CSC VOLUME TWO: Chapters 13 – 14, Test #1

1. According to a fundamental analyst, what is the single *most* important factor that affects the price of a corporate security?

   a) the past profitability of the issuer
   b) the actual or expected profitability of the issuer
   c) the stage of the business cycle the economy is in
   d) the term structure of interest rates

2. A security analyst believes that people make intelligent economic decisions after weighing all available information. This is consistent with the…

   a) efficient market hypothesis.
   b) random walk theory.
   c) rational expectations hypothesis.
   d) pricing model paradigm.

3. A year ago, the yield on the one year bond was 4% while the yield on the ten year bond was 7%. Today, the yield on the one year has increased to 5% while the yield on the ten year has fallen to 6%. You would conclude…

   a) that the yield curve is inverted and that this is bearish for the equity markets.
   b) that the yield curve is tilting and that this is bullish for the equity markets.
   c) that bond prices are falling and that this is bearish for the equity market.
   d) that bond prices are confused but the economy should experience hyper-fast growth over the long run.

4. You are studying a company that is paying a one-time dividend of $5 per share and the stock is $25. This is likely a(n)…

   a) initial growth company.
   b) growth company.
   c) mature company.
   d) declining company.

5. The extent to which buyers of a given product or service can pressure the company to lower prices and the extent to which suppliers of raw materials can put pressure on the company by raising prices are two of the five basic competitive forces. Which of the following phrases contains the other three?

   a) ease of entry for new competitors, degree of competition between existing firms, potential pressure from substitute products
   b) ease of entry for new competitors, degree of government protection, potential pressure from substitute products
   c) degree of competition between existing firms, potential pressure from substitute product, degree of government protection
   d) ease of entry for new competitors, potential pressure from substitute products, degree of technology used in the production process

6. Which of the following is *most* closely associated with speculative industries?

   a) red-chip
   b) blue-chip
   c) growth industries
   d) emerging industries

7. A company in the marketplace will pay a $.50 dividend next year and has a growth rate of 6%. The required return on capital is 9% and inflation is running at 2%. The security is currently trading at $15 in the marketplace. You would recommend…

   a) buying the security because it is below the fair market value of $16.67 which the Dividend Discount Model suggests.
   b) buying the security because it is below the fair market value of $50.00 which the Dividend Discount Model suggests.
   c) buying the security because its growth rate and inflation total 8% which is less than the 9% required return on capital.
   d) *not* buying the security because its growth rate and inflation total 8% which is less than the 9% required return on capital.

8. A company is projected to make $2.50 in earnings per share next year and expected to have a payout ratio of 20%. Its long term growth rate is 5%. If an investor requires a 10% return on risk capital, what is the fair market price for this security?

   a) $10.00
   b) $15.00
   c) $25.00
   d) Insufficient information

9. Refer to #8. The company in question actually pays an annual dividend of $.60. Now its fair market value will be…

    a) lower because the company has less money to re-invest in its operations.
    b) the same because investors enjoy higher capital gains when dividends are modest.
    c) higher because the market rewards companies that are able to pay high and steadily growing dividends.
    d) Insufficient information.

10. What are the three primary sources of market action that any technical analyst looks at?

    a) price, volume, and time
    b) price, volume, and volatility
    c) volume, volatility, and oscillators
    d) charts, indicators, and oscillators

11. Which of the following is *not* one of the three assumptions that underlies technical analysis?

    a) the future repeats the past
    b) markets are becoming increasingly inefficient
    c) prices move in trends and these trends tend to persist over time
    d) all influences on market action are automatically accounted for or discounted in price activity

12. You are examining a chart and believe that a bottom head-and-shoulders pattern is forming, and the right shoulder has just broken the neckline on heavy volume. At this point, you should…

    a) go long the market.
    b) confirm that the right shoulder is asymmetrical to the left shoulder and if it is, go long the market.
    c) go short the market.
    d) confirm that there is a continuation pattern with the bottom heads and shoulders and if there is, go short the market.

13. You are studying a chart and see that the moving average line is breaking the daily price line from below on heavy volume. You would…

    a) buy the security.
    b) hold the security.
    c) sell the security.
    d) sell or short-sell the security.

14. Which of the following would you look for in a company's balance sheet in order to judge that it is "leveraged"?

    a) contributed surplus, bonds and debentures
    b) retained earnings, share capital and debentures
    c) contributed surplus and bonds
    d) debt and preferred shares

15. A company earned $1.56 in 2011, $1.65 in 2012, $1.66 in 2013, and $1.80 in 2014. If 2012 is the base year, what is the Trend number for 2014 earnings?

    a) 1.09
    b) 1.15
    c) 109
    d) 115

16. The *most* stringent liquidity ratio is the…

    a) current ratio.
    b) current ratio or working capital ratio.
    c) working capital ratio or quick ratio.
    d) acid test ratio.

17. The "Asset Coverage" ratio shows the ________ for each $1,000 of total debt outstanding.

    a) net tangible assets
    b) gross tangible assets
    c) net total assets
    d) total assets

18. The higher the debt/equity ratio…

    a) the lower the operating risk.
    b) the higher the operating risk.
    c) the lower the financial risk.
    d) the higher the financial risk.

19. Which of the following indicates management's efficiency in turning over the company's goods at a profit?

    a) gross profit margin
    b) operating profit margin
    c) pre-tax profit margin
    d) net profit margin

20. A company had sales of $5,500,000. Its Cost of Goods Sold was $3,000,000 and it ended the year with $1,000,000 in inventory. Its inventory turnover ratio is…

a) 0.33.
b) 1.8.
c) 3.0.
d) 5.5.

21. A company earned $3,000,000 before preferred dividend payments. It has 100,000 6% $50 par value preferred shares. There are 5,000,000 authorized common shares and 4,500,000 are issued and outstanding. Its basic earnings per share is…

a) $.54.
b) $.60.
c) $.67.
d) $.73.

