

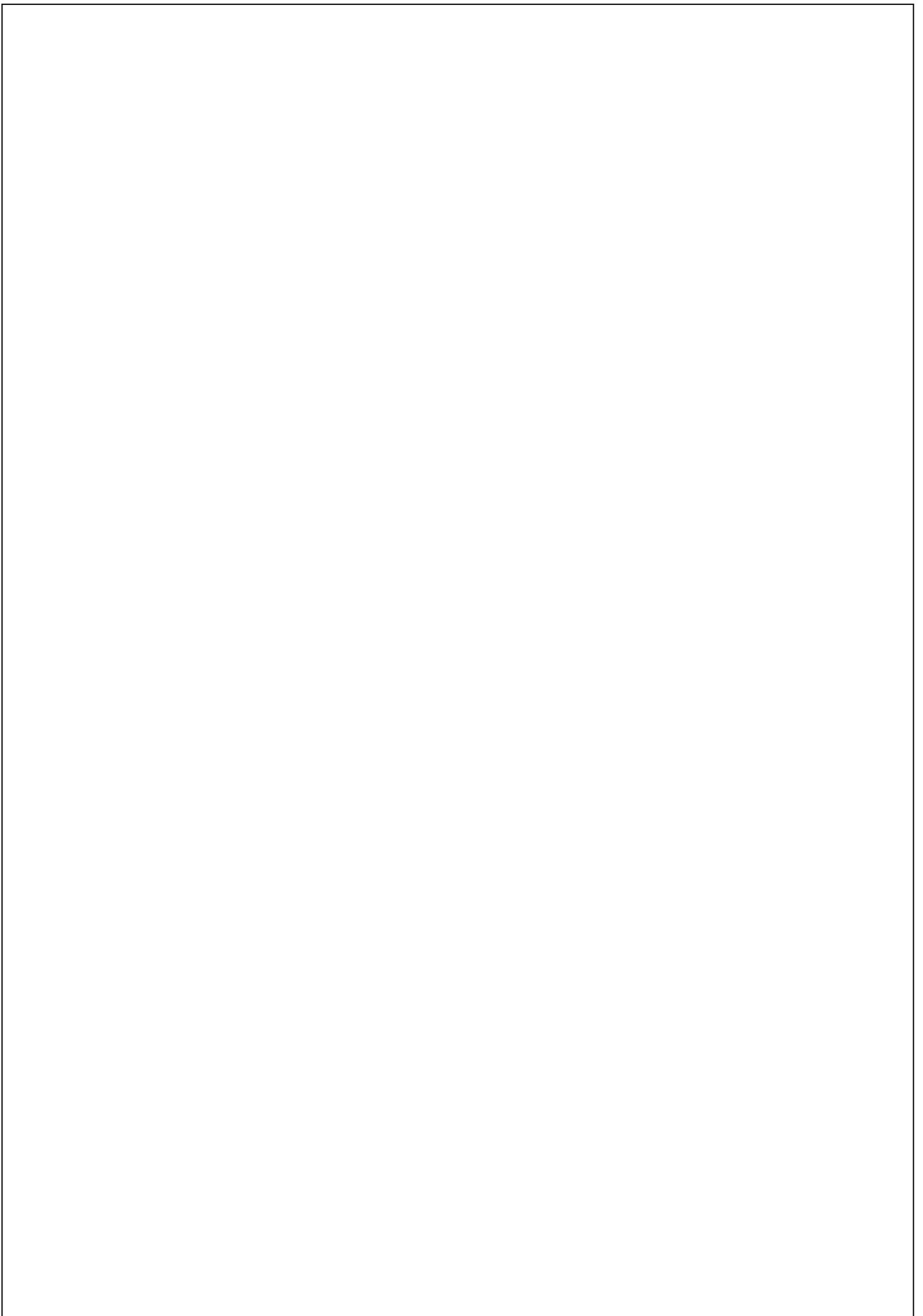


**CHARTERED INSTITUTE FOR
SECURITIES & INVESTMENT**

**CHARTERED WEALTH MANAGER
QUALIFICATION**

**UNIT 3
APPLIED WEALTH MANAGEMENT**

Effective for examination from June 2014



UNIT SUMMARY

The purpose and aim of this unit is to enable candidates to:

identify the requirements of a client from the relevant information available;
match the products in the market to the needs of the client;
structure and manage a suitable portfolio of financial assets and communicate their recommendations to the client.

