

Savings and Investments

Objective: To develop candidates' knowledge and understanding of Savings and Investments, and in particular of:

- the main economic factors which affect the potential risks and rewards from different types of investment;
- the product features and regulatory framework of retail investments;
- the potential taxation liabilities of mainstream retail investments;
- the principles of portfolio planning, including asset allocation, to meet clients' needs.

Assumed knowledge, understanding and application skills:

It is assumed that candidates already have the knowledge, understanding and application skills gained from study of the relevant elements of the Financial Planning Certificate (FPC) units 1, 2 and 3 or equivalent.

Method of assessment: See the 2005 Advanced Financial Planning Certificate 'Information for candidates' brochure.

Notes:

- The syllabus will be tested on the basis of the English legislative position eight weeks prior to the examination date.
- Where Scottish law and practice differ, this will be explained in the primary text.

Element A - Macro economic factors affecting returns of asset classes

On completion, candidates should

- A1 *know* how the following rates of return and the trend of actual and real returns compare with each other and affect other investments and clients' portfolios:
- current bank deposit rate;
 - exchange rate of pound Sterling to the US dollar and Euro;
 - Harmonised Index of Consumer Prices (HICP);
 - Retail Price Index (RPI);
- A2 *understand* the impact of the following macro economic factors on the likely risks and rewards associated with investment in deposit, fixed interest and equity-based investments:
- UK and international business cycles;
 - fiscal and monetary policy, balance of payments, balance of trade and foreign exchange rate changes;
 - political and social factors.

Element B - Risk

On completion, candidates should

- B1 *understand* different types of risk:
- capital risk;
 - default risk;
 - inflation risk;
 - interest risk;
 - shortfall risk;

- systematic (market) and non-systematic (specific) risk.

B2 *understand*:

- the connection between risk and return;
- the need for liquidity within a portfolio;
- the influence of a client's investment timescale on a client's attitude to risk and the fact that a client with different objectives may have a different attitude to risk for each objective;

B3 *understand* the potential uses of volatility and beta factors as they relate to individual funds.

Element C - Cash/Deposits

On completion, candidates should

- C1 *understand* the following investment products covering the main product features, the nature of potential returns, access, potential investment risks, the internal taxation within the product/investment and the taxation of the investment return to the investor:
- deposit accounts - bank and building society;
 - TOISAs;
 - Cash ISAs;
 - Offshore accounts;
 - the National Savings and Investments product range.

Element D - Fixed interest

On completion, candidates should

- D1 *understand* the following investment products covering the main product features, the nature of potential returns, key factors affecting the price of the underlying security, access, potential investment risks, the internal taxation within the product/investment and the taxation of the investment return to the investor:
- corporate bonds as both individual holdings and via open-ended collective investment funds;
 - foreign government bonds;
 - gilts (including index-linked gilts);
 - overseas corporate bonds;
 - wrap accounts;
- D2 *know* the definitions of the following for conventional fixed interest securities:
- running yield;
 - redemption yield (both gross and net of tax).

- D3 *be able to calculate* the yields in D2;
- D4 *understand* the factors giving rise to normal, flat and inverted yield curves on gilts;
- D5 *know* in outline:
- Permanent Interest Bearing Shares (PIBS);
 - floating rate notes (Zero Coupon Bonds);
 - deep discounted bonds;
 - gilt strips;
 - local authority bonds;
 - convertible loan stock.

Element E - Property

On completion, candidates should

- E1 *understand* the following investment products covering the main product features, the nature of potential returns, key factors affecting the price of the underlying security, access, potential investment risks, the internal taxation within the product/investment and the taxation of the asset and its investment return to the investor:
- property unit trusts;
 - investment trust companies and OEICs;
 - life assurance-based unit-linked property funds;
 - residential property and residential ‘buy-to-let’ investments.
- E2 *know* the nature of potential returns, key factors affecting the price of the underlying security, access, potential investment risks, the internal taxation within the product/investment and the taxation of the investment return to the investor:
- commercial property;
 - direct property shares.

Element F - Equities

On completion, candidates should

- F1 *understand* the main factors affecting share prices and potential dividend returns;
- F2 *understand* and *be able to compare* the different types of shares including ordinary and preference shares;
- F3 *be able to calculate* the following ratios:
- dividend yield;
 - dividend cover;
 - earnings per share and price to earnings (P/E) ratios;
 - loan capital gearing;
 - net asset value per share;
- F4 *understand* the uses of the ratios in F3.

