

the history of investment analysts' societies

By Kathleen A. Graham

IT'S THE PEOPLE BEHIND THE FACTS that make history interesting. The facts are that the very first investment analysts' society in the world started in Chicago when The Investment Analysts Club of Chicago (IACC) was founded in 1925. Another fact is that on June 11, 1947, the IACC along with The Boston Security Analysts Society, The New York Society of Security Analysts (NYSSA), and the Financial Analysts of Philadelphia commenced the founding meeting of The National Federation of Financial Analysts Societies (NFFAS). IACC changed its name about five years after joining NFFAS to The Investment Analysts Society of Chicago (IASC), while NFFAS was later renamed The Financial Analysts Federation (FAF). Fact 3: June 14, 1959 is the date when the FAF Board of Directors approved the establishment of the Institute of Chartered Financial Analysts (ICFA) for the purpose of developing a certification process for the investment analysis profession.

The analysts' professional movement gained international momentum with the founding of the European Federation of Financial Analysts' Societies in 1962. Accreditation soon followed when on June 15, 1963 the first Chartered Financial Analyst (CFA) exam was administered to 284 individuals, with 263 of them passing. In 1979, the Asian Securities' Analysts Council was established. On January 1, 1990, the FAF and ICFA merged to create the Association for Investment Management and Research (AIMR) with a membership of over 20,000 investment professionals. AIMR, which now has more than 60,000 members in more than 100 countries, will change its name to the CFA Institute on September 1, 2004.

The People Behind the Facts
Who are the people behind these facts? How did they—and why did



Courtesy of William Gray

William Gray, former FAF chairman and current IASC historian.

they—create what is now the largest international professional investment organization? Equally important, what is likely to be the future of AIMR and its members?

William S. Gray III, CFA, former FAF chairman, current IASC historian, and retired Senior Vice President and Senior Investment Officer for Harris Bank in Chicago, relates that Raymond J. Sidney was the instigator behind the formation of the IASC in 1925. Back then, available information on publicly traded companies was very limited (balance sheets usually showed no more than a comparison of current assets and current liabilities) and were often outdated. So Sidney started gathering a group of individuals from the bond houses, rating agencies, and underwriting banks to discuss securities (especially bonds because they were the investors' favorites at that time) over lunch. At one such meeting attended by Sidney and representatives from such firms as Continental Bank, Northern Trust Company, Harris Trust and Savings Bank, *The Wall Street Journal* and the University of Chicago, by-laws were instituted to formally found the IACC. Sidney was elected the organization's first president.

IACC thrived in the roaring '20s, shrunk to a single table at the YMCA during the Great Depression, and started growing again only to have World War II bring about a severe

manpower shortage that almost closed the organization. It was not until after World War II that most of the other societies first formed, then linked together to create the FAF.

From the first drafting of FAF's constitution and the formation of ICFA, the two major priorities were education and training, plus ethics and standards. AIMR's mission remains the same today.

After World War II the economy boomed and many inexperienced individuals became analysts, prompting a need for their education and training. In 1945, the renown Benjamin Graham wrote an article entitled, "Should Security Analysts Have a Professional Rating?" urging the establishment of an accreditation system, which finally occurred in 1963. By that time, Graham had already retired, but his former student who became his assistant at Columbia, Irving Kahn, was one of the 263 people who passed the original CFA examination.

The youngest people taking this first CFA exam were in their mid-40s, while 33 were over 60 years old. Six of them were women. Asked why he chose to sit for the examination, Kahn (who is the Chairman of Kahn Brothers and Company, Inc.) replied, "Coming from an academic family, I was bewildered by the Wall Street people claiming to be experts, but with no related credentials. Compounding my initial reaction, my relationship with Benjamin Graham, the father of modern securities analysis, the author of four revolutionary books, and the proponent of professionalism through accreditation, made the choice a given."

Fred Young, the 211th person to pass that first CFA exam in 1963 and an IASC member, still can recall the experience. "Taking that first all-day examination at the University of Chicago was a big deal," he said. "We took numerous classes to get prepared. I remember there were even a number of older gentlemen present with several of them still out in their cars cramming when the test was beginning."

The CFA exam format used in 1963, aside from the inclusion of an ethics question, was very similar to what the University of Chicago's professor Ezra Solomon originally proposed to the FAF in his 1959 paper detailing the *modus operandi* of a certification program for securities analysts.

Professor Solomon's proposal in practice quickly became a big success. "It's incredible how the CFA certification has grown," explained Young. "No one even knows what their charter number is—that's how big the CFA program has become. Its success has far exceeded anyone's expectations."

The NYSE and many other organizations almost immediately endorsed the program. Even the warden of the Sing Sing penitentiary was interested; it seems he had a number of inmates who were previous Wall Street notables for whom he thought that the CFA curriculum would be a healthy rehabilitation effort.

Perhaps the warden should have been more interested in the FAF/ICFA/AIMR ethics and standards concepts for his inmates. At these investment associations, ethics and standards are not just words—they have been enforced throughout the decades, with 611 professional conduct cases dealt with in just the past five years. What is also fascinating about FAF/ICFA/AIMR's approach is their creation of a *Standards of Practice Handbook* that details specific real-world scenarios and how the ethical analyst should act in those situations. IASC's historian Gray was one of nine volunteers who undertook the development of that initial handbook.

Gray said he believes the amount of volunteer work that all of these working professionals, including himself, contributed to create the individual societies and the FAF/ICFA/AIMR was the most impressive feature he uncovered during his research. "Even after 25 years, FAF had only a few employees working for the national organization," said Gray. "All other tasks were done by volunteers."



