

Abstract

BROKERAGE PREPARATION

PAPER BY SCOTT ADAMS

TAYLOR UNIVERSITY

This paper is a practical discussion on having a professional development course has part of a business curriculum. Taylor University offers the Series 7, Brokerage Preparation and Certified Financial Analysis Level I classes to students. The students take the actual exam at the conclusion of the class period. The paper is a how to on the Series 7 along with the benefits to students and the university from administering this program. Any college or university interested in a professional program will find the questions raised in this paper helpful for any type of program.

BROKERAGE PREPARATION

PAPER BY SCOTT ADAMS

TAYLOR UNIVERSITY

Taylor University administers a program for students interested in the financial planning and retail brokerage business. The program is in its eighth year. During a student's senior year a class may be taken that prepares them for the Series 7 General Securities Exam. The student actually sits for the exam at the completion of the class. The pass rate at Taylor University is about 95% verses an industry average of 72%. Students who pass the exam have an advantage in interviewing with financial planning and brokerage related firms, and have a further advantage in starting salaries. Not only is this a bonus to students, but also allows Taylor University a variety of partnering opportunities with businesses throughout the United States. This paper is a "How To" discussion for other colleges and universities that would like to run a similar program.

Though this paper addresses the Series 7 Exam specifically, the ideas and questions raised could be applied to classes to prepare students for the CFA (Certified Financial Analysts) Exams, CPA (Certified Public Accountant) Exam, actuarial exams, the HR certification exam, CFP (Certified Financial Planner) Exam, or any other professional designation that a university feels would prepare their students for more career success. Further, all of these programs require a framework made up of partnerships from outside the university. This paper explores those relationships.

What is the Series 7 Exam?

The Series 7 is the key exam a person must have to be able to sell investment products to private clients. Any securities professional associated with a brokerage firm

must be registered with the National Association of Securities Dealers (NASD) and any other relevant organization. This includes officers, managers, and salespersons. A person must be properly licensed to fulfill the role they have inside of a broker/dealer firm. Passing the Series 7 exam is the first major hurdle to a career in this field.

The examination itself tests for knowledge in a wide range of areas. The Series 7 Exam includes federal securities laws, SEC rules and regulations, various securities and retail investment products, operation of financial markets, economic theory, corporate finance, portfolio theory and analysis, proper sales practices, customer account types, and tax treatment of investments.

The Exam itself contains 250 multiple-choice questions that are divided into two sections of 125 questions each. A total of three hours is given to take each section, and both sections are taken on the same day. A score of 70% or better is needed to pass the exam which means a total of 175 of the questions must be answered correctly. The test is taken on a computer and results are reported immediately at the completion of the exam.

Exploring the Cost

For the students who took the exam at Taylor University last spring, the cost was \$805 per student for the exam (see table A for breakdown). Most of these are fixed costs. The actual exam fee is \$200. There is another fee to open the window for the exam to be taken. Once a student has registered for the exam, a period of time of four months is allowed to actually schedule and take the exam. This is another \$200 cost. The NASD and FBI have a series of costs that must be paid to taking the exam. The company that we used to sponsor Taylor University students charged \$100 for being the sponsor.

TABLE A

<u>Category</u>	<u>Cost</u>
U4 form (NASD registration)	\$85
NASDR Individual Assessment	\$10
U5 fee (prepaid termination fee)	\$40
Fingerprinting for FBI	\$45
Fidelity Bond	\$75
Background Inspection Fee	\$50
Exam (Series 7) Fee	\$200
Fee to open exam window	\$200
Sponsoring firm's fee	\$100
<hr/>	
TOTAL	\$805

Taylor University has built a scholarship program to support this program. The actual cost is met by a combination of student payment and scholarship money. In the spring of 2001 each student was personally responsible for \$530 of the cost and scholarship money covered the remainder of the \$805. In a program like this, the experience of the University is that students need to pay a significant part of the cost. This provides a form of motivation to pass the exam. It provides a real life example of an investment because although students pay money up front, they are rewarded with higher salaries and increased marketability in the work force.

The development of the scholarship program is another partnership opportunity for the University. We look at those companies who benefit from our students, especially locally, and encourage them to give to the program. This is difficult up front, but now Taylor University is benefiting from successful graduates in the field and companies who would like more of our graduates.

