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Analyst Designation Attracts Students

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Financial advisers, and even regulators, are going back to school to learn the A-to-Z of alternative investments spurred by the growing popularity of hedge funds with wealthy investors.

The thirst for knowledge is primarily being driven by the growing popularity of hedge funds with more mainstream investors, lured by the attraction of superior performance. But recent relatively lackluster returns, high-profile collapses and scandals -- such as that of Atlanta-based International Management Associates LLC -- are leading to greater scrutiny by investors and regulators putting professional standards center stage.

There's not a whole load of choice out there when it comes to education in the sector and the Chartered Alternative Investment Analyst Association is grabbing the growing number of hungry students around the globe.

Some 1,171 candidates in 50 countries took exams in February for the association's professional "CAIA" designation (pronounced "KAI-yah"), up more than 40% on the last exam session in July. The association expects 1,800 to register for this fall's exams, boosted by the adoption of the program by the Securities and Exchange Commission, and growing recognition of the designation in Europe and Asia where there has been a significant up-tick in enrollments.

Although still in a minority, a growing number of participants in the CAIA program are advisers to wealthy individuals rather than solely to financial institutions, such as pension funds and investment banks.

James Costabile, national sales manager for alternative investments at Citigroup's Smith Barney based in New York, is one of 514 current CAIA designees. Mr. Costabile manages a team of 25, a resource into which Smith Barney's wealth managers can tap for expertise on alternative assets. Mr. Costabile says he found the CAIA program to be a useful supplement to the more informal training he was receiving in-house.

"The exams focused my time. They made me approach the material in a much more organized and thoughtful way," he says.

Mr. Costabile says the in-depth analysis of hedge-fund strategies and the statistical evaluation of their underlying strategies has helped him "to know what questions to ask" when evaluating fund managers. CAIA also is likely to influence his future hiring decisions. Some seven members of his team already have graduated the program and

three more are currently in the program. Candidates with the designation "have an edge," he says.

The program does have its skeptics. While many advisers have seen a growing demand for hedge-fund products, not all believe the two-stage exam program, which covers hedge funds, private equity, real estate, commodities and managed futures as well as ethical and regulatory issues, is necessary to be able to advise clients on alternative investments.

"As a CFA [Chartered Financial Analyst] and using your own brains you should be able to assess risk and return in any market," says Lewis Altfest, president and chief investment officer of New York-based L.J. Altfest & Co., an independent financial-advisory practice with some \$370 million under management.

Alternative-investment strategies, and hedge funds in particular, are catching on in a big way primarily because of their ability to make money whichever way the market is moving. Previously the preserve of high-net-worth individuals and institutions, the industry has become increasingly accessible to the less wealthy; now as little as \$25,000 can get you started.

The growth and influence of the industry across investors -- it has an estimated \$1.4 trillion in assets and accounts for up to 20% of all trading activity in the U.S. alone -- not to mention some high profile collapses have also captured the attention of regulators who have recently moved to make hedge-fund managers register for the first time with the SEC with more regulation possible down the road.

As part of its continuing probe into the industry the SEC is also using the CAIA designation to educate its staff. The regulator put CAIA on its menu of educational courses available to staff last year as part of its preparation for the new registration rule that will involve regular compliance inspections and audits of hedge-fund managers.

"The examiners need to understand the business -- the course should help them become adept at examining issues involving alternative investments including real estate, futures, derivatives and hedge funds," says SEC spokesman John Nestor.

Mr. Nestor said some 20 SEC staff have taken the \$2,400 course -- for which the SEC will offer partial reimbursement -- as part of a self-education process.

Founded in 2002, the CAIA Association is one of the few organizations offering a qualification in this area of investment. Last year the Investment Management Consultants Association offered a certificate in alternative investments, developed by professors at the Wharton school at Pennsylvania University, to its members and certified financial planners and analysts. Those that passed the exam received an educational certificate. Unlike CAIA though it isn't a professional designation that can be used on business cards. Also, the next class isn't until 2007.

Craig Asche, executive director of the CAIA Association says most academic programs at universities and company training schemes are still geared towards stocks and bonds, creating a supply demand mismatch in a nascent, but rapidly growing industry.

"If you are a young person looking to get into this field, then there is no other way to get educated than through this program," he says.

Candidates must pass two exams and pay annual membership dues to use the CAIA designation. The Level I exam is designed to give advisers the tools to understand and analyze alternatives, while Level II tackles more complex topics such as how to craft a portfolio that implements traditional and alternative investments, find and monitor fund managers. At least 240 hours of study are required.

It isn't only new entrants into the field taking the exam. Seasoned industry professionals say it has helped them broaden their knowledge and keep up with emerging trends, such as the melding of private-equity-funds strategies with hedge-fund strategies and the renewed focus on commodities markets because of skyrocketing gas prices.

William Gruzynski is a portfolio manager and director at Emerald Strategies LLC, a Chicago-based alternative investment firm focusing on hedge funds, managed futures solutions and foreign-exchange strategies for wealthy individuals and institutions, such as foundations and endowments. He graduated from the CAIA program last year. Mr. Gruzynski, who has over 30 years of industry experience, says the program helped him learn in more detail about real estate and private equity. Although he isn't directly involved in these types of strategies, his new knowledge has helped him articulate the pros and cons to clients when questions about them come up.

"Clients tend to look only at returns and not take into account how they are generated and the risks that are involved," Mr. Gruzynski says.