

Investment Analysis

Examinable from June 2007

AIM

To enable students to evaluate, describe and make recommendations on equity investments for both private and institutional investors within the context of other investment vehicles. Whilst the emphasis will be on the UK market, a knowledge of major developments in overseas markets is required.

ASSESSMENT STRUCTURE

A three hour 15 minutes paper divided into three sections:

SECTION A: One compulsory question composed of a number of parts designed to examine the students' skill in company and share analysis. An information pack containing excerpts from Extel cards, company reports, market data and/or other relevant materials based on one or more companies will be provided. This section will carry 40% of the marks.

SECTION B: Compulsory short answer questions drawn from the entire syllabus. This section will carry 30% of the marks

SECTION C: Five essay type questions of which students will be expected to answer two. This section will carry 30% of the marks.

NOTE

The investment and economic environment is constantly changing and students should ensure that they are aware of the latest developments. Therefore it is most important that students read the financial press and journals listed in the reading list.

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SECTION ONE

Objectives

Demonstrate an understanding of equities, equity related instruments and derivatives, in the context of other investment vehicles.

A. Equities

- The UK Markets
- The FTSE Actuaries Sectoral breakdown
- Principal characteristics of major UK Economic Groups (in the FTSE Actuaries All-Share)
- Individual equity investments
- Principal International Markets
- Investment trusts, unit trusts, pension funds, OEICs and other collective investments
- Marketability
- Unquoted equities

B. Equity Related Instruments and Derivatives

- Convertibles
- Warrants
- Options
- Futures
- Swaps

C. Other Investment Vehicles

- Government Bonds
- Corporate Bonds
- Preference Shares
- Cash
- Near cash
- Real property
- Commodities
- Strips
- Repos

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SECTION TWO

Objectives

Demonstrate an understanding of the major factors influencing the trading background and prospects of individual companies and be able to analyse company accounts and other financial information, calculate key financial ratios and evaluate company prospects on the basis of such analysis and make appropriate recommendations.

A. Macro-economic Analysis

- Gross Domestic Product and its principal components
- Monetary and fiscal policy
- Inflation
- International trade and capital flows
- The inter-relation between economies and trading blocs
- The nature and measurement of money

B. Trading Background

- Product and customer base
- Competitive advantages and disadvantages of companies
- Effect of internal and external events on companies
- Geographical diversification
- Development within overseas economies
- Explicit and implicit currency risks
- Ethical and environmental issues

C. Management Policies

- Pricing policies
- Mergers, restructuring and acquisitions
- Research and development
- Marketing
- Dividend policies
- Hedging
- Corporate Governance
- Other investment vehicles
- Real property
- REITS



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D. Accounting Policies

- Currency translation
- Accounting treatment of mergers, restructuring and acquisitions
- Accounting for reserves and valuation of tangible and intangible assets
- Treatment of associate companies
- Rights and scrip issues
- Repurchases
- Provisions
- Extra-ordinary and exceptional items
- Creative accounting
- Financial reporting standards

E. Accounts Analysis

- An understanding of the share evaluation quantities and ratios
- Fixed, variable and marginal costs
- Return on sales, equity and capital employed
- Stock, debtor and capital turnover
- Working capital
- Liquidity ratios
- Asset values
- Cashflow/Free cashflow
- Financial and operational gearing
- Dividend cover
- Taxation

F. Valuation

- Value added models
- Earnings per share
- Price earnings ratios
- Dividend yields
- Price to book ratio
- Price to cashflow ratios
- Market capitalisation to turnover ratios
- Explicit and implicit currency risks
- Taxation
- Discounted cash flows models
- Dividend discount models
- EVA™
- MVA
- EBITDA



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SECTION THREE

Objectives

Demonstrate a broad understanding of modern portfolio theory and asset pricing theories.

Modern Portfolio Theory and Risk Analysis

- Modern portfolio theory
- Efficient market theory
- Capital asset pricing models
- Specific and systematic risk and the effect of diversification
- Arbitrage pricing models
- Stock market anomalies

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READING LIST

“Interpreting Company Reports & Accounts” 9th Edition 2004
Holmes, Sugden & Gee
FT Prentice Hall ISBN 0273695460

“Guide to Analysing Companies” 4th Edition 2005
Vause B: **Economist Publications**: ISBN 1861979851

“An Introduction to Stock Exchange Investment” 3rd Edition 2007
Rutterford and Davidson: **Palgrave Macmillan** ISBN 0333778022

“International Financial Reporting and Analysis” 2nd Edition 2005
Alexander, Britton & Jorissen: **Cengage Learning** ISBN 1844806685

“The Economist Guide to Investment Strategy” 2006
Stanyer P: **Profile Books** ISBN 1861978510

Newspapers/Periodicals etc.

Financial Times
Financial sections of other newspapers
Financial Periodicals, especially ‘Investors Chronicle’, ‘The Economist’, ‘Securities and Investment Review’ and ‘Professional Investor’.

Television/Radio/Internet

As television and radio schedules are constantly changing it is not possible to produce an exhaustive list and students are advised to watch/listen to/view those programmes aimed at the financial services industry.