Who Teaches the Class?

At Taylor, a full time faculty member in the business, accounting, and economics department teaches the class. Taylor University has been in a position since the inception of the program to have on staff a Series 7 licensed professor. There are no rules that say someone with the license must teach the class, but we have found it to be an advantage in teaching this class if the professor not only has the license, but has work experience in a securities career. An adjunct faculty member who is licensed and working in the field could easily teach this class. Taylor University also currently offers the Certified Financial Analysts (CFA) class to prepare students to take the first of the three exams required to achieve that designation. An adjunct member, who is a practicing professional, teaches that class.

Also included in the teaching of the class are professionals who come in and guest lecture on topics that are on the exam. In the Spring Semester 2001 class we had two visitors from Charles Schwab who manage their options division and assist Schwab clients in the placing of options trades and strategies. This is an example where Taylor University has been very successful in partnership with outside business. We have worked with Charles Schwab on this class and assisted them in putting this class in universities in Colorado. Taylor has a good working relationship with Schwab and

several alumni are now employed there. Over the years, class days have been taught by personnel from Edward Jones, which has again provided a wonderful relationship with that firm and several alumni employed there.

How is the class taught?

Three different professors have taught this class over the eight years of this program at Taylor University. The class does not fit well with a traditional class format. The best schedules have been either twice a week for an hour and fifteen minutes or one night a week for three hours. Also, this makes the class work well for non-traditional students.

The class is divided into groups and each group is to put together an hour lesson for one of the class periods during the semester. This is somewhat dependent upon class size. The groups are to prepare handouts, understand and present the material in a learnable fashion, and help answer questions. The role of the class professor is to help the group as needed, follow-up with areas that need more coverage, and to point out areas that are more likely to be addressed on the exam. The material is learned better when students are forced to teach others. The presentations are grouped as following.

TABLE B

<u>Group Number</u>	<u>Subject</u>
1	Stocks
2	Mutual Funds
3	Bonds and money market instruments
4	Taxes & Tax advantaged investments
5	New issues and primary markets
6	Secondary markets
7	Client accounts
8	Analysis – Fundamental, Technical, and Economic
9	Industry regulation and reading financial papers
10	Municipal Bonds

There are two major sections on the exam that should not be presented by students. The section on options and margin should be done by a combination of the professor and outside guests. Most students will find this the most difficult section of the test and won't be able to present the subject effectively.

After each section is presented a quiz should be given in class and reviewed together. Students should keep the quiz and continue to take them until they receive a grade of 85% or better. They can take the quiz every few days until they achieve this mark.

The final three weeks of the class are used to take practice tests and review them. The only lecture time needed at this point is to go over areas that the class does not consistently understand. Taking practice tests should be done both in and out of class. We find that the average student needs to study about two hours daily, including weekends, to do well on this exam. Taking tests out of class would count as part of that time. The first exam students are given two weeks to complete, and the time is slowly decreased to a couple of days.

Grades are determined by the easy way, and the difficult way. The easy way is if the student passes the Series 7, achieving a 70% or better. The student is given an “A” in the class in this situation. Students who fail the exam by getting less than 70% are graded by class participation and their group presentation and by averaging their practice test scores. A “B” is the highest grade given if the test is failed. Taylor University no longer allows students in the class who will not sit for the exam. This information should be included in a class syllabus.

Who Is Eligible To Take The Class?

Taylor University is a traditional campus in that most of the students are full-time, residential, and 18 to 22 years of age. This question would be answered somewhat differently depending on the goals of a particular organization. Taylor University does not as yet offer this on their Fort Wayne campus, though we have had students from industry take the class. Having Taylor teach the student is less expensive. This spring we had a member of the class who was an employee of Raymond James. They chose her to take our class instead of another commercial option. Taylor University is working to increase our partnership with other firms to provide the class to aid their employees in

passing this exam that is crucial for the financial service industry. Our superior pass rate provides a marketing distinctive.

Corporate Finance is a prerequisite for the class. Students are advised to take Investments in preparation for the class. However, the class is designed to be taken by students without this prior subject knowledge.

