FP Canada Institute®

FP-BoK Topic 08: Investments

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TOPIC 08 OVERVIEW: INVESTMENTS

Both CFP professionals and QAFP professionals are expected to possess knowledge to allow them to create an appropriate asset allocation for an individual given their investment objectives and constraints (including return expectations and willingness, capacity and need for risk) and assist in selecting investments that are suitable for the individual. Their knowledge will also enable them to clarify the expected return and risk of an individual's investment portfolio, as well as help an individual make sense of their investment statements, including the impact that changing investment values may have on achieving their goals.

Sub-Topic	Knowledge Topics Common to Both QAFP Professionals and CFP Professionals	Knowledge Topics For Which CFP Professionals Are Expected to Have Deeper Knowledge
8.1 Foundations of Investments	✓	
8.2 Investment Marketplace	✓	
8.3 Investment Objectives and Constraints	✓	
8.4 Investment Return and Risk	✓	✓
8.5 Asset Classes	✓	✓
8.6 Asset Allocation	✓	
8.7 Investment Structures	✓	✓
8.8 Investment Styles	✓	

Sub-Topic	Knowledge Topics Common to Both QAFP Professionals and CFP Professionals	Knowledge Topics For Which CFP Professionals Are Expected to Have Deeper Knowledge
8.9 Investment Accounts	✓	
8.10 Investment Buying and Selling Techniques	✓	
8.11 Leveraged Investing	✓	✓

Taxonomy of the FP-BoK

The **verbs** used in the FP-BoK articulate the depth of knowledge expected of QAFP professionals and CFP professionals. The verbs are grouped into four **knowledge levels** which set out the depth or level of knowledge required for each knowledge topic.

KNOWLEDGE LEVELS

Knowledge Level	Associated Verbs Used in the BoK
Awareness	Define, Identify
Understanding	Explain
Application	Determine, Compare, Estimate, Calculate, Convert
Evaluation	Evaluate, Interpret

GLOSSARY OF VERBS USED IN THE FP-BOK

Verb	Description
Define	To state exactly the meaning of
Identify	To be aware of / to recognize and correctly name / to locate an appropriate resource
Explain	To make clear the meaning of / to describe something in more detail or reveal relevant facts or ideas related to it
Determine	To ascertain / to come to a decision, such as by investigation or reasoning
Compare	To note the similarities and differences between two or more things
Estimate	To determine an approximate value for
Calculate	To find the value using mathematics
Convert	To change from one form or purpose to another
Evaluate	To reach a conclusion or make a through careful study
Interpret	To give the meaning of / to construe or understand / to translate orally

TOPIC 08 KNOWLEDGE REQUIREMENTS

8.1 FOUNDATIONS OF INVESTMENTS

8.1.1 FOUNDATIONS OF INVESTMENTS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify roadblocks to engaging in investment planning, such as:
  - Lack of knowledge
  - Cost (perceived or actual)
  - Personal attitudes / choices
- Explain objectives of an investment plan, such as:
  - Minimize risk
  - Maximize return
  - Determine risk tolerance
  - Develop appropriate asset allocation
  - Determine appropriate investment choices
- Determine the factors that may affect an individual's investment plan, such as:
  - Time horizon
  - Risk tolerance
  - Investment objective
  - Liquidity needs
  - Types of income required
  - Stability of income required
  - Marginal tax rates
  - Family circumstances
  - Business interests
  - Integration with other objectives
  - Tax attributes of the individual / entity
  - Personal goals / needs / attitudes
- Determine how each of these factors may impact the suitability of an investment:
  - Time horizon
  - Volatility
  - Risk tolerance
  - Investment objective
  - Financial situation
  - Personal situation
  - Income
  - Liquidity
  - Control

  - Tax impact
  - Investment management process
  - Economic cycle
  - Cost
  - Historical performance
  - Performance expectations
- Evaluate how each of the factors may impact the suitability of an investment.

8.2 INVESTMENT MARKETPLACE

8.2.1 INVESTMENT MARKETPLACE

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify participants in the financial market system, such as:
  - Individual investors
  - Institutional investors
  - Foreign investors
  - Financial corporations (public, private)
  - Non-financial corporations
  - Governments
- Identify financial intermediaries in the financial market system, such as:
  - Investment dealers
  - Stock exchanges
  - Over-the-counter markets
  - Lending institutions
  - Insurance companies
  - Governments
- Explain key trends currently affecting investment advice, such as:
  - Growth and use of robo-advisers
  - Fintech (financial technology) company offerings
  - Channels through which advice is available
  - Socially Responsible Investing (SRI) objectives
  - Environmental, Social and Governance (ESG) measurement
- Identify financial markets that exist, such as:
  - Long-term capital market
    - Equity
    - Debt
  - Money market
  - Derivatives market
  - Foreign exchange market
- Define types of markets in which investments may be traded, such as:
  - Primary market
  - Secondary market
  - Dealer / Over-the-counter
  - Auction
- Identify which investments trade in each of the types of markets.
- Define the terms related to the movement of the market for an investment.
  - Bull market
  - Bear market

8.3 INVESTMENT OBJECTIVES AND CONSTRAINTS

8.3.1 INVESTMENT OBJECTIVES AND CONSTRAINTS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Explain investment objectives, such as:
    - Preservation of capital
    - Preservation of purchasing power
    - Liquidity of capital
    - Income stream
    - Growth of capital
- Explain investment constraints, such as:
    - Time
    - Liquidity
    - Legal and regulatory
    - Tax
    - Personal attitudes
    - Unique circumstances
- Define time horizon.
- Explain that an individual may have multiple time horizons.
- Identify the time horizon(s) until an investment needs to be liquidated and/or used for income.
- Explain the elements that impact an individual’s investment risk profile:
    - Risk Tolerance
        - Willingness to accept risk (personal attitudes towards fluctuations in investment value)
    - Risk Capacity
        - Ability to accept risk (financial capacity to sustain fluctuations in investment value)
    - Risk Need (minimum amount of risk that must be incurred to earn the expected return which will achieve goal).
- Explain the variables that may affect risk tolerance and risk capacity, such as:
    - Time horizon
    - Investment objective
    - Importance of investment to achievement of goal
    - Personal attitudes
    - Tolerance for downside volatility
        - Net worth
        - Amount of income

        - Stability of income
- Explain the elements that impact investment suitability
    - client's previous investment experience,
    - level of financial knowledge; and
    - prior investment behaviour
- Explain that an individual has a single risk tolerance.
- Explain that an individual may have different risk capacities for different goals.

8.3.2 SOCIALLY RESPONSIBLE INVESTING (SRI)

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define socially responsible investing (SRI) criteria.
- Identify the purpose for which a socially responsible investment may be used.
- Identify how an investment may qualify as a socially responsible investment.

8.4 INVESTMENT RETURN AND RISK

8.4.1 MEASUREMENT OF INVESTMENT RETURN

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define investment return.
- Define variables that impact the calculation of investment return.
  - Amount invested / Face value of investment
  - Contributions
  - Withdrawals
  - Costs and fees
  - Investment income received
  - Capital gain / loss
  - Compounding period
  - Compounding frequency
  - Exchange rate
- Explain how each variable used in the calculation of investment return affects investment return.
- Define types of investment returns, such as:
  - Nominal
  - Real
  - Effective annual return
  - Expected
  - Realized
  - After-tax
  - Real, after-tax
  - Risk-free
  - Holding period
  - Geometric
  - Arithmetic
  - Dollar-weighted
  - Time-weighted
- Explain each type of investment return.
- Identify that past performance for any investment is not indicative of future performance.

