PAK Study Manual

Strategic Decision Making (SDM) Exam

Fall 2015 Edition

PAK Study Manual for SDM Fall 2015

PRODUCT FEATURES

Purposes	Features	PAK Study Manual	PAK Exam Aid	PAK Memorization Aid	PAK Test Aid	PAK Study Manual Package	PAK Online Seminar
Study	Summaries	X				X	
Study	Relevant Past Questions (List)	X				X	
Study	Practice Questions	X				X	
Study	Mock Questions	X				X	
Study	Suggested Schedule (Detailed)	X				X	
Study	Email Support	X				X	
Practice	Mock Questions		X			X	
Practice	Case Study Analysis		X			X	
Practice	Past Questions (Sorted PDFs)		X			X	
Review	Condensed Summary			X		X	
Review	Electronic Flash Cards			X		X	
Evaluation	Mock Exam				X	X	
Bonus	Bonus materials					X	
Study	Online Video Seminar						X
Study	Past Exam Questions						X
Study	Practice Question Set						X

PAK STUDY MANUAL

1. Summary

The PAK Study Manual covers the entire Strategic Decision Making (SDM) syllabus. Not only does it give you the detailed explanations on conceptual, calculation, and exam materials, but it also fills in the gaps among the topics that are not covered in the source readings. It helps you better understand and master the confusing logics and difficult materials.

In addition, it links the similar topics across readings together and connects them to the syllabus so that you can see the whole picture of this exam.

2. Relevant Past SDM SOA Exam Questions (List)

For each reading, we compose a list of relevant past exam questions (if any) so that you can locate the questions quickly and practice them immediately. This saves your time on searching what materials are relevant to this exam.

3. Practice Questions

One key point to pass this exam is to "practice" (Practice makes perfect!). Due to this reason, we include many practice questions in each reading to refresh the materials just learnt and to strengthen your knowledge. More practice will be available in the PAK Exam Aid.

4. Mock Exam Questions

The mock exam questions mimic the same difficulty level of the real exam questions. 5 mock exam questions and solutions are included in the PAK Study Manual to challenge your understandings. More practice will be available in the PAK Exam Aid.

5. Suggested Study Schedule (Detailed)

The syllabus is huge. It is very easy to lose track on your study. A clearly defined study schedule and some useful tips are included to help you better manage your schedule.

6. Email Support

Get questions? Please send me an email

“The study materials were very helpful in preparing me for the exam. Most importantly I was better able to apply the things that I learned to exam style questions.” By Marc Roberts

Read the whole story

DO YOU KNOW?

The PAK Study Manual and related aids are updated EVERY exam sitting.

You will see the most updated materials, examples, and explanations to help you master the concepts and pass this exam in the first attempt.

PAK MEMORIZATION AID

1. Electronic Flash Cards

- ◊ Summarize the key points (with mnemonics) (PDF version is also available)
- ◊ Work best for any big-screen cellular phone or mp3 player (e.g. iPhone, HTC, Android, Nook, etc)

2. Condensed Summary

- ◊ Summarize the key points in outline format
- ◊ Quickly refresh all the important topics in the readings

PAK TEST AID

1. Mock Exam

- ◊ This set of mock exam is different from those mock questions available in the PAK Exam Aid. You can write down your answers and send them to me. I will give you detailed feedbacks on how to improve your exam score

PAK EXAM AID

1. 30 Mock Exam Questions and Solutions

The mock exam questions mimic the same difficulty level of the real exam questions. 30 mock exam questions and solutions are included to challenge your understandings.

2. Case Study Analysis

This set connects the case study materials to the study materials so that you can see the picture on how they can be tested.

3. Past SOA Exam Questions (from All FSA Tracks) Relevant to This Exam

This set not only includes the past exam questions from the SDM exam, but also includes the past exam questions from all the other FSA exam tracks (e.g. FETE, APM, CSP, DP, etc). It helps you better understand how the materials were tested and gets you familiar with the SOA exam question style.

NOTES

1. The availability date of the 1st and 2nd items above may be different. It depends on when the SOA releases the new case study.
2. If the SOA do not release the case study, an additional 5 mock questions will be used to replace the case study analysis.

DO YOU KNOW?

You can find the most up-dated information about the PAK Study Manual and related aids under the "Announcement" section on the front page of the PAK website.

