Where Reading 2 Comes Back

Reading 2 introduces many ideas only briefly — the curriculum itself says each instrument gets its own topic area later. Use this map to see why the basics matter: almost every idea here returns, in more depth, in another part of Level I. When a later reading feels heavy, come back to its row and re-read the Reading 2 idea first. Topic-area names follow the CFA Level I curriculum; exact reading titles may differ.

Measuring returns and risk

What you learnt in Reading 2	Where it comes back	What you will learn there
Holding period return, annualizing by compounding	**Quantitative Methods**	More return measures: money-weighted vs time-weighted returns, continuously compounded returns, and real vs nominal returns.
Arithmetic vs geometric mean, volatility drag	**Quantitative Methods**	Statistical measures of returns: harmonic mean, variance, standard deviation, skewness and kurtosis.
Range as a simple risk measure	**Quantitative Methods**	Standard deviation and variance — the risk measures used throughout finance.
Risk-free rate, inflation eroding real returns	**Quantitative Methods · Economics**	How interest rates are built up (real rate + inflation + risk premiums), and how monetary policy sets short-term rates.

Instruments and indicators

What you learnt in Reading 2	Where it comes back	What you will learn there
Bonds: coupons, principal, maturity; rates ↑ → prices ↓	**Fixed Income**	Bond pricing, yield measures, and **duration** and convexity — the exact tools for "longer bonds fall more".
Default risk and credit spread	**Fixed Income**	Credit risk, credit ratings and how yield spreads compensate for default risk.
T-bills priced at a discount; floating-rate notes	**Fixed Income**	Money market instruments and discount rates; floating-rate notes, reference rates and quoted margins.
Convertible bonds (hybrids)	**Fixed Income · Equity Investments**	Bonds with embedded options and how equity features change a bond's risk and value.
Equities: ownership, price return, dividends	**Equity Investments**	Types of equity securities and valuation, including dividend-based models.
Dividends vs share buybacks	**Corporate Issuers · Equity Investments**	How companies decide to return cash to shareholders, and what it means for share value.
Derivatives: value from an underlying asset	**Derivatives**	Forwards, futures, options and swaps: payoffs, pricing and how they are used to manage risk.
Foreign exchange rates and domestic return	**Economics**	Exchange rate quotes and conventions, cross-rates, forward rates, and what drives currencies.
Market indexes (S&P 500, Nifty 50)	**Equity Investments**	How indexes are built and weighted, price vs total return indexes, and what indexes are used for.

Module 2.2: risk and allocation

What you learnt in Reading 2	Where it comes back	What you will learn there
Risk-return tradeoff, risk premium	**Portfolio Management**	Risk aversion, the efficient frontier, and the capital market line.
Systematic vs unsystematic risk, diversification	**Portfolio Management**	Correlation and portfolio risk, **beta**, and the CAPM — why only systematic risk is rewarded.
Business risk, financial risk (leverage)	**Corporate Issuers · Financial Statement Analysis**	Capital structure and leverage, and the ratios analysts use to measure them.
Asset allocation for client objectives and constraints	**Portfolio Management**	The investment policy statement (IPS) and portfolio planning — expanded heavily at Levels II and III.

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