Additional Knowledge Expected of CFP Professionals

- Compare types of investment returns, such as:
  - Nominal return versus real return
  - Expected return versus realized return
  - Geometric return versus arithmetic return

    - Dollar-weighted return versus time-weighted return
- Interpret the return calculated for an investment.

8.4.2 MEASUREMENT OF INVESTMENT RISK

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Explain the relationship between expected return and risk.
- Explain types of risks that may affect an investment, such as:
    - Systematic risk
    - Non-systematic risk
    - Inflation rate risk
    - Political risk
    - Sovereign risk
    - Liquidity risk
    - Marketability risk
    - Interest rate risk
    - Reinvestment risk
    - Foreign exchange risk
    - Default risk
    - Credit risk
    - Timing or call risk
    - Volatility risk
    - Event risk
    - Counterparty risk
- Define volatility.
- Explain how the types of risk may affect volatility.
- Explain possible approaches to reducing the types of risk.
- Define measures of investment risk, such as:
    - Standard Deviation
    - Beta
- Identify that given two investments with the same level of risk, an investor will choose the investment with the higher return; identify that given two investments with the same level of return, an investor will choose the investment with the lower risk.
- Explain how measures of investment risk may be used to measure the sensitivity of an investment to changes in the market.
- Define other measures of investment risk, such as:
    - Range of returns
    - Best and worst periods
    - Number of periods of negative returns
    - Average drop in value between peak and valley of returns

    - Largest drop in value between peak and valley of returns
    - Average length of time between subsequent peaks of returns
    - Maximum length of time between subsequent peaks of returns

Additional Knowledge Expected of CFP Professionals

- Interpret the calculation of standard deviation for an investment.
- Interpret the calculation of Beta for an investment.

8.4.3 MEASUREMENT OF RISK-ADJUSTED RETURN

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Explain the expected risk-adjusted return for an investment using the Capital Asset Pricing Model.
- Define a benchmark.
- Identify characteristics of a benchmark, such as:
    - Same risk as the portfolio
    - Specified in advance
    - Objectively constructed
    - Easily measurable
- Identify benchmarks to which realized returns may be compared in assessing performance, such as:
    - Market indices
    - Other similarly constructed investments
    - Required rate of return to meet goal

Additional Knowledge Expected of CFP Professionals

- Calculate the expected risk-adjusted return for an investment using the Capital Asset Pricing Model.
- Interpret the expected risk-adjusted return for an investment using the Capital Asset Pricing Model.
- Define measurements of risk-adjusted return, such as:
    - Sharpe Ratio
    - Treynor Ratio
    - Jensen Index
- Explain each of the measurements of risk-adjusted return.
- Interpret each of the measurements of risk-adjusted return.
- Identify when the use of each measurement of risk-adjusted return is appropriate.
- Compare the risk-adjusted return of an investment to the risk-adjusted return of its benchmark.

8.5 ASSET CLASSES

8.5.1 FOUNDATIONS OF ASSET CLASSES

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define asset class.
- Identify asset classes, such as:
  - Cash
  - Fixed Income
  - Equities
  - Real estate
  - Alternative
- Compare asset classes using factors such as:
  - Historical rates of return
  - Expected rates of return
  - Historical volatility
  - Expected volatility
  - Correlation to the other asset classes

8.5.2 CASH

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify the primary investment objectives typically associated with the asset class of cash.
  - Preservation of capital
  - Liquidity of capital
- Explain purposes for holding the asset class of cash, such as:
  - Maintain liquidity for emergencies
  - Maintain liquidity to fund expenses or purchases
  - Maintain / reduce volatility
  - Generate income
- Define cash and cash-equivalent investment vehicles that are a part of the asset class of cash, such as:
  - Domestic currency
  - Chequing / savings accounts
  - Canada bonds
    - Canada Savings Bonds
    - Canada Premium Bonds
  - Treasury bills (T-Bills)
  - Bankers' acceptance
  - Commercial paper
  - Short Term Guaranteed Investment Certificates (GICs) and Term Deposits

    - Money market (mutual) funds
- Explain characteristics of each cash or cash-equivalent investment, such as:
    - Relative potential for loss of capital
    - Level of liquidity
    - Relative level of volatility
    - Expected rate of return
- Determine how each of these factors may impact the suitability of a cash or cash-equivalent investment:
    - Time horizon
    - Volatility
    - Risk tolerance
    - Investment objective
    - Financial situation
    - Personal situation
    - Income
    - Liquidity
    - Control
    - Tax impact
    - Investment management process
    - Economic cycle
    - Cost
    - Historical performance
    - Performance expectations
- Evaluate how each of the factors may impact the suitability of a cash or cash-equivalent investment.
- Explain for whom each cash or cash-equivalent investment may be suitable.
- Explain how a return is generated for each cash and cash-equivalent investment.
- Interpret the return for a cash and cash-equivalent investment.
- Explain risks associated with each cash and cash-equivalent investment.
- Explain opportunities for diversification within the asset class of cash, such as:
    - By credit quality of issuer
    - By term to maturity of investment
    - By government coverage of asset (CDIC or similar provincial agency)
- Identify that cash and cash-equivalent investments typically generate interest income.
- Explain the tax treatment (based on the asset location) of each type of cash and cash-equivalent investment.
    - When held to maturity
    - When disposed of prior to maturity

- Estimate the tax impact (based on the asset location) of holding each type of cash and cash-equivalent investment.
    - If held to maturity
    - If disposed of prior to maturity
- Explain the types of bonds offered by the Canadian Government that act as a cash and cash-equivalent investment.
    - Canada Savings Bonds
    - Canada Premium Bonds
- Identify that Treasury Bills are also available from some foreign governments.
- Identify that foreign Treasury Bills may be used as a hedge against the depreciation of the Canadian dollar versus the foreign currency.
- Explain that a Guaranteed Investment Certificate and/or term deposits may have restrictions on redemption prior to maturity.
- Define opportunity cost.
- Explain the opportunity cost of holding a cash or cash-equivalent investment.

8.5.3 FIXED INCOME

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify the primary investment objectives typically associated with the asset class of fixed income.
    - Income
    - Preservation of capital
- Explain purposes for holding the asset class of fixed income, such as:
    - Maintain / reduce volatility
    - Generate income
- Identify investment vehicles that are a part of the asset class of fixed income, such as:
    - Guaranteed Investment Certificates (greater than one year)
    - Bonds and Debentures
        - Federal bonds
        - Provincial/territorial/municipal bonds
        - Corporate bonds
        - International bonds
    - Mortgage-backed securities
    - Annuities
    - Fixed income funds
    - Limited recourse capital notes (LRCN)
- Explain characteristics of each fixed income investment, such as:
    - Relative potential for loss of capital
    - Level of liquidity

