

# Investment principles and risk

## Purpose

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.	17 standard format/ 11 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.	15 standard format/ 7 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

## Important notes

- Method of assessment: 100 questions: 72 standard format and 28 multiple response questions. 2 hours are allowed for this examination.
- This syllabus will be examined from 1 September 2020 to 31 August 2021.
- Candidates will be examined on the basis of English law and practice in the tax year 2020/2021 unless otherwise stated.
- It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.
- Candidates should refer to the CII website for the latest information on changes to law and practice and when they will be examined:
  1. Visit [www.cii.co.uk/qualifications](http://www.cii.co.uk/qualifications)
  2. Select the appropriate qualification
  3. Select your unit from the list provided
  4. Select qualification update on the right hand side of the page

- 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 – main title.**
  - 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 basic principles of 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.

## Reading list

The following list provides details of further reading which may assist you 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 resources listed here will help you keep up-to-date with developments and provide a wider coverage of syllabus topics.

CII/PFS members can access most of the additional study materials below via the Knowledge Services webpage at <https://www.cii.co.uk/knowledge-services/>.

New resources are added frequently - for information about obtaining a copy of an article or book chapter, book loans, or help finding resources, please go to <https://www.cii.co.uk/knowledge-services/> or email [knowledge@cii.co.uk](mailto:knowledge@cii.co.uk).

### **CII study text**

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

### **Books (and ebooks)**

Mastering financial calculations: a step-by-step guide to the mathematics of financial markets instruments. 3rd ed. Bob Steiner. Harlow: FT Prentice Hall, 2012. \*

Investments. 10<sup>th</sup> global edition. Zvi Bodie, Alex Kane, Alan J. Marcus. Berkshire: McGraw-Hill, 2014.

Investments: principles and concepts. Charles P Jones. Wiley, 2014.

The basics of finance: an introduction to financial markets, business finance, and portfolio management. Frank Fabozzi. London, Wiley, 2010. \*

The Financial Times guide to investing. 3rd edition. Glen Arnold. FT Prentice Hall, 2014.

Winning client trust : the retail distribution review and the UK financial services industry's battle for their clients' hearts and minds. Chris Davies. London: Ecademy Press, 2011. \*

### **Ebooks**

The following ebooks are available through Discovery via [www.cii.co.uk/discovery](http://www.cii.co.uk/discovery) (CII/PFS members only):

Investment risk management. Greg Filbeck, H. Kent Baker. New York: Oxford University Press, 2015.

Investor behaviour: the psychology of financial planning and investing. H. Kent Baker. Hoboken, New Jersey: Wiley, 2014.

Finance: a quantitative introduction. Piotr and Lucia Staszkiwicz. Amsterdam: Academic Press, 2015.

Portfolio management: a strategic approach. John Wyzalek, Ginger Levin. Boca Raton: Auerback Publications, 2015.

### **Journals and magazines**

Personal finance professional (previously Financial solutions). London: CII. Six issues a year. Available online at [www.thepfs.org/financial-solutions-archive](http://www.thepfs.org/financial-solutions-archive) (CII/PFS members only).

Investment adviser. London: Financial Times Business. Weekly. Available via [www.ftadviser.com](http://www.ftadviser.com).

Investment week. London: Incisive Financial Publishing. Weekly. Available online via [www.investmentweek.co.uk](http://www.investmentweek.co.uk).

### **Reference materials**

International dictionary of banking and finance. John Clark. Hoboken, New Jersey: Routledge, 2005. \*

Financial Conduct Authority (FCA) Handbook. Available at [www.handbook.fca.org.uk/handbook](http://www.handbook.fca.org.uk/handbook).

Harriman's financial dictionary: over 2,600 essential financial terms. Edited by Simon Briscoe and Jane Fuller. Petersfield: Harriman House, 2007. \*

Prudential Regulation Authority (PRA) Rulebook Online. Available at [www.prarulebook.co.uk](http://www.prarulebook.co.uk)

### **Examination guide**

If you have a current study text enrolment, the current examination guide is included and is accessible via Revisionmate ([www.revisionmate.com](http://www.revisionmate.com)). Details of how to access Revisionmate are on the first page of your study text.

It is recommended that you only study from the most recent version of the examination guide.

### **Exam technique/study skills**

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

The Insurance Institute of London holds a lecture on revision techniques for CII exams approximately three times a year. The slides from their most recent lectures can be found at [www.cii.co.uk/iilrevision](http://www.cii.co.uk/iilrevision) (CII/PFS members only).