NB The learning in this syllabus builds on the content of the two previous units in the qualification, Financial Markets and Portfolio Construction Theory in Wealth Management and candidates will be assessed on aspects of all three units in the Applied Wealth Management exam.

ASSESSMENT STRUCTURE

This is a 3-hour examination of 100 marks comprising three sections:

SECTION A worth 20 marks

– candidates answer **FOUR** questions from **SIX**, worth **5 marks** each.

SECTION B worth 40 marks

– candidates answer **BOTH** questions in this section worth **20 marks** each.

SECTION C worth 40 marks

– candidates answer **ALL** parts of the case study-based questions in this section.

SYLLABUS STRUCTURE

The syllabus is divided into **learning outcomes**. These are broken down into a series of **assessment criteria**.

CANDIDATE UPDATE

Candidates are reminded to check the 'Candidate Update' area of the Institute's website (www.cisi.org/masters) on a regular basis for updates that could affect their examination as a result of industry change.

APPLIED WEALTH MANAGEMENT SYLLABUS

Learning Outcome 01

Be able to explain the UK financial services regulatory system and its implications for firms and their advisors

- 1.1** Summarise the UK regulatory system and include:
- FSMA 2000, principles-based regulation and the role of the FCA and PRA
 - HM Treasury and the Bank of England
 - relevant European Union Directives and Regulations
 - Anti-Money Laundering, Anti-Terrorism and Data Protection legislation and the role of other regulating bodies
- 1.2** Explain FCA and PRA regulation of firms and individuals and include:
- principles, authorisation and approval, including the role of the investment manager
 - senior management systems, controls, business standards and ethics
 - permitted business and scope of advice
 - complaints and compensation
- 1.3** Identify and apply the FCA Conduct of Business Rules pertaining to the investment management process and include:
- the fiduciary relationship between Adviser and Client
 - analysis of client circumstances and objectives, risk profile and existing arrangements
 - suitability and 'Know Your Customer' rules
 - comparison of discretionary and non-discretionary portfolio management
 - Treating Customers Fairly
- 1.4** Consider the over-arching Code of Ethics, distinguish between ethical behaviour and rule based compliance and critically evaluate the outcomes for consumers, advisors, Firms and the industry

Learning Outcome 2 Be able to apply the core principles of investment planning to the ongoing client relationship and management of a private client portfolio

- 2.1** Apply the financial planning process in the planning, construction, measurement, review and maintenance of a client's investment portfolio
- 2.2** Elicit and evaluate client information:
- eliciting current and future client circumstances: personal and family employment and other sources of wealth; financial details; protection; attitudes to risk and investment
 - eliciting the purpose of investment, the client's financial objectives
 - utilising client information in the selection of suitable investments
- 2.3** Appraise client objectives establish and rank
- client objectives
 - associated risk tolerances
 - ethical preferences
- 2.4** Develop and implement a plan to meet client objectives by:
- formulating recommendations to meet client objectives;
 - prioritise needs; establishing investment for growth or income;
 - identifying time horizons;
 - assessing impact of taxation;
 - comparing charges;
 - managing diversification and correlation of risk and returns;
 - managing the use of debt and credit;
 - protecting against inflation;
 - hedging market volatility;
 - cash management;
 - determining asset allocation;
 - selecting financial products and stocks
 - constructing and revising the portfolio to meet the client's requirements
- 2.5** Appraise currency management and the handling of associated risks through the use of:
- Options
 - Futures
 - Forwards
- 2.6** In conjunction with the client, regularly review and revise the portfolio, evaluating
- changes in investor circumstances
 - changes in the environment: economic, regulatory, market

Unit 3 – Applied Wealth Management

- changes in the investment products and stocks

2.7 Critically appraise communication skills needed for effective communication and client relationships.

2.8 Critically review the suitability of recommendations: KYC, customer understanding; affordability and accessibility

2.9 review application of treating customers fairly (TCF) outcomes

2.10 analyse investment objectives, reviewing existing arrangements.

