

Module IV (Exam 3) - Investment Planning (IP)

**Exam 3 Topic List to the extent of 80% of Total Marks (150) i.e. 120 marks
(30 marks reserved for the Module I – Introduction to Financial Planning)**

Course Description:

This module would cover the critical knowledge of different asset classes and interplay amongst them, the products constituting such classes and their investment risk profile to enable the management of a client's finances towards achieving various financial goals. The development of vital understanding of the basic risk profile of the client so as to astutely recommend appropriate asset allocation is a crucial area requiring mastery. Another aspect that needs sharp skills is the measurement of investment risk and returns, their analysis in portfolio evaluation and alignment to suit the financial goals. The awareness and knowledge of the regulatory environment of investment products and services is an essential domain.

Learning Objectives:

At the end of this module, a student should be able to:

1. Understand various asset classes and factors affecting them, the interplay between asset classes, products constituting those asset classes and their complexity and riskiness.
2. Enable a client to appreciate goal-based investing whereby systematic, periodical investments are made in one or multiple investment instruments as per the basic risk profile or goal specific risk capacity.
3. Determine various goal-based strategies and evaluate investment choices in the context of client's financial planning needs.
4. Determine the tax implication of the investment choices made, measure investment risk and risk-adjusted return in the strategy adopted, analyze performance of investment products and portfolios.
5. Recommend appropriate strategy to model a portfolio comprising varied investment products in tune with a well-established asset allocation suited to achieve the client's financial goals.

Detailed Topic List:

The topics are structured into five distinct sections as follows. The weights of these individual sections in relation to the Module 'Investment Planning' are given along with testing objective and the nature of testing. A summary of distribution of marks is provided in the table below:

Pattern of Question Bank IP module – 80% in Exam 3											
		Section-I		Section -II		Section -III		Section -IV		Section -V	
		No. of Items	Marks	No. of Items	Marks	No. of Items	Marks	No. of Items	Marks	No. of Items	Marks
Marks Category	1	10	10	3	3	3	3	4	4	8	8
	2	4	8	2	4	2	4	2	4	2	4
	3	0	0	5	15	5	15	2	6	0	0
	4	0	0	1	4	4	16	3	12	0	0
Total		14	18	11	26	14	38	11	26	10	12

Total Items: 60 / Total Marks – IP Module: 120

Total Marks – Exam 3: 150

Section I: Investment Products Universe and their Applications

Testing Objective	Theoretical testing knowledge: 'Grade 1' Theoretical (predominantly) testing clarity of concepts or Numerical testing basic skills: 'Grade 2'
Total weight to Exam 3	12%
Nature of Test Items	10 items: 1 mark each 4 items : 2 marks each

Sub-sections and topics covered:

Sub-sections	Testing and Difficulty grade
1.1. Fixed Income Instruments	'Grade 1& 2'
Detailed Topics	
1.1.1. Government Securities - Fixed and variable coupon rates, zero coupon bonds 1.1.2. Corporate Bonds, PSU Bonds and Debentures 1.1.3. Term Deposits - Bank, Post office and Corporate deposits 1.1.4. Small Saving Schemes - National Savings Certificate (NSC), Public Provident Fund (PPF), Post Office Monthly Income Scheme (POMIS), Senior Citizens Savings Scheme (SCSS) 1.1.5. Money Market Instruments - Treasury Bills, Commercial Paper, Certificate of Deposit, etc. 1.1.6. Suitability of regular income generation from Investment Portfolio	
1.2. Mutual Fund Products	'Grade 1& 2'
Detailed Topics	
1.2.1. Money Market Mutual Funds (MMMFs) and Liquid Fund Schemes 1.2.2. Debt Fund, Gilt Fund, Fixed Maturity Plan (FMP), etc. 1.2.3. Equity Fund - Diversified equity schemes, Large cap/ Mid cap/ Small cap funds, Sectoral funds and Index funds 1.2.4. Hybrid Funds / Balanced Mutual Fund schemes and Monthly Income Plans (MIPs) 1.2.5. Exchange Traded Funds (ETFs) - Index and Sectoral Index ETFs 1.2.6. Gold ETFs and Other commodity ETFs 1.2.7. Funds investing in Overseas Securities and Arbitrage Funds 1.2.8. Distribution and Sales practices of Mutual Fund schemes	
1.3. Equity Market	'Grade 1& 2'
Detailed Topics	
1.3.1. Major Stock Exchange Indices - Sensex and Nifty, their basis and composition 1.3.2. Concept of investing in equity shares - Shareholder Rights 1.3.3. Equity shares - Blue-chip, Growth and high dividend yield shares 1.3.4. Stock Trading 1.3.5. Market performance analysis and Technical analysis of indices 1.3.6. Stocks- Fundamental and Technical Analysis 1.3.7. Portfolio Management Scheme (PMS) 1.3.8. Market Correction - Value correction and Time correction 1.3.9. Understanding Earnings Growth Cycle 1.3.10. Understanding Capital Cycle 1.3.11. Understanding Secular Bull and Bear Cycles	

