NZQA
NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA
QUALIFY FOR THE FUTURE WORLD
KIA NOHO TAKATŪ KI TŌ ĀMUA AO!

NZQA Assessment Support Material

Unit standard		**28102**			
Title	Demonstrate understanding of risk and return on investment for a personal financial investment portfolio				
Level	3	**Credits**	4	**Version**	3

Note

The following guidelines are supplied to enable assessors to carry out valid and consistent assessment using this internal assessment resource.

Assessors must manage authenticity for any assessment from a public source, because students may have access to the assessment schedule or student exemplar material. Use of this assessment resource without modification may mean that students' work is not authentic. The assessor will need to change figures, measurements or data sources or set a different context or topic.

While this ASM lends itself to written assessments, there are other activities and approaches that could be taken.

See Generic Resources and Guidelines at https://www.nzqa.govt.nz/providers-partners/assessment-and-moderation-of-standards/assessment-of-standards/generic-resources/

Assessor guidelines

Assessors need to be very familiar with the outcome being assessed by the unit standard. The evidence requirements and the explanatory notes contain information, definitions, and requirements that are crucial when interpreting the standard and assessing learners against it.

Over the weeks prior to this assessment, learners should have had sufficient teaching and learning opportunities to be familiar with the following:

- Investment options for a personal financial investment portfolio such as:
  - Term deposits
  - Debentures
  - Collectibles
  - Futures
  - Options
  - Property
  - Shares
  - Business ownership
  - Managed funds
  - Bonds
  - KiwiSaver.

- Risk, return on investment and volatility of investment options.
- Risk management strategies and their suitability to situations and investor profiles.

AWARD OF GRADES

- For award with ***Achieved***, learners must discuss and compare three investment options for a personal investment portfolio in relation to risk, return on investment and volatility; identify and explain risk management strategies in relation to the investor profile and personal financial investment portfolio.
- For award with ***Merit***, learners must explain the identified risk management strategies and make links to the personal financial investor profile and portfolio.
- For award with ***Excellence***, learners must justify the choice of risk management strategies for the personal financial investor profile and portfolio.

CONDITIONS OF ASSESSMENT

This assessment is an open book activity that will take place over a timeframe set by the assessor. Learners can use any information to help them complete the tasks. Answers must be in their own words.

DEFINITIONS:

- *Investment portfolio* refers to holding a range of different asset classes, including cash, fixed interest, property, shares.
- *Investor profile* refers to an individual's preferences in investment. The profile would consider personal or social traits such as age, income, wealth, family, tax situation; attitudes; the investor's financial objectives and tolerance of risk.
- *Return on investment* is dependent on the type of investment option and may refer to capital gain, rental income, interest, yields, dividends, and bonus issues.
- *Risk* is dependent on the type of investment option and may refer to the – theft of money or property, theft of identity through fraud or scams, change in value of assets, loss or damage due to natural or man-made events.
- *Risk management strategies* refers to diversification, credit ratings, dollar, cost averaging, time in the market, timing the market, hedging.

Assessment activity

This assessment activity has **one** task.

The learner is provided with a scenario for an investor profile. They are required to select **3** (three) investment options that would be suitable for a personal investment portfolio.

They are required to:
- Compare the investment options in relation to risk, return on investment, and volatility.
- Identify, discuss and justify at least **2** (two) risk management strategies for the personal financial investor profile and portfolio.

Resource requirements

Resources that may help with this are:
- Sorted Your independent money guide, https://www.sorted.org.nz/;
- Commission for Financial Capability, http://www.cffc.org.nz/;
- Financial Markets Authority, http://www.fma.govt.nz;
- Skint to Mint – The Game of Calculated Risks and Rewards, Reserve Bank of New Zealand http://www.rbnz.govt.nz/skintto mint/;
- Bamzonia Personal Financial Education, http://www.bamzonia.co.nz.

Assessment Schedule

Unit standard	28102				
Title	Demonstrate understanding of risk and return on investment for a personal financial investment portfolio				
Level	3	**Credits**	4	**Version**	3