Learning Outcome 3 Be able to evaluate the use of cash to meet short and long-term funding requirements

3.1 Formulate cash flow projections, establishing the objectives and principles for establishing a long-term cash management programme

3.2 Assess short and long-term funding requirements:

- everyday and emergency liquidity
- special use accounts
- use of credit and loan facilities

3.3 Determine the size of an appropriate investment reservoir and manage the efficient movement of cash from income to investments

3.4 Discuss the structuring of a portfolio to meet ongoing cash liabilities such as regular payments or need for income.

Learning Outcome 4 Be able to evaluate the main financial needs of the retail consumer and apply suitable protection products where appropriate

4.1 Evaluate consumer attitudes and behaviour towards managing debt, budgeting, borrowing and house purchase considering trends:

- Health & morbidity
- Longevity & mortality
- Employment
- Product design & development
- Access to advice &/or insurance cover

- 4.2 Evaluate the financial protection requirements for SME businesses**
- 4.3 Evaluate the key features, functions, contexts & tax treatment of the following products:**
- Term & Whole of Life Assurance
 - Investment-based policies
 - Income Protection insurance
 - Critical illness cover
 - Private Medical insurance
 - Long Term Care Plans
 - Annuities
 - General insurance
 - MPPI & ASU insurance
- 4.4 Demonstrate an understanding of:**
- The role and limitations of State Benefits and state/local authority funded solutions for financial protection considering the range & limitations of benefits and their impact on financial planning
- 4.5 Demonstrate an ability to evaluate the consequences of inadequate protection for both individuals and SME business including outcomes such as insolvency and bankruptcy**
- 4.6 Discuss the application of insurance to facilitate investment aims:**
- risk management
 - securing a lump sum
 - securing income
 - High net worth clients as underwriters
- 4.7 Explain the safeguards a wealth manager can employ to help clients stay on track with long-term objectives.**

Learning Outcome 05

Be able to evaluate and apply suitable products to underpin provision for a client's retirement planning

- 5.1 Summarise:**
- the main aims and strategies for retirement planning
 - Post-2006 pension legislation
 - pensions regulator compliance requirements

- pension protection schemes
- tax treatment of pensions
- principles and features of defined benefit and defined contribution schemes

5.2 Discuss the key objectives, classic pillars and their interaction in retirement income provision

- trust vs contract based Defined Contribution
- personal vs group personal

5.3 Explain the different ways a client may choose to secure a retirement income

5.4 Critically appraise retirement date versus lifestyle glide paths.

5.5 Evaluate the different investment phases and types of funds and management styles that may be appropriate across them.

5.6 Discuss managing investments in retirement.

5.7 Explain state pension benefits:

- key functions and features
- impact on retirement planning, including potential impact of future changes to state welfare provision and tax treatment

5.8 Evaluate occupational, personal, self-invested pension schemes (SIPPS and SSASs) and stakeholder pensions:

- key functions, features challenges & impact on pension provision
- suitability/selection criteria including expenses, tax efficiency and options for drawing retirement benefit

5.9 Review and assess key considerations regarding retirement planning and provision:

- alternative investments
- age/retirement date
- contribution levels
- investment options
- flexibility
- providers and charges
- benefits
- impact of pre- vs. post-retirement asset allocation
- significance of job changes
- divorce or dissolution of Civil Partnership

Learning Outcome 06 Be able to evaluate and apply direct, derivative and alternative investments in structuring private client portfolios

