

STUDY SESSION

18

Portfolio Management (2)

This study session introduces the portfolio planning and construction process, including the development of an investment policy statement (IPS). A discussion of risk management, including the various types and measures of risk, follows, and a risk management framework is provided. Technical analysis, a set of tools that uses asset price, trading volume, and other similar data for making investment decisions, is then examined. The session concludes with coverage on how financial technology (fintech) is impacting areas within the investment industry, such as investment analysis, automated advice, and risk management.

READING ASSIGNMENTS

Reading 51	Basics of Portfolio Planning and Construction by Alistair Byrne, PhD, CFA, and Frank E. Smudde, MSc, CFA
Reading 52	The Behavioral Biases of Individuals by Michael M. Pompian, CFA
Reading 53	Introduction to Risk Management by Don M. Chance, PhD, CFA, and Michael E. Edleson, PhD, CFA
Reading 54	Technical Analysis by Aksel Kibar, CMT, Barry M. Sine, and Robert A. Strong, PhD, CFA
Reading 55	Fintech in Investment Management by Robert Kissell, PhD, and Barbara J. Mack

LEARNING OUTCOMES**READING 51. BASICS OF PORTFOLIO PLANNING AND CONSTRUCTION**

The candidate should be able to:

- a** describe the reasons for a written investment policy statement (IPS);
- b** describe the major components of an IPS;
- c** describe risk and return objectives and how they may be developed for a client;
- d** explain the difference between the willingness and the ability (capacity) to take risk in analyzing an investor's financial risk tolerance;
- e** describe the investment constraints of liquidity, time horizon, tax concerns, legal and regulatory factors, and unique circumstances and their implications for the choice of portfolio assets;
- f** explain the specification of asset classes in relation to asset allocation;
- g** describe the principles of portfolio construction and the role of asset allocation in relation to the IPS;
- h** describe how environmental, social, and governance (ESG) considerations may be integrated into portfolio planning and construction.

READING 52. THE BEHAVIORAL BIASES OF INDIVIDUALS

The candidate should be able to:

- a** compare and contrast cognitive errors and emotional biases;
- b** discuss commonly recognized behavioral biases and their implications for financial decision making;
- c** describe how behavioral biases of investors can lead to market characteristics that may not be explained by traditional finance;

READING 53. INTRODUCTION TO RISK MANAGEMENT

The candidate should be able to:

- a** define risk management;
- b** describe features of a risk management framework;
- c** define risk governance and describe elements of effective risk governance;
- d** explain how risk tolerance affects risk management;
- e** describe risk budgeting and its role in risk governance;
- f** identify financial and non-financial sources of risk and describe how they may interact;
- g** describe methods for measuring and modifying risk exposures and factors to consider in choosing among the methods.

READING 54. TECHNICAL ANALYSIS

The candidate should be able to:

- a** explain principles and assumptions of technical analysis;

- b** describe potential links between technical analysis and behavioral finance;
- c** compare principles of technical analysis and fundamental analysis;
- d** describe and interpret different types of technical analysis charts;
- e** explain uses of trend, support, and resistance lines;
- f** explain common chart patterns;
- g** explain common technical indicators;
- h** describe principles of intermarket analysis;
- i** explain technical analysis applications to portfolio management.

READING 55. FINTECH IN INVESTMENT MANAGEMENT

The candidate should be able to:

- a** describe “fintech;”
- b** describe Big Data, artificial intelligence, and machine learning;
- c** describe fintech applications to investment management;
- d** describe financial applications of distributed ledger technology.