**105026: Occupational Certificate: Financial Advisor**

**Module 6**

**Investments Advice**

**SAQA ID: 105021**

**NQF Level 6**

**183 credits**

**Practical Assignment**

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**This assignment relates to the practical aspects of insurance underwriting. You must read the instructions carefully and submit the required evidence:**

***INSTRUCTION***

* This practical assignment must be done in class; the learner must demonstrate an ability to perform the tasks.
* Read the case study given and answer the questions that follow.

|  |  |
| --- | --- |
| **Exit Level Outcome 4:**  *Provide advice to clients to grow and protect wealth through appropriate Investments and related methods* |  |
| **Scope of Practical Skills:** | |
| * *PM 09: Research, analyse and conduct due-diligence of investment opportunities* * *PM 010: Advise clients regarding potential investment opportunities* * *PM 011: Facilitate the implementation of agreed investment decisions* | |

**Activity 1 (5 marks)**

Due to economic circumstances, the market expects an increase in interest rates of 1.5% at the next monetary policy meeting. After the meeting, the Monetary Policy Committee (MPC) actually announces a 2% increase in rates.

a) What is likely to happen to prices on the JSE because of this movement, and why? [1]

b) Indicate whether people will tend to buy (invest) or sell (disinvest) in products in the following markets: [4]

i. Equity

ii. Money Markets

iii. Bonds

iv. Property

**Activity 2 (8 marks)**

Sipho and Beauty Ncube come in to see you for the first time. You have been extremely busy working on a large investment for another client and are unprepared for the appointment. Sipho has an intense dislike for financial advisers as he has previously had a bad experience where he lost a lot of money.

As he is telling you about it, your mind is thinking about the large investment. However, he has inherited R5 million and would like advice on what to do with it. He is currently not sure of what to do with the money and has given you the olive branch to help him decide. This fact immediately arises your interest. Without finding out much about his personal circumstances (which includes large amounts of debt), you begin to give him ideas on the best possible investment products.

a) Briefly describe the skills and attributes you should be demonstrating in these circumstances and comment on why they are important in building a relationship of trust with Sipho and Beauty. [5]

b) Provide notes on the ideas that you will give him based on the circumstances. [3]

**Activity 3 (10 marks)**

An investor has the following investment portfolio:

|  |  |
| --- | --- |
| Money Market account | R350,000 |
| 150 Mining and resources shares | R600,000 |
| 30 Commodity shares | R120,000 |
| ABC Offshore Equity fund | R90,000 |
| Townhouse that is rented out | R750,000 |
| Gold ETF | R300,000 |

The investor has a cautious risk profile.

a) Complete the table below using the information from above. [8]

|  |  |  |
| --- | --- | --- |
| Asset class | % of portfolio | Proposed for a cautious investor |
| Cash |  |  |
| Bonds |  |  |
| Property |  |  |
| Equity |  |  |
| Offshore |  |  |

b) Determine whether his investment portfolio is aligned with his risk profile, by comparing it to the proposed asset allocation for a cautious investor. [2]

**Activity 4 (25 marks)**

A potential client has won the lottery to the tune of R2 000 000. The client has been advised by friends and family on the importance of investing some of the money so that his future is secured. The client has decided to use R100 000 of the money to cover his existing debts and R200 000 for personal use. The rest is available for investment.

The client approaches you for advice on how they should invest the available funds. The client are a first time investor and therefore has no clue of what to expect. You are expected to start by determining the client’s risk profile, risk tolerance levels, financial circumstances as well as investment objectives.

a) Create a list of questions that you will ask the client to determine the above. [6]

b) Give possible answers to the questions above [6]

c) Provide advice based on the answers you gave on b) above. [5]

d) Create a record of advice which would address the following: [8]

|  |  |
| --- | --- |
| Client’s risk profile |  |
| Client’s investment objective |  |
| Client’s financial situation |  |
| Client’s product experience |  |
| Products considered |  |
| Recommendation given |  |
| Motivation for recommendation |  |
| Important information highlighted to the client |  |

**Activity 5 (10 marks)**

Emergency funds are established to provide a person with necessary funds in case of an emergency such a critical illness, loss of a loved one, loss of job etc. If the client does not have ab emergency fund, they may need to borrow money or raise finance which could be very costly in the long run.

The funds in an emergency fund should be immediately available and the value of the fund should be approximately 3 to 6 times the client’s monthly living expenses.

John your client, has heard about the importance of these emergency funds and approached your for advice. Please explain the following to him.

a) The importance of an emergency fund. [3]

b) The means and ways in which one can create an emergency fund. [4]

c) What he can do in the case he has not provided enough in his emergency fund. [3]

**Activity 6 (8 marks)**

Pako meets one of his clients who needs to make some important decisions with regard to the allocation of certain assets. Pako knows that these changes must be made before the end of the tax year. However, Pako does not get around to making these requested changes, as there is unlikely to be any financial reward in doing the work. He does not return the client’s calls nor respond to her emails. As a result of not making the changes, the tax consequence for the client are disastrous.

a) Discuss the ethical issues that arise from the above scenario. [4]

b) In whose interest must Pako as a financial adviser always act and why? [2]

c) Why is it important for financial advisers to always act ethically? [2]

**Activity 7 (5 marks)**

Lucky Dube won R150 000 in a lucky draw. He has outstanding debt of R75 000 with an interest rate of 9.00% compounded monthly as well as a car loan of R75 000 with a nominal interest rate of 9.6% compounded monthly.

Lucky mentions that he has a cousin that has guaranteed him an amount of R164 250 after one year if he could invest the money on Lucky’s behalf.

Lucky would like to know whether he should settle his outstanding debt or take up the offer from his cousin. Show calculations. [5]

**Activity 8 (13 marks)**

Thomas, an engineer friend of yours has approached you with some questions regarding collective investment schemes (CIS) as he has no clue of what they are. He tell you that if you answer him convincingly, he will consider investing in CIS.

Please help him with the following questions:

a) What are the main asset classes underlying a collective investment in terms of structure? I am told there are only 4 of them. [4]

b) Which are the markets in which the main asset classes are primarily traded in to facilitate the efficient and cost-effective transfer of these assets? [4]

c) Who are the industry role-players in collective investment schemes? [5]

**Activity 9 (6 marks)**

Mpendulo Nkosi has lost his identity document and is currently in the process of applying for a new one. You are meeting him for the first time as a new client and need to verify his identity. Comment on whether you can accept another document for this purpose. [6]

**Activity 10 (10 marks)**

Nosisa Khukhu inherited R1 million from her late father. She makes an appointment to see her financial advisor, Letsholo Tshidi. Although she would like to invest the money in a manner that will earn reasonable interest, she also needs to be able to access the money later for business purposes.

After her meeting with Letsholo, she explains her needs to him. He immediately tells her that he has the perfect investment for her without doing a needs analysis or any further investigation into her personal and financial circumstance. Letsholo persuades Nosisa to invest her money in his proposed investment, as it will offer her the best returns. After a year in the investment, Nosisa tries to withdraw the money, only to discover that she is locked into a 5-year term. She is also horrified to see what the charges were and how much commission Letsholo earned. Nosisa complains to the FSP which employs Letsholo, however, they refuse to deal with her complaint.

Discuss whether Nosisa can approach the FAIS Ombud and what issues will need to be investigated. Make assumptions where necessary.

**Total: 100 marks**

*~ End ~*