

## Should Security Analysts Have a Professional Rating?

### Introductory Statement

*In 1942, the Committee on Standards of the New York Society of Security Analysts proposed to the membership that a rating or professional title be established for security analysts. This rating was designated tentatively as "Qualified Security Analyst" or "Q. S. A." The proposed machinery included the following: A Board of Qualifiers was to be set up by the Society and cooperating agencies—e.g., the Association of Stock Exchange Firms, insurance companies, investment counsel, etc. The Board would confer the rating upon applicants who met designated standards, including those relating to:*

- a—Character*
- b—Education and experience*
- c—Passing of an examination.*

*The latter test might be waived for suitable reasons. Application for the rating would be on a voluntary basis and would be motivated by the desire for prestige and practical advantage. Eventually, however, it might be expected that the Q. S. A. rating would become necessary for those doing the work of a senior security analyst having direct or indirect contact with the public.*

*No final action has been taken on the Committee's findings. The following articles analyze the arguments for and against the proposal. The Editors will welcome expressions of opinion from the members.*

### The Affirmative Case

By BENJAMIN GRAHAM

The issues involved in this rating proposal are comparatively simple and may be argued largely by analogy. Some fifty years ago, trained accountants were wrestling with a similar idea, and at that time the difficulties and drawbacks of the proposed C. P. A. designation no doubt appeared quite serious to many of them. Today the need for a professional rating in

that field and in many others is taken for granted. It takes no prophet to predict that once we surmount the initial hurdles involved in a rating for security analysts, the procedure will establish itself firmly and will come to be considered as indispensable to the public interest.

For purposes of this discussion, a security analyst is defined as one whose function it is to advise others respecting the purchase and sale of specific securities. This definition would exclude the following:

(1)—Junior statisticians or analysts who merely assemble data.

(2)—Business or financial analysts and economists who do not deal with specific security values.

(3)—Teachers and students of theory as such.

Strictly considered, this definition would also exclude stock market analysts since they ordinarily do not advise about specific securities. The writer believes, however, that ultimately, if not now, market analysis will be regarded as a special department of security analysis and that every competent market analyst will be grounded in security analysis.

In any event, by security analysts in this context are meant those giving advice or suggestions on security transactions to customers (and partners) of brokerage houses, investment bankers, banks and trust companies; those engaged in investment counsel; and those having similar functions on the staff of investment companies, insurance companies, other corporations, philanthropic organizations, and the like. The field is wide and undoubtedly includes several thousand practitioners in this country.

### **Advantages of a Rating System**

The advantages of a rating system may be summarized thus: Those dealing with a Q. S. A. will know he has met certain minimum requirements in regard to knowledge of his field and has professional competence. They will know also that to retain his designation of Q. S. A., the analyst will have to observe rules of ethical conduct which no doubt will become increasingly definite and stringent as time unfolds. These benefits will apply both to the direct employers of security analysts and to the clients of such employers.

The analyst who qualifies for the rating will have the obvious advantages of prestige, improved ability to get a job, and the chance for higher pay. In addition, he is likely to develop a more professional attitude towards his work and a

keener interest in maintaining and advancing the standards of his calling.

### **Answers to Some Possible Objections**

It would seem advisable to list the various objections advanced against the proposed rating and to comment briefly on them. These objections apply both to the underlying soundness of the idea and to its practical application.

*Objection 1*—It is basically impossible to distinguish between qualified and non-qualified analysts, since skill in this field rests largely on judgment rather than on specific knowledge or technique. Good judgment can not be tested by ordinary examinations.

*Answer*—While judgment plays an important role in security analysis, it requires the aid of well-established methods and of specialized knowledge and experience. More and more emphasis is being laid on sound techniques in analysis—by employers, by teachers, by those entering the field, and by the work of this Society.

Technical ability and adequate information may, of course, be determined by suitable tests, and this applies also to some of the more obvious judgment factors entering into security analysis.

*Objection 2*—The Q. S. A. rating may mislead the public, because it indicates but can not guarantee that its holder is a capable analyst.

