

Quantitative Methods (Study Session 2 & 3)

By Mr Yap Kam Cheng

Essentially a combination of basic statistics, time value of money and technical analysis spread over 2 study sessions.

The statistical concepts of measuring averages, standard deviations, probability distributions and hypothesis tests are introduced in the context of investment applications. Lots of formulas presented here, which can appear to be threatening to the uninitiated. But only a selected few are of importance. Nevertheless it is vital to know the rationale behind their respective existence and usage.

Familiarity with the usage of “CFA-approved” financial calculators is one of the key components in successfully tackling Time Value of Money questions. No necessity to remember any of the formulas pertaining to annuity, annuity due, present/future values of a single sum. Just set the calculator functions according to the question layout and press compute for the desired answer.

Technical analysis was a subject brought down from Equity valuation to Quantitative methods fairly recently. Primary focus is on differentiating between the Contrarian indicators and the Follow the Smart Money indicators.

To pass the Quantitative Methods paper, it is no longer appropriate to just adopt a quantitative approach by remembering formulas and applying them to compute the required answer. A qualitative approach is just as important, as recent exams have shown an increasing trend towards examination of the student’s understanding of different statistical concepts, assumptions and limitations of the statistical tools and techniques.

.