

Investment principles, markets and environment

At the end of this unit, candidates should be able to demonstrate an understanding of:

- The main principles governing how to construct an investment portfolio;
- How portfolio risk and return are measured and managed;
- The range of investment management services and how their performance is evaluated;
- The risks, returns and uses of different asset classes;
- How the economic environment affects investment performance.

Summary of learning outcomes

1. Understand fundamental economic issues relevant to investment portfolios;
2. Understand the main principles of portfolio risks and returns;
3. Understand how to establish client objectives and constraints;
4. Understand the risks and returns of cash, debt investments, equities and property;
5. Understand the risks and returns from alternative investments and derivatives;
6. Understand the portfolio construction process and asset allocation;
7. Understand how to assess investment portfolio performance and investment management services.

Important notes

- This syllabus will be examined in the October 2012 and April 2013 sessions. Candidates will be examined on the basis of English Law and practice in the year 2012/2013 unless otherwise stated.
- The general rule is that exams are based on the English legislative position three months before the date of the exams.
- 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. Understand fundamental economic issues relevant to investment

- 1.1 The main phases of the economic and financial cycles;
- 1.2 The role of governments, central banks and financial regulators in investment markets: fiscal policy and public finances and monetary policy and investor protection;
- 1.3 Inflation and interest rate drivers, including money supply, exchange rates and market expectations;
- 1.4 Supply and demand in relation to financial investments and markets;
- 1.5 Systemic risk.

2. Understand the main principles of portfolio risks and returns

- 2.1 Measuring investment returns;
- 2.2 Measuring investment risk;
- 2.3 Covariance, correlation and risk reduction;
- 2.4 Modern Portfolio Theory, the efficient frontier and constructing optimal portfolios;
- 2.5 Systematic and unsystematic risk;
- 2.6 Capital Asset Pricing Model (CAPM): the concept, limitations and its application;
- 2.7 Alternative pricing models, e.g. the Arbitrage Pricing Model.

3. Understand how to establish client objectives and constraints

- 3.1 Risk assessment and investment objectives;
- 3.2 The impact of timescale and the time value of money;
- 3.3 The impact of Inflation and deflation on investment values;
- 3.4 The impact of tax on investments;
- 3.5 The impact of gearing on investment returns and risk;
- 3.6 Types of risk;
- 3.7 Socially responsible investments.

4. Understand the uses, risks and returns of cash, debt investments, equities and property

- 4.1 Cash investments;
- 4.2 Debt investments, methods of measuring and yield curves;
- 4.3 Equities, categories of shares, shareholders' rights;
- 4.4 Company analysis and use of financial ratios;
- 4.5 Property and property holding vehicles;
- 4.6 Collective investment vehicles including open ended investment companies (OEICs), unit trusts, investment trusts, ETF's.

5. Understand the uses, risks and returns from alternative investments and derivatives

- 5.1 Private equity and venture capital;
- 5.2 Alternative Investment Markets;
- 5.3 Commodities, ways to invest;
- 5.4 Hedge Funds, structures, strategies;
- 5.5 Art and Antiques and other collectables;
- 5.6 Structured products: features and types;
- 5.7 Derivatives: features and types of futures, forwards, options, swaps, contracts for difference and spread betting;
- 5.8 Enterprise Investment Schemes and Venture Capital Trusts and Enterprise Zones Schemes.

6. Understand the portfolio construction process and asset allocation

- 6.1 Asset allocation models: satisfying portfolio objectives, constraints, benchmarks and role in investment performance;
- 6.2 Passive investment management: types, uses, risk and returns;
- 6.3 Active investment management: types, uses, risk and returns;
- 6.4 Efficient market hypothesis;
- 6.5 Switching and churning – reasons, tax implications.

7. Understand how to assess investment portfolio performance and investment management services

- 7.1 Financial calculations: time value of money, compound interest, present value;
- 7.2 Risk measurement, alpha, beta, Sharpe and Information Ratios;
- 7.3 Indices: Types and limitations;
- 7.4 Uses of statistical data in performance measurement, evaluation and peer comparisons;
- 7.5 Selection criteria: investment process and style, experience past performance, structure, size, resources, personnel, and charging structures;
- 7.6 Portfolio managers: discretionary and advisory services, responsibilities and reporting requirements;
- 7.7 The investor policy statement;
- 7.8 Investment management remuneration: fixed, fund based and performance related, the VAT position on fees and commissions;
- 7.9 Wraps, platforms, uses, advantages and limitations.