Element G - Products/Collectives

On completion, candidates should

- G1 *understand* the following investment products covering the main product features, the nature of potential returns, pricing mechanisms and charging structures, regulation, access, potential investment risks, the internal taxation within the product/investment and the taxation of the investment return to the investor:
- fund supermarkets;
 - investment trust companies including split capital investment trusts;
 - life assurance based investment funds (both qualifying and non-qualifying policies);
 - multi managers – fund of funds and manager of managers;

- OEICs and Investment companies with variable capital (ICVCs);
 - traded endowment plans;
 - unit-linked funds;
 - unit trusts;
 - with-profits based funds;
 - guaranteed income/growth products;
- G2 *understand* the implications and options for policyholders in relation to closed and under-performing funds;
- G3 *know* the key features of:
- Venture Capital Trusts;
 - Enterprise Investment Schemes;
 - Business Expansion Schemes and structured products;
 - offshore funds and offshore life assurance based investment.

Element H - Packaged products wrappers

On completion, candidates should

- H1 *understand*:
- offshore portfolio bonds;
 - ISAs;
 - PEPs;
- H2 *know* the key features of the following product wrappers:
- SAYE schemes;
 - employee share save schemes, including Share Incentive Plan and Enterprise Management Incentive;
 - CAT-standards.

Element I - Asset allocation, indices and benchmarking

On completion, candidates should

- I1 *understand*:
- the significance of asset allocation in constructing and evaluating a portfolio;
 - the evaluation of a portfolio using compound interest, discounting interest and the time value of money;
- I2 *know* the different indices and benchmarks that may be used in assessing portfolio performance.

Element J - Ethical investments/Socially responsible investments

On completion, candidates should

- J1 *understand* the Ethical investments/Socially responsible investments and the way in which they are established using positive and negative criteria.

Element K - Regulation

On completion, candidates should

- K1 *know* the principal FSA rules as they apply to the management of investments, the provision of investment advice and information provided to clients;
- K2 *know* the safeguards available to clients under the Financial Services Compensation Scheme and Financial Ombudsman Service;
- K3 *understand*:
- the difference between switching and churning;
 - the significance of money laundering rules in an investment context.

Reading list

The following list provides details of various publications which may assist with your studies. The primary text for this syllabus is shown in bold type. Periodicals and publications listed as additional reading will be of value in ensuring candidates keep up to date with developments and in providing a wider coverage of syllabus topics. Any reference materials cited are authoritative, detailed works which should be used selectively as and when required.

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.

Most of these additional study materials can be borrowed or purchased from CII Information Services at www.cii.co.uk/is

Primary text

Savings and Investments. London: The CII. Coursebook SV1.

Reference works and additional reading

Personal investment planning. London: The CII. Coursebook G20.

Investment portfolio management. London: The CII. Coursebook G70.

Monthly information service. London: Association of Investment Trust Companies. Available online at www.aitc.co.uk/misonline

St James's Place tax guide. London: Macmillan. Annual.

The financial adviser's factbook. London: Gee. Looseleaf, updated.

Zurich tax handbook. A Foreman and G Mowles. Harlow, Essex: Pearson Education. Annual.

Periodicals

Financial Adviser. London: FT Business. Weekly. Also available online at www.ftadviser.com

Investment Adviser. London: Financial Times Business. Weekly.

Investment Week. London: Incisive Financial Publishing. Weekly.

Investors Chronicle. London: Financial Times Business. Weekly.

The Journal. London: The CII. Six issues a year. Also available online (CII/SOFA members only) at www.cii.co.uk/is

Money Management. London: Financial Times Business. Monthly.

Money Marketing. London: Centaur Communications. Weekly. Also available online at www.moneymarketing.co.uk

Prospect. Chorleywood, Herts: Life Insurance Association. Monthly.

Technical Adviser. London: Society of Financial Advisers in association with Technical Connection. Quarterly. Also available online at www.sofa.org (SOFA members only) or www.cii.co.uk/is/dja (pay per view)

Examination guides

You are strongly advised to study these before the examination. Please visit www.cii.co.uk to buy online or contact CII Customer Service for further information on 020 8989 8464.

Exam technique/study skills

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

The exam secret: how to make the grade. Barbara Brown. Tadworth, Surrey: Elliott Right Way Books, 2000.

For a more interactive approach, you should consider:

Winning the brain game. London: The CII, 1996. CD-ROM.