The prerequisite and investment class that Taylor University prefers students to take makes the class a lot easier on students. Time can be spent on difficult subjects because the basics are learned in lower level classes. Subjects are covered intentionally in Corporate Finance and Investments that will lead the students to do well on the Series Seven.

Textbooks

Students are required to purchase the ARCO Series 7 Stockbroker NASD EXAM textbook. It is currently in the 5th edition and is written by Philip Meyers and available on Amazon.com for around \$40. There is a version with and without the CD ROM. The CD ROM contains tests and it is recommended that the students buy this version so they can have the practice tests and gain familiarity with the computer version of the test.

We use as supplement material the Securities Training Corporation *General Securities Representative Study Manual*. This must be ordered through the Securities Training Corporation at a cost near \$400. Taylor University keeps one on file in the professor's office who teaches the class. Students who order this material are exposed to more quizzes and practice tests.

Sponsorship

It is necessary to have a NASD firm sponsor students to take the Series 7 exam. A person cannot take the exam without being sponsored by a member firm. Again, this is where Taylor University has developed partners in the industry. We have used several firms over the past eight years.

The first place to look for a sponsor in this area is among alumni. The large, well-known brokerage firms are hesitant to sponsor a college program because the student becomes an employee of the firm's Compliance Department becomes responsible for the student. Most large brokerage firms will not take this risk. Charles Schwab has shown some interest in this, but as yet has not gotten things arranged through their compliance department. The best scenario is to have an alumnus working for a small broker/dealer, or better yet be the owner of a broker/dealer who is willing to take on this project for goodwill between them and the university, because it allows them to know students before they graduate and gives them first choice for permanent hiring and internships during the summer.

There are also companies that will do this for a fee. Lacking any other relationship, Taylor University has used Quest Capital Investments, Inc. They can be contacted at 1-800-882-2280.

Partnerships

There are four major areas where Taylor University, through the Series 7 Program, is heavily involved in Industry Partnership. The areas are sponsoring the programs, placement of our students after graduation in jobs or before graduation in practicums, providing the class for businesses that need the class for professional development of their employees, and raising scholarship money.

The sponsoring of the program has been addressed briefly in a previous section. This is a forced partnership because it is necessary for the program. Searching the alumni ranks for somebody willing to do this would be the first approach. Working with a small, local company involved in the university's community would be the second approach. Either of these would be a vital partnership for both the university and the business.

The second area of placing students in practicums and jobs is a vital relationship. The Series 7 gives a big advantage to students searching for jobs and practicums, and provides a pool of potential employees that are desirable. Because of this unique program, Taylor University is able to work closely with businesses that are familiar with this unique program. Taylor can provide students that fit a specific need of employers. Those employers are pleased with what is being offered and a long-term arrangement is set to hire Taylor graduates on a consistent basis. Further, practicums can be set where businesses can look at our graduates and see the kinds of skills they are developing at the institution.

The next area Taylor University is developing is partnerships formed in the area with local businesses that need their employees trained to pass the Series 7 exam. This type of partnership has ample revenue potential. The university is providing a service to local businesses that want to advance employee development. There are numerous possibilities that include offering the class at a time where working people can take the class, having the class on site when a business has several employees involved with the course, and doing the class in an on-line format.

Raising scholarship money is that last piece of partnering. This is not an inexpensive program. However, those graduating and maintaining employment in the

financial planning fields tend to make on average more money and eventually make better donors. They understand what the program meant to them and how it got them going in their careers. This provides a continuing flow of money to operate the program.

Conclusion

Professional certification programs can be a valuable strategy in partnering with the outside business world and a benefit to students who are considering specific careers. Taylor University has administered such a program that helps students pass the Series 7 Brokerage Exam.

Most of the focus of this paper has been on how to develop a similar program for other universities. The next step in the research of these programs will be to quantify the actual salary and employment benefits of students who have taken the exam. Along with this step will be the quantifying of corporate and alumni giving as a result of the Series 7 program being in place at Taylor University.

A significant marketing opportunity has been built at Taylor University because of this specific program. The nuts and bolts of building a similar program are found in this paper to allow the proper questions to be asked in doing a similar project at another university.