

Investment principles and risk

At the end of this unit, candidates will have investigated the:

- Characteristics, inherent risks, behaviour and correlation of asset classes, and investment products;
- Macro-economic environment and its impact on asset classes;
- Merits and limitations of the main investment theories;
- Nature and impact of the main types of risk on investment performance;
- Performance of investments.

Summary of learning outcomes	Number of questions in the examination*
1. Analyse the characteristics, inherent risks, behaviour and correlation of asset classes.	14 standard format/ 14 multiple response
2. Understand the macro-economic environment and its impact on asset classes.	6 standard format
3. Understand the merits and limitations of the main investment theories.	7 standard format
4. Apply the principles of the time value of money.	3 standard format
5. Analyse and explain the nature and impact of the main types of risk on investment performance.	5 standard format
6. Analyse the characteristics, inherent risks, behaviours and relevant tax considerations of investment products.	12 standard format/ 10 multiple response
7. Apply the investment advice process.	11 standard format
8. Understand the principles of investment planning.	8 standard format
9. Analyse the performance of investments.	10 multiple response

*The test specification has an in-built element of flexibility. It is designed to be used as a guide for study and is not a statement of actual number of questions that will appear in every exam. However, the number of questions testing each learning outcome will generally be within the range plus or minus 2 of the number indicated.

Important notes

- **Method of assessment: 100 questions: 66 standard format and 34 multiple response questions. 2 hours are allowed for this examination.**
- **This syllabus will be examined from 1 September 2012 to 31 August 2013.**
- **Candidates will be examined on the basis of English law and practice in the tax year 2012/2013 unless otherwise stated.**
- **It should be assumed that all individuals are domiciled, resident and ordinarily resident in the UK unless otherwise stated.**
- **Candidates should refer to the CII update website www.cii.co.uk/updates for the latest information on changes to law and practice and when they will be examined.**

- 1. Analyse the characteristics, inherent risks, behaviour and correlation of asset classes.**
 - 1.1. Analyse the characteristics and inherent risks of the main asset classes.
 - 1.2. Analyse the behaviour and correlation of asset classes and their relevance to asset allocation.
- 2. Understand the macro-economic environment and its impact on asset classes.**
 - 2.1. Explain the key economic trends and their impact on asset classes.
 - 2.2. Explain the key economic indicators, their trends and interpretation.
 - 2.3. Explain the impact of monetary and fiscal policy.
- 3. Understand the merits and limitations of the main investment theories.**
 - 3.1. Explain the main investment theories, their benefits and limitations.
 - 3.2. Explain portfolio theory, diversification and hedging.
 - 3.3. Explain behavioural finance and its impact on investment markets and individuals.
- 4. Apply the principles of the time value of money.**
 - 4.1. Apply the principles of the time value of money.
 - 4.2. Calculate compound interest, discounts, real returns and nominal returns.
- 5. Analyse and explain the nature and impact of the main types of risk on investment performance.**
 - 5.1. Explain the nature and impact of the main types of risk on investment performance.
 - 5.2. Analyse the nature and impact of the main types of risk on investment performance.
- 6. Analyse the characteristics, inherent risks, behaviours and relevant tax considerations of investment products.**
 - 6.1. Explain the advantages and disadvantages of direct investment in securities and assets compared to indirect investment through collectives and other products.
 - 6.2. Analyse the characteristics, inherent risks, behaviours and relevant tax considerations of the main types of indirect investment products.
- 7. Apply the investment advice process.**
 - 7.1. Explain the Know Your Client requirements applied to the investment advice process.
 - 7.2. Apply asset allocations to different client risk profiles and requirements.
- 8. Understand the principles of investment planning.**
 - 8.1. Explain the main approaches to asset allocation.
 - 8.2. Explain the portfolio construction process.
 - 8.3. Explain the principles of wraps and other platforms.
- 9. Analyse the performance of investments.**
 - 9.1. Analyse portfolio performance using different benchmarks and other methods.
 - 9.2. Apply an appropriate investment portfolio review process.