1.4. Derivatives and Commodities	'Grade 1& 2'
Detailed Topics	
1.4.1. Essential features of Derivatives 1.4.2. Futures and Options - Call Option and Put Option 1.4.3. Commodity Investments – Futures, Physical stock, ETFs, etc. 1.4.4. e-Gold, e-Silver, etc.	
1.5. Foreign Exchange Market	'Grade 1& 2'
Detailed Topics	
1.5.1. Functions of the Foreign Exchange Market and Participants 1.5.2. Determinants of Exchange Rates 1.5.3. Speculative and Hedging instruments - Futures, Options, Interest Rate Swaps, etc.	
1.6. Real Estate and other Investments	'Grade 1& 2'
Detailed Topics	
1.6.1. Forms of Real estate- Land, Residential and Commercial 1.6.2. Interplay of cost of credit, rentals and tax benefits on Realty Investments 1.6.3. Ways to gain long-term capital appreciation and steady income steam 1.6.4. Real Estate Investment Trusts (REITs) and Real Estate Mutual Funds (REMFs) 1.6.5. Art and Antiques 1.6.6. Venture Capital Fund (VCF) and Private Equity (PE) investment 1.6.7. Structured Products	

Section II: Risk Profiling of Products and Investors- Asset Allocation Determination

Testing Objective	Theoretical testing knowledge: 'Grade 1' Theoretical (predominantly) testing clarity of concepts or Numerical testing basic skills: 'Grade 2' Numerical testing basic skill sets: 'Grade 3' Numerical testing analytical skills & synthesis: 'Grade 4'
Total weight to Exam 3	17.33%
Nature of Test Items	3 items: 1 mark each 2 items: 2 marks each 5 items: 3 marks each 1 item : 4 marks

Sub-sections and topics covered:

Sub-sections	Testing and Difficulty grade
2.1. Types of Investment Risks	'Grade 1 & 2'
Detailed Topics	
2.1.1. Market Risk - Systematic and Unsystematic 2.1.2. Inflation Risk 2.1.3. Interest Rate Risk 2.1.4. Purchasing Power Risk 2.1.5. Liquidity Risk 2.1.6. Reinvestment Risk 2.1.7. Exchange Rate Risk 2.1.8. Regulatory Risk 2.1.9. Investment Manager (Alpha) Risk	