22. A company has 10,000,000 authorized shares, of which 8,000,000 are issued and outstanding. As well, it has 1,500,000 $25 par value convertible preferred shares that are each convertible into 2.5 common shares and callable debt with a par value of $2,000,000. If you are calculating earnings per shares on a fully diluted basis, the number of shares you would use would be…

a) 8,000,000
b) 9,500,000
c) 11,750,000
d) 13,000,000

23. A company pays a regular quarterly dividend of $.30 per share and its common shares are currently trading at $30 per share. What is its dividend yield?

a) .4%
b) 1.0%
c) 2.0%
d) 4.0%

24. There are two companies that operate in the same industry. Both companies have similar growth prospects. If Company A has a P/E of 10 and Company B has a P/E of 12, you would…

    a) buy the bigger of the two companies.
    b) buy Company A because it has the lower P/E.
    c) buy Company B because it has the higher P/E.
    d) require more information before you make an investment decision.

25. Which of the following service (or services) assign ratings to Canadian preferred shares?

    a) DBRS only
    b) Standard & Poor's only
    c) DBRS and Standard & Poor's Rating Service
    d) There are no services that assign ratings to Canadian preferred shares.

CHAPTERS 13 – 14, Test #1 – Answers

1.B 13 – 5.

2.C 13 – 6.

3.B 13 – 9.

4.C 13 – 12/13.

5.A 13 – 13.

6.D 13 – 14/15.

7.A 13 – 16/17.
$.50 / (.09 – .06) = $16.67 which is “intrinsic value” of the stock.

8.A 13 – 16/17.
If the company is expected to make $2.50 and will pay out 20% of its earnings in dividends, then the dividend is $.50… $.50 / (.10 – .05) = $10.

9.C 13 – 16/17.

10.A 13 – 18.

11.B 13 – 18.

12.A 13 – 19/20.

13.A 13 – 22.

14.D 14 – 6/7.

15.C 14 – 10/11.

16.D 14 – 13/14.

17.A 14 – 14/15.

18.D 14 – 15.

19.A 14 – 18.

20.C 14 – 20/21.

21.B 14 – 21/23.
[$3,000,000 – (100,000 x .06 x $50)] / 4,500,000 = $.60

22.C 14 – 21/23.
8,000,000 + 1,500,000 x 2.5 = 11,750,000.

23.D 14 – 23.
($.30 x 4) / $30.00 = 4.0%.

24.D 14 – 23/24.

25.C 14 – 27.

CSC VOLUME TWO: Chapters 13 – 14, Test #2

1. Someone who believes in the random walk theory would agree with all of the following statements *except*…

   a) Price changes are random.
   b) Technical analysis is a waste of time.
   c) You can predict the future by understanding the past.
   d) New information about a stock is disseminated randomly over time.

2. What is the main problem with large government debt?

   a) It restricts fiscal policy options.
   b) It restricts monetary policy options.
   c) It restricts both fiscal and monetary policy options.
   d) It reduces the incentive for consumers to spend money.

3. A year ago, the yield on the one-year note 4% while the yield on the thirty-year bond was 8%. Today, the yield on the one-year note has increased to 5% while the yield on the ten-year bond has fallen to 6.5%. You would conclude…

   a) that the yield curve is tilting and this is bullish for the equity markets.
   b) that the yield curve is inverted and this is bearish for the equity markets.
   c) that the bond market is confused and the economy should contract sharply in the near term.
   d) that the bond market is confused but the economy should experience hyper-growth over the long run.

4. You are examining a company that has a 5% market share in an industry where there are four other major competitors. You would conclude that its *best* long-term competitive strategy would be to…

   a) exit the business.
   b) compete on price.
   c) establish itself as the low-cost producer.
   d) make a product that has real or perceived differences from existing products.

5. All of the following are one of Michael Porter's five basic competitive forces that determine the attractiveness of an industry *except*…

   a) The potential for pressure from substitute products.
   b) The extent of government regulation of the industry.
   c) The ease of entry for new competitors to the industry.
   d) The extent to which suppliers can pressure industry members.

6. The two broadest industry classifications are…

   a) mature and growth.
   b) cyclical and defensive.
   c) low tech and high tech.
   d) blue chip and speculative.

7. An automotive company like General Motors is an example of a(n)….

   a) defensive company.
   b) industrial cyclical company.
   c) consumer cyclical company.
   d) commodity basic cyclical company.

8. A company in the marketplace will pay a $1.00 annualized dividend in the coming year and those dividends have a projected long-term growth rate of 6%. The required return on capital is 9% and inflation is running at 2%. The security is currently trading at $25 in the marketplace. You would recommend…

   a) buying the security because it is below the fair market value of $30.00 which the dividend discount model suggests.
   b) buying the security because it is below the fair market value of $33.33 which the dividend discount model suggests.
   c) buying the security because its growth rate and inflation total 8% which is less than the 9% required return on capital.
   d) *not* buying the security because its growth rate and inflation total 8% which is less than the 9% required return on capital.

9. A company is projected to make $5.25 in earnings per share and has a payout ratio of 50%. Its long-term growth rate is 5%. If an investor requires a 10% return on risk capital, what is its price-earnings ratio?

   a) 5.0
   b) 7.5
   c) 10.0
   d) Insufficient information

10. You are examining two companies that operate in the same industry. Company One has a P/E ratio of 10 and Company Two has a P/E ratio of 20. The *most* likely explanation for this difference is that…

   a) Company One has less debt in its capital structure.
   b) Company Two has less debt in its capital structure.
   c) Company One has a higher projected growth rate of earnings.
   d) Company Two has a higher projected growth rate of earnings.

11. Support levels are established when…

    a) demand exceeds supply and prices begin to fall.
    b) demand exceeds supply and prices begin to rise.
    c) supply exceeds demand and prices begin to fall.
    d) supply exceeds demand and prices begin to rise.