Reading list

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

These will help candidates keep up-to-date with developments and will provide a wider coverage of syllabus topics.

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.

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.cii.co.uk/knowledge/resources.

CII study texts

Investment principles, markets and environment.
London: CII. Study text J06.

Additional reading

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

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

Books (and ebooks)

Financial calculations. Sarah Dingley-Brown. Totnes, Devon; SDB training. Annual.

The investments suite. Sarah Dingley-Brown. Totnes, Devon; SDB training. Annual.

Law reform and financial markets. Kern Alexander and Niamh Moloney (eds). Cheltenham, Gloucs.: Edward Elgar, 2011.

Tax planning. Sonia Gable (ed.). London: Taxbriefs. Annual

Investment planning. Chris Gilchrist. London: Taxbriefs. Annual

The theory and practice of investment management. 2nd ed. Frank J Fabozzi.

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

Financial markets and institutions. Peter Howells and Keith Bain. 5th ed. Harlow, Essex: Pearson Education, 2007.

Derivatives demystified. 2nd ed. Andrew M Chisholm. Wiley.

The complete guide to investing in property. Liz Hodgkinson. 3rd ed. London: Kogan Page, 2008.

The Financial Times guide to using the financial pages. Romesh Vaitilingam. Prentice Hall/Financial Times, 2006. Available online via www.cii.co.uk/knowledge/resources (CII/Personal Finance Society members only).

Modern portfolio theory and investment analysis:

international student version. 8th ed. New York: John Wiley, 2010.

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

Financial Times guide to using and interpreting company accounts. Wendy McKenzie. 4th ed. FT Prentice Hall, 2009. Available online via www.cii.co.uk/knowledge/resources (CII/Personal Finance Society members only).

Personal financial planning manual. Haywards Heath: Bloomsbury Professional. Annual.

Accounting for non-accountants: a manual for managers and students. Graham Mott. Kogan Page, 2008. Available online via www.cii.co.uk/knowledge/resources (CII/Personal Finance Society members only).

Frank Wood's business accounting, Vol 1 and Vol 2. 10th ed. Ft Prentice Hall Financial Times, 2005. Available online via www.cii.co.uk/knowledge/resources (CII/Personal Finance Society members only).

Factfiles

Recent developments in investment product design. Nick Edwards.

Behavioural finance. Nick Edwards.

High-net worth in financial services. Brad Baker.

The regulatory framework. Simon Collins.

The regulation of investment intermediaries. Kevin Morris.

The regulation of retail investment business. Kevin Morris.

CII factfiles are updated as necessary. Available online via www.cii.co.uk/knowledge/resources (CII/Personal Finance Society members only).

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

Journals and magazines

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

Financial times. London: Financial Times. Daily. Also available online at www.ft.com.

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

Investment adviser. London: FT Business. Weekly. Also available online at www.ftadviser.com.

Investors Chronicle. London: FT Business. Weekly.

Investment week. London: Incisive Media. Weekly. Also available online at www.investmentweek.co.uk.

Money management. London: FT Business. Monthly.

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

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

Reference materials

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

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

St James's Place tax guide. Walter Sinclair. Basingstoke, Hampshire: Palgrave Macmillan. Annual.

Tolley's tax guide. Arnold Homer, Rita Burrows. London: LexisNexis Butterworths. Annual.

Tolley's tax planning. London: LexisNexis. Annual.

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

Examination guides

Guides are produced for each sitting of written answer examinations. These include the exam questions, examiners' comments on candidates' performance and key points for inclusion in answers.

You are strongly advised to study guides for the last two sittings. Please visit www.cii.co.uk to buy online or contact CII Customer Service for further information on +44 (0)20 8989 8464.

Older examination guides are available (for members only) via www.cii.co.uk/knowledge/resources.

Exam technique/study skills

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