

COMPREHENSIVE APPROACH OVER THE PROFESSIONAL JUDGMENT OF THE FINANCIAL ANALYST

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Abstract

The professional judgment is emblematical at a decisional level. This paper aims to highlight the valences of the professional judgment of the financial analyst by describing the components of its activity and also through highlighting the typologies of the mechanisms involved. Within this paper we have presented the types of financial analysts, the responsibilities that guide the professional judgment and also the interdependent elements of their activity.

Keywords: professional judgment, financial analysts, abilities and requirements, responsibilities, economics.

1. Introduction

The understanding of the professional judgment and the decision making process it is likely to demonstrate the reasoning limits, the effect of decisions taken under uncertainty, the way in which problems are being addressed and the concentrated role of intuition.¹

Dr. Scott P. McHone states that “the professional judgment is based on the foundation of a set of rules and regulation that have been adopted for a certain profession.”²

“The professional judgment and the decisional process are the essence of a lot of professions. Through understanding and communication of the role of decisional factors, valuable contributions are brought both in the domain and the extended professional community.”³

The professional judgment consists mainly of mental and voluntary habits but it also can be found in the posture of a tacit and perceptive role.⁴

This type of judgment is a process that is based on our experience and varies from technical judgments towards deliberative judgments.⁵

2. The judgment of the financial analyst

In the CAEN catalogue of jobs we find the financial analyst with code 241305.

This job can be carried in various domain companies: banks, consultancy, production, sales, marketing, insurance, stock market etc. and covers a wide area of responsibilities.

The financial analysts is a specialist that evaluates and oversees the financial activities of a

company in order to issue a subsequent report of the status in which the company finds itself.

The financial analysts work in organizations such as managerial and financial consultancy firms, insurance companies, commercial banks, investment banks, mutual funds management and brokerage companies, etc.

2.1. Categories of financial analysts

The job of a financial analyst knows a large variety in the organizational domain, being used in a different context, being related to a large variety of financial analysts, depending on the domain and the specificity of the activity carried out. We find in the current practice the following categories of financial analysts:

a) Investments analysts

The investments analysts are found in each organization that invests their client's or own funds on the capital market.

The investments analysts analyze the financial statements of the involved companies by determining their fair value in order to forecast its future financial performance. They use different advanced financial models that aid them in obtaining important information for their periodical reports issued in order to evaluate the issued bonds on different companies. The investment analysts recommend to investors decision factors regarding their investment.

At an international level, the investments analysts have the following descriptions: Investment Analysts, Research Analysts, Fixed Income Analysts, Equity Analysts and Securities Analysts.

b) Portfolio managers/ Directors of investments

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¹ H.A. Simon & Associates, „Decision making and problem solving. Research briefings”, Report of the research briefing panel on decision making and problem solving, National Academy Press, Washington, DC, 1986.

² Dr. Scott P. McHone, „Personal versus Professional Judgment”, Liberty University, Virginia, pg. 3.

³ K. Smith, J. Shanteau & P. Johnson, „Psychological investigations of competence in decision making”, Cambridge University Press, 2004, pg 4.

⁴ H. Margolis, „Dealing with risk: why the public and the experts disagree on environmental”, The University of Chicago Press, Issues 35, 1996.

⁵ J.C. McDavid, I. Huse & L.R.L. Hawthorn, „Program evaluation and performance measurement. an introduction to practice”, Second Edition, SAGE Publications, University of Victoria, Canada, 2013, pg. 455.

Portfolio managers/ Directors of investment are specialists that have the responsibility to directly administrate, in accordance with the strategic objective of the investors, the composing elements of a portfolio that consists of pension funds, mutual funds etc.

Portfolio managers/ Directors of investment carry their activity within mutual funds administration companies, investment funds administration companies etc.

They are found under the following international names: Portfolio Managers, Money Managers and Investment Managers.

These types of analysts know that "applying concepts from game theory and information economics allows assessment of the consequences of lack of coordination and information problems on macroeconomic variables such as unemployment, inflation, instability growth."⁶

c) Analysts of investment bankers

The analysts of investment bankers are the financial analysts that work in the banking investment domain that direct the capitalization projects of the target companies through issue of titles (shares, bonds) the through listing it on the specialized markets.

The analysts of investment bankers also have an important role within the transactions carried by mergers and purchases, as a consultant.

