

## UNIT TITLE: INVESTMENT PRINCIPLES AND RISK

<b>Attainment Level</b>	<b>Learning Outcome</b>	<b>Indicative Content</b>
<b>Demonstrate an ability to analyse:</b>	The characteristics, inherent risks, behaviour and correlation of asset classes	<ul style="list-style-type: none"> <li>• Cash and cash equivalents:                             <ul style="list-style-type: none"> <li>– Main types, costs and charges</li> </ul> </li> <li>• Fixed interest securities:                             <ul style="list-style-type: none"> <li>– Main types</li> <li>– Running and redemption yields, interest rates and yield curves</li> <li>– Markets and indices</li> <li>– Transaction costs – purchase and sale</li> </ul> </li> <li>• Equities:                             <ul style="list-style-type: none"> <li>– Main types, private equity</li> <li>– Valuation measures – Price/Earnings (P/E) ratio, dividend yield and cover, Net Asset Value (NAV)</li> <li>– Stock markets – indices, listings</li> <li>– Transaction costs</li> </ul> </li> <li>• Property:                             <ul style="list-style-type: none"> <li>– Main types, residential and commercial, income profile and gearing</li> <li>– Valuation</li> <li>– Performance benchmarking</li> <li>– Transaction and on-going costs</li> </ul> </li> <li>• Alternative investments such as commodities, and physical assets.</li> <li>• Pricing, liquidity and fair value</li> <li>• Correlation of asset classes – relevance to asset allocation</li> </ul>

<p><b>Demonstrate an understanding of:</b></p>	<p>The macro-economic environment and its impact on asset classes</p>	<ul style="list-style-type: none"> <li>• Main long term UK and global socio-economic trends</li> <li>• Overview of world economies and globalisation of markets</li> <li>• Economic and financial cycles – predictability, regional economy differences</li> <li>• The key economic indicators – trends and their interpretation</li> <li>• Significance of monetary and fiscal policy</li> <li>• Relevance of money, inflation, deflation, interest rates and exchange rates</li> <li>• Balance of payments and international capital flows</li> <li>• The role of financial investment in the economy</li> </ul>
<p><b>Demonstrate an understanding of:</b></p>	<p>The merits and limitations of the main investment theories</p>	<ul style="list-style-type: none"> <li>• Key features of the main investment theories: <ul style="list-style-type: none"> <li>– Modern portfolio theory</li> <li>– Multi factor model</li> <li>– Efficient market hypothesis</li> <li>– Capital asset pricing model (CAPM)</li> </ul> </li> <li>• Portfolio theory, diversification and hedging <ul style="list-style-type: none"> <li>– Correlation between asset classes</li> <li>– Total return and an awareness of beta and alpha</li> <li>– Risk adjusted returns</li> </ul> </li> <li>• Basics of behavioural finance – market and individual behaviours</li> </ul>
<p><b>Demonstrate an ability to apply:</b></p>	<p>The principles of the time value of money</p>	<ul style="list-style-type: none"> <li>• Compound interest and discounting</li> <li>• Real returns and nominal returns</li> </ul>
<p><b>Demonstrate an ability to analyse and explain:</b></p>	<p>The nature and impact of the main types of risk on investment performance</p>	<ul style="list-style-type: none"> <li>• Liquidity and access</li> <li>• Income and capital growth, including shortfall</li> <li>• Short term volatility</li> <li>• Long term performance</li> <li>• Gearing</li> </ul>