"The Mock questions, Mock exam and Exam Aid are also very beneficial to make sure you're abilities are up to par before the real exam." By Wes Smith

Read the whole story

RELEASE SCHEDULE

Purposes	Features	PAK Study Manual	PAK Exam Aid	PAK Memorization Aid	PAK Test Aid	PAK Study Manual Package	PAK Online Seminar
Study	Summaries	5/15				5/15	
Study	Relevant Past Questions (List)	5/15				5/15	
Study	Practice Questions	5/15				5/15	
Study	5 Mock Questions	5/15				5/15	
Study	Suggested Schedule (Detailed)	5/15				5/15	
Study	Email Support	Anytime				Anytime	
Practice	Mock Questions		8/30			8/30	
Practice	Case Study Analysis		8/30			8/30	
Practice	Past Questions (Sorted PDFs)		7/30			7/30	
Review	Condensed Summary			8/15		8/15	
Review	Electronic Flash Cards			8/15		8/15	
Evaluation	Mock Exam				9/15	9/15	
Bonus	Bonus materials					To Be Announced	
Study	Online Video Seminar						5/30
Study	Past Exam Questions						8/30
Study	Practice Question Set						7/30

PAK STUDY MANUAL PACKAGE

1. PAK Study Manual
2. PAK Memorization Aid
3. PAK Exam Aid
4. PAK Test Aid
5. Bonus materials

PAK ONLINE SEMINAR

1. Over 80 videos to clarify and explain the key concepts/calculations in the readings of the entire syllabus
2. Discuss the past exam questions and what questions might be asked on the upcoming exam
3. Videos reviewing exam tips and techniques that can help you to maximize your score
4. Review the new version of the case study and discuss which sections are important, and how they might be tested
5. Contain condensed outlines for each reading
6. Practice Question Set (150 questions) to test your knowledge
7. Review the lectures and study at your own pace, on any PC, Mac, smartphone, and/or tablet device
8. All videos are available in MP3 (audio) format
9. Instructor support via email and PAK Forum support to help you to clarify any section of the syllabus
10. Free access for 2nd attempt (only for those who scored 2-5)

SAMPLES?

You can find more samples on the PAK website.

IMPORTANT NOTES

1. Please note that all products are in electronic (PDF) format. **No** hard copy is provided.
2. Once you make a purchase (please use your work email address), we will send you a confirmation email within 1 business days Once the files are available, we will send them to you through email. Please make sure that you put the correct email address when you purchase the PAK products. **If you do not receive the confirmation email, please send us an email (services@pakstudymanual.com).**
3. Please check your "junk" mailbox. Sometimes, our email is blocked.

MORE INFORMATION

Want more information? Please contact me at **eddy.chan@pakstudymanual.com**, **paulpeterson@pakstudymanual.com** or visit **www.pakstudymanual.com**

COMMENTS FROM THE PAST CANDIDATES

You can find more comments from the past candidates here: PAK Testimonials.

WHERE TO PURCHASE PAK PRODUCTS

The PAK products are available at Actex, Actuarial Bookstore, and SlideRule Books.

DO YOU KNOW?

If you are not sure which exam track to take, or how it can advance your career, you can send an email to Paul or Eddy and discuss your situation with them. They will share their work experience with you so that you can make your decision informatively.

Frequent Answer Questions

Do You Need to Read the Source Readings?

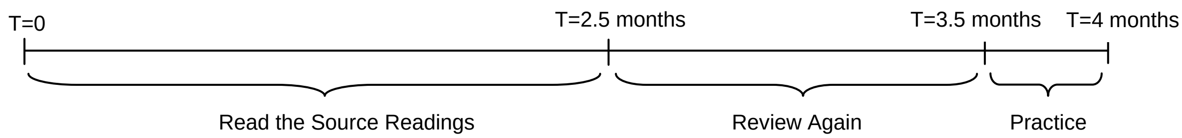
Unlike the preliminary exams, reading the source readings (textbooks, SOA study notes, and online readings) is a must in the FSA exams. PAK Study Manual can help you understand the materials faster and memorize them quickly so that in the time-limited environment, you can be well-prepared for the exam.

How Much Time is Needed to Study for This Exam?

This varies by person. Usually it will take one 350-400 hours to study for a FSA exam (5-hour). Please expect to spend the same amount of time for the SDM exam.

Study Schedule

From the date the SOA release the new syllabus to the exam date, there are around 4 months to study. How to plan your study schedule?



Read the Source Readings

Assume you take the SDM exam in this exam sitting. In general, it will take one 2 to 2.5 months to finish them. To study more efficiently, I highly suggest you following the steps below:

Step 1: Define Your Own Study Schedule
- Use the suggested study schedule as a reference
- Prepare your own study schedule *(Target 20-30 pages @weekday and 50-60 pages @weekend)*
- Expect to read the whole syllabus and the past exams 2 or 3 times before the exam

Step 2: Read the Source Readings Together with the PAK Study Manual
- Write down your notes in the study manual
- Highlight all the key points there *(Will be used for memorization later)*
- Label any calculations that you will go over again later
- Go over the related past exam questions once you finish that reading

Step 3: Read the SOA Past Papers
- Read them once you finish your first-round of readings *(use the PAK Exam Aid)*
- Understand how the topics were tested and how the questions were answered

Review Again

After completing the three steps above, you probably have a general idea about how the exam looks like. Now you should review the source readings again but this time focus more on the key topics, clarify the confusing concepts/calculations, think of what can be tested and read them carefully (use my mock exam questions)

Practice

The last month is the most critical month. Here are the steps:
- Practice the past exams and my mock questions to identify what you still do not know
- Go back to the readings and find your answers *(or send me an email if you need help)*
- Start memorizing the key points *(use the PAK Memorization Aid)*
- Use the PAK Test Aid to test your knowledge *(Send me your answers and I will give you detailed feedbacks on how to improve your score in the exams)*

More Information

I will explain how to prepare for this exam in much more details in the PAK Study Manual.

Any Questions?

I know you probably have a lot of questions in your mind regarding the exam or choosing study aids. Please feel free to contact me at eddy.chan@pakstudymanual.com

Online Reading: The Full Spectrum of Risk Attitude? (by Alice Underwood and David Ingram)

Key points

Key Points in This Reading

1) Understand the four different risk perspectives and their corresponding strategies
2) Understand the rational adaptability approach and the harmony approach

SAMPLE

Introduction

The "Full Spectrum"

- Corporations and managers have their own views of risk and risk management (their favorite color)
- Studies show that risk perspectives fall into four broad groups

Four Different Perspectives on Risk

Four Different Perspectives on Risk

Perspective	Description	Risk Strategy
1. Maximizers	o Profits are important and risk is mean reverting (e.g. gains will follow losses) o Businesses managed are willing to accept large risks, so long as they are well compensated	o Maximizer firms seek out risk since every risk presents an opportunity, and the trick is to negotiate appropriate compensation
2. Conservators	o Conservators are very concerned about risk and are anxious to avoid it, even if that means foregoing some degree of profit	o Conservator firms shun risk of all sorts
3. Managers (Risk Reward)	o Firms employ experts to help find risks that offer the best rewards, while at the same time managing (balancing) these risks appropriately	o Manager firms carefully manage and calibrate both the amount and type of risk
4. Pragmatists	o Pragmatists do not believe that the future is very predictable so they try to keep their options open and seek freedom to react to changing conditions	o Pragmatist firms seek diversification but have no overarching strategy

Resistance to the Current ERM Paradigm is Inevitable

Current ERM Paradigm

- The current ERM paradigm (the solution to all risk problems) is based on the "Managers" risk perspective
- But it does not align as well with other risk perspectives
- In a world of multiple risk perspectives, a Managerial-only approach to ERM is self-limiting

Misalignments

Perspective	Description
1. Maximizers	o Maximizer firms see the "Managerial-only" ERM as an unnecessary restriction
2. Conservators	o For Conservator firms, ERM is a dangerous strategy because it encourages taking more risk
4. Pragmatists	o In their minds, ERM means letting a model run the company o And a fixed set of rules and metrics hampers their ability to react to changing circumstances

ERM Needs a Bigger Tent

ERM Needs a Bigger Tent
- A broader and more flexible definition of ERM bring more managers and more firms "into the tent," enabling the benefits of an enterprise-wide view of risk to be realized more broadly

Four Different Strategies that Fall Under the General Heading of Risk Management

Strategy	Description	Favored by …
1. Loss Controlling	o It seeks to identify and mitigate the firm's most significant risks	Conservators
2. Risk Trading	o Risk Trading focuses on getting the price of risk correct (through complicated models)	Maximizers
3. Risk Steering	o It focuses on how much risk the firm should take and how to steer the firm in that ideal direction	Managers
4. Diversification	o Diversification programs set risk-spreading targets (spread exposures and avoid large-risk concentrations), with maximums and minimums for various classes of risks o The newer ERM discipline adds the idea of interdependencies across classes, providing better quantification of the benefits of risk spreading o Pragmatic firms favor diversification because it maximizes their tactical flexibility	Pragmatists

