

Savings and Investments

Aims: The aim of this unit is to develop candidates' knowledge and understanding of Savings and Investments.

In particular it aims to develop candidates' knowledge and understanding 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 units 1, 2 and 3.

Method of assessment

See page 4 in the Information for candidates brochure for Savings and Investments.

Notes

- * The syllabus will be tested on the basis of English law and practice. Where Scots law and practice differ, this will be explained in the primary text.
- * The syllabus printed here will be examined in 2003. Changes may be made to the syllabus to be examined in 2004 and these will be highlighted in the 2004 syllabuses.

1. Macro Economic factors affecting returns of asset classes

1.1 Candidates should 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, typical running yields and yields to redemption on conventional non index-linked gilts, Retail Price Index (RPI), dividend yield and price to earnings (P/E) ratios for the London Stock Market as represented by the FT All Share Index, exchange rate of pound sterling to the US dollar and Euro.

1.2 Candidates should 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.

2. Risk

2.1 Candidates should understand different types of risk:

- Interest risk, inflation risk, shortfall risk, capital risk, systematic (market) and non-systematic (specific) risk.

2.2 Candidates should 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.

2.3 Candidates should understand:

- The potential uses of volatility and beta factors as they relate to individual funds.

3. Cash/Deposits

3.1 Candidates should have a detailed knowledge and understanding of 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; TESSAs; TOISAs; Cash ISAs; Offshore accounts; the National Savings and Investments product range.

4. Fixed Interest

4.1 Candidates should have a detailed knowledge and understanding of 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:

- Gilts (including index-linked gilts) and corporate bonds as both individual holdings and via open-ended collective investment funds.

4.2 Candidates should be able to define and calculate the following for conventional fixed interest securities:

- Running yield; Redemption yield (both gross and net of tax).

4.3 Candidates should understand the factors giving rise to:

- Normal, flat and inverted yield curves on gilts.

4.4 Candidates should have a basic knowledge of:

- Permanent Interest Bearing Shares (PIBS), Floating rate notes, (Zero Coupon Bonds) Deep discounted bonds, Gilt strips, Local authority bonds, Convertible loan stock.

5. Property

5.1 Candidates should have a detailed knowledge and understanding of 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.

5.2 Candidates should have a basic knowledge of 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.

6. Equities

6.1 Candidates should have a detailed knowledge and understanding of:

- The main factors affecting share prices and potential dividend returns.

6.2 Candidates should have a detailed knowledge and understanding of, and be able to compare:

- The different types of shares including ordinary and preference shares.

6.3 Candidates should be able to calculate and understand the potential uses of 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.

7. Products/collectives

Candidates should have a detailed knowledge and understanding of 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:

7.1 Investment trust companies including split capital investment trusts;

7.2 Unit trusts and OEICs;

7.3 Life assurance based investment funds (both qualifying and non-qualifying policies), unit-linked funds, with-profits based funds, traded endowment plans, guaranteed income/growth products.

7.4 Candidates should have a basic knowledge of:

- Venture Capital Trusts, Enterprise Investment Schemes, Business Expansion Schemes and structured products.
- Offshore funds and offshore life assurance based investment.

8. Packaged products wrappers

8.1 Candidates should have a detailed knowledge and understanding of:

- Offshore portfolio bonds, ISA, PEP.

8.2 Candidates should 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.

9. Asset allocation and benchmarking

9.1 Candidates should understand:

- The significance of asset allocation in constructing and evaluating a portfolio.
- The assessment of a portfolio's performance using compound interest calculations and the time value of money.

9.2 Candidates should have a basic knowledge of:

- Different benchmarks that may be used in assessing portfolio performance.

10. Ethical Investments/Socially Responsible Investments

10.1 Candidates should have a detailed knowledge and understanding of:

- Ethical Investments/Socially Responsible Investments and the way in which they are established using positive and negative criteria.

11. Regulatory

11.1 Candidates should know:

- The principal FSA rules as they apply to the management of investments, the provision of investment advice and information provided to clients.
- The safeguards available to clients under the Financial Services Compensation Scheme and Financial Ombudsman Service.

11.2 Candidates should understand:

- The difference between switching and churning.
- The significance of money laundering rules in an investment context.

Reading list

Primary text

Coursebook Savings and Investments CII/SOFA Latest edition

Reference works and additional reading

Investment funds CII/SOFA

Allied Dunbar tax handbook, A. Foreman, Financial Times Management. Latest Edition

The Financial Adviser's Factbook, Gee Publishing, updated regularly

G20 Personal Investment Planning. CII/SOFA/LIA/Taxbriefs

G70 Investment Portfolio Management. CII/SOFA/LIA/Taxbriefs

Monthly Information service, AITC

St James's Place Tax Guide, W. Sinclair, Macmillan. 2001 - 2002

Periodicals

Investment Adviser.

Investment Week.

Investors Chronicle.

Professional Adviser.

Money Marketing. Weekly.

Money Management. Monthly.

Financial Adviser. Weekly.

Planned Savings. Monthly.

The Journal. The Chartered Insurance Institute. Six issues a year.

Post Magazine. London: Timothy Benn Publishing. Weekly.

Prospect. LIA. Monthly.

Technical Adviser. SOFA. Quarterly.