2.1.10. Business Risk	
2.2. Product Profiling in terms of inherent Risk and Tenure	'Grade 2'
Detailed Topics	
2.2.1. Short-term products – Low returns with capital protection	
2.2.2. Medium-term products – Inflation beating with reasonable capital appreciation	
2.2.3. Long-term products – Managed risk for wealth creation in the long-term	
2.3. Risk Profiling of Investors	'Grade 1&2'
Detailed Topics	
2.3.1. Understanding investor's investment psychology and investment behavior	
2.3.2. Risk based on investor's life stage	
2.3.3. Risk based on investor's earnings, income generation and assets	
2.3.4. Risk Tolerance - Risk Capacity and Risk Appetite	
2.3.5. Classifying investors as per their risk profile	
2.3.6. Matching products to investor's profile and tenure of goals	
2.4. Asset Allocation- Financial Assets	'Grade 3 & 4'
Detailed Topics	
2.4.1. Asset Allocation - Base of Investment Planning	
2.4.2. Asset Classes - Equity, Debt, Cash, Precious metals	
2.4.3. Expected Rate of Return	
2.4.4. Goal specific Asset Allocation	
2.4.5. Asset Allocation changes when approaching goals	
2.4.6. Selection of asset mix according to client's goals	
2.5. Types of Asset Allocation Strategies	'Grade 3&4'
Detailed Topics	
2.5.1. Strategic Asset Allocation	
2.5.2. Tactical Asset Allocation	
2.5.3. Life Stage based Asset Allocation	

Section III: Goal-based Investment Planning, Measuring and Managing Risks, Analysis of Returns

Testing Objective	Theoretical testing knowledge: 'Grade 1' Theoretical (predominantly) testing clarity of concepts or Numerical testing basic skills: 'Grade 2' Numerical testing basic skill sets: 'Grade 3' Numerical testing analytical skills & synthesis: 'Grade 4'
Total weight to Exam 3	25.33%
Nature of Test Items	3 items: 1 mark each 2 items: 2 marks each 5 items: 3 marks each 4 items: 4 marks each

Sub-sections and topics covered:

Sub-sections	Testing and Difficulty grade
3.1. Investment Planning to achieve Financial Goals	'Grade 1,2,3 &4'
Detailed Topics	
3.1.1. Goal specific Investment Portfolio vs. Common Investment Pool 3.1.2. Selection of Products and Product Diversification 3.1.3. Additional lump sum investments vs. Systematic staggered investments ' <i>Grade 3&4</i> ' 3.1.4. Monitoring progress in investment portfolio for goal achievement ' <i>Grade 3&4</i> ' 3.1.5. Addressing risk aversion 3.1.6. Avoiding speculation 3.1.7. Protecting portfolio erosion	
3.2. Measuring Risk	'Grade 3 & 4'
Detailed Topics	
3.2.1. Expected Returns from a Goal Portfolio 3.2.2. Beta and Portfolio Beta 3.2.3. Variance, Semi-variance and Covariance 3.2.4. Standard Deviation including Standard Deviation of portfolio 3.2.5. Correlation and Correlation Coefficient	
3.3. Diversification Strategies	'Grade 1'
Detailed Topics	
3.3.1. Types of Diversification - Horizontal, Vertical, Geographical, cross border 3.3.2. Diversifiable and non-diversifiable risk 3.3.3. Nature of products used for diversification 3.3.4. Time diversification 3.3.5. Effect of diversification on portfolio risk and return ' <i>Grade 3&4</i> ' 3.3.6. Hedging	
3.4. Analysis of Returns	'Grade 3 & 4'
Detailed Topics	
3.4.1. Power of Compounding 3.4.2. Time Weighted Return vs. Rupee Weighted Return 3.4.3. Real (Inflation Adjusted) vs. Nominal Rate of Return 3.4.4. Effective vs. Nominal Rate of Return 3.4.5. Holding Period Return (HPR) 3.4.6. Compounded Annual Growth Rate (CAGR) and Internal Rate of Return (IRR) 3.4.7. Yield to Maturity (YTM), Yield to Call and Current Yield 3.4.8. Performance Analysis of stocks - Dividend Yield, Earning per Share (EPS) 3.4.9. Market valuation ratios – Price to Earnings Ratio (P/E), Price to Book Value (P/B) 3.4.10. Market P/E ratios - Undervalued or Overvalued markets 3.4.11. Security Valuation- Dividend Discount Model (DDM) 3.4.12. Analysis of Growth, Dividend Payout and Reinvestment options (MF Schemes) 3.4.13. Measurement and Evaluation of Portfolio Performance	