- Relative level of volatility
    - Expected rate of return
- Determine how each of these factors may impact the suitability of a fixed income investment:
    - Time horizon
    - Volatility
    - Risk tolerance
    - Investment objective
    - Financial situation
    - Personal situation
    - Income
    - Liquidity
    - Control
    - Tax impact
    - Investment management process
    - Economic cycle
    - Cost
    - Historical performance
    - Performance expectations
- Evaluate how each of the factors may impact the suitability of a fixed income investment.
- Explain for whom each fixed income investment may be suitable.
- Explain how a return is generated for each fixed income investment.
- Interpret the return for a fixed income investment.
- Explain risks associated with each fixed income investment.
- Explain opportunities for diversification within the asset class of fixed income, such as:
    - By the country in which the company operates (geographic diversification)
    - By the industry in which the company operates (sector diversification)
    - By the size of the company (market capitalization diversification)
    - By the issuer of the debt (government versus corporate or different issuers within same industry)
    - By the term to maturity of the debt (shorter versus longer time horizon)
- Identify that fixed income investments typically generate interest income.
- Explain the tax treatment (based on the asset location) of each type of fixed income investment.
    - When held to maturity
    - When disposed of prior to maturity
- Estimate the tax impact (based on the asset location) of each type of fixed income investment.
    - When held to maturity

    - When disposed of prior to maturity
- Identify that a process exists for disposing of a fixed income investment prior to maturity.
- Explain types of Guaranteed Investment Certificates, such as:
    - Regular
    - Variable rate
    - Linked
    - Rate-rising
    - Foreign currency
- Explain interest options for Guaranteed Investment Certificates, such as:
    - Monthly payments
    - Annual payments
    - Payout at maturity
    - Simple interest
    - Compound interest
- Identify that Guaranteed Investment Certificates may have redemption restrictions and/or costs associated with redemption prior to maturity.
- Explain the amounts that are taxed annually (based on asset location) for a Guaranteed Investment Certificate.
    - Interest amount accrued or received by a non-linked Guaranteed Investment Certificate
    - Minimum return guarantee for a linked Guaranteed Investment Certificate
- Explain the organizations that may guarantee the repayment of a Guaranteed Investment Certificate.
    - The financial institution that issues the Guaranteed Investment Certificate
    - The Canadian Deposit Insurance Corporation (CDIC), if specific criteria are met.
- Define the participation rate for a linked Guaranteed Investment Certificate.
- Explain that the main purpose of issuing a bond or debenture is to raise capital.
- Identify issuers of bonds or debentures, such as:
    - The federal government
    - Provincial/territorial/municipal governments
    - Government agencies
    - Public corporations
    - International governments
    - International corporations
- Identify that bonds are backed by physical assets owned by the issuer of the bond.
- Identify that debentures are backed by the credit of the issuer of the debenture.
- Explain rights of bondholders, such as:
    - Right to receive interest payments as agreed

    - Right to secure physical assets upon default of interest payments by the issuer of the bond
    - Preferential right to assets upon dissolution of the issuer of the bond
- Explain types of bonds offered by the Government of Canada, such as:
    - Government of Canada Bonds
    - Real Return Bonds
- Explain that bonds offered by the provincial/territorial/municipal governments exist.
- Explain the components of a bond or debenture, such as:
    - Face value / par value
    - Price
    - Term
    - Maturity date
    - Coupon
    - Yield
- Define the values at which a bond or debenture may be priced.
    - Premium
    - Par
    - Discount
- Define the term-to-maturity for a bond or debenture.
- Define the yield-to-maturity for a bond or debenture.
- Define the call-to-maturity for a bond or debenture.
- Explain features that may be available on a bond or debenture, such as:
    - Strip
    - Callable / Redeemable
    - Extendible
    - Retractable
    - Convertible
    - Purchase Fund
    - Sinking Fund
- Explain how the features of a bond may affect the price of the bond.
- Define the classification of bonds based on risk.
    - Investment grade
    - Speculative
- Define an external bond.
- Identify that corporate bonds or debentures may have protective covenants to ensure that the bondholders' security is not diluted or eliminated by the issuer of the bond.
- Determine how each of these factors may impact the value of the coupon rate for a bond or debenture:
    - Risk of the issuer of the bond

    - Type of security pledged for the bond
    - Features of the bond
    - Term of the bond
    - Interest rates
- Explain the relationship between interest rates (bond yields) and the price of a bond.
- Explain the impact of the term-to-maturity on the volatility of the price of a bond.
- Explain the impact of the coupon rate on the volatility of the price of a bond.
- Explain the impact of yield changes on the volatility of the price of a bond.
- Explain bond duration.
- Interpret the duration of a bond or bond portfolio.

8.5.4 EQUITIES

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify the primary investment objectives typically associated with the asset class of equities.
    - Growth of capital
    - Preservation of purchasing power
    - Income
- Explain purposes for holding the asset class of equities, such as:
    - Capital appreciation
    - Generate income
- Identify investment vehicles that are a part of the asset class of equities, such as:
    - Preferred shares
    - Common shares
    - Equity funds
- Explain characteristics of each equity investment, such as:
    - Relative potential for loss of capital
    - Level of liquidity
    - Relative level of volatility
    - Expected rate of return
- Determine how each of these factors may impact the suitability of an equity investment:
    - Time horizon
    - Volatility
    - Risk tolerance
    - Investment objective
    - Financial situation
    - Personal situation
    - Income
    - Liquidity

    - Control
    - Tax impact
    - Investment management process
    - Economic cycle
    - Cost
    - Historical performance
    - Performance expectations
- Evaluate how each of the factors may impact the suitability of an equity investment.
- Explain for whom each equity investment may be suitable.
- Explain how a return is generated for each equity investment.
- Interpret the return for an equity investment.
- Explain risks associated with each equity investment.
- Explain opportunities for diversification within the asset class of equities, such as:
    - By the country in which the company operates (geographic diversification)
    - By the country in which the shares reside (international diversification)
    - By the industry in which the company operates (sector diversification)
    - By the size of the company (market capitalization diversification)
    - By the investment opportunities for the company (growth versus value)
- Explain types of income that may be generated by each equity investment, such as:
    - Dividends
    - Capital gains
- Explain the tax treatment (based on the asset location) for each type of equity investment.
    - When receiving income from the equity investment
    - When disposing of the equity investment
- Estimate the tax impact (based on the asset location) for each type of equity investment.
    - When receiving income from the equity investment
    - When disposing of the equity investment
- Explain that the main purpose of issuing share capital is to raise unencumbered debt.
- Identify the issuers of share capital.
    - Public corporations
    - Private corporations
- Explain types of share capital that a company may have, such as:
    - Voting shares
    - Non-voting shares
    - Subordinate shares
    - Restricted shares
- Explain the preferred shareholder's preference as to assets upon dissolution of company.

- Explain features that a preferred share may contain, such as:
    - Par value
    - Price
    - Dividend
        - Cumulative
        - Non-cumulative
        - Fixed rate
        - Variable rate
    - Features
        - Convertible
        - Retractable
        - Redeemable
        - Callable
        - Purchase or sinking fund
        - Voting privileges
        - Participation in earnings
        - Rights
        - Warrants
- Identify that each of the components of a preferred share influence the price of the share.
- Explain how the price of a preferred share may be affected by interest rates and the profitability of the issuing company.
- Explain rights of a common shareholder, such as:
    - Right to share in the earnings of the corporation
    - Right to receive any common share dividends paid by the corporation
    - Right to voting privileges, including the election of directors and the approval of financial statements
    - Right to residual value of the assets upon the dissolution of the corporation
- Calculate the characteristics of a common share:
    - The market capitalization given the market price and number of shares outstanding
    - The dividend yield given the value of the dividend and the market price of the share
    - The amount of the dividend given the dividend yield and the market price of the share
- Explain components of a common share, such as:
    - Price
    - Dividend
- Identify who is responsible for declaring dividends payable.
    - For a public corporation
    - For a private corporation

