**105026: Occupational Certificate: Financial Advisor**

**Module 6**

**Investments Advice**

**SAQA ID: 105021**

**NQF Level 6**

**183 credits**

**Learning units: 1 - 7**

**Practical Assignment Marking Memo**

**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]

Prices should decrease because rates came out higher than expected (negative news!)

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

i. Equity *Sell*

ii. Money Markets *Buy*

iii. Bonds *Sell*

iv. Property *Sell*

**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.

*• It is important to listen to the client and to deal empathetically with any issues the client may raise.*

*• Explain the importance of the financial planning process to the client.*

*• Explain what services the client can expect in from you and your business in order to reduce unmet expectations.*

*• Pay attention and focus on the client.*

*• Explain to the client that you need to complete the six steps of financial planning before being in a position to advise the client where to place his inheritance.*

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

*The notes would include:*

* *If he has any debts*
* *Whether he wants his returns in the long-term or short term*
* *The levels of risk that he can take*
* *If he has any major projects he wants to embark on.*

**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]

*Solution*

a)

|  |  |  |
| --- | --- | --- |
| *Asset class* | *% of portfolio* | *Proposed for a cautious investor* |
| *Cash* | *16%* | *30 - 45%* |
| *Bonds* | *0%* | *15 - 35%* |
| *Property* | *34%* | *5 - 20%* |
| *Equity* | *46%* | *15 - 35%* |
| *Offshore* | *4%* | *5 - 15%* |
| *100%* | | |

*b) The portfolio is not suitable for a cautious investor as it is underweight in cash and bonds and overweight with regards to property and equity.*

**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 |  |

***Guide to the Assessor***

*The learner should be creative and use the acquired skills to advice a client on their investment needs. The answers to this question will be varied and thus the Assessor to use own discretion.*

**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]

*Even with the best planning, an event may still take you by surprise. If no emergency fund is in place you would need to borrow money or raise finance which could be very costly in the long run.*

*Also, your family situation could also be that you need medical expenses to be financed and without the necessary funds (or medical aid) it could be very dangerous on one’s family.*

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

* *All funds must be highly liquid.*
* *The funds must be at least 3 – 6 times the monthly living expenses.*
* *The funds should be invested in low risk investments such as bank investments or money markets.*
* *Should he decide to repay a bond (or other forms of debt) over a property but retain a minimal bond, the access facility on the bond can be used for emergency fund.*

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

*The following options can be available:*

* *Using a credit card*
* *Obtaining personal loans*
* *A revolving credit account*
* *One must bear in mind that these options will be very costly and will interfere with the monthly budget.*

**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]

*All financial planners are faced with work that they would rather avoid for a number of reasons: the work may be outside of their area of expertise, they will not be earning any money for doing the work or they are busy with a far more lucrative case. Even if this is the case, it does not mean that the work should not be attended to timeously. By failing to carry out the work as required by the client, Pako has, by omission, acted in a manner that is harmful to the best interests of the client. Pako must ensure that his business model takes into account administrative work that is not fee or commission generating. His business must also have the operational ability to deal with this type of work. His omission has resulted in a financial loss for the client and he may be liable for the losses should the client decide to sue.*

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

*Pako must act in the interest of the client because he and the FSP are holding the client’s funds in trust.*

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

* *Proper advice leads to proper investments and the returns thereof. This interns encourages a culture of savings and ultimately economic growth.*
* *This ensures that the financial advisory profession is held in high esteem.*

**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]

*From the above it is evident that the debt owing on the car is more expensive than the normal loan of R75 000 and also has a higher cost that what the investment can yield.*

*It would be beneficial if Lucky would first of all settle his debt owing on the car.*

*The remainder of the money should be invested with his cousin as Lucky can earn a higher yield than what the remainder of the debt will cost him.*

**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]

*The assets are as follows:*

* *Bonds*
* *Equities*
* *Property*
* *Cash and cash equivalents.*

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]

*The markets are as follows:*

* *Capital market*
* *Money market*
* *Stock Market*
* *Property Market*

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

*Role players*

* *CIS Manager (Management Company)*
* *Trustee/custodian*
* *FSCA Commissioner*
* *ASISA*
* *Administrative Financial Service Provider.*

**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.

*According to the Regulations to FICA, if no identification document is available, and the reason given for the lack of availability is acceptable to the FSP, another form of identification can be accepted if it has:*

* *A photograph of that person;*
* *The person’s full names or initials and surname;*
* *The person’s date of birth;*
* *The person’s identity number; and*
* *Any of the particulars obtained from any other independent source, if it is believed to be reasonably necessary, taking into account any guidance notes concerning the verification of identities which may apply to the particular accountable institution.*

*In the case of Mpendulo, his passport is an acceptable form of identification as it meets all the above criteria.*

**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.

*Nosisa has the right to complain to the FAIS Ombud as she has tried to resolve the matter with the FSP but without success. It would appear from the facts that the following areas would need to be investigated by the FAIS Ombud:*

* *It is assumed that no disclosures were carried out at the beginning of the appointment.*
* *No investigation was done to establish Nosisa’s financial situation, financial product experience and objectives.*
* *No financial needs analysis was done.*
* *Inappropriate advice was given as Letsholo failed to listen to what Nosisa’s needs were. He placed her money in an investment that was not appropriate to her financial needs as it was not accessible when she needed it.*
* *The charges and commission were not disclosed to Nosisa.*
* *No information was given to Nosisa with regard to the product.*
* *Letsholohas not given Nosisa sufficient information which would enable her to make an informed decision with regard to the investment.*

*From the facts, it would appear that Nosisa would have a sound case against Letsholo. He failed to render financial services with due skill, care and diligence and in the interests of both the client and the integrity of the financial services industry.*