12. You are given the following information about the weekly closes of a particular security:

Week One:	\$20.00
Week Two:	\$21.25
Week Three:	\$19.50
Week Four:	\$20.50

At the end of Week Five, the security in question closes at \$20.75. Its four week moving average is…

    a) \$20.31.
    b) \$20.35.
    c) \$20.40.
    d) \$20.50.

13. You are studying a chart and see that the moving average line is breaking the daily price line from above on heavy volume. A technical analyst would *most* likely…

    a) buy the security
    b) sell the security.
    c) hold the security.
    d) Technical analysts do *not* study charts before making investment decisions.

14. The contrarian investor is *least* likely to believe that…

    a) an investor should move in the same direction as the majority.
    b) an investor should pay attention to what the majority of investors are doing.
    c) if the vast majority of investors are bearish, it is reasonable to assume that the market will crash.
    d) if the vast majority of investors are bullish, there is not enough buying power to push the market higher.

15. An analyst is studying a company and she notices that its revenues increased by 12% in the past year. Which of the following would be the *least* favourable explanation?

    a) There was a strike at a major competitor.
    b) The company expanded into a new geographic market.
    c) The company engaged in aggressive advertising and promotion.
    d) There was a gain in market share at the expense of competitors.

16. The major difference between the working capital ratio and acid test ratio is that…

    a) the working capital ratio is a liquidity ratio and the acid test ratio is a risk analysis ratio.
    b) the working capital ratio is a risk analysis ratio and the acid test ratio is a liquidity ratio.
    c) the working capital ratio considers all current assets relative to current liabilities while the acid test ratio excludes inventories.
    d) There is no difference between the working capital ratio and acid test ratio.

17. Which of the following type of company would be “allowed” to have the lowest interest coverage ratio?

    a) retail
    b) utility
    c) cyclical
    d) speculative

18. A company earned $6,250,000 before preferred dividend payments. It has 50,000 6% $50 par value preferred shares that are currently trading at $52. There are 5,000,000 authorized common shares and 4,500,000 are issued and outstanding. Its basic earnings per share is…

    a) $1.22.
    b) $1.25.
    c) $1.36.
    d) $1.39.

19. P/E ratios tend to increase…

    a) in a rising stock market or with rising earnings.
    b) in a falling stock market or with rising earnings.
    c) in a rising stock market or with falling earnings.
    d) in a falling stock market or with falling earnings.

20. The investment quality assessment of preferred shares is *least* likely to hinge on which of the following questions?

a) Are the preferred shares cumulative or non-cumulative?
b) Is there an adequate cushion of equity behind each preferred share?
c) Do the company's earnings provide ample coverage for preferred dividends?
d) For how many years has the company paid dividends without interruption?

Please use the following information for Questions #21 – #25. Assume that both Raptern and Nickerback operate in the same industry and country and that their sales over these years have been growing steadily at 5%.

RAPTERN INCORPORATED

	EPS	Operating Profit Margin	Net Profit Margin	Return on Equity
Year 1	$1.10	35%	10.0%	11%
Year 2	$1.15	35%	10.1%	14%
Year 3	$1.16	35%	10.5%	18%
% growth	5.5%	0.0%	5.0%	63.0%

NICKERBACK INCORPORATED

	EPS	Operating Profit Margin	Net Profit Margin	Return on Equity
Year 1	$2.20	28%	8.7%	20%
Year 2	$2.10	30%	9.2%	18%
Year 3	$2.25	32%	9.5%	23%
% growth	2.3%	14.3%	9.2%	15.0%

21. Which of the following is the *least* reasonable explanation why Raptern's net profit margin is increasing while its operating profit margin is flat?

a) Corporate tax rates have been cut over this period of time.
b) Raptern has been paying down debt over these two years.
c) Raptern has been re-financing its debt to pay a lower rate of interest.
d) Raptern is enjoying economies of scale in its manufacturing facilities.

22. Which of the following is the *most* reasonable explanation why Nickerback's operating profit margin is increasing over this period of time?

a) The company has been cutting prices.
b) The company has been increasing market share.
c) The company has been reducing its marketing expenditures.
d) The company has been enjoying the benefit of paying lower income tax rates.

23. What is the *most* reasonable explanation why Raptern's return on equity has been growing much more rapidly than its EPS over this period of time?

    a) The company has become much more profitable.
    b) The company has been aggressively buying back shares.
    c) The company has eliminated its dividend in order to conserve cash.
    d) The company has been issuing new debt securities to finance its growth.

24. Assuming that the two companies operate in similar markets, which of the following is *least* likely?

    a) Raptern has more debt in its capital structure.
    b) Nickerback's common shares cost less than Raptern's common shares.
    c) Raptern's sales are lower than Nickerback's.
    d) Nickerback has been in business a longer period of time than Raptern.

25. With respect to the use of ratios in analyzing companies, you would be *most* likely to agree that…

    a) One ratio alone tells the investor a great deal.
    b) Ratios alone are *not* proof of present or future profitability.
    c) The significance of any ratio is the same for all companies.
    d) An unsatisfactory ratio signals unfavourable conditions and there is no need to investigate further.

CHAPTERS 13 – 14, Test #2 – Answers

1.C 13 – 6.

2.C 13 – 8.

3.A 13 – 9.

4.D 13 – 11/12.

5.B 13 – 13.

6.B 13 – 14.

7.C 13 – 14.

8.B 13 – 16/17.
$1.00 / (.09 – .06) = $33.33.

9.C 13 – 16/17.
50% / (10% – 5%) = 10.

10.D 13 – 17.

11.B 13 – 19.

12.D 13 – 21/22.
($21.25 + $19.50 + $20.50 + $20.75) / 4 = $20.50.

13.B 13 – 21/22.

14.A 13 – 24.

15.A 14 – 5.

16.C 14 – 12/14.

17.B 14 – 16/18.

18.C 14 – 21/23.
[$6,250,000 – (50,000 x .06 x $50)] / 4,500,000 = $1.36

19.A 14 – 23/24.

20.A 14 – 27.

