Enough with Credentials

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Adam Schwab, CFA, CAIA

Like most professions, the investment industry is obsessed with credentials. It's rare that a month goes by without another announcement of a new designation to add behind your name.

Investors have lost focus on what matters. Results matter. Good decisions matter. Long-term performance matters.

Credentials do not.

I'm sure I appear hypocritical given I've completed several credentials (CFA, CAIA, CPA, etc). But in my experience, it's the rigor and thoughtfulness behind a decision that delivers value, not the credentials. We conflate credentials with competence because it's an easy shortcut. But it's a mistake and its incentivizing investors and their organizations to look good (more letters behind their name) rather than be good (deliver outperformance).

Can these programs have value? Absolutely. There's useful information learned in these programs. But the question is, how do you judge who can apply that knowledge in the real world? It's not by looking at credentials. It's the application of knowledge that matters. And to judge that, you need to do something different.

Credentials are proliferating. The CFA program used to be the sole standard in investments, but now you have:

- The Certificate in Investment Performance Measurement
- The ESG certificate program
- The CAIA program
- The Chartered Market Technician (CMT)
- The Financial Data Professional Program (FDP)
- The CAIA UniFi program
- The Financial Risk Manager (FRM)
- The Sustainability and Climate Risk Certificate (SCR)
- MBA's and other degrees
- And on and on…

Credentials allow us to substitute a really hard, relevant question (how good of an investor is someone) with an easy, but irrelevant one (do they have the right credentials). We look to credentials as a reputable judge of investment talent. But credentials don't tell us the answer.

Applied knowledge matters – can you convert knowledge, whether learned from a credential, general learning, or experience into practical and actionable ideas?

The hiring process is the best example of how to look beyond credentials.

Let's assume I'm hiring a fundamental equity analyst position with 3-5 years of experience.

Degrees, CFAs, and any other designation is irrelevant to my evaluation.

Instead, I'm focusing on two things:

First, I want them to analyze a company and produce a recommendation by giving access to all company filings and conference call transcripts, along with several hours to write a 3-5 page investment recommendation and present it to our team.

I'm assessing their investment process and thinking ability in real time. I don't want some canned answer on their investment process. I want them to prove it. I don't want their promise of ability. I want to see it. I don't want theoretical ideas on equity analysis. I want to see the practical application. And I get to see that by having them DO THE ACTUAL WORK. Writing forces the candidate to clearly articulate their argument. Presenting their argument to us will allow us to push back on their ideas and judge their response.

I want to see:

- How they evaluate capital allocation, business/industry structure, and management issues.
- Are they spotting the critical, but often overlooked issues?
- Can they identify the main drivers of the business?
- Are they uncovering unique concerns ignored by street analysts?
- Are their assumptions across growth rates, margins, and returns on capital consistent and logical? Or are they just looking for a good story?
- What questions would they follow up on?

The entire point is to see the work behind the process and recommendation, not just the ability to talk about it.

The second priority is talking to their past colleagues. I'm looking for independent confirmation on the following:

- How did they handle the pressure of managing real money?
- How did they handle when one of their recommendations was down 80% or 100%?
- How did they handle the stress of uncertainty and market volatility?
- Were they able to remain task oriented during a market crisis or were they overwhelmed and paralyzed by the volatility?
- Did they constantly blame the market for poor performance, or did they own their mistakes and keep working to improve their process?
- Did they bring insightful ideas or just ideas that were popular in the market?
- How were their team interactions? Did they retain composure when pressed by a team member on an assumption or decision? Did they get defensive?

Regurgitating knowledge in a static test environment is easy. Implementing knowledge in a dynamic, uncertain, and volatile market is entirely different. So the question is, will past colleagues confirm they did this? I want proof, not promises, of their behavior.

Jason Fried, founder of Basecamp and author of *It Doesn't Have to be Crazy at Work*, describes why their organization attaches little value to résumés and instead wants to see what a candidate can actually produce:

> If the candidate clears that bar—being someone people are excited to work with and who can bring a new perspective to the table—then it's all about the work. Résumés aren't work. Résumés may list the work they've done, but we all know that they are exaggerated and often bullshit. Beyond that—even if their résumé is perfectly accurate—a list of work is not the work itself. Don't just take their word for it. Take their work for it…at Basecamp we put a real project in front of the candidates so that they can show us what they can do.

> What we don’t do are riddles, blackboard problem solving, or fake “come up with the answer on the spot” scenarios. We don’t answer riddles all day, we do real work. So we give people real work to do and the appropriate time to do it in. It’s the same kind of work they’d be doing if they got the job.

Good firms and CIOs are just beginning to realize what the team at Basecamp has already figured out - credentials don’t deliver results and they don’t do the work. Test candidates with real investment analysis projects.

There is a giant gap between passing book tests and managing money in the real world under duress - volatile markets, incomplete knowledge, problematic clients/boards, ineffective organizations, and a general lack of resources/time to do it all.

I often hear organizations emphasize how their entire team has CFA charters. And every time I think, but have they actually delivered above benchmark performance over a meaningful time period? Can they produce risk-adjusted returns? Can they actually deliver? That’s what should be talked about - the results.

The process of looking behind the credential is hard work. It’s intensive and time-consuming. Many firms will stick to résumés and static interviews. But for those organizations that understand the difference between mediocre and great hires, it’s all the difference in the world to look at the actual work.

To be clear, I’m not against learning and knowledge, but I am against confusing knowledge proxies as proof of the real thing.

Focus on what investors can actually deliver, not what they promise to deliver.