



DIPLOMA SUMMER 2008 EXAMINATION

PRIVATE CLIENT INVESTMENT ADVICE AND MANAGEMENT

DATE OF EXAM	Wednesday 25 June 2008
3 HOURS	10.00am – 1.00 pm
RUBRIC	SECTION A – <i>ALL</i> questions in this section are to be answered SECTION B – <i>ONE</i> question in this section is to be answered SECTION C – <i>ALL</i> parts of the question in this section are to be answered

Candidates are reminded that no marks will be awarded for illegible work

NOTES TO CANDIDATES

1. Please insert your Candidate Number on the cover of your Answer Book. *Do not insert your name.*
2. Show *all* workings in your Answer Book.
3. Candidates may attempt the sections in any order. Please indicate clearly in your Answer Book which questions you are answering.
4. Please insert in the box provided on the cover of your Answer Book the numbers of the questions you have attempted in the order in which they appear in the Answer Book.
5. You may use the calculator provided or a model approved by the Securities & Investment Institute.
6. You must hand your Answer Book to an invigilator before you leave the Examination Hall. *Failure to do so will result in disqualification.*
7. The decision of the panel is final and no correspondence will be entered into concerning the grade awarded.
8. Once submitted, the examination scripts become the property of the Securities & Investment Institute and will not be returned to candidates.

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PLEASE TURN OVER WHEN INSTRUCTED

Answer ALL questions in this section

Question 1

- (a) Briefly outline TWO criteria by which an individual can establish their domicile. *(2 marks)*
- (b) In what ways does domicile affect liability to UK inheritance tax? *(2 marks)*

Question 2

Briefly outline FOUR different investment strategies utilised by hedge funds. *(4 marks)*

Question 3

Alan, aged 78, has pensions totalling £14,000 per year, and net dividend income of £8,000. Calculate his income tax liability for 2007/08. *(4 marks)*

Question 4

Narinder bought £10,000 nominal of Treasury 8.75% 2017 priced at 122.30 on 06/12/93. He sold all the stock at 133.54 for settlement on 17/03/08. Interest is paid on 25th August and 25th February (Note: there are 182 days in the half year relating to the sale and 21 days accrued interest at the sale settlement date). Calculate:

- (a) The proceeds received at the sale date (excluding brokerage and other expenses). *(2 marks)*
- (b) The income tax liability on the gilt, assuming Narinder's taxable earnings were £27,000 for 2007-08. *(2 marks)*

Question 5

Outline FOUR advantages Exchange Traded Funds (ETFs) have compared with tracker funds. *(4 marks)*

Question 6

The following details of a UK company's ordinary shares were recently noted:

Current Price	8.20p
2007-08 Highest Price	350.50p
2007-08 Lowest Price	6.75p
Net Dividend Per Share	11.1p
Dividend Cover	4.4
Volume of Shares Dealt Previous Day	398,000
Equity Market Capitalisation	£8.4m
Beta Coefficient	1.1

With relevant calculations, briefly provide FOUR reasons why the above figures might lead you to assess the shares as more or less risky than those of an average UK listed company. *(4 marks)*

Question 7

Briefly describe FOUR important elements of the Trustee Act 2000. *(4 marks)*

Question 8

Company ABC Plc announced a 1:2 rights issue at £1.00 per share. Prior to the announcement the shares were quoted at £11.50p.

- (a) Give TWO possible reasons for the low offer price of the new shares. *(1 mark)*
- (b) Explain the term 'pre-emptive' rights. *(1 mark)*
- (c) Calculate the expected
 - (i) Ex-rights price *(1 mark)*
 - (ii) Nil-paid price. *(1 mark)*

Question 9

Give FOUR advantages individual savings accounts (ISAs) have compared with personal pension plans for an individual investor. *(4 marks)*

Question 10

Briefly outline the distinguishing feature of each of the following bonds, and how that feature impacts on their risk:

- (a) bond with a sinking fund *(1 mark)*
- (b) floating rate bond *(1 mark)*
- (c) ‘fallen angel’ *(1 mark)*
- (d) perpetual subordinated unsecured loan stock. *(1 mark)*

Answer ONE question in this section
Each question carries 20 marks

Question 11

Review the similarities and differences between authorised unit trusts (and OEICs) and single-premium investment bonds, and discuss their respective advantages and disadvantages for private clients.

Question 12

Discuss whether personal investors in financial services require special regulation and protection, and critically assess the range and effectiveness of such provision in the UK in recent years.

Question 13

“Convertibles are the ideal type of security at times of uncertainty”. Critically analyse this statement at the present time.

Answer ALL parts of the question in this section

Question 14

Margot Leadbetter is reviewing her equity portfolio, presently valued at around £4 million. Currently, she has shareholdings in ten fully listed UK companies, all constituents of the FTSE 100 Index. These were bought on the advice of her late husband, Jerry, who preferred well-established leading British companies, with strong brand names. Margot believes that the portfolio reflected her late husband's admiration of Warren Buffett's investment strategy. She insists

"Buying quality is always the best value and the least risky in the long run, whether it be shares, bonds,or jewellery!"

For many years Margot's stockbroker was Rupert Smythe-Gussett. He altered the shareholdings very little, although about five years ago they were rebalanced to make the ten shareholdings roughly equal in value at that time. He has now retired and been succeeded by Zoe Zapp, who has radically different views from her predecessor. She feels that the existing strategy is too old fashioned. Forthrightly, she tells Margot

"Quite frankly, I find this portfolio dull and complacent. You should be looking for a good portfolio, not good companies. Anyway I am not even sure that these are good companies any longer. Some of these companies are relics of a past era. They don't represent the best today. I strongly favour companies with market prices at low multiples to book value, particularly in the case of overseas companies and smaller companies. That is the way to reduce the 'beta' and improve the 'alpha' of the portfolio. You should also watch the 'momentum' and have stop-losses on all the holdings to protect against primary downside movements".

Margot is confused and bewildered by what she has been told and asks for your advice. Her current shareholdings provide her with a more than adequate income. She does not wish to take on more risk, given her age of 66. She lives in the Cotswolds in a delightful country cottage, paying a small rent on a long lease. She has no wish to purchase property. She also has £10,000 in a bank account, and more than a quarter of a million pounds in long-dated conventional gilts. She is in good health and has no immediate desire to transfer assets, as her son and daughter have well paid jobs. The equity and gilt holdings are on the facing page.

Required:

- (a) Discuss the strengths and weaknesses of Margot Leadbetter's existing portfolio. (20 marks)
- (b) Explain the terminology and critically analyse the strategy advocated by Zoe Zapp, together with its suitability for Margot Leadbetter. (20 marks)

[Total 40 marks]

Margot Leadbetter's recent equity and gilt holdings:

Company	PE Ratio	Dividend Yield	Dividend Cover
BAE Systems	17.5	2.7%	2.1
BP	10.2	4.6%	2.1
British American Tobacco	18.3	3.1%	1.7
Cadbury Schweppes	24.3	2.6%	1.6
Diageo	19.4	3.2%	1.6
GlaxoSmithKline	12.0	4.8%	1.7
HSBC	9.4	6.5%	1.6
Marks and Spencer	8.4	3.1%	2.3
Rolls Royce	13.2	2.9%	2.6
Unilever	12.9	3.2%	2.4

Fixed Interest Stock	Price	GRY	Nominal Holding
Treasury 5.0% 2025	106.18	4.48%	£100,000
Treasury 6.0% 2028	120.06	4.50%	£100,000
Treasury 4.75% 2038	106.55	4.36%	£100,000