21.D The difference between operating profit margin and net profit margin consists of interest charges and taxes. If the company were enjoying economies of scale inits operations, this would be reflected in higher operating profit margins.

22.C The company is increasing its sales by 5% annually. It is unlikely that it is gaining market share. Cutting prices would tend to reduce the operating margin. Lower tax rates would benefit net profit margin, not operating profit margin. Therefore, reduced marketing expenditures is the only logical answer.

23.B Buying back shares would have the impact of reducing shareholders' equity; therefore even if its return (numerator) were similar, its equity (denominator) would be much lower, thereby increasing the ROE ratio.

24.A It is least likely that Raptern has more debt is because its ROE is so much lower. Higher ROE (for similar companies) implies higher risk. If the operating risk is similar, it is logical that Nickerback would have higher financial risk.

25.B Chapter 14.

CSC VOLUME TWO: Chapters 15 – 16, Test #1

1. An investor purchased a $1,000 par value 5% coupon bond at 98. It matured at par a year later. What is the rate of return the investor enjoyed?

    a) 5.00%
    b) 7.00%
    c) 7.14%
    d) $70.00

2. Which of the following series of securities does *not* properly capture the relationship between risk and return?

    a) derivatives, common shares, debentures, treasury bills
    b) bonds, preferred shares, common shares, derivatives
    c) derivatives, preferred shares, bonds, treasury bills
    d) treasury bills, preferred shares, debentures, derivatives

3. Which of the following securities eliminates inflation risk?

    a) strip bonds
    b) real return bonds
    c) retractable bonds
    d) convertible debentures

4. A Canadian investor purchases American government treasury bills. She would be exposed to which of the following risks?

    a) inflation, business and interest rate
    b) inflation, liquidity and foreign exchange
    c) political, business and foreign exchange
    d) foreign exchange, business, and political

5. A client invests $1,200 in three securities: $200 in Security A, $300 in Security B and $700 in Security C. At the end of the year, A is up 10%, B is down 5%, and C is up 12%. What is the portfolio return measured in dollars?

    a) $ 89.00
    b) $118.00
    c) $143.00
    d) $204.00

6. A portfolio manager is looking at three different securities. A has an expected return of 10%, B an expected return of 9%, and C an expected return of 8%. The correlation between A & C is .8, between B & C -.6 and between A & C 0. If the manager's mandate is to maximize his return, which of the following securities or combinations of securities makes the *most* sense?

   a) A only
   b) A & B only
   c) A & C only
   d) Insufficient information

7. Given the information provided in #7, what security or combination of securities would provide the lowest variance (or risk)?

   a) A only
   b) C only
   c) A & C
   d) B & C

8. An asset manager is looking to add a security to an already well-diversified portfolio. If each of the securities has the same expected return, what would the preferred correlation be with the existing portfolio?

   a) –2.
   b) –1.
   c) 0.0
   d) 1.0

9. A given security has a beta of 1.2. This means that…

   a) it will always go up 20% more than the market.
   b) if the market goes up by 20% the security will go up by approximately 22%.
   c) if the market goes down by 10%, the security will go down by approximately 12%.
   d) its alpha must be less than 1.0.

10. You are examining a company's share price and note that its beta is .8. In the absence of any other information, you might conclude that…

   a) this is a growth company.
   b) this is a cyclical company.
   c) this is a blue-chip company.
   d) this is a speculative company.

11. An analyst believes that the economy is transitioning from peak to recession/ contraction. She has a mandate of holding 50% of her portfolio in equities. As a result of this economic forecast, she would be looking for companies with…

    a) low betas and positive alphas.
    b) high betas and positive alphas.
    c) low betas and negative alphas.
    d) high betas and negative alphas.

12. You are an Investment Advisor and a client's portfolio has just been moved over to you. You see that the majority of the investments are in common shares of growth companies. You would assume that the client's i) primary and ii) secondary investment objectives are…

    a) i) growth and ii) liquidity
    b) i) growth and ii) tax minimization
    c) i) growth and ii) safety
    d) i) income and ii) liquidity

13. All of the following can be considered cash or near-cash securities *except*...

    a) GICs.
    b) T-bills.
    c) Canada Savings Bonds.
    d) instalment debentures.

14. An analyst believes that the economy is currently at the end of the contraction phase and the equity cycle is in the stock market trough. The appropriate investment strategy would be to…

    a) sell short-term bonds and buy long-term bonds.
    b) sell short-term bonds and buy cash instruments.
    c) sell long-term bonds and buy equities.
    d) sell long-term bonds and buy cash instruments.

15. An analyst believes that the equity cycle has peaked for the time being. The appropriate investment strategy would be to…

    a) sell equities and invest in long-term bonds
    b) sell equities and invest in cash instruments.
    c) stop buying equities and invest in cash instruments.
    d) stop buying equities and invest in long-term bonds.

16. In the recovery and expansion phase of the equity cycle, the recommended investment strategy is to…

    a) increase exposure to cash.
    b) increase exposure to short-term bonds.
    c) increase exposure to long-term bonds.
    d) increase exposure to common stocks.

17. The most basic industry rotation strategy involves shifting back and forth between...

    a) value and growth stocks.
    b) value and growth industries.
    c) cyclical and defensive industries.
    d) blue-chip and speculative industries.

18. “Earnings momentum” is *most* closely associated with…

    a) value managers.
    b) growth managers.
    c) sector rotators.
    d) None of the above

19. A value investor looks for all of the following *except*...

    a) low price/cash flow.
    b) low dividend yields.
    c) low price/book values.
    d) low price-earnings multiples.

20. High yield bonds that are *not* investment grade are popularly known as…

    a) junk bonds.
    b) risky bonds.
    c) discount bonds.
    d) premium bonds.

21. The fixed-income manager strategy of interest rate anticipation or duration switching tends to work *best* when...

    a) interest rates are low.
    b) interest rates are high.
    c) the yield curve is flat.
    d) the yield curve is normal.

