

# 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

\*The test specification has an in-built element of flexibility. It is designed to be used as a guide for study and is not a statement of actual number of questions that will appear in every exam. However, the number of questions testing each learning outcome will generally be within the range plus or minus 2 of the number indicated.

## 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 2017 to 31 August 2018.**
- **Candidates will be examined on the basis of English law and practice in the tax year 2017/2018 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 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.**
  - 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.

## Syllabus construction

The syllabus consists of learning outcomes and assessment criteria only. A comprehensive listing of the indicative content is located at [www.fca.org.uk/your-fca/documents/investment-principles-and-risk](http://www.fca.org.uk/your-fca/documents/investment-principles-and-risk).

## Reading list

The following list provides details of various publications 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 publications will help you keep up-to-date with developments and will provide a wider coverage of syllabus topics.

CII/PFS members can borrow most of the additional study materials below from Knowledge Services. CII study texts can be consulted from within the library.

New materials are added frequently - for information about new releases and lending service, please go to [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge) 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)

Financial calculations. Sarah Dingley-Brown. Annual. Totnes, SDB Training.

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. 10th global edition. Zvi Bodie, Alex Kane, Alan J. Marcus. Berkshire: McGraw-Hill, 2014.

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

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

Modern portfolio theory and investment analysis: international student version. 8th ed. Edwin J Elton et al. New York: John Wiley, 2011.

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.

The Financial Times guide to making the right investment decisions: how to analyse companies and value shares. 2nd ed. Michael Cahill. Prentice Hall/Financial Times, 2010.

Winning client trust. 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 and uncertainty: advanced risk awareness techniques for the intelligent investor. Steven P. Greiner. Hoboken: Wiley, 2013.

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.

## Factfiles and other resources

CII factfiles are concise, easy to digest but technically dense resources designed to enrich the knowledge of members. Covering general insurance, life and pensions and financial services sectors, the factfile collection includes key industry topics as well as less familiar or specialist areas with information drawn together in a way not readily available elsewhere. Available online via [www.cii.co.uk/ciifactfiles](http://www.cii.co.uk/ciifactfiles) (CII/PFS members only).

- The regulation of retail investment business. Kevin Morris.
- The regulation of investment intermediaries. Kevin Morris.

Additional articles and technical bulletins are available under the Personal Finance section of the website at [www.cii.co.uk/knowledge/personal-finance](http://www.cii.co.uk/knowledge/personal-finance).

## Journals and magazines

Personal finance professional (previously Financial solutions). London: CII. Six issues a year. Also available at [www.thepfs.org/knowledge](http://www.thepfs.org/knowledge) (CII/PFS members only).

Investment adviser. London: Financial Times Business Weekly. Also 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

Core tax annuals, 6v (Capital gains tax; Corporation Tax; Income tax; Inheritance tax; Trusts and estates; Value-added tax). Various authors. Haywards Heath, West Sussex: Bloomsbury Professional. Annual.

Dictionary of banking and finance. P H Collin. A&C Black, 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.\*

Lamont's 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/lamont](http://www.cii.co.uk/lamont) (CII/PFS members only).

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

\*Also available as an ebook through Discovery via [www.cii.co.uk/discovery](http://www.cii.co.uk/discovery) (CII/PFS members only).

## Examination guides

An examination guide, which includes a specimen paper, is available to purchase via [www.cii.co.uk](http://www.cii.co.uk).

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 versions of the examination guides.

## 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).