- Explain types of dividends that may be payable, such as:
  - Regular
  - Special
  - Liquidating
- Explain forms in which dividends may be paid to shareholders, such as:
  - Stock
  - Cash
  - Other property
- Explain dates related to the payment of dividends, such as:
  - Declaration date
  - Date of Record
  - Ex-Dividend Date
  - Cum-Dividend Date
- Explain the factors that may affect the price of a publicly traded stock, such as:
  - Demand and supply
  - Profitability
  - Expectation of future cash flow
  - Rumour
  - Market sentiment
  - News
  - Market cycles
- Define a stock split.
- Explain the impact of a stock split.
  - Number of shares
  - Shareholder's equity
  - Price of stock
- Define a stock consolidation.
- Explain the impact of a stock consolidation.
  - Number of shares
  - Shareholder's equity
  - Price of stock
- Define types of orders that may be used when trading in the equity market, such as:
  - Market order
  - Limit order
  - Day order
  - Good-till-cancelled order
  - All-or-none order
  - Partial order
  - Good-through order

- Stop-loss order
    - Stop-buy order
    - Professional (Pro) order
- Define major methods for analyzing equity investments.
    - Fundamental analysis
    - Technical analysis
- Compare the variables that are used in technical and fundamental analysis.

8.5.5 REAL ESTATE

Knowledge Common to Both QAFP Professionals and CFP Professionals

Owner-Occupied Real Estate

- Explain investment aspects of owner-occupied real estate, such as:
    - Preservation of capital
    - Capital appreciation
- Identify investment vehicles that are a part of the asset class of owner-occupied real estate, such as:
    - Residential real estate
- Explain characteristics of an owner-occupied real estate investment, such as:
    - Relative potential for loss of capital
    - Level of liquidity
    - Relative level of volatility
    - Expected rate of return
- Determine how each of these factors may impact the suitability of an owner-occupied real estate investment:
    - Time horizon
    - Volatility
    - Risk tolerance
    - Investment objective
    - Financial situation
    - Personal situation
    - Income
    - Liquidity
    - Control
    - Tax impact
    - Investment management process
    - Economic cycle
    - Cost
    - Historical performance

    - Performance expectations
- Explain risks associated with an owner-occupied real estate investment.
- Explain rights available to owner-occupied real estate owners, such as:
    - Right to occupy the property
    - Right to rent the property
    - Right to participate in the profits from renting the property
    - Right to develop the property

Non-Owner-Occupied Real Estate

- Identify the primary investment objectives typically associated with the asset class of non-owner-occupied real estate.
    - Income stream
    - Growth of capital
- Identify investment vehicles that are a part of the asset class of non-owner-occupied real estate, such as:
    - Residential real estate
    - Commercial real estate
    - Real estate investment group
- Explain characteristics of a non-owner-occupied real estate investment, such as:
    - Relative potential for loss of capital
    - Level of liquidity
    - Relative level of volatility
    - Expected rate of return
- Explain for whom each non-owner-occupied real estate investment vehicle may be suitable.
- Explain risks associated with a non-owner-occupied real estate investment.
- Explain types of income that may be generated by a non-owner-occupied real estate investment, such as:
    - Net business income / rental income
    - Capital gains

Additional Knowledge Expected of CFP Professionals

- Explain how a return is generated for a non-owner-occupied real estate investment.
- Explain risks associated with a non-owner-occupied real estate investment.
- Explain opportunities for diversification within the asset class of non-owner-occupied real estate, such as:
    - By the country in which the real estate is located (geographic diversification)
    - By the country in which the real estate investment firm resides.
    - By the type of real estate (residential, commercial, industrial)

- Identify the tax treatment (based on asset location) for each non-owner-occupied real estate investment.
    - For the disposition of non-owner occupied residential real estate
    - For the income derived from renting residential real estate
    - For the expenses related to the maintenance and improvement of the real estate.
- Estimate the tax impact (based on asset location) of income for each non-owner-occupied real estate investment.
    - For the disposition of non-owner occupied residential real estate
    - For the income derived from renting residential real estate

8.5.6 ALTERNATIVE INVESTMENTS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify the primary investment objectives typically associated with the asset class of alternative investments.
    - Growth of capital
- Identify purposes for which holding the asset class of alternative investments may be used, such as:
    - Capital appreciation
    - Risk minimization
- Identify investment vehicles that are a part of the asset class of alternative investments, such as:
    - Commodities
    - Derivatives
        - Principal protected notes
        - Options
        - Restricted share units
        - Forwards
        - Warrants
        - Rights
    - Hedge funds
    - Private equity
    - Collectibles
- Identify the characteristics of each type of alternative investment, such as:
    - Relative potential for loss of capital
    - Level of liquidity
    - Relative level of volatility
- Define a commodity.
- Identify the purpose for which a commodity investment may be used.
- Identify the primary investment objectives that commodities support.
    - Growth of capital
    - Income

- Identify commonly traded commodities used as investments, such as:
    - Grains (corn, oats, rice, wheat, milk, cocoa, coffee, cotton, sugar)
    - Livestock (hogs and cattle)
    - Energy (crude oil, ethanol, natural gas, gasoline, propane)
    - Industrial metals (copper, lead, zinc, tin, aluminium, nickel, cobalt)
    - Precious metals (gold, platinum, palladium, silver)
- Define a principal protected note.
- Identify the purpose for which a principal protected note may be used.
- Define an option.
- Identify the purpose for which an option may be used.
- Define an employee stock option.
- Identify the purpose for which an employee stock option may be used.
- Define a future.
- Identify the purpose for which a future may be used.
- Identify underlying assets for futures, such as:
    - Financial instruments such as stocks, bonds, currencies, interest rates and stock indices
    - Commodity futures such as gold, crude oil, grains, dairy, and livestock
- Define a right.
- Identify the purpose for which a right may be used.
- Define a warrant.
- Identify the purpose for which a warrant may be used.
- Define private equity.
- Identify the purpose for which private equity may be used.
- Define an investment collectible.
- Identify the purpose for which an investment collectible may be used.
- Identify typical collectibles that may be characterized as an alternative investment, such as:
    - Fine art
    - Rare books
    - Classic cars
    - Wine
    - Coins
    - Stamps
    - Comic books
    - Sports cards
    - Diamonds
    - Memorabilia
    - Famous autographs

Additional Knowledge Expected of CFP Professionals

- Explain risks associated with each alternative investment.
- Explain where commodities are traded.
- Identify the primary investment objectives typically associated with a principal protected note.
    - Preservation of capital
    - Growth of capital
- Explain purposes for holding principal protected notes, such as:
    - Capital appreciation
    - Risk minimization
- Identify that a principal protected note is issued and backed by a financial institution.
- Explain that principal protected notes may have restrictions on redemption prior to maturity.
- Explain how a return is generated for a principal protected note.
    - When held to maturity
    - When redeemed prior to maturity
- Explain variables that the risk of a principal protected note may be linked to, such as:
    - The creditworthiness of the issuer / guarantor of the note
    - The value of the underlying asset
- Identify that principal protected notes typically generate interest income.
- Explain the tax treatment (based on asset location) of a principal protected note.
    - When held to maturity
    - When disposed of prior to maturity
- Identify the primary investment objectives typically associated with options.
    - Growth of capital
    - Income
- Explain purposes for using options, such as:
    - Capital appreciation
    - Risk minimization
    - Leverage
    - Market entry and exit
- Identify assets for which options are issued and traded, such as:
    - Stocks
    - Commodities
    - Currency
- Explain components of an option, such as:
    - Call
    - Put