22. An investor starts the year with a portfolio worth $200,000. It is invested 50% in equities, 40% in bonds, and 10% in cash-like securities. Over the course of the year, the equities increase in value by 20%, the bonds increase in value by 5%, and the cash portion is unchanged. In order to re-balance this investor to her base policy mix, the investment advisor would...

a) buy $8,000 in bonds and sell $8,000 in equities.
b) buy $12,000 in bonds and sell $12,000 in equities.
c) buy $2,400 in cash, buy $5,600 in bonds, and sell $8,000 in equities.
d) buy $2,400 in cash, buy $9,600 in bonds, and sell $12,000 in equities.

23. Portfolio monitoring requires monitoring:
i) Changes in tax laws and government regulations
ii) Changes in the investor's goals and financial position
iii) Expectations for capital markets and individual securities

a) i) & ii) only
b) i) & iii) only
c) ii) & iii) only
d) i), ii) & iii)

24. Under what circumstance might it be *least* appropriate to judge performance against a market benchmark?

a) When the portfolio is actively managed.
b) When the portfolio is passively managed.
c) When the portfolio has low turnover to avoid capital gains.
d) When the portfolio has low turnover to avoid paying commissions.

25. The Sharpe Ratio compares the return of a given portfolio above the risk-free rate in relation to the portfolio's __________.

a) beta.
b) alpha.
c) variance.
d) standard deviation.

CHAPTERS 15 – 16, Test #1 – Answers

1.C 15 – 6/7.
[(1,000 – 980) + 50] / 980 = 7.14%

2.D 15 – 9.

3.B 15 – 10.

4.B 15 – 10/11.

5.A 15 – 13.

A: $200 x 1.1 =	$ 220
B: $300 x .95 =	$ 285
C: $700 x 1.12 =	$ 784
	$1,289 – $1,200 = $89

6.A 15 – 12/13.

7.D 15 – 13/15.

8.B 15 – 13/15.

9.C 15 – 16.

10.C 15 – 16.

11.A 15 – 16.

12.B 15 – 20/22.

13.D 16 – 5.

14.C 16 – 10.

15.B 16 – 10.

16.D 16 – 10.

17.C 16 – 14/15.

18.B 16 – 12/13.

19.B 16 – 13/14.

20.A 16 – 15/16.

21.D 16 – 16.

22.C 16 – 20/21.

The portfolio is worth $200,000 and $100,000 is equities, $80,000 is bonds and $20,000 is cash. At the end of the year, the equities are worth $120,000, the bonds are worth $84,000, and the cash is worth $20,000. The portfolio is worth $224,000. The new allocation should be $112,000 equities, $89,600 in bonds, and $22,400 in cash. Therefore, $8,000 in equities should be sold and $5,600 in bonds and $2,400 of cash purchased.

23.C 16 – 22.

24.C 16 – 24.

25.D 16 – 25.

CSC VOLUME TWO: Chapters 15 – 16, Test #2

1. A 7% annual pay bond, issued at par, was purchased for 102. One year later, it was called at a price of 101. What is the rate of return enjoyed by the investor?

    a) 4.9%
    b) 5.9%
    c) 6.0%
    d) 7.0%

2. Which of the following is true with respect to the relationship between inflation, real rates of return, and nominal rates of return?

    a) The higher the inflation rate, the higher the real rate of return required by an investor.
    b) The higher the inflation rate, the higher the nominal rate of return required by an investor.
    c) The higher the inflation rate, the higher the real rate and nominal rate of return required by an investor.
    d) Inflation does *not* impact either real or nominal rates of return required by an investor.

3. The risk-free rate of return is represented by…

    a) T-bills.
    b) short-term government bonds.
    c) long-term government bonds.
    d) There is no such thing as a risk-free rate of return.

4. Which of the following securities has business risk associated with it?

    a) common shares
    b) common shares and secured corporate debt
    c) common shares and unsecured corporate debt
    d) common shares, secured corporate debt and unsecured corporate debt

5. Which of the following is *not* one of the common statistically-based measures of risk for an individual security?

    a) beta
    b) variance
    c) correlation
    d) standard deviation

6. An investor has a $250,000 portfolio. 70% is in Security One which returns 10% over the year. The remaining 30% is in Security Two which returns 5%. The value of the portfolio in one year's time is…

   a) $268,750
   b) $271,250
   c) $272,500
   d) Insufficient information

7. Which of the following is the preferred correlation when adding a single security to an already well-diversified portfolio?

   a) –1.0
   b) 0.0
   c) 0.5
   d) 1.0

8. An investor is looking to add a security to an existing portfolio. The expected return of the current portfolio is 8% and its standard deviation is 15. The expected return of the security is 8.5% and its standard deviation is 15. There is a correlation of 0.0 between this security and the existing portfolio.

   Which of the following *best* describes the impact of adding the security to the portfolio?

   a) Adding the security will increase the expected return and reduce the risk.
   b) Adding the security will increase the expected return and *not* impact the risk.
   c) Adding the security will increase the expected return and increase the risk.
   d) Adding the security will increase the expected return and it is unclear how the risk will be impacted.

9. You are examining two companies. Company One has a beta of 1.2 and Company Two has a beta of .8. It is *most* likely that…

   a) Company One tends to be more profitable than Company Two.
   b) Company Two tends to be more profitable than Company One.
   c) Company One is a defensive stock and Company Two is a cyclical stock.
   d) Company Two is a defensive stock and Company One is a cyclical stock.

10. In the correct order, the first three steps of the portfolio management process are:

    a) determining investment objectives and constraints; designing an investment policy statement; and implementing the asset allocation
    b) designing the investment policy statement; implementing the asset allocation; and monitoring the economy, the markets, the portfolio and the client
    c) determining investment objectives and constraints; designing an investment policy statement; and formulating an asset allocation strategy and selecting investment styles
    d) determining investment objectives and constraints; formulating an asset allocation strategy and selecting investment styles; and designing an investment policy statement

11. The client's risk tolerance should be matched to…

    a) the risk of each security in the portfolio.
    b) the risk of the average security in the portfolio.
    c) the risk of the riskiest security in the portfolio.
    d) the risk of the overall portfolio.