Section IV: Investment Strategies and Portfolio Management

Testing Objective	Theoretical testing knowledge: 'Grade 1' Theoretical (predominantly) testing clarity of concepts or Numerical testing basic skills: 'Grade 2' Numerical testing basic skill sets: 'Grade 3' Numerical testing analytical skills & synthesis: 'Grade 4'
Total weight to Exam 3	17.33%
Nature of Test Items	4 items: 1 mark each 2 items: 2 marks each 2 items: 3 marks each 3 items: 4 marks each

Sub-sections and topics covered:

Sub-sections	Testing and Difficulty grade
4.1. Active Investment Strategies	'Grade 1,2 & 3'
Detailed Topics	
4.1.1. Dynamic management of Asset Allocation across classes 4.1.2. Frequent churning of portfolio to book profits/losses 4.1.3. Hunting for gains from investing in temporarily undervalued sectors/stocks 4.1.4. Speculation, Hedging and Arbitrage Strategies 4.1.5. Options and Futures 4.1.6. Market timing 4.1.7. Securities selection 4.1.8. Investment Style - Value vs. Growth	
4.2. Passive Investment Strategies	'Grade 2,3 & 4'
Detailed Topics	
4.2.1. Buy and Hold strategy 4.2.2. Index Investing 4.2.3. Systematic Investment Plan (SIP), Systematic Withdrawal Plan (SWP) and Systematic Transfer Plan (STP) 4.2.4. Value Averaging Investment Plan (VIP)	
4.3. Investment Portfolio Management	'Grade 2,3 & 4'
Detailed Topics	
4.3.1. Relationship between Risk and Return 4.3.2. Risk and return on a portfolio - Sharpe, Treynor and Jensen's Ratio 4.3.3. Capital Asset Pricing Module (CAPM) 4.3.4. Capital Market Line (CML) and Security Market Line (SML) 4.3.5. Modern Portfolio Theory (MPT) 4.3.6. Monte Carlo Simulation for portfolio optimization	
4.4. Revision of Portfolio	'Grade 1,2,3 & 4'
Detailed Topics	
4.4.1. Benefits of Revision 4.4.2. Periodic review and revision of portfolio 4.4.3. Portfolio Rebalancing 'Grade 3&4' 4.4.4. Buy and Hold policy, Constant Mix policy and Portfolio Insurance policy 4.4.5. Portfolio upgrading	

Section V: Regulatory Aspects- Investment Products and Investment Advisory

Testing Objective	Theoretical testing knowledge: 'Grade 1' Theoretical testing clarity of concepts: 'Grade 2'
Total weight to Exam 3	8%
Nature of Test Items	8 items: 1 mark each 2 items: 2 marks each

Sub-sections and topics covered:

Sub-sections	Testing and Difficulty grade
5.1. Regulatory Oversight of Financial Products and Services	'Grade 1 & 2'
Detailed Topics	
5.1.1. Reserve Bank of India (RBI) Act-1934 5.1.2. Securities and Exchange Board of India (SEBI) Act-1992 5.1.3. Securities Contract Regulation (SCR) Act-1956 5.1.4. Foreign Exchange Management Act-1999 5.1.5. Disclosure and Investor Protection Guideline issued by SEBI 5.1.6. Grievance Mechanisms, SEBI Ombudsman Regulations-2003 5.1.7. Right to Information (RTI) Act-2005 5.1.8. Forward Contracts (Regulation) Act-1952 5.1.9. SEBI Investment Advisers Regulations, 2013	
5.2. Other Entities Facilitating Market Play and Intermediation	'Grade 1 & 2'
Detailed Topics	
5.2.1. Major Stock Exchanges - National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) 5.2.2. Major Commodity Exchanges - National Commodity and Derivatives Exchange Limited (NCDEX), Multi Commodity Exchange of India Limited (MCX-SX), National Multi Commodity Exchange of India Limited (NMCEIL) 5.2.3. Depositories - National Securities Depository Ltd. (NSDL) and Central Depository Services Ltd. (CDSL) 5.2.4. Primary and Secondary Market Intermediaries - Merchant Bankers, Stock Brokers, Individual Financial Advisors (IFAs), Investment Advisers, CERTIFIED FINANCIAL PLANNERS ^{CM} professionals	