Investment principles and risk (R02)
Wizard Learning Investment principles and risk Online Course contents
Gap covered as per the FSA gap fill template from final RDR rules (PS11/01) from January 2011
Table 2 - Investment principles and risk pages 8 to 12
Gaps listed in the CII gap fill tool (as at September 2011) - these were taken by the CII from the FSA consultation document
NOTE - as the final gap fill template covers additional areas we recommend that if you are using the original CII gap filling tool that you consider filling the additional gaps that have been added.

Analyse the characteristics, inherent risks, behaviour and correlation of asset classes

Chapter 1 The characteristics of cash and fixed interest investments
Learning Outcome 1: Analyse the characteristics, inherent risks, behaviour and correlation of asset classes

1.1 Introduction
1.2 Cash - Main features & potential returns
1.3 Cash - Key factors affecting price
1.4 Cash - Risk factors
1.5 Cash - Types of accounts
1.6 Cash - NS&I products
1.7 Cash - Money market investments
1.8 Fixed interest securities - Main features
1.9 Bond markets
1.10 Bond yields
1.11 Bond risks
1.12 Yield curves
1.13 Gilts
1.14 Corporate bonds
1.15 Other types of fixed interest security

LEARNING MATERIAL: 9,700 words; 14 test your knowledge questions; 32 questions in the final assessment

* Cash and cash equivalents: main types, costs and charges
* Fixed interest securities: main types; running and redemption yields, interest rates and yield curves; markets and indices; transaction costs – purchase and sale
Analyse the characteristics, inherent risks, behaviour and correlation of asset classes

Chapter 2 The characteristics of equities, property and alternative investments

Learning outcome 1: Analyse the characteristics, inherent risks, behaviour and correlation of asset classes.

2.1 Introduction
2.2 Main features of equities
2.3 Key factors affecting pricing of equities
2.4 Dealing in equities
2.5 The costs of dealing equities
2.6 Types of equity
2.7 Private equity
2.8 Investment ratios
2.9 Indices
2.10 Property
2.11 Residential property investments
2.12 Commercial property investments
2.13 Alternative Investments
2.14 How asset classes interact

LEARNING MATERIAL: 11,550 words; 13 test your knowledge questions; 23 questions in the final assessment

Understand the macro-economic environment and its impact on asset classes

Chapter 3 Global and UK macro-economic trends

Learning outcome 2: Understand the macro-economic environment and its impact on asset classes

3.1 Introduction
3.2 Politics and trends in investment markets
3.3 Other trends that affect investment markets
3.4 World economies and globalisation
3.5 Economic cycles
3.6 Fiscal & monetary policy
3.7 Money supply
3.8 Inflation
3.9 Interest rates
3.10 Exchange rates
3.11 Balance of payments
3.12 The role of financial investment in the economy

LEARNING MATERIAL: 8,200 words; 11 test your knowledge questions; 23 questions in the final assessment

LEARNING MATERIAL: 11,550 words; 13 test your knowledge questions; 23 questions in the final assessment

LEARNING MATERIAL: 8,200 words; 11 test your knowledge questions; 23 questions in the final assessment
Understand the merits and limitations of the main investment theories

Chapter 4: Merits and limitations of modern portfolio theory
Learning outcome 3: Understand the merits and limitations of the main investment theories

4.1 Introduction
4.2 Modern portfolio theory
4.3 Standard deviation
4.4 Reduction of risk
4.5 The efficient frontier
4.6 Systematic and unsystematic risk
4.7 Capital asset pricing model (CAPM)
4.8 Multi factor models
4.9 Arbitrage pricing theory (APT)
4.10 Risk adjusted returns
4.11 Efficient market hypothesis
4.12 Behavioural finance

LEARNING MATERIAL: 6,250 words; 10 test your knowledge questions; 18 questions in the final assessment

Apply the principles of the time value of money

Chapter 5: The principles of the time value of money
Learning outcome 4: Apply the principles of the time value of money

5.1 Introduction
5.2 The time value of money
5.3 Simple compound interest using mathematical formulae
5.4 Simple compound interest using a financial calculator
5.5 Calculating the present value (PV)
5.6 Calculating the compound rate of interest
5.7 Interest paid in advance and at more frequent intervals
5.8 Applying different interest rates during the compounding period
5.9 Accumulation of regular savings
5.10 Annuity calculations
5.11 Real versus nominal rates of return

LEARNING MATERIAL: 3,700 words; 8 test your knowledge questions; 9 questions in the final assessment

Analyse and explain the nature and impact of the main types of risk on investment performance

Chapter 6: The nature and impact of risk on investment performance
Learning outcome 5: Analyse and explain the nature and impact of the main types of risk on investment performance

6.1 Introduction
6.2 Systematic and unsystematic risk
6.3 Inflation risk
6.4 Interest rate risk
6.5 Credit risk
6.6 Other types of risk
6.7 Diversification
6.8 Gearing

LEARNING MATERIAL: 2,600 words; 6 test your knowledge questions; 7 questions in the final assessment

* Key features of the main investment theories: modern portfolio theory; multi factor theory; efficient market hypothesis; capital asset pricing model (CAPM)
* Portfolio theory, diversification and hedging: correlation between asset classes; total return and an awareness of beta and alpha; risk adjusted returns
* Basics of behavioural finance – market and individual behaviours

* Compound interest and discounting
* Real returns and nominal returns

* Liquidity and access
* Income and capital growth including shortfall
* Short term volatility
* Long term performance
* Gearing
* Currency
* Inflation
* Interest rates
* Systemic and non-systemic, including fraud and counterparty, institutional, market timing