12. Sylvia Wong is a 35 year old single professional. For financial planning purposes, her time horizon should be understood as the present…

    a) until she needs the money.
    b) until the next major expected change in her life.
    c) until her retirement.
    d) until her death.

13. Which of the following is *not* considered to be a fixed income product for asset mix purposes?

    a) mortgages
    b) strip bonds
    c) preferred shares
    d) convertible bonds

14. Which of the following is considered to be an equity product for asset mix purposes?

    a) rights
    b) index options
    c) exchange-traded funds
    d) All of the above

15. The expansion phase of the equity cycle tends to correspond to which phase of the business cycle?

    a) trough
    b) recovery
    c) expansion
    d) peak

16. During the peak phase of the equity cycle, the recommended fixed-income strategy is to hold...

    a) short-term bonds.
    b) medium-term bonds.
    c) long-term bonds.
    d) A laddered bond portfolio.

17. The recommended strategy in the stock market trough of the equity cycle is to…

    a) sell stocks and buy long-term bonds.
    b) sell stocks and sell long-term bonds.
    c) sell long-term bonds and buy cyclical stocks.
    d) sell long-term bonds and buy short-term bonds.

18. What are the two factors that, in combination, generally account for 80% to 90% of the change in stock market prices?

    a) Interest rate trends and economic trends.
    b) Interest rate trends and flow of funds trends.
    c) Economics trends and government policy trends.
    d) Government policy trends and flow of funds trends.

19. Which of the following equity manager styles tends to expose the investor to the *greatest* amount of risk during times of recession?

    a) value
    b) growth
    c) top-down
    d) bottom-up

20. For the sector rotator equity manager...

    a) stock selection is *more* important than industry selection and small cap stocks are generally purchased.
    b) industry selection is *more* important than stock selection and small cap stocks are generally purchased.
    c) stock selection is *more* important than industry selection and large cap stocks are generally purchased.
    d) industry selection is *more* important than stock selection and large cap stocks are generally purchased.

21. A middle-aged investor with a long time horizon and high tolerance for risk comes to you for investment advice. The *most* appropriate asset allocation for this individual would be:

    a) 50% cash, 30% bonds, 20% equities
    b) 30% cash, 40% bonds, 30% equities
    c) 10% cash, 30% bonds, 60% equities
    d) 0% cash, 20% bonds, 80% equities

22. A risk-averse 65 year old with a high need for income in her portfolio comes to you for investment advice. The *most* appropriate portfolio for this individual would be…

    a) 10% cash, 65% bonds, 25% equities
    b) 40% cash, 40% bonds, 20% equities
    c) 50% cash, 50% bonds, 0% equities
    d) 60% cash, 40% bonds 0% equities

23. An investor's $400,000 portfolio has a long-term strategic asset allocation of 50% equities, 30% bonds and 20% cash. Over a year, equities fall by 10% while bonds increase 10%. Cash is unchanged. In order to rebalance the portfolio to the strategic allocation, the portfolio manager should…

    a) buy $16,000 worth of equities, sell $14,400 worth of bonds, and buy $1,600 worth of cash.
    b) buy $16,000 worth of equities, sell $14,400 worth of bonds, and sell $1,600 worth of cash.
    c) buy $14,400 worth of equities, sell $16,000 worth of bonds, and buy $1,600 worth of cash.
    d) buy $20,000 worth of equities, sell $18,000 worth of bonds, and sell $2,000 worth of cash

24. When an analyst is comparing the Sharpe ratios of different portfolios, she should look for the…

    a) lowest positive number possible.
    b) lowest negative number possible.
    c) highest positive number possible.
    d) highest negative number possible.

25. A negative Sharpe ratio means that…

    a) the portfolio lost money.
    b) the portfolio's return was less than the risk-free rate.
    c) the portfolio's return was less than that of the benchmark.
    d) the portfolio's return was less than that of the benchmark minus the risk-free rate.

CHAPTERS 15 – 16, Test #2 – Answers

1.B 15 – 6/7.
[(101 – 102) + 7] / 102 = 5.9%.

2.B 15 – 9.

3.A 15 – 10.

4.D 15 – 10.

5.C 15 – 11/12.

6.B 15 – 12/13.
$250,000 x .70 x 1.1 + $250,000 x .30 x 1.05 = $271,250.

7.A 15 – 14/15.

8.A 15 – 13/15.

9.D 15 – 16.

10.C 15 – 17.

11.D 15 – 18/19.

12.B 15 – 22.

13.D 16 – 5.

14.D 16 – 6.

15.C 16 – 10.

16.A 16 – 10.

17.C 16 – 10.

18.A 16 – 11.

19.B 16 – 12/13.

20.D 16 – 14/15.

21.C 16 – 18/19.

22.A 16 – 18/19.

23.B 16 – 20/21.

The portfolio is worth $400,000 and $200,000 is equities, $120,000 is bonds and $80,000 is cash. At the end of the year, the equities are worth $180,000, the bonds are worth $132,000, and the cash is worth $80,000. The portfolio is worth $392,000. The new allocation should be $196,000 equities, $117,600 in bonds, and $78,400 in cash. Therefore, $16,000 in equities should be purchased and $14,400 in bonds and $1,600 in cash sold.

24.C 16 – 25.

25.B 16 – 25.

CSC VOLUME TWO: Chapters 17 – 19, Test #1

1. Which of the following *best* describes the difference in management style between managed and structured products?

    a) Managed products are actively managed and structured products are passively managed.
    b) Managed products are passively managed and structured products are actively managed.
    c) Managed products are either actively or passively managed and structured products are passively managed.
    d) Managed products are actively managed and structured products are either passively or actively managed.