- Strike price
  - Exercise price
  - Trading unit
  - Option premium
- Explain parties to an option, such as:
  - Buyer (Owner)
  - Seller (Writer)
- Explain terminology related to options, such as:
  - In the money
  - At the money
  - Out of the money
  - Intrinsic value
  - Time value
- Explain that the value of an option is based on the underlying asset of that option.
- Explain how a return is generated for an option.
- Explain how a protective put works.
- Explain where options are traded.
- Define an employee stock option.
- Define terms associated with an employee stock option, such as:
  - Vesting
  - Expiry
- Explain the tax treatment of an employee stock option.
  - At the time shares are granted
  - At the time shares are vested
  - At the time shares are disposed of
- Define a restricted share unit (RSU).
- Define a forward.
- Explain how a return is generated for a forward.
- Explain options available to settle futures, such as:
  - Offsetting position prior to expiry
  - Delivery of underlying asset at expiry
- Explain parties to a right, such as:
  - Issuing company
  - Shareholder
- Explain terminology related to rights, such as:
  - Subscription or offering price
  - Ex-rights
  - Cum-rights
  - Intrinsic value

- Identify that a secondary market exists for trading rights.
- Explain parties to a warrant, such as:
    - Issuing company
    - Shareholder
    - Warrant holder
- Explain terminology related to warrants, such as:
    - Intrinsic value
    - Time value
- Identify that a secondary market exists for trading warrants.
- Identify the primary investment objectives typically associated with private equity.
    - Growth of capital
    - Income
- Identify the primary investment objectives typically associated with collectibles.
    - Growth of capital
- Explain purposes for holding collectibles as an investment, such as:
    - Capital appreciation
- Explain the tax treatment of a collectible.

8.6 ASSET ALLOCATION

8.6.1 ASSET ALLOCATION

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define asset allocation.
- Explain the importance of asset allocation.
- Define types of asset allocation, such as:
    - Strategic
    - Tactical
- Explain each type of asset allocation.
- Explain how asset allocation may be used to align a portfolio with risk tolerance.
- Explain how asset allocation may be impacted by factors such as:
    - Time horizon
    - Risk tolerance
    - Investment objectives
    - Required rate of return
    - Liquidity needs
    - Required income stream
    - Capital market expectations
- Explain approaches for selecting a strategic asset allocation, such as:
    - Mean-variance optimization
    - Rules of Thumb
        - 100 – Age = % of Equities in Portfolio Approach
        - Lifecycle approach
    - Ad hoc rules
- Explain approaches that may be used to implement a tactical asset allocation strategy.
    - Value-based
    - Cyclical-based
- Compare a strategic and a tactical asset allocation.
- Calculate the changes required to engage in a tactical asset allocation strategy.
- Explain correlation.
- Explain the effect of correlation on an investment portfolio.
- Explain how correlation is used to manage risk in a portfolio.
- Interpret the correlation between two asset classes (or investments).
- Define diversification.
- Explain the purpose of diversification.
- Explain risks that may be associated with diversification.
- Define asset location.
- Explain the importance of asset location.

- Determine the factors that may affect asset location, such as:
    - Rate of return for the investment
    - Tax rate when funds are invested
    - Tax rate when funds are withdrawn
    - Nature of returns (capital gains, dividends, interest)
    - Investor behaviour and attitudes toward structure of assets / investments
- Explain the purpose of rebalancing.
- Explain the advantages and disadvantages of rebalancing.
    - In rising markets
    - In dropping markets
- Explain approaches available to choose when to rebalance, such as:
    - Temporal rebalancing
    - Rebalancing based on deviation from asset class weights
- Explain the impact of rebalancing.
    - On portfolio value
    - On asset classes that are growing in value
    - On asset classes that are shrinking in value
- Calculate the amounts required to rebalance a portfolio to its strategic asset allocation.
- Explain the factors of an investment portfolio that should be reviewed on a periodic basis.
    - Asset allocation
    - Asset location
    - Diversification of asset classes
    - Diversification within each asset class
- Evaluate the factors of an investment portfolio that should be reviewed on a periodic basis.

8.7 INVESTMENT STRUCTURES

8.7.1 MUTUAL FUNDS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define a mutual fund.
- Identify that mutual funds require a securities license for an individual to act in furtherance of a trade.
- Identify which organization(s) provide regulatory oversight for mutual funds.
- Determine how each of these factors may impact the suitability of a mutual fund:
    - Time horizon
    - Volatility
    - Risk tolerance
    - Investment objective
    - Financial situation
    - Personal situation
    - Income
    - Liquidity
    - Control
    - Tax impact
    - Investment management process
    - Economic cycle
    - Cost
    - Historical performance
    - Performance expectations
    - Personal attitudes
- Evaluate how each of the factors may impact the suitability of a mutual fund.
- Explain for whom a mutual fund may be suitable.
- Explain the structure that a mutual fund may have.
    - Trust
    - Corporation
- Explain the role of those involved with operating a mutual fund, such as:
    - Fund Manager
    - Custodian
    - Auditor
- Compare open-end and closed-end funds, specifically:
    - Liquidity
    - Trading Process
    - Transparency
    - Variability of structure

    - Cost
- Explain the different classes of mutual funds that may be available.
- Explain how the corporate class structure of a mutual fund affects its tax treatment.
    - When income is received from the fund
    - When the fund is disposed of
- Explain the information contained in a Fund Facts document for a mutual fund.
- Explain with whom a mutual fund is traded (i.e., who it is purchased from and redeemed to).
- Explain the types of mutual funds available, as classed by the Canadian Investment Funds Standards Committee (CIFSC).
    - Money market
    - Fixed income
    - Balanced
    - Equity
    - Specialty
    - Target-date
- Compare active and passive management.
- Explain rights available to mutual fund holders, such as:
    - Right of redemption for open ended funds
    - Right of rescission
    - Voters' rights
- Explain types of sales charges that may be charged on a mutual fund, such as:
    - No-load
    - Low-load
    - Front-end
    - Back-end or deferred sales charge
- Explain fees associated with mutual funds, such as:
    - Trailer fee
    - Management fee
    - Management expense ratio
    - Trading expense ratio
    - Early redemption / short-term trading fee
    - Switching fees
- Define the Net Asset Value Per Share (NAVPS) for a mutual fund.
- Explain how a mutual fund is priced using the Net Asset Value Per Share (NAVPS).
- Interpret the Net Asset Value Per Share (NAVPS) for a mutual fund.
- Explain types of income that may be distributed by a mutual fund, such as:
    - Interest
    - Dividends

    - Capital gains
- Explain the preservation of character that exists when income received by a mutual fund is distributed to unitholders of the mutual fund.
- Explain the impact of a distribution from a mutual fund on the net asset value per share (NAVPS).
- Explain the impact of reinvested distributions from a mutual fund on adjusted cost basis.
- Interpret the return for a mutual fund.
- Explain the tax impact (based on asset location) of a mutual fund.
    - When distributions are received due to trading activity in the pool of investments
    - Upon disposition of the mutual fund
- Estimate the tax impact (based on asset location) of a mutual fund.
    - When distributions are received due to trading activity in the pool of investments
    - Upon disposition of the mutual fund
- Explain how a return of capital distribution defers a tax liability.
- Explain that the return of a mutual fund is presented after the fund expenses have been deducted from the gross return of the fund.