Changing Risk Environments

Changing Risk Environments
- Different people prefer different risk perspectives because the risk environment changes

A Model with Four Risk Regimes

Risk Regime	Description
1. Boom Times	o Risk is low and profits are going up
2. Recession	o Risk is high and profits are going down
3. Uncertain	o Risk is very unpredictable; profits might go up or down
4. Moderate	o Both risk and profit fall within a predictable range

Four Risk Regimes
- Each risk perspective can be fit into certain external conditions but none of them are perfectly adapted to external conditions all of the time

Risk Attitude	Maximizer	Conservator	Pragmatist	Manager
Risk Environment	Boom	Recession	Uncertain	Moderate
Risk Management Strategy	Risk Trading	Loss Controlling	Diversification	Risk Steering
Comment	o In boom times, firms following Risk Steering ERM program will unduly restrict their business and more aggressive competitors will be much more successful	o In the recession environment, Risk Steering ERM program again advocates a middle path o This may mean the firm sustains too much damage to take full advantage of the market when it turns	o When times are uncertain, a firm following Risk Steering ERM program will be frustrated by frequent surprises and a world that does not quite fit the model o Competitors not tied to a particular view of risk will fare better, making decisions in the moment with maximum flexibility	o Risk Steering ERM program works especially well in the moderate risk environment when risks are fairly predictable

Why Do Corporations Adhere to a Particular Risk Perspective?

- Corporate culture tends to be self-perpetuating
  - Individuals are drawn to employers with a perspective that makes sense to them
  - Those in a position to make hiring decisions typically prefer to hire staff whose views mesh with their own

Natural Selection

- Since many of the poorly aligned firms shrink, die out, or change perspective and since new firms tend to be well-aligned with the current risk regime, the market as a whole adjusts to greater alignment with the risk environment via a process of "natural selection" (new-better-aligned firms replace old-poorly-aligned firms)

Rational Adaptability

Key Steps in Rational Adaptability Strategy

1. Discernment of changes in risk regime
2. Willingness to shift risk perspective
3. Ability to modify ERM program

The Difference between Rational Adaptability and the Process of "Natural Selection"

- The conscious recognition of the validity of differing risk perspectives and proactive implementation of changes in strategy

Rational Adaptability

- A company that wishes to adopt Rational Adaptability must ensure that its key decision-makers represent a diversity of risk perspectives
- The corporate culture and the managers must value each of the risk perspectives for its contributions to the firm's continued success
- Any firm that wishes to optimize its success under each of the various risk regimes should have Maximizers, Conservators, Managers and Pragmatists among its senior management

Rational Adaptability Strategy

Risk Attitude	Maximizer	Conservator	Pragmatist	Manager
Risk Environment	Boom	Recession	Uncertain	Moderate
Risk Management Strategy	Risk Trading	Loss Controlling	Diversification	Risk Steering
Comment	o Risk presents significant opportunities, and it is appropriate to empower the profit maximizers, focusing ERM efforts on Risk Trading to ensure that risks are correctly priced using a consistent firm-wide metric	o The focus shifts to conservation: tightening underwriting standards and placing special emphasis on firm-wide risk identification and risk control	o There is emphasis on diversification, keeping various options open	o The firm gives additional authority to its risk reward managers, using modeling results to reevaluate long-term strategies

Harmony

Harmony

- Although rational adaptability may be an ideal solution, it requires the accomplishment of difficult tasks with precise timing
- An alternative is to seek to find Harmony from the discordant voices within the firm that represent the four risk attitudes
- The trick to creating Harmony is to get all members of the risk committee to acknowledge that each of the four perspectives offers value to the organization and to encourage each of the four to speak out

Conclusion

Conclusion
- In order to gain traction across the full spectrum of human risk perspectives, the discipline of ERM must include approaches that fit all four risk perspectives
- In order to remain relevant and help firms flourish in all risk environments, ERM must embrace a harmonious approach, drawing from the entire palette of strategies to suit the changing environment

Practice Questions

1. List the key steps in rational adaptability strategy.

Key Steps in Rational Adaptability Strategy
1. Discernment of changes in risk regime
2. Willingness to shift risk perspective
3. Ability to modify ERM program

SOA SDM Past Exam Questions

None