Task	Evidence/Judgements for achievement	Evidence/Judgements for achievement with merit	Evidence/Judgements for achievement with excellence
Outcome 1 ER 1.1 Question 1	Learner discusses and compares **3** personal financial investment options suitable for the scenario to each other in relation to risk, return on investment (ROI) and volatility. Risks, RoI, and volatility discussions are relevant and appropriate to the situation. See partial sample answers for Question 1.	Learner discusses and compares **3** personal financial investment options suitable for the scenario to each other in relation to risk, return on investment and volatility. Risks, RoI, and volatility discussions are relevant and appropriate to the situation. See partial sample answers for Question 1.	Learner discusses and compares **3** personal financial investment options suitable for the scenario to each other in relation to risk, return on investment and volatility. Risks, RoI, and volatility discussions are relevant and appropriate to the situation. See partial sample answers for Question 1.
Outcome 1 ER 1.2 Question 2	Learner identifies and explains at least **2** risk management strategies in relation to the personal financial investor profile and portfolio. Selected strategies are relevant and reasonable options for the scenario. See sample partial answers for Question 2	Learner explains the strategies by making links to the suitability of the identified risk management strategies for the personal financial investor profile and portfolio. Selected strategies are relevant and reasonable for the scenario, and links are appropriate. See sample partial answers for Question 2.	Learner justifies the choice of the identified risk management strategies in relation to the personal financial investor profile and portfolio. Selected strategies are clearly relevant and reasonable options, appropriately justified and related back to the specific scenario. See sample answers for Question 2.

Final grades will be decided using professional judgement based on a holistic examination of the evidence provided against the criteria in the unit standard.

Scenario

Angela is an administrator in her early twenties. She's in a flatting situation and been in a relationship for one year. She plans to have a family one day and potentially owning her own home. She has $1,000 in a savings account, owns a car, has no debt, and saves $100 per week. She has about $5,000 in a conservative KiwiSaver account and makes the minimum employee contribution.

She has inherited $10,000 from her grandfather's estate and is looking at investment options. Her brother with his share of the estate is starting his own restaurant – he has no business experience but is a good cook. He has suggested that she invest some money in the business.

Possible investment options for a personal financial investment portfolio:

- Term deposits
- Debentures
- Collectibles
- Futures
- Options
- Property
- Shares
- Business ownership
- Managed funds
- Bonds
- Kiwi Saver

Task

1. Choose three (3) investment options Angela could consider.

   Option 1: Invest in a business – her brother's restaurant

   Option 2: Invest more in KiwiSaver by changing to a balanced or high growth fund and/or increase her contributions

   Option 3: Put some money into term deposits

Use the following table to discuss and compare the options against each other in relation to risk, return on investment and volatility.

Risks:
For the investment options I'm mainly looking at for Angela, I'm mainly looking at the risk related to security of her investment and the potential change in value of her assets. Option 1 – High risk, especially if her brother's business doesn't succeed. Option 2 – Medium risk, particularly if the fund she has invested in doesn't perform as well as expected, or fails. Option 3 – Low risk, money is secure, but accessibility is dependent on term of deposit. As the business is a start-up it will come with a high level of risk in comparison to the security offered by other options. The success of the business is reliant on a lot of factors that will be out of Angela's control (e.g. her brother's management skills, the economy). There is the potential that if her brother's business does not succeed, that she ends up losing her money and/or owing money, and Angela needs to decide whether she is prepared to tolerate that level of risk. Term deposits are low risk and the 'safer' option of the three because Angela has some control over the term, interest rate and amount(s) invested. There is certainty she will get her capital back, and this would be in line with her growing her savings to support her plan to own her own home one day. If she stays with her conservative KiwiSaver fund and increases contributions the risk is low, but if she changes to a balanced or high growth fund the risk becomes higher. With KiwiSaver because the risk is spread across a portfolio it would not be as high risk as investing in the business, but not as low risk and secure as the term deposit option. Kiwisaver also provides future options for partial withdrawal of funds for first home buyers.

With KiwiSaver there is also a potential risk of failure, but this is not as risky as investing in the business. Investment in term deposit(s) also has potential risk of the bank or financial institution failing but this is less likely to happen especially if the institution has a good credit rating from the Reserve Bank.
Return on investment:
For the investment options I'm looking at for Angela, I'm mainly looking at growth of her investment through interest or dividends – whilst protecting her initial investment The return on investment from investing in her brother's business is totally reliant on how successful his business is, which Angela will have no control over. If the business is very successful Angela would receive a return on her investment. However, if the business fails she will receive no return and will risk losing her initial investment. Investing in her brother's business has far less certainty around returns than either the KiwiSaver or term deposit investment options. If Angela invests more into KiwiSaver and changes to a balanced or high growth fund and/or increases her contributions, her return when she retires will be larger than if she maintains the present situation. A balanced or high growth fund after 40 years will provide a higher return for her than a conservative fund. She can then use this fund to assist with the purchase of her first home or leave it to grow until she retires. As she nears retirement she could then move her fund back into a conservative fund. Increasing her contribution level will also help to greatly increase her return on investment by the time she retires. Angela is more likely to receive a higher return on investment than investing into her brother's business and there will be a lot less uncertainty and risk. She will however, not be able to fully access this return on investment until she either buys a house or retires. Investing her inheritance and savings into a term deposit will ensure Angela earns a regular return on investment. She will know exactly the value of the return on this investment at the outset of the term. She can either use the interest she earns from the investment or compound the interest by adding it to future term deposits at maturity. As interest rates fluctuate, Angela will be aware of changes in the return she will receive at the end of each term, and she can adjust the reinvestment term to take advantage of specials/higher interest rates offered at the time. Over time the return from a term deposit will generally be lower than the return from a balanced or growth KiwiSaver fund, and be safer/more predictable than investing in a business. However, Angela will have certainty and access to her funds and earnings generated from the term deposits at the end of each term, whereas with KiwiSaver she will be able to monitor the