Mutual Fund Comparisons

- Compare mutual funds and pooled funds, specifically:
    - Regulatory oversight
        - Organization(s) that regulate distribution
        - Licensing requirements for individuals who sell the funds
        - Main disclosure documents required for purchase
        - Minimum valuation periods
    - Permissible issuers of each type of fund
    - Protection against insurer insolvency
- Compare mutual funds and exchange traded funds, specifically:
    - Regulatory oversight
        - Organization(s) that regulate distribution
        - Licensing requirements for individuals who sell the funds
        - Main disclosure documents required for purchase
        - Minimum valuation periods
    - Permissible issuers of each type of fund
    - Ownership and segregation of assets
    - Relative risk
    - Relative costs
    - Permissible use of derivatives
    - Allowance to take concentrated positions
    - Redemption rights / restrictions

- Protection against insurer insolvency

- Compare mutual funds and segregated funds, specifically:
  - Regulatory oversight
    - Organization(s) that regulate distribution
    - Licensing requirements for individuals who sell the funds
    - Main disclosure documents required for purchase
    - Minimum valuation periods
  - Permissible issuers of each type of fund
  - Ownership and segregation of assets
  - Relative risk
  - Relative costs
  - Permissible use of derivatives
  - Allowance to take concentrated positions
  - Redemption rights / restrictions
  - Protection against insurer insolvency
- Compare mutual funds and hedge funds, specifically:
  - Level of regulatory oversight
  - Main disclosure documents for purchase
  - Permissible uses of derivatives
- Compare exchange traded funds and index mutual funds.

Additional Knowledge Expected of CFP Professionals

- Compare mutual funds and pooled funds, specifically:
  - Ownership and segregation of assets
  - Relative risk
  - Relative costs
  - Permissible use of derivatives
  - Allowance to take concentrated positions
  - Redemption rights / restrictions
- Compare mutual funds and hedge funds, specifically:
  - Permissible uses of short positions
  - Liquidity

8.7.2 POOLED FUNDS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define a pooled fund.
- Identify the purpose for which a pooled fund may be used.
- Identify that pooled funds require a securities license for an individual to act in furtherance of a trade.

- Identify that pooled funds must be approved by the securities administrator of the province/territory in which they are traded.
- Identify that pooled funds are typically structured as a trust.
- Identify that pooled funds are offered via offering memorandum, through private placement.

Additional Knowledge Expected of CFP Professionals

- Determine how each of these factors may impact the suitability of a pooled fund:
    - Time horizon
    - Volatility
    - Risk tolerance
    - Investment objective
    - Financial situation
    - Personal situation
    - Income
    - Liquidity
    - Control
    - Tax impact
    - Investment management process
    - Economic cycle
    - Cost
    - Historical performance
    - Performance expectations
- Evaluate how each of the factors may impact the suitability of a pooled fund.
- Explain for whom a pooled fund may be suitable.
- Explain types of sales charges that may be charged on a pooled fund, such as:
    - No-load
    - Low-load
    - Front-end
    - Back-end or deferred sales charge
- Explain fees associated with pooled funds, such as:
    - Trailer fee
    - Management fee
    - Management expense ratio
    - Trading expense ratio
    - Early redemption fee
    - Switching fees
- Define the Net Asset Value (NAV) for a pooled fund.
- Explain how a pooled fund is priced using the Net Asset Value (NAV).

- Interpret the Net Asset Value (NAV) for a pooled fund.
- Explain types of income that may be distributed by a pooled fund, such as:
    - Interest
    - Dividends
    - Capital gains
- Explain the preservation of character that exists when income received by a pooled fund is distributed to unitholders of the pooled fund.
- Explain the impact of a distribution from a pooled fund on the net asset value (NAV).
- Explain the impact of reinvested distributions from a pooled fund on adjusted cost basis.
- Interpret the return for a pooled fund.
- Explain the tax impact (based on asset location) of a pooled fund.
    - When distributions are received due to trading activity in the pool of investments
    - Upon disposition of the pooled fund
- Explain that the return of a pooled fund may be presented gross of fees before expenses have been deducted.

8.7.3 EXCHANGE TRADED FUNDS (ETF)

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define an exchange traded fund.
- Identify the purpose for which an exchange traded fund may be used.
- Identify that exchange traded funds require a securities license for an individual to act in furtherance of a trade.
- Identify that exchange traded funds must be approved by the securities administrator of the province/territory in which they are traded.
- Determine how each of these factors may impact the suitability of an exchange traded fund:
    - Time horizon
    - Volatility
    - Risk tolerance
    - Investment objective
    - Financial situation
    - Personal situation
    - Income
    - Liquidity
    - Control
    - Tax impact
    - Investment management process
    - Economic cycle
    - Cost

- Historical performance
- Performance expectations

- Evaluate how each of the factors may impact the suitability of an exchange traded fund.
- Explain for whom an exchange traded fund may be suitable.
- Identify that exchange traded funds are generally structured as a trust.
- Identify that exchange traded funds are offered via prospectus, on a stock exchange.
- Explain fees associated with exchange-traded funds, such as:
  - Management fee
  - Management expense ratio
  - Trading Expense Ratio
  - Commissions
- Explain types of exchange traded funds, such as:
  - Country-based
  - Index-based
  - Sector-based
  - Commodity-based
  - Inverse-based
  - Leveraged-based
  - Actively managed
- Explain types of exchange traded funds structures, such as:
  - Equal-weighted
  - Market-weighted
  - Factor-based
- Define the Net Asset Value Per Share (NAVPS) for an exchange traded fund.
- Explain how an exchange traded fund trades close to its Net Asset Value Per Share (NAVPS).
- Explain types of income that may be distributed by an exchange traded fund, such as:
  - Interest
  - Dividends
  - Capital gains
- Explain the preservation of character that exists when income received by an exchange traded fund is distributed to unitholders of the exchange traded fund.
- Explain the impact of a distribution from an exchange traded fund on the net asset value per share (NAVPS).
- Explain the impact of reinvested distributions from an exchange traded fund on adjusted cost basis.
- Explain that the return of an exchange traded fund may be presented gross of fees before expenses have been deducted.

Additional Knowledge Expected of CFP Professionals

- Interpret the Net Asset Value Per Share (NAVPS) for an exchange traded fund.
- Interpret the return for an exchange traded fund.
- Explain the tax impact (based on asset location) of an exchange traded fund.
    - When distributions are received due to trading activity in the pool of investments
    - Upon disposition of the exchange traded fund

8.7.4 INVESTMENT TRUSTS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define an investment trust.
- Identify the purpose for which an investment trust may be used.
- Identify that investment trusts require a securities license for an individual to act in furtherance of a trade.
- Identify that investment trusts must be approved by the securities administrator of the province/territory in which they are traded.
- Identify the structure that an investment trust may have.
    - Trust
    - Corporation
- Identify that investment trusts are offered via prospectus, on a stock exchange.

Additional Knowledge Expected of CFP Professionals

- Determine how each of these factors may impact the suitability of an investment trust:
    - Time horizon
    - Volatility
    - Risk tolerance
    - Investment objective
    - Financial situation
    - Personal situation
    - Income
    - Liquidity
    - Control
    - Tax impact
    - Investment management process
    - Economic cycle
    - Cost
    - Historical performance
    - Performance expectations

- Evaluate how each of the factors may impact the suitability of an investment trust.
- Explain for whom an investment trust may be suitable.
- Explain fees associated with investment trusts, such as:
    - Management fees
    - Commissions
- Explain types of investment trusts, such as:
    - Real estate income trusts
    - Business trusts
- Define the Net Asset Value Per Share (NAVPS) for an investment trust.
- Interpret the Net Asset Value Per Share (NAVPS) for an investment trust.
- Explain types of income that may be distributed by an investment trust, such as:
    - Interest
    - Dividends
    - Capital gains
- Explain how income earned by an investment trust is handled when distributed to unitholders of the investment trust.
    - For Canadian real estate income trusts
    - For non-Canadian real estate income trusts
    - For business trusts
- Explain the impact of a distribution from an investment trust on the net asset value per share (NAVPS).
- Explain the impact of reinvested distributions from an investment trust on adjusted cost basis.
- Interpret the return for an investment trust.
- Explain the tax impact (based on asset location) of an investment trust.
    - When distributions are received due to trading activity in the pool of investments
    - Upon disposition of the income trust
- Explain that the return of an investment trust may be presented gross of fees before expenses have been deducted.

8.7.5 SEGREGATED FUNDS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define a segregated fund.
- Identify the purpose for which segregated funds may be used.
- Identify that segregated funds require an insurance license for an individual to act in furtherance of a trade.
- Identify that segregated funds must be approved by the insurance administrator of the province/territory in which they are traded.

- Identify that segregated funds are classified as individual variable insurance contracts.
- Determine how each of these factors may impact the suitability of a segregated fund:
    - Time horizon
    - Volatility
    - Risk tolerance
    - Investment objective
    - Financial situation
    - Personal situation
    - Income
    - Liquidity
    - Control
    - Tax impact
    - Investment management process
    - Economic cycle
    - Cost
    - Historical performance
    - Performance expectations
- Evaluate how each of the factors may impact the suitability of a segregated fund.
- Explain for whom a segregated fund may be suitable.
- Explain parties to a segregated fund, such as:
    - Contract holder
    - Annuitant
    - Beneficiary
- Explain that a segregated fund is a contract between the issuer and the holder of the contract.
- Explain that segregated funds are offered via an information folder by insurance companies and fraternal organizations.
- Explain types of sales charges that may be charged on a segregated fund, such as:
    - No-load
    - Low-load
    - Front-end
    - Back-end or deferred sales charge
- Explain fees associated with segregated funds, such as:
    - Trailer fee
    - Management fee
    - Management expense ratio
    - Trading expense ratio
    - Early redemption fee
    - Switching fees

    - Operating expenses
    - Insurance premium
- Explain how a segregated fund assigns notional units to the contract holder.
- Explain the minimum regulatory duration and value guarantees for segregated fund holders.
    - Death benefit
    - Maturity benefit
- Explain how resets may affect the guarantees of a segregated fund.
- Explain how contributions / withdrawals may affect the guarantees of a segregated fund.
- Explain potential protections of a segregated fund, such as:
    - Creditor protection
    - Probate avoidance
- Explain the circumstances required for credit protection to be active for a segregated fund.
- Explain how income earned by a segregated fund is handled when distributed to unitholders of the segregated fund.
    - For capital gains and losses
    - Time-weighted
- Explain the impact of an allocation of income from a segregated fund on the net asset value per unit (NAVPU).
- Explain that the return of a segregated fund may be presented before the fund expenses have been deducted from the gross return of the fund.
- Define a guaranteed minimum withdrawal benefit plan.
- Identify that a guaranteed minimum withdrawal benefit plan allows for potential capital growth through participation in the market, while guaranteeing a minimum withdrawal each year.
- Identify that minimum and maximum ages exist to invest in a guaranteed minimum withdrawal plan.
- Identify that resets to the guaranteed withdrawal may occur every three years, based on growth in the plan.
- Identify that bonuses that increase the guaranteed withdrawal may be available for each year that a withdrawal does not occur.
- Identify that resets and bonuses may increase the guaranteed withdrawal amount, but do not add to the market value of the plan.
- Identify that guaranteed minimum withdrawal benefit plans may have death guarantees.
- Explain fees associated with guaranteed minimum withdrawal benefit plans, such as:
    - Trading expenses
    - Management expenses
    - Administration expenses
    - Insurance premiums

    - Guarantee premiums
    - Withdrawal fees
    - Sales charges

Additional Knowledge Expected of CFP Professionals

- Interpret the return for a segregated fund.
- Explain the tax impact (based on asset location) of a segregated fund.
    - When an allocation of income is added to the contract
    - Upon disposition of the segregated fund
    - Upon death of the annuitant

8.7.6 ANNUITY

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define an annuity.
- Explain parties to an annuity, such as:
    - Annuity provider
    - Plan owner
    - Annuitant
- Define types of annuities, such as:
    - Life annuities
        - Single life
        - Joint life
        - Single life with a guaranteed period
        - Joint life with a guaranteed period
        - Impaired
    - Term-certain annuities
        - Temporary
- Identify terms that may be used to describe an annuity based on the source of capital used to purchase it, such as:
    - Non-registered annuities
    - Registered annuities
- Identify which annuities may only be sold by insurance companies.
- Explain permissible sources of capital for each type of annuity, such as:
    - Registered funds
    - Non-registered funds
- Identify types of annuities that may be purchased using registered funds, such as:
    - Life annuity
    - Term certain annuity with a term equal to the number of years until the annuitant (or their spouse, if younger) turns 90 years old.

- Identify that the plan owner and the annuitant must be the same person for a registered annuity.
- Identify factors that may affect the amount of income provided by an annuity, such as:
  - Value of invested capital
  - Interest rate assumptions
  - Annuitant's age
  - Annuitant's sex
  - Guarantee period of payments
  - Payment options (fixed, variable, indexed)
  - Annuitant's health (for impaired annuities)
- Explain the relationship between the variables that may impact the income provided by an annuity and the payment amount.
- Explain the tax treatment of registered annuities.
  - When receiving income from the annuity
  - Upon the death of the annuitant
- Explain the tax treatment of non-registered annuities.
  - When receiving income from a non-prescribed annuity
  - When receiving income from a prescribed annuity
  - Upon death of the annuitant
- Explain the requirements for an annuity to qualify for prescribed tax treatment.

Additional Knowledge Expected of CFP Professionals

- Explain the treatment of each type of annuity upon the death of the annuitant.
- Compare the tax treatment of prescribed and non-prescribed annuities, specifically:
  - Level of tax over time
  - Level of after-tax income over time
  - Total taxable portion over lifetime of annuity
- Determine how each of these factors may impact the suitability of an annuity:
  - Time horizon
  - Volatility
  - Risk tolerance
  - Investment objective
  - Financial situation
  - Personal situation
  - Income
  - Liquidity
  - Control
  - Tax impact
  - Investment management process

- Economic cycle
- Cost
- Historical performance
- Performance expectations

- Evaluate how each of the factors may impact the suitability of an annuity.
- Explain for whom an annuity may be suitable.

8.7.7 HEDGE FUNDS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define a hedge fund.
- Identify the primary investment objectives typically associated with a hedge fund.
    - Growth of capital
- Identify structures of hedge funds, such as:
    - Trust
    - Limited partnership
    - Corporation
- Identify that hedge funds must be approved by the securities administrator of the province/territory in which they are traded, and that, compared to other investments, they are lightly regulated.
- Identify that hedge funds are generally offered via offering memorandum as private offerings to sophisticated / accredited investors.
- Identify that funds of hedge funds are available for public purchase on an exchange.