In 1964, Pierre Bretey hoped to repeat the "Great Train Ride" that had helped coalesce the financial analyst profession a dozen years earlier. But times and tastes had changed, and few analysts could afford so many days away. The trip was cancelled "for lack of interest."

Courtesy of CFA Institute

Gary Brinson, CFA and founder of Brinson Partners that was acquired by UBS, is the former Vice Chairman of ICFA, former Chairman of the FAF's Program Board, and a member of IASC. When asked why he personally

committed so much time and effort to these investment societies, he replied, "There are two reasons. First there's my quest for knowledge, which through these groups' educational efforts and the caliber of the individuals

who were attracted to their programs, I was able to learn from others and stay abreast of the latest developments for practitioners. Then in the 1980s and 1990s, I felt an obligation to give back what I found was valuable to me and to

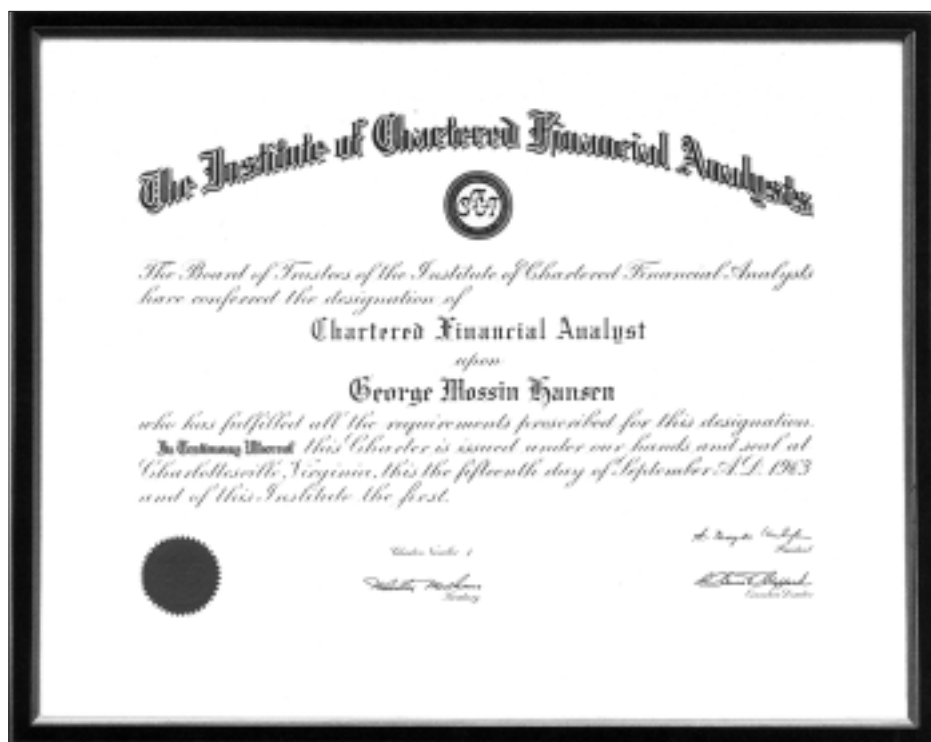
contribute to the collegiality of the group. To me it was important for the next generation who's motivated to gain their credentials to see the continuity in our professional organization."

It is the increased level of professionalism created by the dedication of large numbers of analysts to get their CFA accreditation that has impressed Brinson the most. He acknowledges that the money management field has been tarnished of late, but he is not aware of any of those individuals involved in the scandals to date having been CFA charter holders.

CFA Herta Kahn, a former top PaineWebber stock broker and the author of *What Every Women Should Know About Investing Her Money*, concurs with Brinson. "It's regrettable when greed takes over because then financial tragedy occurs and you have to make the necessary corrections," she explained. "Our democracy and profession can only survive by keeping standards as high as possible. These investment societies affiliated with AIMR, elevate the status of our industry through promoting higher standards, education, and meaningful certification. IASC's motto is 'Building the future for investment professionals' and they mean every word of it."

So what's the future for AIMR, their individual societies, and members? Besides a name change to the CFA Institute to better align market perception with their major certification service, there is a continued commitment to the original society goals of education and training, plus ethics and standards. Currently, AIMR is in the midst of updating its Code of Ethics and Standards while also unveiling its newest educational creation, the CFA Center for Financial Market Integrity.

The members of AIMR interviewed see that continued commitment to core values going forward: Irving and Herta Kahn (not related) commented that the increasing status of this industry through AIMR's



Displayed in offices of analysts around the world, the CFA Charter is a badge of singular professional accomplishment. George M. Hansen, a longtime leader of the FAF, earned the first charter in 1963. Since then, more than 23,000 analysts have earned their own.

efforts will continue to add credibility to its members' status. Brinson noted the logical evolution is the continued importance of local societies, but now on an increasingly global basis. Young summed it all up by saying, "It's big now and it's going to get even bigger."

Kay Torshen, President of Torshen Capital Management LLC (a funds of funds hedge fund), and a recent IASC/AIMR member, when asked why she, a member of the alternative investments community, joined, concurred. "AIMR is a premier organization for investment professionals so, of course, I wanted to be part of this growing and dynamic group. The investment society also offers extremely interesting programs."

Back in 1959, when ICFA was created, there was much debate over whether investment analysis was even a profession. By taking to heart Benjamin Graham's challenge to create a "professional rating" system, the

efforts of the legions of volunteers working for ICFA, the FAF, AIMR, and the individual societies has resulted in the global recognition that not only does investment analysis indeed have the salient features of a profession—an identifiable body of information, a method for testing that data retention, and an established and enforced ethical code—but that its professional organization, AIMR, has become the global thought leader for its industry's future growth. **FH**

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