6.1 Evaluate the use of direct investment in cash, equity and fixed income investments in structuring private client portfolios:

- key features and functions
- risk/return profiles
- asset allocation
- expenses
- trading and settling investment instruments in the UK and overseas
- taxation

6.2 Appraise the use of derivatives and structured products in structuring private client portfolios:

- principles
- characteristics
- operation and risks of options
- futures and synthetic instruments
- overview of hedging applications
- main regulatory aspects
- trading, clearing and settling derivative instruments in the UK and overseas
- taxation

6.3 Appraise the use of alternative investments in structuring private client portfolios.

Learning Outcome 07 Be able to explain the scope for private clients to engage in philanthropy effectively

7.1 Evaluate philanthropic objectives and strategy:

- define the scope of philanthropic investment
- sources of information on philanthropic investment
- determine extent of client involvement in scheme

7.2 Consider means to channel money efficiently and measure performance

7.3 Evaluate tax issues concerning philanthropy

7.4 Discuss main points of Charities Act and Trust law

7.5 Explain and appraise social investment for meeting philanthropic goals

Learning Outcome 08 Be able to apply the main asset allocation and risk management tools and techniques in managing a client’s portfolio

- 8.1 Evaluate the use of derivatives, CFDs, equity options and futures in achieving diversification, risk control and leverage**
- 8.2 Apply leverage strategies using futures and options, stocks and debt**
- 8.3 Appraise the risks and benefits of diversification across:**
- asset classes
 - industries
 - geographical/regional sectors
 - fund managers
- 8.4 Evaluate methods of protecting a portfolio against inflation**
- 8.5 Evaluate hedging strategies to protect the value of a portfolio**
- 8.6 Discuss how the application of behavioural finance indicators can help with ongoing management of portfolio and relationship.**

LEARNING OUTCOME 9 - Be able to assess the impact of personal taxation on the investment decision-making process

- 9.1 Determine the impact of income tax on individuals:**
- its scope
 - liability
 - sources of income
 - reliefs
 - allowances- planning
 - assessment methods
 - calculation
- 9.2 Illustrate the liability of National Insurance contributions for the employer, employee and self-employed worker**
- 9.3 Identify and explain the nature of special reliefs available to individuals:**
- ISAs
 - Enterprise Investment Scheme (EIS)
 - Venture Capital Trusts (VCTs)
 - share option schemes
- 9.4 Explain the nature of overseas income:**
- UK paying agents
 - types of income
 - withholding taxes
 - double taxation agreements
 - basic calculations
- 9.5 Establish the scope of family tax planning:**
- allowances
 - reliefs
 - planning

- 9.6 Establish the scope of inheritance tax:**
- its calculation
 - exemptions and reliefs
 - allowances
 - administration of estates
 - planning
- 9.7 Contrast tax avoidance with tax evasion**
- 9.8 Provide an outline of VAT and corporation tax**

LEARNING OUTCOME 10 - Be able to identify and explain the uses of trusts and the rights of beneficiaries

- 10.1 Explain the characteristics of trusts:**
- concepts of settlor, beneficiary and trustee
 - express, resulting and constructive trusts
 - investment powers of trustees
 - Trustee Act 2000
- 10.2 Identify and explain the uses of trusts including: tax and estate planning**
- 10.3 Demonstrate an understanding of legal persons and powers of attorney, the basic law of contract and agency, Wills and intestacy**

LEARNING OUTCOME 11 Be able to compare the different types of trusts

- 11.1 Distinguish between the following types of trust:**
- bare trusts
 - interest-in-possession trusts (life interest and reversionary interest)
 - non-interest-in-possession trust (accumulation and maintenance trusts/discretionary trusts)
 - charitable trusts

LEARNING OUTCOME 12 - Be able to examine the taxation of trusts

- 12.1 Specify the income tax implications of trusts:**
- interest in possession trusts
 - non-interest in possession trusts
 - bare trusts
 - tax rates
 - exemptions and reliefs
- 12.2 Specify the capital gains tax implications of trusts:**
- the liability of the settlor and trustees
 - the tax rates
 - the exemptions and reliefs
- 12.3 Specify the inheritance tax implications of trusts:**
- chargeable lifetime transfers
 - periodic charges
 - exit charges
 - tax rates
 - exemptions and reliefs