2. Which of the following is *least* likely to be a disadvantage associated with investing in structured products?

    a) high cost
    b) complexity
    c) lack of transparency
    d) illiquidity of the secondary market

3. The fact that a large mutual fund might have a portfolio of 60 to 100 different securities in 15 to 20 industries is *most* closely associated with the advantage of...

    a) low-cost.
    b) diversification.
    c) variety of funds.
    d) margin eligibility.

4. Which is the *most* common structure for mutual funds in Canada?

    a) open-end trust
    b) closed-end trust
    c) open-end trust deed
    d) unincorporated fund

5. Which of the following is *not* true with respect to the duties of the fund manager and custodian?

    a) The custodian is responsible for calculating the fund's net asset value and preparing the fund's prospectus.
    b) The manager provides day-to-day supervision of the fund's investment portfolio.
    c) The custodian sometimes also serves as the fund's registrar and transfer agent, maintaining records of who owns the fund's shares.
    d) The manager supervises shareholder or unitholder record-keeping.

6. A mutual fund has assets of $25,000,000. This includes $2,000,000 in cash and $1,000,000 worth of derivative products. Its liabilities are $500,000. If it has 5,000,000 units outstanding, its NAV is…

   a) $4.50.
   b) $4.60.
   c) $4.90 .
   d) $5.00.

7. An investor purchased a mutual fund with a NAV of $25 with a front-end load of 3%. What is the offering or purchase price of the fund?

   a) $24.25
   b) $25.00
   c) $25.75
   d) $25.77

8. Refer to Q. #7. Based on the offering or purchase price of the fund, what is the commission based on the NAV?

   a) 2.99%
   b) 3.08%
   c) 3.18%
   d) Insufficient information

9. An investor purchased a mutual fund with a back-end load that begins at 6% in the first year and declines by 1% annually until is 0% after the sixth year. The charge is based on the NAVPS at the time of redemption. If the units were purchased at $12 and rose to $14 eighteen months later – and then redeemed -- the selling/redemption price would be…

   a) $11.40.
   b) $12.60 .
   c) $13.16.
   d) $13.30 .

10. The annual fee that a mutual fund manager pays to the distributor who sold the fund as long as the client holds the fund is known as the…

    a) F-class charge.
    b) trailer fee or back-end load.
    c) service fee or front-end load.
    d) trailer fee or service fee.

11. Switching fees are *most* likely to occur when…

    a) an investor stays in the same fund but switches from a back-end load to a front-end load.
    b) an investor stays in the same fund but switches from a front-end load to a back-end load.
    c) an investor exchanges units of one fund for another fund in the same family or fund company.
    d) an investor exchanges units of one fund for another fund in another family or fund company.

12. Which of the following fees are included in the management expense ratio (MER) of a mutual fund?

    i) Interest charges
    ii) Audit and legal fees
    iii) Safekeeping and custodial fees

    a) i) only
    b) i) & ii) only
    c) i) & iii) only
    d) All of the above

13. The biggest difference between F-class mutual funds and traditional mutual funds is that…

    a) F-class funds have lower MERs.
    b) F-class funds have higher MERs.
    c) F-class funds hold fewer securities.
    d) F-class funds are passively managed.

14. Jonathan Talbert is a high net worth Canadian with an average tax rate of 35% and marginal tax rate of 40%. He contributes $6,000 into his RRSP, then purchases that much worth of LSVCCs whose provincial tax credits match the federal tax credit. As a result, we would say that the purchase made in his RRSP would actually cost him…

    a) $1,500.
    b) $2,100.
    c) $2,400.
    d) $4,200.

15. Which of the following documents *must* an investor receive upon purchase of a mutual fund?

    a) Fund facts document only.
    b) Fund facts document and a simplified prospectus.
    c) Fund facts document and an annual information form.
    d) Fund facts document, a simplified prospectus and an annual information form.

16. The most prominent applications of derivatives among mutual fund managers are to…

    a) increase return and reduce volatility.
    b) increase return and hedge against risk.
    c) facilitate market entry and exit and increase return.
    d) facilitate market entry and exit and hedge against risk.

17. What type of mutual fund keeps its share or unit value constant at $10?

    a) bond funds
    b) equity funds
    c) mortgage funds
    d) money market funds

18. Ranked from least risky to highest risk, which of the following risk-return relationships among funds is *not* correct?

    a) money market, balanced, equity, specialty
    b) fixed income, balanced, equity, specialty
    c) money market, equity, balanced, specialty funds
    d) money market, balanced, equity, specialty funds

19. __________ does *not* replicate the market exactly, but sticks fairly close to the market weightings by industry sector, by country or region, or average market capitalization.

    a) Indexing
    b) Closet indexing
    c) Active investing
    d) Passive investing

20. The term “glide path” is *most* closely associated with…

   a) equity funds.
   b) specialty funds.
   c) target date funds.
   d) money market funds.

21. What is/are the way(s) that a mutual fund can generate taxable income for an investor?

   a) Through the distribution of interest income, dividends, and capital gains.
   b) Through capital gains realized when the fund is sold.
   c) a) & b)
   d) None of the above

22. When investors receive distributions from their mutual fund, they will have…

   a) more units at a lower price.
   b) more units at a higher price.
   c) the same number of units at a higher price.
   d) the same number of units at the same price.

23. An investor receives annual distributions from a mutual fund, pays taxes on them, and reinvests the entire amount of the distribution. This would…

   a) decrease the adjusted cost base of the units.
   b) *not* affect the adjusted cost base of the units.
   c) increase the adjusted cost base of the units.
   d) only increase the adjusted cost base of the units if the distributions were in the form of capital gains.

24. An investor has set up a ratio-withdrawal plan, assuming growth of 8% per year. If actual growth were 6%…

   a) the plan would be exhausted earlier.
   b) the amount of the annual withdrawals would decrease.
   c) the amount of the annual withdrawals would increase.
   d) both a) and b).

25. The life-expectancy adjusted withdrawal plan is a variation of the…

   a) ratio-withdrawal plan.
   b) fixed-dollar withdrawal.
   b) fixed-period withdrawal plan.
   c) redemption-value withdrawal plan.

