

FINANCIAL PLANNING ASSOCIATION OF MALAYSIA

INVESTMENT PLANNING AND RETIREMENT PLANNING

MODULE 3

Course Objectives

To enable candidates to obtain an understanding of the concepts of investment planning and personal investment portfolio management, the concepts of risk and return and how return from investments can be optimized, the various type of asset classes available for investment by recognize the importance of personal retirement maps to suit client objectives and lifestyles, the basic guidelines of retirement planning and common pitfalls and misconceptions of retirement. Method of identifying retirement costs and income needs of clients as well as the various forms of retirement savings options and income streams are also discussed.

Course Outline

Topic 1 - Investment Concepts

Why do people invest?

Measurement of investment returns

Minimising Risk

Portfolio Management Process for Individual Investors

- Investment Objectives
- Defining the Objectives for Component Parts of the Portfolio
- Investment Management Process

Asset Allocation

- Major asset classes and their Characteristics
- Asset Allocation and the Asset Allocator
- Types of Investment Funds
- Evolution of Asset Allocation Theory, Practice and Performance

Investment Risk Management

- What is Investment Risk?.
- Measurement of Investment return
- Measurement of risk
- Risk Measurement Issues

Candidates should be familiar with the basic concepts of investment such as concepts of risk and return with regards to investment, the reasons for investing, the relationship between risks and returns and how they are measured, process of investment and the benefits of diversification. These understanding of these concepts are critical to providing investment advice to clients.

Topic 2: Concepts of Portfolio Theory and Performance Measures

- Introduction to Portfolio Theory
- Risk Aversion and Utility
- Markowitz Portfolio Theory
- Capital Asset Pricing Model
- Arbitrage Pricing Theory
- Market Efficiency
- Evaluation of Investment Performance – Time-weighted and money-weighted return, risk-adjusted ratios

Candidates should be able to understand, describe and explain in a formal way the interactions between investments and the risk-reducing properties of portfolios. This topic explains the concepts of Markowitz Portfolio Theory, Capital Asset Pricing Model, Arbitrage Pricing Theory and Market Efficiency, their practical applications and the problems associated with them.

Topic 3 - Equity Market

- Introduction to equity markets
- Overview of Malaysia Capital Market
- Regulatory Structure of Malaysia Capital Market
- Roles of Securities Commission and Bursa Malaysia
- Types of equities
 - Ordinary shares
 - Preference shares
 - Depository receipts
 - Warrants or Transferable Subscription Rights (TSRs)
- Classification of equities for Investment Purposes
- Valuation of equities
 - Fundamental Analysis and Technical Analysis
 - Discounting cash flow methods– dividend growth approaches and free cash flow approaches
 - Relative valuation methods - price earnings ratio, price book value ratio, price sales ratio, dividend yield
 - Book value methods – net tangible assets, replacement cost, liquidation methods
- Impact of corporate exercises such as rights issues, bonus issues and dividend payout on share price

Candidates should be able to describe how the equity market works, the type of equity instruments available to investors, the factors that affects the price of equity instruments and the methods that can be applied to value shares and other equity instruments

Topic 4: Investment in Debt Securities

- Introduction on debt securities
 - Definition of debt securities
 - Background of the debt markets
 - Importance of debt securities in relation to capital raising and investments
- Types of fixed income securities in Malaysia - straight bonds, floating rate bonds, zero coupon bonds, callable/puttable bonds, convertible bonds, perpetual bonds
- Characteristics of bonds
 - Par values/face values and bond proceeds
 - Term to maturity
 - Coupon rate and calculation
 - Trustee and trust deed
 - Yield (yield to maturity, yield-to-call, realised, nominal, current)
- Considerations when investing in bond
 - Credit rating
 - Maturity
 - Yield
 - Call or conversion
 - Tax
- Risk of investing in bonds
 - Factors affecting interest rates
 - Supply and demand
 - Economic factors
 - Government and central bank policies
 - Market expectation and psychology
 - International political events
- Bond price sensitivity
 - Duration measures
 - Modified duration and approximation of price volatility
 - Convexity and its effect

Candidates are required to have a satisfactory understanding of the fundamental features and benefits of debt securities, how debt securities value are determined, the factors that affects the value of the debt securities and its volatility and be able to describe the various types of risk associated with investing in debt securities.

