**Investment Management Interview Questions:**

IM interviews, like most other industries, will most likely involve a “get to know you” portion (~10 minutes or less) that involves a discussion of your resume, background, experience at XYZ school, etc. This will quickly give way to IM-specific questions like those posed below:

1. **So what is a stock I should buy (short) now and why?**

* This is the “Pitch Me a Stock” portion of the IM interview. BEFORE walking into an IM interview you should:

1. Choose at least 2 stocks to buy & 2 stocks to short
2. **KNOW** these companies
   1. Major ratios
   2. Comparable companies
   3. The competitive landscape of the industry in which these stocks reside (basically a Porter’s 5 Forces exercise)
   4. Build your own model, including income statement, balance sheet & cashflow statement. This will FORCE you to get to really know the company, its drivers, major assumptions and greatest risks.
   5. Know the opinion of the stock on the Street and how your opinion either agrees or dissents with the consensus.
   6. The effect of macroeconomic factors on the stock & its industry.
   7. Major news events in the sector.

**TIP:** If you pick a well-known, widely covered stock it will certainly be one on which the interviewer has some sort of opinion even if he/her does not cover the stock. While this will certainly allow for a fluid discussion, it will ensure that you have to be CONFIDENT in your knowledge of the stock. Picking an obscure stock is a way for you to show your explanatory powers and lessen the chances that the interviewer knows everything there is to know about that stock. However, this might also work against you as the interviewer might lose interest in the story.

**REMEMBER: They are attempting to assess:**

1. How much you prepared for the interview.
2. If you can think quickly on your feet.
3. **If you can communicate well and take criticism.**
4. **Common practice to evaluate P/E ratio to determine if a stock is cheap. If you had no comparable companies for a stock, how can you evaluate if a stock is cheap?**

The inverse of the P/E is the earnings yield of the company. You can compare the earnings yield to fixed income yields and/or dividend yields to get a feel for how cheap the stock is. So a P/E of 50 can be interpreted as an earnings yield of 2%, while 8 can be interpreted as 12.5% earnings yield.

1. **How would you justify the price that XYZ paid for ABC? Do you expect XYZ to be a good investment in light of these acquisitions?**

This is essentially a valuation question.

1. **What makes a stock a good investment?**

Make sure you know what the firms investment strategy is before answering this question. It's not a good idea to tell about value techniques to a firm that is growth or momentum oriented. With that said, both growth and value stocks are better investments when they have a sustainable competitive advantage. I recommend a discussion of basic M&S D30 concepts.

1. **Do you invest in stocks or companies?**

A tricky question…be honest and be prepared to defend your position. There is not universal agreement out there on this question. Many successful investors (including Warren) say that you are an owner in the business. But many others including Strong and American Century believe you buy stocks…not companies. Momentum shops will definitely tell you that you buy stock. Growth and value analysts and firms may say either. Firms with a short term focus will probably say you buy stock, while firms with a longer term focus will likely say you buy companies.

1. **If you had to put ALL of your money in one stock and leave it there for 10 years, which stock would it be and why?**

This is an open invitation to give a stock pitch. I said Lucent and told them why…no call back! Good luck on this one.

1. **Why do you want to work on the buyside? Why not the sell-side?**
2. **Why are high P/E stocks more susceptible to major declines when interest rates increase?**

You can go with the cheap versus expensive argument, but that’s limited. A good way to explain this is growth and cash flows. High P/E stocks are high growth rate stocks. High growth rates usually mean that there are large cash flows out in the future (ignore the no income internet companies growing sales at 100%). To value the company these cash flows have to be discounted back to the present. When interest rates go up, the discount rate goes up and the future cash flows are worth less. A low P/E stock has more of its cash flows in the near term. For those of you with a fixed income background, this is identical to the logic of duration. High P/E stocks have a longer duration and thus decline in value when interest rates go up.

1. **I have the balance sheets from Intel and Disney/ABC in front of me. What do you think would be some of the differences?**
2. **What does the cost structure like for the [INSERT ANY INDUSTRY] industry? Fixed, variable etc? What are their biggest cost components?**
3. **What do you think the income statement would look like for a drug company like Pfizer? What would their COGS be? How about their operating margin?**
4. **We want people who have a passion for investing in stocks - what have you done to demonstrate you have this?**
5. **What was you best investment? Why - what did you learn?**
6. **What was your worst investment? What did you learn?**
7. **If the fed hikes rates by 0.5%, what would you expect the impact to be on the market? (No right answer, but be ready to speak intelligently)**
8. **Think about the differences between cyclical & growth industries, and how they are affected external factors.**

**MORE Investment Management Interview Questions:**

1. **For those of you that are career changers: Looking at your resume I can see that you have no market experience, what should make me believe that this is something you are seriously interested?**

Here they are simply looking for interest level in the markets. It is obvious if you are a career changer that you are not going to be an expert right away, but you need to show some level of interest in finance, the markets, and their firm.

1. **Where do you see the market in 5 - 10 years and what leads you to believe so?**

There is no right or wrong answer to this question. Again, they are trying to judge you interest in the markets by your knowledge of what's been going on in the market and economy. This is a good opportunity to show that you have been keeping up to date with you WSJ.

1. **What is P/E and how would you use it to compare companies?**

This question is designed to give an indication of your knowledge in stock evaluation. Need to be able to point out the positives and negatives of P/E. Bringing in PEG ratios is a good thing to do here, as companies cannot always be compared only on P/E.

1. **For those of you looking at all at Fixed Income, where is the long bond and what is it an indication of?**

It's good to have an indication of some key economic data.