READING LIST

Periodicals and Newspapers

1. Financial Times
2. FT Weekend
3. The Economist
4. Financial sections of The Times, The Daily Telegraph, Independent and Evening Standard.
5. Bank of England Quarterly Bulletin
6. Bank of England Inflation Report (Quarterly)
7. Annual Debt and Reserves Management Report – The UK Treasury (Quarterly)
8. DMO Annual Review (The Debt Management Office)
9. Risk Magazine
10. Journal of Derivatives
11. Journal of the Futures Market
12. Investors' Chronicle
13. Securities & Investment Review
14. Investment Week
15. Professional Investor (the quarterly journal of the CFA)
16. Money Management
17. What Investment?
18. Investment Adviser
19. Professional Adviser
20. Money Observer
21. Bloomberg Money

Books

Cooper, George, 2008. ***The Origin of Financial Crises***, Harriman House Ltd., Petersfield

Derman, Emanuel, 2011. ***Models. Behaving. Badly. Why confusing illusion with reality can lead to disaster on Wall Street and in life***, John Wiley & Sons, Chichester, UK

Dimson, Elroy, Paul Marsh & Mike Staunton, 2002. ***Triumph of the Optimists***, Princeton University Press, Chichester, West Sussex

Dowd, Kevin & Martin Hutchinson, 2010. ***Alchemists of Loss***, John Wiley & Sons, Chichester, UK.

Ellis, Charles D., new ed., 2010. ***Winning the Loser's Game***, McGraw-Hill, New York

Fox, Justin, 2010. ***The Myth of the Rational Market***, Harriman House Ltd., Petersfield, UK

Frydman, Roman & Michael D. Goldberg, 2011. ***Beyond Mechanical Markets: Asset Price Swings, Risk, and the Role of the State***, Princeton University Press, Princeton, Massachusetts

Galbraith, John K, New ed. 1994. ***A Short History of Financial Euphoria***, Penguin Business Books, London

Greenwald, Bruce C.N. et al, 2001. ***Value Investing from Graham to Buffett and Beyond***, John Wiley & Sons Inc., Hoboken, New Jersey

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Lanchester, John, 2010. ***Whoops! Why everyone owes everyone and no one can pay***, Allen Lane, Penguin Press, London

Lo, A.W. & A.C. MacKinlay, 2002. ***A Non-Random Walk Down Wall Street***, Princeton University Press

Mackay, Charles, New ed. 1995. ***Extraordinary Popular Delusions and the Madness of Crowds***, Wordsworth Editions Ltd., London

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Montier, James, 2009. ***Value Investing: Tools and Techniques for Intelligent Investment***, John Wiley & Sons, Chichester.

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Shiller, Robert J., 2nd Ed. 2005. ***Irrational Exuberance***, Princeton University Press

Siegel, Jeremy, 5th ed, 2013. ***Stocks for the Long Run***, McGraw-Hill, New York

Smithers, Andrew, 2009. ***Wall Street Revalued***, John Wiley & Sons Ltd., London

Taleb, N.N., 2nd ed., 2007. ***Foiled by Randomness***, Penguin Books, London

Taleb, N.N., 2007. ***The Black Swan: The Impact of the Highly Improbable***, Allen Lane, London

Wilmott, Paul, 2nd ed., 2009. ***Frequently Asked Questions in Quantitative Finance***, John Wiley & Sons, Chichester.

Woolley, John, 2012. ***Financial Planning with Trusts***, Claritax Books Ltd., Chester, UK.

Websites:

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6. www.ftse.com
7. www.londonstockexchange.com
8. www.nationalsavings.co.uk
9. www.trustnet.com
10. www.hm-treasury.gov.uk