Topic 5: Derivatives and Structured Products

- Derivatives
 - What are derivatives?
 - Uses of Derivatives
 - Types of Derivatives
 - The derivatives markets
 - Using derivatives in managing investment risk

- Options
 - Definition and Concept of Options
 - Trading of Options
 - Option Payoffs
 - Option Strategies
 - Option Valuation
 - Options in Portfolio Management \
- Futures
 - Definition and Concept of Futures
 - The Futures Market
 - Application of futures
 - Futures pricing Review
 - Risks associated with futures trading
 - Types of futures traded on the Malaysian Derivatives Exchange
 - Crude Palm Oil futures
 - Equity Futures
 - Bond futures
 - Interest Rate Futures
- Structured Investments
 - What are structured investments and why people invest in structured investment?
 - Types of structured products
 - Basic building blocks of a structured investment
 - Characteristics of structured products
 - Principal repayment
 - Payoff structures
 - Participation rate
 - Pre-termination
 - Examples of underlying assets
 - Risks associated with structured investments

Candidates should have satisfactory knowledge of derivatives and structured products, its uses and the types of derivatives contracts and structured products available in Malaysia. Candidate should also understand the determinants of option pricing, the valuation of options and warrants as an embedded option. Candidates should also have an understanding of structured products and its features, risks and documentation and legal aspects.

Topic 6: Collective Investment Scheme and Unit Trusts

- Regulation of the Unit Trust Industry in Malaysia
- Statistics on Unit Trust Funds in Malaysia
- Concepts of Unit Trusts, Structure of Unit Trusts
- Dollar Cost Averaging,
- Types of Unit Trusts
- Equity Funds
- Fixed Income Funds

- Money Market Funds
- Real Estate Investment Trusts (REITs)
- Exchange Traded Funds (ETF)
- Balanced Funds
- Syariah Funds
- Risk Classification, Benefits of Unit Trusts Investment
- Pricing and Costs of Unit Trusts Investment
- Performance Measurement (Evaluation)
- Sharpe Measure, Information Ratio, Treynor Measure, Jensen Measure
- Risk Adjusted Performance (RAP) Measure
- Syariah Compliance Unit Trusts, Appointment of the Syariah Committee (Syariah Adviser)
- Distribution of Returns, Unit Splits
- Employees Provident Fund (EPF) Withdrawal for Investing in Unit Trust Funds
- Criteria in Selecting Unit Trust Funds
- Tax Benefits from Unit Trust Investment
- Code of Ethics and Standard of Professional Conduct for the Unit Trust Industry
- Servicing and Marketing Unit Trust Funds

Candidates should understand the benefits of investing in unit trusts, the different types of unit trusts and collective investment schemes available, how to analyse, compare and choose unit trusts considering investor's objective, risk tolerance and time horizon. Candidates will also be exposed to Syariah compliance unit trusts and the code of ethics and standard of professional conduct for the unit trust industry.

Topic 7: Real Estates Investment

- The role of real estate in an investment portfolio
- The property investment decision
- Measurement of return on return state investment
- Risk associated with real estate investment
- Macroeconomics Influences on Property Returns
- Microeconomics Influences on Property Returns
- Income tax and real property gains tax implications on real estate investments

Candidates should have an good understanding of the characteristics of real estate investment, the risk and return, approaches in real estate valuation, real estate cycles, the concept of property trusts, so that they can advise clients considering including real estate in their investment portfolios.

