

## FChFP 03 - Investment Planning

This module concentrates on investment analysis, presenting the practical applications of investment theory to convey insights of practical value. This module concentrates on the intuition and insights that will be useful to practitioners throughout their careers as new ideas and challenges emerge from the financial marketplace. It also maintains the theme of asset allocation (authors discuss asset pricing and trading then apply these theories to portfolio planning in real-world securities markets that are governed by risk/return relationships).

### 1. Introduction to Investments and Basic Concepts

- 1.1 Savings & Investing
- 1.2 Asset & Investment
- 1.3 Roles of Investments in Financial Planning
- 1.4 Strategies to be adopted before starting an invest program
- 1.5 Investment Objectives & Constraints
- 1.6 Risk Appetite/Risk taking Capacity
- 1.7 Risk Profile Questionnaire
- 1.8 Practice Exercise.

### 2. Investment Returns and Computation

- Computing % Rate of Return. 2.1
- Simple Vs Compound Interest. 2.2
- Simple Interest. 2.2.1
- 2.2.2 Compound Interest.
- 2.3 Types of Return Calculation.
- 2.3.1 Holding period returns.
- 2.3.2 Per period rate of return.
- 2.3.3 Simple arithmetic average return.
- 2.3.4 Weighted average return.
- 2.3.5 Geometric average return/Compounded annual growth rate (CAGR).
- 2.3.6 Computation of Expected or future returns.
- 2.3.7 Real Returns and its Computation.
- 2.3.8 After tax yield and Taxable equivalent yield.
- 2.3.9 Annual percentage return and Effective return.
- 2.3.10 Internal rate of return (IRR).
- 2.4 Practice Exercises

### 3. Investment Risk and Diversification.

- 3.1 Risk of Investment.

- 3.2 Types of Investment Risk.
  - 3.2.1 Types of Systematic Risk.
  - 3.2.2 Types of Unsystematic Risk.
- 3.3 Beta.
- 3.4 Beta of a Portfolio.
- 3.5 Computing Systematic & Unsystematic risks out of total risk.
- 3.6 Coefficient of Determination ( $R^2$ ).
- 3.7 Practice Exercise.

#### **4. Capital Asset Pricing Model & Risk Adjustment Return Measures**

- 4.1 Introduction.
- 4.2 Risk Adjusted Return Measures.
  - 4.2.1 Sharpe Ratio.
  - 4.2.2 Treynor's Ratio.
  - 4.2.3 Jensen's Alpha.
- 4.3 Practice Exercise.

#### **Chapter 5 Shares/Equity Valuations**

- 5.1 Introduction.
  - 5.1.1 Preference Shares.
  - 5.1.2 Equity Shares/Common Shares.
- 5.2 Dividends.
- 5.3 Bonus Shares.
- 5.4 Right Shares.
- 5.5 Dividend Yield.
- 5.6 Dividend Discount Model of Equity Valuation.
  - 5.6.1 Zero Growth Model.
  - 5.6.2 Constant Growth Model.
  - 5.6.3 Variable Growth Model.
- 5.7 Ratio used in Equity Valuations.
  - 5.7.1 EPS.
  - 5.7.2 DPS.
  - 5.7.3 P/E Ratio.
  - 5.7.4 Book value per share.
  - 5.7.5 P/B Ratio.
  - 5.7.6 ROCE.
  - 5.7.7 ROE.
- 5.8 Practice Exercises.

#### **6. Bond Valuation**

- 6.1 Introduction.
- 6.2 Classification of Debt Securities.
- 6.3 Yield, Yield to Maturity & Yield to Call.

- 6.4 Bond Pricing.
- 6.5 Concept of Duration and Immunization.
  - 6.5.1 Macaulay's Duration.
  - 6.5.2 Modified Duration.
  - 6.5.3 Immunization of a portfolio.
- 6.6 Practice Exercises.