To manage the credit risk, the analyst knows that "banks should identify the sources of the risk and to monitor their exposures. These activities mean a better knowledge of the existing and potential clients and their financial situations."⁷

These categories of analysts comes in direct contact with the organizations that carry underwriting services (the process in which bonds are purchased from issuers by the investment bankers and subsequently sold to interested investors) and consultancy services (transactions advisory services – companies known as Big 4 – Ernst & Young, KPMG, Price Water House Coopers, Deloitte, etc.).

d) Rating analysts

Rating analysts render rating services by which they evaluate the capacity of certain entities (Companies, Government, etc.) to issue bonds in order to accumulate funding for significant development projects. Subsequent to the carried analysis a certain rating is given to each bonds in relationship with their quality, the risks and benefits a potential investor is looking at.

e) Credit analysts

Credit analysts are usually identified in the commercial banking domain. They analyze the credit demands destined to the corporate sector and

recommend the granting or not for the above mentioned credits.

f) Independent analysts

Except the category of financial services, various companies recruit financial analysts with a diversified package of responsibilities (carrying of financial planning, analysis of certain indicators, the analysis of certain products and services profitability analysis etc).

As a user of financial and accounting information, the financial analysts is the person that monitors the financial evolution of the company, the compliance with the initial planning, increase of the company's productivity and supervise the realization of the material objectives in accordance with well-defined methodologies.

This type of analysts sets the nature of the company's problems, identifies the typology of causes and seeks to propose proper solutions and eliminate the useless processes. The analyst supplies to the managerial team information as reports, analysis, presentations etc.

Subsequent to his report, it can be found in which extent the company is solvable on the financial market, if it has the capacity or incapacity to pay its debts in due time, dues that represent the feedbacks received from natural and juridical persons with who the company had agreements over the time etc.

2.2. The abilities needed by the financial analyst

The activity of a financial analyst requires a complex range of abilities, namely:

- the ability to analyze, consolidate, interpret and present reports and complex financial statements and/or forecasts;
- abilities to work with databases (advanced PC operating skills, solid knowledge of the MS Office Pack (Word, Excel, PowerPoint, Access);
- Self-evaluation abilities and continuous development;
- The ability to plan, implement and administrate financial information;
- Knowledge of processes, principles and standards for financial analysis and integrated reporting;
- Multitasking and information synthesis capabilities;
- Strategic acting abilities;
- Communication abilities (flexibility, open, positive thinking);
- Integrity and devotion;
- Personal qualities (creative thinking, team player);
- To treat the organization personnel with kindness and professionalism;

⁶ M. Z. Grigore, "Information economics, instrument of analysis in new microeconomics." *Lex ET Scientia International Journal* 16.2 (2009), pg. 354-365.

⁷ M. Sudacevschi, Credit Risk Management In The Commercial Banks In Romania. *Management Intercultural*, 2014, 30: 248-253.

- Advance knowledge of an international language (English, French, Dutch, etc.);

2.3. Requirements related to professional training for financial analysts

In order to respond to the exigencies of this job, Master studies come to aid, also individual training and internationally recognized certifications (CFA – Chartered Financial Analyst, ACCA – Association of Chartered Certified Accountants).

The CFA title is considered to be very important and is provided along with an international level of prestige. CFA Romania is the investment professionals' association, most of them being owners of Chartered Financial Analyst certified (qualification administered by the CFA Institute – USA).

The CFA program is post-university and it is focused on training and testing of candidates in the fields of ethics and professional standards, portfolio management, analysis of the financial statement, economy, analysis and evaluation of various financial and investment instruments.

Candidates for the CFA title need to pass a 3 exam serious in a period of 3 to 7 years and need to have a 4 years relevant experience in the financial domain and it is needed them to adhere to a strict code of ethical and professional standards. Each exam implies about 250-300 hours of individual study.

Currently, according to CFA Romania Macroeconomic Confidence Index, November 2014, "CFA Romania has over 160 member, most of them owners of the Chartered Financial Analyst title or candidates for one of the 3 levels of examination that leads to granting this title. Professional that are members of the CFA Romania work for banking institutes, insurance companies, securities brokers, pension funds, consultancy companies etc. Globally, there are over 110 Thousand owners of this title".⁸

Another important certification is provided by ACCA, a professional organization located in UK and started its activity in 1904 as an association of accountants of London that expanded internationally becoming, in 1996, the Association of Chartered Certified Accountants (ACCA). This organization is recognized in all members of EU and the United Nations Organization.

Currently, ACCA is the most important global organization of accounting professionals, counting over 170 thousand members and students from 180 countries, having a network of 91 offices globally. Through its training programs, in accordance with the International Education Standards issues by IFAC (International Federation of Accountants), through its reputation, influence and dimension, ACCA has become the global leader of forming the accounting profession.⁹

ACCA has established a local office in Romania. The Association organizes exams for obtaining the ACCA qualification of a diploma in Financial Management, as an international Audit Certificate.

