

CONTENTS

Acknowledgements xi

Introduction xii

About the authors xiv

01 Financial markets 1

Introduction 1

Defining financial markets 2

History and development of financial markets 3

Financial markets today 5

Categorization of markets 10

The key participants in a financial market 18

Cross-border transactions 22

Recent development in financial markets 25

Financial crises 31

Summary 37

Check your understanding 37

Further reading 37

02 Global fund management industry 38

Introduction 38

The global investment management industry and its major
players 39

Global issues shaping investing in 2017 45

The size of the UK investment management industry 48

Fund valuation 49

Measurement of AUM in the UK 50

Asset management house structure 57

Investment managers 59

Future developments in the fund management industry 65

Summary 69

Check your understanding 69

Further reading 69

03 Main market participants 71

Introduction 71
Central banks 72
Wholesale banking 75
Retail banking 77
Private banks 79
Investment banks 80
Private equity 82
Sovereign wealth funds 84
Hedge funds 89
Pension funds and insurance companies 91
Private investors 93
Summary 96
Check your understanding 97
Further reading 97

04 Types of risk 98

Introduction 98
Types of risk 99
Measuring risk 115
Summary 128
Check your understanding 128
Further reading 129

05 Investment theory 130

Introduction 130
Random walk theory 131
Efficient market hypothesis 132
Modern portfolio theory 135
Measurement of performance under modern portfolio theory 150
Capital asset pricing model 151
Arbitrage pricing theory 158
Behavioural finance 161
Investment returns 163
Summary 175
Check your understanding 175
Further reading 175

06 Investment classes: fixed-interest (debt) 176

Introduction 176
Bond issuers and bond types 180

Nominal or par value of a bond 185
Types of coupon or interest rates payable on a bond 186
When will the coupon or interest be paid? 188
Maturity or other repayment of a bond 189
Identifying a bond 193
Where can investors buy bonds? 194
Bond ownership 197
Costs of buying a bond 198
Factors affecting bond prices 201
Understanding risk in bonds and its effect on bond prices 204
Measuring the return on a bond 209
The risks of investing in bonds 213
Bond taxation 218
The advantages and disadvantages of investing in bonds 219
Summary 220
Check your understanding 220
Further reading 220

07 Investment classes: equity 222

Introduction 222
Types of shares 224
Nominal and market values of shares 230
Changes in the number of issued shares 231
Stock exchanges 238
Trading shares 241
The effect of corporate actions on the costs of buying and selling shares 245
Possible returns from holding shares as an investment 245
Measuring returns from shares 246
Risks of investing in shares 250
Factors affecting the price of shares 255
Advantages and disadvantages of equity investment 258
Are private equity and equity the same? 258
Summary 260
Check your understanding 261
Further reading 261

08 Investment classes: mutual funds 262

Introduction 262
Advantages 264
Disadvantages 266

Different types of collective 269
Summary 293
Check your understanding 294
Further reading 294

09 Investment classes: derivatives 295

Introduction 295
Derivative uses for investors 297
Types of derivative 299
Determining the option premium 317
Methods of ending a derivative contract 322
Trading derivatives 323
Summary 324
Check your understanding 325
Further reading 325

10 Investment classes: alternative investments 327

Introduction 327
General risks of investing in alternative assets 328
Collectibles and chattels 332
Commodities 333
Gold 335
Crowdfunding 338
Property 340
Collective funds 352
Structured products 359
Summary 362
Check your understanding 363
Further reading 363

11 Portfolio management: the adviser and the client 364

Introduction 364
Client relationship 365
The advisory and planning process 373
Investment strategies 390
Client review process 399
Summary 403
Check your understanding 403
Further reading 404

- 12 Portfolio management: utilization of retail fund management products 405**
Introduction 405
Identification and setting of portfolio objectives 407
Implementation of appropriate investment strategy 410
Summary 449
Check your understanding 449
Further reading 450
- 13 Taxation 451**
Introduction 451
Residency and domicile 455
Withholding tax 460
Income taxation 461
Trusts 465
National insurance (NI) 471
Investment income or unearned income tax 473
Capital gains tax (CGT) 479
Inheritance tax (IHT) 486
Stamp duty 498
Value added tax (VAT) 500
Corporation tax 503
Summary 504
Check your understanding 504
Further reading 505
- 14 Financial regulation and supervision 506**
Introduction 506
The reasons for regulation: the importance of financial stability 507
Regulatory landscape in the United Kingdom 511
Regulatory landscape in the European Union 515
Regulatory landscape in the United States of America 519
Regulatory landscape in Hong Kong 525
Regulatory landscape in China 531
Regulatory landscape in Singapore 536
Regulation and supervision style 541
Anti-money-laundering and prevention of financial crime 548
Complaints and dispute resolution 554

Summary 556

Check your understanding 557

Further reading 557

Glossary 559

References 576

Index 583