Additional Knowledge Expected of CFP Professionals

- Determine how each of these factors may impact the suitability of a hedge fund:
    - Time horizon
    - Volatility
    - Risk tolerance
    - Investment objective
    - Financial situation
    - Personal situation
    - Income
    - Liquidity
    - Control
    - Tax impact
    - Investment management process
    - Economic cycle
    - Cost
    - Historical performance

    - Performance expectations
- Evaluate how each of the factors may impact the suitability of a hedge fund.
- Explain for whom a hedge fund may be suitable.
- Explain characteristics of a hedge fund, such as:
    - Relative potential for loss of capital
    - Level of liquidity
    - Relative level of volatility
- Explain risks that may affect a hedge fund.
- Explain types of income that may be generated by a hedge fund, such as:
    - Interest income
    - Dividends
    - Capital gains
- Explain fee structures for hedge funds, such as:
    - Management fee
    - Performance charge
        - Hurdle rate
        - High water mark
- Estimate the return that a hedge fund needs to make before it earns positive return.
- Interpret the return for a hedge fund.

8.7.8 LABOUR SPONSORED VENTURE CAPITAL CORPORATIONS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define a labour-sponsored venture capital corporation.
- Identify the purpose for which a labour-sponsored venture capital corporation may be used.
- Identify that an investment in a labour-sponsored venture capital corporation requires a securities license for an individual to act in furtherance of a trade.
- Identify that a labour-sponsored venture capital corporation must be approved by the securities administrator of the province/territory in which they are traded.

Additional Knowledge Expected of CFP Professionals

- Determine how each of these factors may impact the suitability of an investment in a labour-sponsored venture capital corporation:
    - Time horizon
    - Volatility
    - Risk tolerance
    - Investment objective
    - Financial situation
    - Personal situation

    - Income
    - Liquidity
    - Control
    - Tax impact
    - Investment management process
    - Economic cycle
    - Cost
    - Historical performance
    - Performance expectations
- Evaluate how each of the factors may impact the suitability of an investment in a labour-sponsored venture capital corporation.
- Explain for whom an investment in a labour-sponsored venture capital corporation may be suitable.
- Interpret the return for an investment in a labour-sponsored venture capital corporation.
- Explain the tax credit(s) available for investment in a labour-sponsored venture capital corporation.
- Estimate the after-tax cost (based on asset location) of investing in a labour-sponsored venture capital corporation.
- Explain risks that may affect an investment in a labour-sponsored venture capital corporation.

8.7.9 LIMITED PARTNERSHIPS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define a limited partnership.
- Identify the purpose for which a limited partnership may be used.

Additional Knowledge Expected of CFP Professionals

- Determine how each of these factors may impact the suitability of a limited partnership:
    - Time horizon
    - Volatility
    - Risk tolerance
    - Investment objective
    - Financial situation
    - Personal situation
    - Income
    - Liquidity
    - Control
    - Tax impact
    - Investment management process

  - Economic cycle
  - Cost
  - Historical performance
  - Performance expectations
- Evaluate how each of the factors may impact the suitability of a limited partnership.
- Explain for whom a limited partnership may be suitable.
- Identify that a limited partnership can invest in different types of assets or projects.
- Identify that the risks associated with a limited partnership need to be assessed on a case-by-case basis.
- Identify that investors in a limited partnership cannot participate in the day-to-day operations of the partnership.
- Identify that holding periods may exist when investing in limited partnerships.
- Explain how income earned by a limited partnership is handled when distributed to unitholders of the limited partnership.
- Identify factors that may affect the risk of a limited partnership, such as:
  - The risk of the underlying assets that the limited partnership is invested in
  - The management of the limited partnership
- Identify the potential tax consequences of a limited partnership.

8.8 INVESTMENT STYLES

8.8.1 INVESTMENT STYLES

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define types of investment management, such as:
    - Active
    - Passive
    - Value
    - Growth
- Compare passive and active investment management.
- Explain passive equity investment techniques, such as:
    - Buy and hold
    - Indexing
- Explain active equity investment techniques, such as:
    - Value investing
    - Growth investing
    - Sector rotation
    - Contrarian
    - Momentum
    - Diversification
- Compare value and growth investing, specifically:
    - P/E ratios
    - Dividend yields
    - Relative expected return and volatility of investment
- Explain passive fixed income investment techniques, such as:
    - Buy and hold
    - Indexing
- Explain active fixed income investment techniques, such as:
    - Duration matching
    - Credit selection
- Explain laddering.

8.8.2 ENVIRONMENTAL SOCIAL GOVERNANCE (ESG)

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define environmental, social and governance (ESG) criteria.
- Identify the purpose of measuring the extent of ESG standards for a company.
- Identify how statements of ESG measurement are currently regulated.

8.9 INVESTMENT ACCOUNTS

8.9.1 INVESTMENT ACCOUNTS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define types of investment accounts, such as:
  - Self-directed
  - Full-service
    - Managed
    - Non-managed
    - Discretionary
- Compare self-directed and full-service accounts, specifically:
  - Provision of advice
  - Services provided
  - Suitability requirements
  - Potential cost

8.10 INVESTMENT BUYING AND SELLING TECHNIQUES

8.10.1 INVESTMENT BUYING AND SELLING TECHNIQUES

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify investment buying and selling techniques, such as:
    - Market timing
    - Dollar cost averaging
    - Value averaging
    - Dividend reinvestment plans (DRIP)
    - Systematic withdrawal plans
- Explain investment buying and selling techniques.
- Compare dollar cost averaging to investing a lump sum, specifically:
    - Total return
    - Short-term volatility
- Explain the effect of reinvested distributions (from a dividend reinvestment program) on adjusted cost base.
- Explain risks associated with market timing, such as:
    - Potential lower returns
    - Potential missed opportunities
    - Potential loss of capital gains inclusion rate

8.11 LEVERAGED INVESTING

8.11.1 LEVERAGED INVESTING

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define leveraged investing.
- Identify the purpose for which leveraged investing may be used.
- Identify benefits and risks of leveraged investing.
- Identify that additional regulatory disclosures may be necessary for leveraged investing.
- Identify the characteristics of a client related to investing using leverage, such as:
    - Risk tolerance of the client
    - Ability to pay current expenses
    - Ability to make payments on debt
    - Ability to sustain losses on investments
    - Investment knowledge
    - Investment experience
    - Investment objective
    - Time horizon for investment

Additional Knowledge Expected of CFP Professionals

- Identify that using margin to purchase investments is a form of leveraged investing.
- Define a margin loan.
- Identify that a margin loan may exist via a margin account.
- Identify that margin proceeds can be utilized for any purpose.
- Explain a margin call.
- Explain options for resolving a margin call, such as:
    - Add security to cover debt
    - Liquidate security to cover debt
- Explain that the balance on the debt must be repaid regardless of the performance of the investment.
- Explain that investment-related fees may be payable if the investment is redeemed to pay the loan.
- Identify conditions where interest may be tax-deductible, such as:
    - Reasonable expectation to earn an income from a business or property
    - Legal expectation to pay the interest on the debt
    - Interest must be paid or payable in the year that it is being deducted
    - Investment must be non-registered
    - Sole purpose of investment must not be for a capital gain
- Determine how each of these factors may impact the suitability of investing using leverage:
    - Willingness to accept losses

- Value of liquid assets available
- Tax deductibility of interest
- Tax impact
- Risk to the asset being leveraged
- Expected net after-tax return

- Explain the net after-tax return of leveraged investing based on the capital invested.