

# Chartered Banker

Leading financial professionalism

## Investment

### Assignment 2

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## Important Assignment Information

### ASSIGNMENT LENGTH

For assignments submitted on or after **1st September 2008**, there is a **maximum** word count of **2,500 words**.

From that date, if you fail to adhere to the maximum word count, a deduction will be made to your final assignment mark. Specifically, if you exceed the 2,500 limit, you will be deducted **1%** for every **100 words** or **part** of **100 words** over the limit.

For example, if you write a total of **2,614** words, a **2%** deduction will be made to your mark. For clarification, the word count includes all references and attached appendices.

### PASS COMPENSATION AWARD

In recognition of the importance attached to the assignments, an award of **Pass Compensation** will be made to you if you score between 45% and 54% in the final exam and if you complete the required assignment(s) under the following conditions:

1. The assignment mark must be 60% or above – where two assignments are required, then the average mark must be 60% or above **and**
2. Assignments must be in the hands of the Tutor **at least** one month prior to the **chosen examination date for each subject**.

For example, if you enrol to sit a **full** credit subject examination on **15<sup>th</sup> December**, you must have sent **both** assignments to your tutor by **15<sup>th</sup> November**.

Similarly, if you enrol to sit a **half** credit subject examination on **2<sup>nd</sup> March**, you must have sent the **sole** assignment to the tutor by **2<sup>nd</sup> February**.

Please also note the following:

- (a) Where an assignment is marked at less than 60%, this may show up as **'Fail'** in the web-based student record – this is purely with reference to the Pass Compensation award and does not necessarily mean it is a sub-standard submission
- (b) You are **not** permitted to **re-submit** an assignment in order to gain a higher mark
- (c) In the event that you fail an exam and have not completed the required assignment(s), you can subsequently complete the required assignment(s) – these will then count towards any re-sit examination undertaken. Submission dates for these assignments must comply with the relevant timescales as stated in **2** above.

## Question 1

Samuel Duncan and his wife Elizabeth are both aged 66 and in relatively good health.

Mr Duncan has sought your advice regarding the investment of a cash sum of £125,000 which he received by commuting part of his pension rights on retirement. He was a member of an occupational final salary scheme.

The couple own their own home outright and, apart from the cash lump sum which is held on a high interest one month notice account, the only other financial assets they own are two holdings of the current issue Index Linked National Savings Certificates and a building society deposit of just over £12,000.

His pension income on retirement is around £21,000 gross and is obviously some way short of the salary he earned in his last year of employment – this was well over £35,000 p.a.

- (a) Mr Duncan had been told that he might be able to make up his income deficit by the purchase of a guaranteed joint and survivor annuity from one of the leading insurance companies. Current rates being offered are in the region of 6.5 % on a joint life basis over a 20 year period.

Consequently he is keen to seek out your opinion on this and reasons why he should or should not consider such a move.

**(10 marks)**

- (b) He feels somewhat uncomfortable with the notion of parting with the lump sum so soon after receipt and questions whether there are any other packaged investments he could make with insurance companies, to produce a guaranteed level of income but all the while allowing him to retain total security of the capital sum.

**(6 marks)**

**(TOTAL 16 MARKS)**

## Question 2

Your client Christopher Morrow has called to see you and has details regarding his company pension scheme, having recently taken up employment in the IT department of a major UK life company.

Having previously had several posts in the financial sector, he feels that he might now be settled. Until now, he has made no provision for his retirement and is glad, at the age of 26, to be offered the chance to join a company scheme. He is anxious to put several points to you regarding the pension scheme and would appreciate your views on what generally happens for a member of an occupational scheme with regard to the following:

- (a) Ill health
- (b) Early retirement
- (c) Provision for his spouse
- (d) Portability should he move jobs....again!
- (e) Likely security of the scheme

Your answer should offer a reasonably expansive explanation of each point to Mr Morrow.

**(15 marks)**

**(TOTAL 15 MARKS)**

## Question 3

It has been claimed that an individual looking to make an investment in residential property enjoys an unfair tax advantage over other types of investment in the UK.

Some have claimed that this advantage is part of the explanation as to the very high cost of housing relative to average wage levels here in the UK relative to other European countries.

- (a) Do you agree or disagree with this prognosis? Give reasons for your answer.

**(6 marks)**

- (b) What advantages do you consider an investment in residential property has over other forms of investment in the UK?

**(5 marks)**

**(TOTAL 11 MARKS)**

## Question 4

Mrs Sheila McLean is a long-standing customer of your bank.

Sheila, aged 44, was recently widowed as her husband who served in the Armed Forces was killed whilst on duty in Iraq. She has two children, aged 15 and 13 and has come to you to seek investment advice.

She works full time as a Personal Assistant to a leading city executive and earns a salary of £32,000 per annum. She also receives a pension of just over £14,000 a year from the Royal Air Force. She owns her own house, a detached bungalow valued in the region of £250,000, albeit there is a mortgage outstanding of just £28,000. She has deposits with two well-known high street building societies, these totalling £50,000.

Recently, however, Sheila was dealt a further personal blow when her father died and he left her a rather eclectic portfolio of investments which are as follows:

Security	Price	Value	Yield	Income
1,000 Glaxosmithkline plc Ord 25p shares	1230p	£12,300	4.1%	£ 504
15,000 Tesco plc Ordinary Ord 25p shares	425p	£63,750	2.5%	£1,595
20,000 Aviva plc 8.75% Cum Irr.Prf. shares	125p	£25,000	7.8%	£1,945
£50,000 8% Treasury Stock 2021	£134	£67,000	5.9%	£4,000
£25,000 3½% War Loan	£79	£19,750	4.4%	£ 875
1,000 Edinburgh Dragon Trust	147p	£1,470	0.8%	£12
		<b>£189,270</b>		<b>£8,931</b>

(a) What investment policy would you suggest is appropriate for Mrs McLean in light of her personal circumstances? Give reasons for your answer.

**(6 marks)**

(b) Comment on the structure of the existing portfolio of investments mentioning any alterations you would recommend in light of the policy which you have considered is appropriate as in (a) above.

**(12 marks)**

**(TOTAL 18 MARKS)**

**TOTAL ASSIGNMENT MARKS – 60**