

## STUDY SESSION

# 12

## Private Wealth Management (1)

**T**his study session addresses the process of private wealth management and the construction of an investment policy statement (IPS) for the individual investor. The IPS is a blueprint for investing client assets. The IPS identifies the needs, goals, and risk tolerance of the investor, as well as constraints under which the investment portfolio must operate. The adviser then formulates an investment strategy to tax-efficiently reconcile these potentially conflicting requirements.

Taxes and regulations are important considerations for individual investors. Because taxes and regulations vary from locality to locality, tax-efficient strategies for portfolio construction and wealth transfer are necessarily specific to the locality in which the investor is taxed. The study session focuses on investment strategies applicable across a wide range of localities. Although illustrations of such strategies may be presented from a country-specific perspective, candidates should focus on the underlying investment principles and be able to apply them to other tax settings.

### READING ASSIGNMENTS

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| <b>Reading 28</b> | Overview of Private Wealth Management<br>by Christopher J. Sidoni, CFP, CFA, and Vineet Vohra, CFA                               |
| <b>Reading 29</b> | Taxes and Private Wealth Management in a Global Context<br>by Stephen M. Horan, PhD, CFA, CIPM, and Thomas R. Robinson, PhD, CFA |
| <b>Reading 30</b> | Estate Planning in a Global Context<br>by Stephen M. Horan, PhD, CFA, CIPM, and Thomas R. Robinson, PhD, CFA                     |

**LEARNING OUTCOMES****READING 28. OVERVIEW OF PRIVATE WEALTH MANAGEMENT**

The candidate should be able to:

- a** contrast private client and institutional client investment concerns;
- b** discuss information needed in advising private clients;
- c** identify tax considerations affecting a private client's investments;
- d** identify and formulate client goals based on client information;
- e** evaluate a private client's risk tolerance;
- f** describe technical and soft skills needed in advising private clients;
- g** evaluate capital sufficiency in relation to client goals;
- h** discuss the principles of retirement planning;
- i** discuss the parts of an investment policy statement (IPS) for a private client;
- j** prepare the investment objectives section of an IPS for a private client;
- k** evaluate and recommend improvements to an IPS for a private client;
- l** recommend and justify portfolio allocations and investments for a private client;
- m** describe effective practices in portfolio reporting and review;
- n** evaluate the success of an investment program for a private client;
- o** discuss ethical and compliance considerations in advising private clients;
- p** discuss how levels of service and range of solutions are related to different private clients.

**READING 29. TAXES AND PRIVATE WEALTH MANAGEMENT IN A GLOBAL CONTEXT**

The candidate should be able to:

- a** compare basic global taxation regimes as they relate to the taxation of dividend income, interest income, realized capital gains, and unrealized capital gains;
- b** determine the effects of different types of taxes and tax regimes on future wealth accumulation;
- c** explain how investment return and investment horizon affect the tax impact associated with an investment;
- d** discuss the tax profiles of different types of investment accounts and explain their effects on after-tax returns and future accumulations;
- e** explain how taxes affect investment risk;
- f** discuss the relation between after-tax returns and different types of investor trading behavior;
- g** explain tax loss harvesting and highest-in/first-out (HIFO) tax lot accounting;
- h** demonstrate how taxes and asset location relate to mean–variance optimization.

**READING 30. ESTATE PLANNING IN A GLOBAL CONTEXT**

The candidate should be able to:

- a** discuss the purpose of estate planning and explain the basic concepts of domestic estate planning, including estates, wills, and probate;
- b** explain the two principal forms of wealth transfer taxes and discuss effects of important non-tax issues, such as legal system, forced heirship, and marital property regime;
- c** determine a family's core capital and excess capital, based on mortality probabilities and Monte Carlo analysis;
- d** evaluate the relative after-tax value of lifetime gifts and testamentary bequests;
- e** explain the estate planning benefit of making lifetime gifts when gift taxes are paid by the donor, rather than the recipient;
- f** evaluate the after-tax benefits of basic estate planning strategies, including generation skipping, spousal exemptions, valuation discounts, and charitable gifts;
- g** explain the basic structure of a trust and discuss the differences between revocable and irrevocable trusts;
- h** explain how life insurance can be a tax-efficient means of wealth transfer;
- i** discuss the two principal systems (source jurisdiction and residence jurisdiction) for establishing a country's tax jurisdiction;
- j** discuss the possible income and estate tax consequences of foreign situated assets and foreign-sourced income;
- k** evaluate a client's tax liability under each of three basic methods (credit, exemption, and deduction) that a country may use to provide relief from double taxation;
- l** discuss how increasing international transparency and information exchange among tax authorities affect international estate planning.