Syllabus construction

The syllabus consists of learning outcomes and assessment criteria only. A comprehensive listing of the indicative content is located at www.fsa.gov.uk/static/pubs/other/exam_stnds/rdr%20core%20standards%20investment%20principles%20and%20risk.pdf.

Reading list

The following list provides details of various publications which may assist with your studies.

Note: The examination will test the syllabus alone. The reading list is provided for guidance only and is not in itself the subject of the examination. The publications will help candidates keep up-to-date with developments and will provide a wider coverage of syllabus topics.

CII/Personal Finance Society members can borrow most of the additional study materials below from Knowledge Services.


CII study texts can be consulted from within the library. For further information on the lending service, please go to www.knowledge.cii.co.uk/library/services.

CII study text

Investment principles and risk. London: CII. Study text R02.

Additional reading

Additional reading materials are available through the library or on the Knowledge Services website.

New materials are added frequently – for information about setting up RSS  alerts for new books and articles in your area of interest, please visit www.knowledge.cii.co.uk or email knowledge@cii.co.uk

Books (and ebooks)

The process of financial planning. Chris Gilchrist. The adviser's guide series. Annual. (London, Taxbriefs).

Investment planning. Chris Gilchrist. The adviser's guide series. Annual. (London, Taxbriefs).

Tax planning. Sonia Gable et al. The adviser's guide series. Annual. (London, Taxbriefs).

Capital gains tax calculations. Sarah Dingley-Brown. Annual. (Totnes, SDB Training).

Financial calculations. Sarah Dingley-Brown. Annual. (Totnes, SDB Training).

The investments suite. Sarah Dingley-Brown. Annual. (Totnes, SDB Training).

The tax and trusts suite. Sarah Dingley-Brown. Annual. (Totnes, SDB Training).

The Financial Times guide to investing. Glen Arnold. FT Prentice Hall, 2010. Available online via www.knowledge.cii.co.uk (CII/Personal Finance Society members only).

Factfiles and other online resources

The regulation of retail investment business. Kevin Morris and Tony Wiltshire. Updated as necessary. Available online via knowledge.cii.co.uk (CII/Personal Finance Society members only).

The regulation of investment intermediaries. Kevin Morris and Tony Wiltshire. London: CII Knowledge Services. Updated as necessary. Available online at via www.knowledge.cii.co.uk (CII/Personal Finance Society members only).

Further articles and technical bulletins are available at knowledge.cii.co.uk (CII and Personal Finance Society members only).

Reference materials

Lamont's glossary: the definitive plain English money and investment dictionary. Barclay W Lamont. 10th ed. London: Taxbriefs, 2009. Also available online at www.knowledge.cii.co.uk (CII/Personal Finance Society members only).

Dictionary of banking and finance. P H Collin. A&C Black, 2005. Also available as an ebook via knowledge.cii.co.uk (CII/Personal Finance Society members only).

Harriman's financial dictionary: over 2,600 essential financial terms. Edited by Simon Briscoe and Jane Fuller. Harriman House, 2007. Also available as an ebook via knowledge.cii.co.uk (CII/Personal Finance Society members only).

The professional adviser's factfile. Taxbriefs. London: Taxbriefs. Looseleaf.

Core tax annuals, 6v (Capital gains tax; Corporation Tax; Income tax; Inheritance tax; Trusts and estates; Value-added tax). Various authors. Haywards Heath, West Sussex: Bloomsbury Professional. Annual. Available online via www.knowledge.cii.co.uk (CII/Personal Finance Society members only).

The Handbook. London: Financial Services Authority. Available online at <http://fsahandbook.info>

Journals and magazines

Financial solutions. London: CII. Six issues a year. Also available [via knowledge.cii.co.uk](http://knowledge.cii.co.uk) (CII/ Personal Finance Society members only).

Investment adviser. London: Financial Times Business. Weekly.

Investment week. London: Incisive Financial Publishing. Weekly.

Investor's chronicle. London: Financial Times Business. Weekly. Reference materials

Examination guide

An examination guide, which includes a specimen paper, is available to purchase via www.cii.co.uk.

If you have a current study text enrolment the specimen paper is included, as a mock test, via Revisionmate (www.revisionmate.com). Details on how to access this resource are on the first page of the study text.

Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements.