

## LOS Command Words

The reading-specific learning outcome statements (LOS) contained in the study sessions are carefully designed to indicate what you should learn from each assignment. Although the format of the exams may not lend itself to using the following command words in the actual questions, you should be able to answer the exam questions if you can successfully accomplish the learning outcomes described by these command words in the LOS.

The CFA and CIPM program make use of the thirty official command words defined below. The definitions explain only those senses in which the command word may be used in the CFA and CIPM programs' LOS; other senses, possibly relevant in other contexts, are not given. Following each sense between angled brackets < > is an example of the use of the command word in the sense given. **Critique**, **discuss**, and **prepare** are reserved for use at CFA Level III.

<b>Analyze</b>	To examine in detail < <b>Analyze</b> a company's liquidity, profitability, financial stability, solvency, and asset utilization>
<b>Calculate</b>	To find (the value of something) by using mathematics < <b>Calculate</b> cost of sales and ending inventory by using different inventory valuation methods>, < <b>Calculate</b> the value of a common stock using the Gordon growth model>
<b>Classify</b>	To assign to categories or groups < <b>Classify</b> cash flow items as relating to operating, investing, or financing activities>
<b>Compare</b>	To note the similarities and differences of two or more things < <b>Compare</b> the free cash flow to the firm and free cash flow to equity approaches to valuation>
<b>Construct</b>	To build by putting together constituent parts < <b>Construct</b> a portfolio by using a core-satellite approach>
<b>Contrast</b>	To state the differences between < <b>Contrast</b> cash-basis and accrual-basis accounting>
<b>Convert</b>	To change from one form or purpose to another < <b>Convert</b> among holding period yields, money market yields, effective annual yields, and bond equivalent yields>
<b>Critique</b>	To evaluate in a detailed and critical way < <b>Critique</b> models of relative equity market valuation based on earnings and assets>
<b>Define</b>	To state exactly the meaning of < <b>Define</b> a parameter, a sample statistic, and a frequency distribution>
<b>Demonstrate</b>	To show competence in < <b>Demonstrate</b> the use of enterprise value multiples to estimate equity value>; to give examples of <Explain the delta of an option and <b>demonstrate</b> how it is used in dynamic hedging>; to provide evidence of < <b>Demonstrate</b> a thorough knowledge of the Code of Ethics and Standards of Professional Conduct by applying the Code and Standards to specific situations>
<b>Describe</b>	To portray in words < <b>Describe</b> the various forms of event risk>

<b>Determine</b>	To decide < <b>Determine</b> whether the nominal spread, zero-volatility spread, or option-adjusted spread should be used to evaluate a specific fixed-income security>; to ascertain < <b>Determine</b> the statistical significance of each independent variable>
<b>Discuss</b>	To examine critically and in detail < <b>Discuss</b> the impact that ability and willingness to take risk have on risk tolerance>
<b>Distinguish</b>	Point out differences between < <b>Distinguish</b> among empirical, subjective, and a priori probabilities>
<b>Estimate</b>	To determine an approximate value for < <b>Estimate</b> a company's intrinsic value based on discounted cash flow analysis>; to reach an informed but possibly imprecise evaluation of < <b>Estimate</b> the impact of a change in accounting principle on a company's reported financial statement>
<b>Evaluate</b>	To reach a conclusion or make a judgment about something through careful study < <b>Evaluate</b> the quality of a company's financial data>, < <b>Evaluate</b> the appropriateness of using a particular rate of return as a discount rate>, < <b>Evaluate</b> a merger bid>
<b>Explain</b>	To make clear the meaning of < <b>Explain</b> interest rate parity>
<b>Forecast</b>	To estimate the future value of something < <b>Forecast</b> a company's net income given sales projections by using a percentage-of-revenue approach>, < <b>Forecast</b> a company's market share in different growth scenarios>
<b>Formulate</b>	To state in clear or definite form < <b>Formulate</b> a test of the hypothesis that the population correlation coefficient equals zero>; to devise < <b>Formulate</b> an appropriate response to actions that violate the Code of Ethics and Standards of Professional Conduct>
<b>Identify</b>	To recognize and correctly name < <b>Identify</b> and describe the desirable properties of an estimator>, < <b>Identify</b> the functions of a central bank>
<b>Interpret</b>	To give the meaning of < <b>Interpret</b> the estimated coefficients in a linear regression>, < <b>Interpret</b> the results of an equity style box analysis>
<b>Judge</b>	To form an opinion about through careful weighing of evidence < <b>Judge</b> whether an equity market is undervalued, fairly valued, or overvalued based on a relative equity valuation model>
<b>Justify</b>	To show to be valid or appropriate in a particular context < <b>Justify</b> the use of absolute performance and cash flow matching objectives to meet the goal of lifestyle protection>
<b>Prepare</b>	To put into written form < <b>Prepare</b> the constraints section of an investment policy statement for the Ingrams>, < <b>Prepare</b> an appropriate response for each of the four questions from the committee members>

- Recommend** To offer as being appropriate or good <**Recommend** practices and procedures designed to prevent violations of the Code of Ethics and Standards of Professional Conduct>, <**Evaluate** the choices of short-term funding available to a company and **recommend** a financing method>
- Select** To choose as being the best or most suitable <**Select** an optimal portfolio by using Roy's safety-first criterion>
- Show** To communicate in writing <**Show** your work>; to make evident or clear <**Show** how positioning a company is a creative strategy for achieving a competitive advantage>
- Solve** To find a solution for <**Solve** time value of money problems when compounding periods are other than annual>
- State** To express in words <**State** the probability of an event in terms of odds for or against the event>; to provide <**State** the formula for the international capital asset pricing model>
- Support** To provide corroboration for <**Support** each response with one reason based on Smith's specific circumstances>