4

Private Wealth Management (1)

This 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

Reading 8	Managing Individual Investor Portfolios by James W. Bronson, CFA, Matthew H. Scanlan, CFA, and Jan R. Squires, DBA, CFA
Reading 9	Taxes and Private Wealth Management in a Global Context by Stephen M. Horan, PhD, CFA, CIPM, and Thomas R. Robinson, PhD, CFA
Reading 10	Estate Planning in a Global Context by Stephen M. Horan, PhD, CFA, CIPM, and Thomas R. Robinson, PhD, CFA

LEARNING OUTCOMES

READING 8. MANAGING INDIVIDUAL INVESTOR PORTFOLIOS

The candidate should be able to:

a discuss how source of wealth, measure of wealth, and stage of life affect an individual investors' risk tolerance;

b explain the role of situational and psychological profiling in understanding an individual investor's attitude toward risk;

c explain the influence of investor psychology on risk tolerance and investment choices;

d explain potential benefits, for both clients and investment advisers, of having a formal investment policy statement;

e explain the process involved in creating an investment policy statement;

f distinguish between required return and desired return and explain how these affect the individual investor's investment policy;

g explain how to set risk and return objectives for individual investor portfolios;

i discuss the effects that ability and willingness to take risk have on risk tolerance;

i discuss the major constraint categories included in an individual investor's investment policy statement;

j prepare and justify an investment policy statement for an individual investor;

k determine the strategic asset allocation that is most appropriate for an individual investor's specific investment objectives and constraints;

l compare Monte Carlo and traditional deterministic approaches to retirement planning and explain the advantages of a Monte Carlo approach.

READING 9. 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 10. 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.