*Answer*—This objection has a certain validity, but no more than the observation that an M.D. may be a poor doctor. As in similar fields, the Q. S. A. rating will purport to guarantee only that the holder has met certain minimum tests—not that he possesses maximum abilities. The chance of misconception is smaller here than in other fields because the typical analyst is employed by an executive with considerable practical knowledge of his own, and not by unsophisticated members of the general public.

*Objection 3*—The Q. S. A. rating is a step in the direction of privilege for some and limited opportunity for others. It is a closed shop or cartel development.

*Answer*—There is no reason why the Q. S. A. rating should be denied to anyone who deserves it and wants it. It might result in the exclusion of unqualified practitioners from the field, but this would not be unfair or unsound. The right of every individual to practice his chosen trade is subject to the higher right of society to impose standards of fitness where these are advisable.

*Objection 4*—The plan has administrative difficulties. Who would judge the competence of others and by what right? Who would give the necessary time to the task?

*Answer*—This rating proposal involves no more difficulties than are found in similar requirements imposed in other fields. Suitable people will be found to act as Qualifiers, as they are found for the Character Committees of the Bar Associations, for the Board of Psychiatric Examiners, etc. Public-spirited analysts of reputation will devote time to this task as to other non-profit work.

The initiation of the program presents certain special problems. It might appear presumptuous for some analysts to pass on the qualifications of others of similar experience and standing. This hurdle might be overcome, if advisable, by waiving the examination at the outset for those with practical experience of not less than ten or fifteen years. With the passage of time, a constantly larger percentage of analysts will have been subject to the test.

The level of competence necessary to qualify for the rating will have to be determined by the Board of Qualifiers. If precedent in other fields is followed, it will probably be set rather on the low side at first and gradually raised thereafter. It is the writer's personal view that the test may be equivalent to that given for students completing a full year's college or graduate school course in Security Analysis. Character and experience requirements would be set up separately, but some interchange of credit for academic work as against business experience would be advisable.

*Conclusion*—There is in this discussion no desire to minimize the practical difficulties faced by the rating proposal. However, it does not seem that these problems are essentially different from those met in the fields of accounting, law, medicine, and other professions. If these analogies appear too elevated, we can point to the licenses or Certificates of Fitness required, in various areas, for real estate brokers, insurance salesmen, and customers' brokers employed by Stock Exchange houses. It is hard to see why it is sound procedure to examine and register customers' brokers but not sound to apply corresponding standards to security analysts. The crux of the question is whether security analysis as a calling has enough of the professional attribute to justify the requirement that its practitioners present to the public evidence of fitness for their work. The publication of this Journal is in itself an assertion of pro-

fessional status for security analysts. It would seem to follow, almost as an axiom, that security analysts would welcome a rating of quasi-professional character, and will work hard to develop this rating into a universally accepted warranty of good character and sound competence.

## **The Negative Case**

By LUCIEN O. HOOPER

Mr. Graham's admirably prepared statement concisely outlines the details of the proposal. His answers to those objections which he attempts to rebut are presented fairly. However, there always are two sides to every question.

From the beginning, a number of members of our Society have opposed the suggestion to establish a professional rating for security analysts. The opposition has not been merely against this plan, but against any plan. Our objections are fundamental and basic.

### **Who Wants It, and How Much?**

Unless our employers, the investing public, or some governmental regulative body force regimentation upon us, we earnestly desire to remain free from this unnecessary formalism. The life of an analyst is complicated enough without the addition of any unnecessary appurtenances.

Those who employ security analysts, and the investors the profession serves, have evinced practically no interest in this proposal. The idea has been advanced in a more or less perfunctory manner, rather than with unremitting enthusiasm, by a comparatively small number of more serious-minded members of the New York Society of Security Analysts, Inc. The mass of the membership has been indifferent. It has been casually rather than keenly interested. There has been no spontaneous response to the rating proposal either from within or from without the profession. This, in itself, is important because the success of the plan depends on its general acceptance and on the profession's enthusiastic determination to make it work.

It is not a matter of record that the Securities & Exchange Commission, the New York Stock Exchange, the Association of Stock Exchange Firms, or financial institutions have shown even an academic interest. It is not charged that the practices of the profession are honeycombed with abuses which need immediate and radical correction. Nor can it be contended that the mere