		<ul style="list-style-type: none"> <li>• Currency</li> <li>• Inflation</li> <li>• Interest rates</li> <li>• Systematic and non-systematic, including fraud and counterparty, institutional, market timing</li> </ul>
<p><b>Demonstrate the ability to analyse:</b></p>	<p>The characteristics, inherent risks, behaviours and relevant tax considerations of investment products</p>	<ul style="list-style-type: none"> <li>• The advantages and disadvantages of direct investment in securities and assets compared to indirect investment through collectives and other products</li> <li>• The main types and use of indirect investment products: <ul style="list-style-type: none"> <li>– Investment structures: <ul style="list-style-type: none"> <li>○ Collective investment funds – onshore and offshore</li> <li>○ Exchange Traded Funds (ETFs) and Exchange Traded Commodities (ETCs)</li> <li>○ Closed ended funds/investment companies – onshore and offshore</li> <li>○ Individual Savings Accounts (ISAs) and Child Trust Funds (CTFs)</li> <li>○ National Savings and Investments</li> <li>○ Life assurance based investments – onshore and offshore</li> <li>○ Defined contribution (DC) pension arrangements</li> <li>○ Real Estate Investment Trusts (REITs) and other property based products</li> <li>○ Venture Capital Trusts (VCTs) and Enterprise Investment Schemes (EISs) – basic structures and uses</li> <li>○ Broker funds and distributor influenced funds (DIFs)</li> </ul> </li> <li>– Derivatives: <ul style="list-style-type: none"> <li>○ Basic structure, main types and uses</li> </ul> </li> <li>– Investment strategy based products - <ul style="list-style-type: none"> <li>○ Hedge funds and funds of hedge funds</li> <li>○ Absolute return funds</li> <li>○ Structured products – income and capital growth, structure and analysis</li> <li>○ With profit funds – main principles</li> </ul> </li> </ul> </li> </ul>

<p><b>Demonstrate an ability to apply:</b></p>	<p>The investment advice process</p>	<ul style="list-style-type: none"> <li>• Know your client requirements: <ul style="list-style-type: none"> <li>– Explain the investment process</li> <li>– Establish client relationships, capability and circumstances including assets and debts</li> <li>– Agree and prioritise needs and wants</li> <li>– Agree investment objectives, growth, income, time horizons, debt and credit management and repayment</li> <li>– Determine and agree risk profile – objective and subjective factors</li> <li>– Assess affordability and other suitability considerations, ethical, social responsibility and religious preferences</li> <li>– Agree strategy and rationale to achieve the objectives</li> <li>– Agree benchmark/performance measures and review process</li> </ul> </li> <li>• Asset allocation: <ul style="list-style-type: none"> <li>– Alignment with client risk profile and requirements</li> <li>– Diversification and correlation benefits</li> <li>– Accumulation and decumulation</li> </ul> </li> </ul>
<p><b>Demonstrate an understanding of:</b></p>	<p>The principles of investment planning</p>	<ul style="list-style-type: none"> <li>• Asset allocation <ul style="list-style-type: none"> <li>– Stochastic modelling</li> <li>– Strategic and tactical asset allocation</li> </ul> </li> <li>• Portfolio construction: <ul style="list-style-type: none"> <li>– Stock and fund selection</li> <li>– Diversification by sector, geographical area and currency</li> <li>– Main fund management strategies and styles</li> <li>– Costs, charges, Total Expense Ratios (TERs), Portfolio Turnover Ratios (PTRs)</li> <li>– Selection of products, tax wrapper and services</li> <li>– Provider selection and due diligence</li> <li>– Recommendations and suitability</li> </ul> </li> </ul>

		<ul style="list-style-type: none"> <li>• Wrap and other platforms: <ul style="list-style-type: none"> <li>– Concept and uses</li> <li>– Benefits and risks</li> <li>– Costs/charges</li> </ul> </li> </ul>
<p><b>Demonstrate an ability to analyse:</b></p>	<p>The performance of investments</p>	<ul style="list-style-type: none"> <li>• Portfolio performance: <ul style="list-style-type: none"> <li>– Methods of evaluating portfolio performance</li> <li>– Selection and use of benchmarks</li> <li>– New money and timing factors</li> </ul> </li> <li>• Portfolio review and administration: <ul style="list-style-type: none"> <li>– Changes in client circumstances</li> <li>– Changes in financial environment</li> <li>– New products and services available</li> <li>– Maintenance of products and services</li> <li>– Use of external services/benchmarking</li> <li>– Rebalancing</li> </ul> </li> </ul>