growth/changes in the fund but will not have access to them as they are locked away until retirement (except for special situations like buying a first home).

Volatility:
Moving to a balanced or growth KiwiSaver fund will expose Angela's investment to higher levels of volatility than investing into a conservative fund. A balanced or growth fund will contain shares which require longer-term investment to minimise the effect of this volatility. Shares tend to be more volatile than cash or assets which are found in conservative funds. Term deposits face little volatility and are less volatile than investing into a business or KiwiSaver fund, and are predictable at the outset. The initial deposit is secure, and the term deposit interest rates will vary depending on the length of term and rates on offer at the time. At the start of the term of the deposit Angela will be fully aware of the return she will receive. At the maturity of the term deposit the interest rates may have changed and this is when she will have to make a decision about the value of re-investing in a term deposit and the time frame with associated interest rates. Investing in her brother's business could become a very volatile investment. It's bound to provide uneven and unpredictable returns as the returns are totally reliant on how successful his business is. This type of investment will be more volatile than a term-deposit or a long-term KiwiSaver fund, and her initial investment is not secure. Angela needs to aware that investments that are more likely to give her higher returns in the long run may have a bumpier and more volatile ride along the way, whereas investments with a lower return potential are often more likely to remain steady and stable for the duration providing little volatility to her investment.

(Sample answer related to awarding Achieved, Merit and Excellence)

2. Identify at least two (2) risk management strategies that Angela could consider for her personal investment portfolio. Explain how each strategy will manage the risk, making links to the investor profile and portfolio.Justify the choice of risk management strategies for Angela in terms of her investor profile and investment portfolio.

Strategy	How it will manage risk for her situation	Links to investor profile and investment portfolio	Justification for choice
Diversification - have some term deposits maturing at different times, and possibly with different banks or institutions, to make the most of interest rates and spreading the risk, and allows Angela to have access to funds at different times should she need them.	Can manage risk by having upfront knowledge of the interest rate and return she will receive on the term deposit at maturity, and flexibility with the length of time/term for reinvestment. This will allow Angela to protect and grow her asset and manage against potential longer-term liquidity problems should her circumstances change. By choosing a reputable bank or institution with a high credit rating she will have security for her investment.	Angela should not put all her eggs in one basket and consider a mix of risks and returns. It would be wise to have some short (6-24 month) term investments (albeit with lower risk and return) for short term goals (e.g. saving towards owning her own home) and some higher risk and return investments for her longer-term goals (not consistent with her current 'conservative' KiwiSaver account, which she may wish to consider adjusting to a growth, balanced or defensive fund). Having some funds in term deposits with different terms rather than a call account (which may or may not be interest bearing) protects against being caught out by lowering interest rates and makes sure that inflation is not eating away at the deposited funds. It also grows her cash reserves which may help with a deposit when she looks to buy her own house. This would provide a secure option and some balance to the portfolio and give Angela time to investigate other opportunities and adjust her investments as term deposits mature.	Diversification is a relevant and appropriate risk management strategy for Angela's investor profile and goals. She is young and her circumstances/goals could change. She needs to think about how she invests her money in the short and long term. Her investor profile indicates an objective to own her own home one day, and she believes her grandfather would be happy for her inheritance to be used for that purpose. Term deposits allow her to securely grow her cash reserves which may help with a deposit when she looks to buy her own house. In certain circumstances, her KiwiSaver savings may also be used towards buying her first home. Angela is unsure about risking her inheritance money by investing it in her brother's proposed restaurant. By choosing to invest money in term deposits with a range of terms this will give her time to assess the potential success of her brother's restaurant

			and consider other investment opportunities. Investments could then be made in chunks over time based on informed decisions rather than large ones made in haste.
(Sample answers related to awarding Achieved)		(Additional sample answers related to awarding Merit)	(Additional sample answer related to awarding Excellence)

Note: Sample answers have been given for **one** risk management strategy. Answers will be needed for at least one more strategy.