

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 2024 to 31 August 2025.
- Candidates will be examined on the basis of English law and practice in the tax year 2024/2025 unless otherwise stated.
- It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.
- This PDF document has been designed to be accessible with screen reader technology. If for accessibility reasons you require this document in an alternative format, please contact us on online.exams@cii.co.uk to discuss your needs.
- Candidates should refer to the CII website for the latest information on changes to law and practice and when they will be examined:
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 3. Select your unit from the list provided
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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 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 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 market instruments. 3rd ed. Bob Steiner. Harlow: FT Prentice Hall, 2012. *

Investments. 13th edition. Zvi Bodie, Alex Kane, Alan J. Marcus. Berkshire: McGraw-Hill, 2023.

Investments: principles and concepts. 12th ed. Charles P Jones. Wiley, 2016.

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. 4th edition. Glen Arnold. FT Prentice Hall, 2020.

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

Ebooks

The following eBooks are available via www.cii.co.uk/elibrary (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. London: CII. Four issues a year. Available online at www.pfp.thepfs.org/sections/access-digital-magazine (CII/PFS members only).

Investment adviser. London: Financial Times Business. Weekly. Available via www.ftadviser.com.

Investment week. London: Incisive Financial Publishing. Weekly. Available online via www.investmentweek.co.uk.

Portfolio Adviser. London: MA Financial Media. Monthly. Available online via www.portfolio-adviser.com.

Reference materials

International dictionary of banking and finance. John Clark. Hoboken, New Jersey: Routledge, 2013. *

Financial Conduct Authority (FCA) Handbook. Available at 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, 2013. *

Examination guide

If you have a current study text enrolment, the current examination guide is included and is accessible via Revisionmate (ciigroup.org/login). 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.

* Also available as an eBook through eLibrary via www.cii.co.uk/elibrary (CII/PFS members only).