## **Chapter 7 Derivatives**

- 7.1 Introduction.
  - 7.1.1 Options.
- 7.2 General Terms used in options.
  - 7.2.1 Spot Price/Cash Price.
  - 7.2.2 Strike Price.
- 7.3 At the Money, In the Money and Out of the Money Options.
  - 7.3.1 At the Money Option.
  - 7.3.2 In the Money Call Option.
  - 7.3.3 In the Money Put Option.
  - 7.3.4 Out of the Money Call Option.
  - 7.3.5 Out of the Money Put Option.
- 7.4 Premium.
- 7.5 Types of Closing an Option Contract.
- 7.6 Buying a Call.
- 7.7 Buying a Put.
- 7.8 Selling a Call.
- 7.9 Selling a Put.
- 7.10 Option Strategies.
  - 7.10.1 Long Straddle.
  - 7.10.2 Short Straddle.
  - 7.10.3 Long Strangle.
  - 7.10.4 Strip.
  - 7.10.5 Strap.
  - 7.10.6 Spreads.
- 7.11 Futures.
- 7.12 Practice Exercise.

## **8. Individual Investor – Portfolio Management**

- 8.1 Asset Allocation.
  - 8.1.1 100-Age Method.
  - 8.1.2 Financial Objectives Method.
  - 8.1.3 Risk Tolerance Method.
  - 8.1.4 Cash Flow Method.
- 8.2 Types of Asset Allocation.
  - 8.2.1 Strategic Asset Allocation.

- 8.2.2 Tactical Asset Allocation.
- 8.2.3 Portfolio Rebalancing.
  - 8.2.3.1 Buy and Hold Strategy.
  - 8.2.3.2 Constant Mix Strategy.
  - 8.2.3.3 Constant Proportion Portfolio Insurance (CPPI).
- 8.3 Portfolio Revision.
- 8.4 Practice Exercise.

## **Chapter 9 Mutual Fund**

- 9.1 Introduction.
  - 9.1.1 Advantages of Mutual Fund.
- 9.2 Structure of Mutual Funds.
  - 9.2.1 SEBI.
  - 9.2.2 Mutual Fund as a Trust.
  - 9.2.3 Sponsor.
  - 9.2.4 Trustee.
  - 9.2.5 AMC.
  - 9.2.6 Custodian.
  - 9.2.7 Register and Transfer Agent.
- 9.3 AMFI.
- 9.4 Certification and Registration for Mutual Fund Distributors.
- 9.5 Types of Mutual Funds.
  - 9.5.1 Open & Close Ended Funds.
- 9.6 Growth, Income & Balanced Funds.
  - 9.6.1 Growth/Equity Funds.
  - 9.6.2 Income/Debt Funds.
  - 9.6.3 Balanced Funds.
  - 9.6.4 Diversified Funds & Sector Funds.
  - 9.6.5 Large Cap, Mid Cap, Small Cap & Multi Cap.
- 9.7 Indexed Funds.
- 9.8 Tax Planning Scheme/Equity Linked Savings Scheme (ELSS).
- 9.9 Exchange Traded Funds.
- 9.10 Liquid/Money Market Funds.
- 9.11 Global Funds & Off Shore Funds.
- 9.12 Arbitrage Fund.
- 9.13 Fixed Maturity Plans.
  - 9.13.1 Capital Protection Oriented Plans.
- 9.14 Load & No Load Funds.
  - 9.14.1 Value Style and Growth Style of Investing.
- 9.15 Net Asset Value (NAV).
- 9.16 Growth & Dividend Options.
- 9.17 Funded Expenses/Management Fees.
- 9.18 Portfolio Turnover Ratio.
- 9.19 Systematic Investment Plan (SIP).

9.20 Systematic Withdrawal Plan.

9.21 Systematic Transfer Plans.

9.22 Who Can Invest in Mutual Fund?

9.23 Right of Investors.

9.24 Selecting a Mutual Fund Scheme.