* Liquidy and access
* Income and capital growth including shortfall
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* Systemic and non-systemic risk, including fraud and counterparty, institutional market timing
Analyse the characteristics, inherent risks, behaviours and relevant tax considerations of investment products

Chapter 7.1 Indirect investment products - Part 1
Learning outcome 6: Analyse the characteristics, inherent risks, behaviours and relevant tax considerations of investment products

7.1 Introduction
7.2 Indirect investment products
7.3 Unit trusts and OEIC’s general characteristics
7.4 Unit trusts
7.5 Open ended investment companies
7.6 Unit trust and OEIC management services
7.7 Offshore funds
7.8 Investment Trusts
7.9 Relative advantages and disadvantages of unit trusts, OEIC’s and investment trusts.
7.10 Collective investment comparisons table

LEARNING MATERIAL: 17,600 words; 18 test your knowledge questions; 23 questions in the final assessment

Analyse the characteristics, inherent risks, behaviours and relevant tax considerations of investment products

Chapter 7.2 Indirect investment products - Part 2
Learning outcome 6: Analyse the characteristics, inherent risks, behaviours and relevant tax considerations of investment products

7.2.1 Introduction
7.2.2 Life assurance investment products
7.2.3 Life assurance investment bonds
7.2.4 Offshore bonds
7.2.5 Life assurance bond investment options
7.2.6 With profits
7.2.7 Life assurance savings plans
7.2.8 Exchange Traded Funds
7.2.9 Property based investments
7.2.10 EIS & VCTs
7.2.11 Broker funds and DIFs
7.2.12 ISA’s and Child Trust Funds
7.2.13 NS&I Products
7.2.14 Defined contribution pension schemes
7.2.15 Derivatives
7.2.16 Hedge funds
7.2.17 Absolute return funds
7.2.18 Structured products
7.2.19 Direct versus indirect investment

LEARNING MATERIAL: 32,300 words; 20 test your knowledge questions; 33 questions in the final assessment

Analyse the characteristics, inherent risks, behaviours and relevant tax considerations of investment products

* The advantages and disadvantages of direct investment in securities and assets compared to indirect investment through collectives and other products

24: the advantages and disadvantages of direct investment in securities and assets compared to indirect investment through collectives and other products

Analyse the characteristics, inherent risks, behaviours and relevant tax considerations of investment products

* The main types and use of indirect investment products:
  INVESTMENT STRUCTURES: collective investment funds – onshore and offshore; Exchange Traded Funds (ETFs) and Exchange Traded Commodities (ETCs); closed ended funds/investment companies – onshore and offshore; Individual Savings Account (ISAs) and Child Trust Funds (CTFs); National Savings and Investments; life assurance based investments – onshore and offshore; defined contribution (DC) pension arrangements; Real Estate Investment Trusts (REITs) and other property based products; Venture Capital Trusts (VCTs) and Enterprise Investments Schemes (EISs) – basic structures and uses; broker funds and distributor influenced funds (DIFs)
  DERIVATIVES: basic structure, main types and uses
  INVESTMENT STRATEGY BASED PRODUCTS: hedge fund and funds of hedge funds; absolute return funds; structured products – income and capital growth, structure and analysis; with profit funds – main principles

25: Exchange Traded Funds (ETFs) and Exchange Traded Commodities (ETCs)
26: Child Trust Funds (CTFs)
27: enterprise investment schemes
28: hedge funds; funds of hedge funds
29: structured products - income and capital growth, structure and analysis
Apply the investment advice process

Chapter 8 The investment advice process
Learning outcome 7: Apply the investment advice process

8.1 Introduction
8.2 The investment advice process
8.3 Establishing the client and adviser relationship
8.4 Gathering data, setting goals and expectations
8.5 Analysing and evaluating a client’s financial status
8.6 Creating a risk profile
8.7 Formulating the investment strategy and asset allocation
8.8 Selecting investment funds
8.9 Choice of tax wrappers
8.10 Presentation and implementation of advice
8.11 Client objectives
8.12 Constraints
8.13 Applying asset allocation
8.14 Accumulation and decumulation

LEARNING MATERIAL: 5,270 words; 8 test your knowledge questions; 9 questions in the final assessment

Understand the principles of investment planning

Chapter 9 The principles of investment planning
Learning outcome 8: Understand the principles of investment planning

9.1 Introduction
9.2 Asset allocation
9.3 Portfolio optimisation
9.4 Matching client objectives
9.5 Portfolio construction
9.6 Fund selection
9.7 Selection of tax wrappers
9.8 Discretionary management services
9.9 Provider selection
9.10 Recommendation and suitability
9.11 Wrap accounts

LEARNING MATERIAL: 5,800 words; 7 test your knowledge questions; 10 questions in the final assessment
Chapter 10 Analysing investment performance

Learning outcome 9: Analyse the performance of investments

10.1 Introduction
10.2 Investment performance
10.3 Performance measurement
10.4 Performance attribution
10.5 Selecting a fund manager
10.6 Portfolio reviews

LEARNING MATERIAL: 4,900 words; 4 test your knowledge questions; 8 questions in the final assessment

* Portfolio performance: methods of evaluating portfolio performance; selection and use of benchmarks; new money and timing factors
* Portfolio review and administration: changes in client circumstances; changes in financial environment; new products and services available; maintenance of products and services; use of external services/benchmarking; rebalancing