Capital Markets: II." *Journal of Finance*, vol. 46, no. 5 (December):1576-1617.
- Ibbotson and Associates. 1998. *Stocks, Bonds, Bills, and Inflation*. Chicago, IL: Ibbotson & Associates.
- Kandel, Samuel, and Robert Stambaugh. 1996. "On the Predictability of Stock Returns: An Asset Allocation Perspective." *Journal of Finance*, vol. 51, no. 2 (June):385-424.
- Myers, Stewart C. 1984. "Financial Theory and Strategy." *Interfaces*, vol. 14, no. 1 (January/February):126-137.
- Modigliani, Franco, and Merton Miller. 1961. "Dividend Policy, Growth, and the Valuation of Shares." *Journal of Business*, vol. 1, no. 4 (October):411-413.
- Siegel, Jeremy J. 1998. *Stocks for the Long Run*. New York: McGraw-Hill.
- Stern, Joel M., G. Bennett Stewart III, and Donald H. Chew, Jr. 1995. "The EVA Financial System." *Journal of Applied Corporate Finance*, vol. 8, no. 2 (Summer):32-46.

Appendix A. Questionnaire on Investment Analysis for Members of AIMR

1. Background of respondent.
 - a. Please indicate the type of money management firm in which you work:

<input type="checkbox"/> Bank trust department	<input type="checkbox"/> Mutual fund
<input type="checkbox"/> Pension fund	<input type="checkbox"/> Private money management group
<input type="checkbox"/> Brokerage	<input type="checkbox"/> Investment banking
<input type="checkbox"/> Other (please specify)	<input type="checkbox"/> Investment management counseling
 - b. Please indicate the following:

<input type="checkbox"/> Age
<input type="checkbox"/> Highest degree
<input type="checkbox"/> Experience in investments (years)
<input type="checkbox"/> Undergraduate major
2. Rank the relative importance from one to three of the following factors in influencing your determination of a buy, sell, or hold of a company's stock.
 - a. Next quarter's earnings per share
 - b. Long-term outlook for the firm
 - c. Current value of the stock vs. the historical trading range
3. What do you consider the most important variable in determining the amount of return that a portfolio is likely to achieve over a period of time? (Select only one)
 - a. The amount of risk in the portfolio
 - b. The skill and training of the portfolio manager(s)
 - c. The amount of trading in the portfolio
4. To what extent do you *formally* use net present analysis in analyzing a stock?
 - a. Always
 - b. Sometimes
 - c. Not part of the normal procedure
5. To what extent do you think the efficient market hypothesis is correct? It implies that stocks are correctly priced at any point in time and any individual analyst's attempt to determine valuation is worthless.
 - a. Strongly agree
 - b. Neutral
 - c. Strongly disagree
6. In relating price to other variables, please rank the relative importance of the following variables from one through four.
 - a. Earnings
 - b. Cash flow
 - c. Book value
 - d. Dividends
7. Throughout most of 1998, the S&P 500 Index was trading at a multiple of 23–25 (the historical normal is 13–15) and a dividend yield of 1.6–1.8 percent (the historical norm is 3.5–5 percent). Rank the importance of the following four variables in explaining this phenomenon.
 - a. The market is overvalued
 - b. Low interest rates and low inflation are the primary causes
 - c. The business cycle is no longer operative
 - d. 401(k)s and the emergence of Baby Boomers have permanently changed the demand for equities
8. In evaluating individual stocks, how important is the P/E ratio in helping to determine value?
 - a. Very important
 - b. Moderately important
 - c. Not very important
 - d. Unimportant

9. Indicate the relative importance of price to book value as a general indication of value for nonfinancial stocks.
- Very important
 - Moderately important
 - Not very important
 - Unimportant

10. In evaluating individual stocks, how important is the dividend valuation model, as shown below, in helping to determine value? (The model stresses that the value of a stock is equal to the present value of future dividends.)

$$P_0 = D_1 / (k_e - g)$$

- Very important
 - Moderately important
 - Not very important
 - Unimportant
11. In evaluating individual stocks, how important is the CAPM in helping to determine value? The CAPM is based on using the stock's beta to determine its required rate of return and valuation.
- Very important
 - Moderately important
 - Not very important
 - Unimportant
12. Please indicate which of the following statements you generally consider to be true *over the long run* (with a checkmark).
- Large-cap stocks tend to outperform the market
 - Small-cap stocks tend to outperform the market
 - High P/E growth stocks tend to outperform the market
 - Low P/E stocks tend to outperform the market
13. In determining an appropriate multiplier for a stock, rank the following variables from one to five.
- Growth potential
 - Overall riskiness of the issue
 - Quality of management
 - Quality of earnings
 - Dividend policy
14. Global investing as a means to achieve better risk–return trade-off has lost ____ appeal in a world more closely linked in terms of financial markets.
- No
 - Some
 - Substantial
15. Economic value added (EVA) has received attention in the financial press. How important do you consider EVA to be in analyzing stocks?
- Very important
 - Moderately important
 - Not very important
 - Unimportant
16. Do you think that market timing can enhance the return on a portfolio?
Yes _____ No _____ No opinion _____
17. Do you believe there will be a reversion to the mean (back to normality) for dividend yield ratios and P/Es over the next decade?
Yes _____ No _____ No opinion _____

Appendix B. Chi-Square Tests

Null Hypothesis	<i>t</i> -Statistic	Degrees of Freedom	Level of Significance for Rejection of the Null Hypothesis
There is no significant difference between charterholders and noncharterholders in the use of PV analysis.	2.353	1	Accept
There is no significant difference between M.B.A.s and non-M.B.A.s in the use of PV analysis.	1.971	1	Accept
There is no significant difference between industry classification (brokerage, private money management, etc.) and the use of present value analysis.	15.215	7	5%