Topic 8 - Investment for Retirement

- Importance of time horizon and impact on risk
- Portfolio theory applied to retirement planning

- Asset/liability modeling
- Diversification
- Taxation
- Asset allocation
- Taxation

Candidates should be able to appreciate the importance of time horizon in retirement planning and the various types of assets classes for retirement and their uses. Candidates are also be able to apply the concepts of portfolio theory in retirement planning including asset allocation, diversification and asset/liability modelling.

Topic 9 - The underlying principles of retirement planning

- The importance of retirement planning
- The retirement needs analysis
 - Determination of financial objectives at retirement
 - Calculation of retirement fund to meet objective
 - Availability of non-funded "safety nets"
 - Construction of monthly budget
 - Analysis of current asset, liabilities and retirement expenses
 - Inclusion of inflation factor in calculation of retirement expenses
- Importance of starting early for retirement planning using numerical examples
- The present and future demographic of Malaysia
- The effect of changing demographic on retirement planning

Candidates should be familiar with the issues affecting retirement planning such as inflation and the changing demographics. Candidates are also required to be able to establish the needs of retirees and the determination of funding needs of retirees.

Topic 10 - Retirement Schemes

- Types of retirement plans
- Approved and Non-Approved schemes
- Deferred compensation schemes
- Benefit design
- Funding of benefits
- Security of Fund
- What adds up to a comfortable retirement?
- Tax considerations
- Likely developments
- Defined-Contribution Plan and Defined-Benefit Plan

Topic 11 - The Employee Provident Fund (EPF) and Private Retirement Scheme (PRS)

- Employee's Provident Fund (EPF)
 - History and development
 - Features of the Scheme
 - Benefits under the Scheme
 - Relevant legislation and guidelines
 - Allowable investments – rationale, characteristics and applicable regulations
 - Future role
- Private Retirement Scheme (PRS)
 - Introduction to the PRS Industry
 - Regulatory Framework
 - PRS Providers
 - Features of PRS Schemes
 - Constitution of PRS Schemes
 - PRS Investments
 - PRS Distributors and Consultants

Candidates should have a good understanding of the features and benefits of the EPF and the PRS. In Malaysia, EPF and PRS are two of the main platforms of savings for nearly all people working in both the private and public sector organizations. It is important for financial planning professionals to understand the importance of EPF and PRS and how they can provide for the retirement of his clients.

Topic 12 - Retirement Income Streams

- Lump sum versus income streams
- Vehicles providing income streams
 - Annuity
 - Deposits
 - Dividends – shares, unit trusts
 - Property
- Types of annuities
 - Annuity rates
 - Income considerations
- Tax Considerations
- Advantages and disadvantages of the streams for retirees
- Immediate annuities and deferred annuity and to recognize how annuities provide financial security
- Other income streams and their tax treatment – fixed deposits, rental income, preference shares, guaranteed unit trust funds, real estate investment trusts (REITs) and Malaysian Savings Bond

Candidates should be aware of the various forms of income stream available to retirees, and their advantages and disadvantages. A retiree requires multiple retirement income streams to ensure that his essential living expenses are covered every month. Today, one stream of income is usually not enough to cover essential living expenses. A regular income in retirement is therefore a fundamental part of retirement planning

Topic 13 - Role of Financial Planner in pre-retirement counseling

- Analysis of key factors affecting plan selection
 - Lifestyle
 - Aspirations
 - Family circumstances
 - Insurance
 - Taxation
- Integration of retirement plan with retirement needs
- On-going needs for financial planning through retirement
- Working during retirement, living on retirement income, the effect on retirees due to mismatch between retirement plan and retirement needs

Candidates should be familiar with problems and issues associated with an individual prior to his retirement and able to provide the necessary counseling and solutions to those who needed them. Retirement is very critical for some people and other than financial issues some also face restlessness. Candidates should be well versed to handle issues relating to relationship, financial management, life balance issues, stress and well as anxiety that accompanies an individual when he near the retirement stage.