"One of the main advantages of the ACCA qualification is the variety and level of specialization of their subjects. Although, in many aspects is similar to an MBA, ACCA is more than that, not being equaled as resources and recognition at a global level", states Andrea Manea, leader of ACCA Romania, Bulgaria and Moldova.¹⁰

The ACCA programs present a higher relevance as it benefits of a valuable recognition from employees, granting a free practice right at a professional level in all the countries in which these standards are recognized and applied.

The ACCA professional organization is recognized by the World's Bank and USAID (US Agency for International Development), institutions that have used the ACCA programs as reference standards in the process of global harmonization of the accountant profession.

ACCA organizes four session per year (March, June, September and December) in which up to four exams can be attended. In order to prepare for these exams, students can benefit from companies that supply courses or they can prepare individually.

From employees we find companies from the wide specter of domains: market shares, banks, production, marketing, consultancy, sales, distributions, financial investments etc.

2.4. Research regarding the responsibilities of the financial analyst's responsibilities within the context of the Romanian economy

In order to present a professional framework for the activity of the financial analyst, we have started an investigation regarding the responsibilities of the financial analyst profession in the context of Romanian economy.

In order to obtain a trustworthy assembly of results we have studied 40 job descriptions of the financial analyst within companies from Romania. The first idea that came from our research is that the responsibilities of the financial analysts is divided into two major categories: general and specific.

Analyzing the job profile of the financial analyst, from the general responsibilities we find most often:

- Compliance with the internal set of regulations;
- Compliance with the quality and environmental policies at the working site;
- Carrying their professional activities in compliance with the ethical norms;
- Compliance with the legal requirements related

⁸ www.cfasociety.org - CFA Romania Macroeconomic Confidence Index, November 2014.

⁹ www.accaglobal.com

¹⁰ A. Manea, reprezentant ACCA Romania, Bulgaria și Moldova.

to the security and protection at the working site in order to diminish the exposure to dangers that can lead to accidents;

- Coordination, motivation and monitoring the performance and efficiency of the subalterns in order for them to fulfill their general objectives;
- Periodical collaboration with the other departments of the company for the completion of analysis and financial reports;
- Issuance of the financial reports
- Attendance to the elaboration of market studies, feasibility studies and other types of analysis needed in their activity;
- Continuous informing on news in the domain;
- Sustaining an opinion related to the development perspectives of the company;
- Tracking of processes in order to be fulfilled efficient and effectively, usage of resources, solving or recommending alternatives in the reorganization of the decisional process priorities;
- Accomplishment of tasks provided by the direct superior;
- Proposal of solutions for issues that appeared in the working process;
- Usage of resources in accordance with the assembly of the objectives.

We have studied the specific responsibilities of the activity carried the financial analyst and structured into categories these responsibilities that have a prioritized character in the work processes, presenting the following categories of specific responsibilities:

Responsibilities related to budgets

- Monitoring the results of the activity, analysis and comparison of these results with the allocated budget and the proposal of measures to correct the unfavorable situations;
- Analysis of expenses and issuance of recommendations for the optimization of costs on various activities and products;
- Attendance to the realization of forecasts for the following periods and for long term regarding incomes and expenses based on the analysis of processes from the previous periods.
- Contribution to the processing of financial and statistical data in order to issue and reviews the company and departments' budgets in accordance with the management's requirements;
- Identification and analysis of problems and deficiencies related to income and expenses of the

financial departments; establishment of a approach method from the methodological provisions within the company and recommendation of alternatives;

Responsibilities related to the analysis of the financial balance

- Development of a financial strategy for the company;
- Evaluation of the financial instruments and the identification of opportunities related its placement;
- Elaboration of financial analysis reports and issuance of conclusions based on them;
- Application of financial analysis through elaboration of analysis, evaluations, computation of indicators for segments, products, services, markets etc.;
- Updating the monthly business plan.

Responsibilities related to the investing activity:

- Identification of the profitable and the risky investments;
- Participation to the elaboration of market studies, feasibility studies and other types of analysis needed for financing file;
- Tracking of the international capital markets and identification of possible influences and fluctuations in the market in which the company operates;
- Analysis of the portfolio services 'profitability.

3. Conclusions

The conclusions of our research over the professional judgment in the Romanian companies related to the financial analysis executes its professional judgment through the responsibilities incumbent, refer to the fact that the profession of a financial analyst implies carrying complex activities, varied, the vision of this job picturing a high level of importance in the professional environment, citing within the financial analyst's posture a constructive structure and a high level of professional training that will satisfy the informational needs and requirements related to the continuous development of the accounting area and the economic and financial area within a company.

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