CHAPTERS 17 – 19, Test #1 – Answers

1.C 17 – 9.

2.C 17 – 12.

3.B 18 – 6.

4.A 18 – 8.

5.A 18 – 9/10.

6.C 18 – 11/12.
($25,000,000 – $500,000)/5,000,000 = $4.90.

7.D 18 – 13.
$25/(100% – 3%) = $25.77.

8.B 18 – 13.
$.77/$25.00 = 3.08%.

9.D 18 – 13/14.
$14.00 x (1 – .05) = $13.30.

10.D 18 – 14.

11.C 18 – 15.

12.D 18 – 16.

13.A 18 – 16.

14.B 18 – 17/18. He reduces his taxes by $6,000 x .40 = $2,400. He receives the maximum federal and provincial tax credits which equals $1,500. Therefore, the purchase "effectively" costs him $2,100.

15.A 18 – 20.

16.D 18 – 27/28.

17.D 19 – 5.

18.C 19 – 11.

19.B 19 – 12.

20.C 19 – 10.

21.C 19 – 13.

22.A 19 – 16/17.

23.C 19 – 15.

24.B 19 – 18.

25.C 19 – 20.

CSC VOLUME TWO: Chapters 17 – 19, Test #2

1. Which of the following is a risk that is *most* likely associated with managed product but *not* with structured product?

   a) inflation risk
   b) currency risk
   c) prepayment risk
   d) non-systematic risk

2. Which of the following is *not* a factor that has driven the growth for managed and structured products?

   a) demographics
   b) the search for yield
   c) the search for alpha
   d) growth in passive investing

3. The benefit of diversification in a mutual fund is *most* closely associated with reducing or eliminating…

   a) market risk
   b) systematic risk
   c) non-systematic risk
   d) business risk

4. What unique benefit do PAC plans provide?

   a) They allow investors to time the market.
   b) They allow investors to invest small amounts.
   c) They allow investors to reduce the MERs on the funds they hold.
   d) They allow investors to switch between funds with no additional charges.

5. What is the benefit that the trust structure provides mutual funds?

   a) The structure enables the fund itself to avoid taxation.
   b) The structure provides investors with the necessary confidence to invest.
   c) The structure guarantees that fees will only be charges if the fund provides a positive return.
   d) The trust structure does *not* provide any particular benefit to mutual funds.

6. Which of the following parties hold the ultimate responsibility for the activities of any mutual fund?

   a) the directors
   b) the manager
   c) the custodian
   d) the distributors

7. All of the following are duties of the mutual fund manager *except*…

   a) calculation of the fund's net asset value.
   b) preparation of the fund's prospectus and other reports.
   c) supervision of shareholder or unit holder record keeping.
   d) accepting and transmitting orders for fund share redemptions.

8. A mutual fund has $25,000,000 worth of Securities. It has $2,000,000 in Cash and Liabilities of $1,500,000. If there are 10,000,000 shares outstanding, its NAVPS is…

   a) $2.35.
   b) $2.50.
   c) $2.55.
   d) $2.70.

9. A mutual fund was purchased on January 2nd 2013 when its NAV was $20.00. It was sold with a back-end load that commenced at 6% and declined by 1% for each year thereafter, with the load based on the NAV when sold. If the units were worth $24.00 in October 2016 when they were sold, the investor would receive…

   a) $23.28.
   b) $23.40.
   c) $23.70.
   d) $24.00.

10. The annual fee that a salesperson is paid who sold the fund is known as the…

   a) trailer fee.
   b) front-end load.
   c) back-end load.
   d) redemption fee.

11. In order for investors to avoid the recapture of federal tax credits, they must hold LSVCCs for a minimum of ____ year(s).

   a) one.
   b) five.
   c) eight.
   d) ten.

12. Which of the following are you *least* likely to agree with about the fund facts document?

    a) Delivery is required within two business days of purchasing the mutual fund.
    b) The fund facts document is divided into two major headings, each with its own section of related items.
    c) The sections covered under the first heading provide information about the fund including quick facts and risks.
    d) The sections under the second heading provide information about past performance and the cost of buying, owning and selling the fund.

13. Which of the following are you *most* likely to agree with in respect to the simplified prospectus and annual information form?

    a) The simplified prospectus must be updated quarterly.
    b) The simplified prospectus must be delivered to the investor upon his/her request.
    c) The annual information form does *not* have any information in it that is also included in the simplified prospectus.
    d) The annual information form does *not* have to be made available to investors if they are already receiving a simplified prospectus.

14. Which of the following common restrictions on mutual funds would *not* pertain to the manager of a specialty mutual fund?

    a) No borrowing for leverage purposes.
    b) No more than 10% of a company's voting stock.
    c) No more than 10% of the net assets in the securities of a single issuer.
    d) All of these restrictions would apply to a manager of a specialty mutual fund.

15. The prohibited sales practice of "quoting a future price" is *most* closely associated with...

    a) front-running.
    b) back-dating orders.
    c) offer to repurchase.
    d) guaranteeing returns.

16. Harold Zhang is employed by XYZ Bank and sells mutual funds through its downtown branch. A client of his wants to take out a loan from Mr. Zhang, and then purchase mutual fund units from him. In order for this to be acceptable, Mr. Zhang must…

    a) do nothing. He can take the order.
    b) get approval from his supervisor.
    c) get approval from a senior lending officer.
    d) Under no circumstances would this be acceptable.

17. Which of the following mutual funds tends to provide tax-advantaged income with some possibility of capital appreciation?

    a) dividend funds
    b) specialty funds
    c) real estate funds
    d) small and mid-cap funds

18. Which of the following is *least* likely to be true about small-cap mutual funds?

    a) They expose the investor to higher risk than large-cap funds.
    b) They expose the investor to higher expected returns than large-cap funds.
    c) They derive the majority of their returns from dividend income, rather than capital gains.
    d) The distributions from them would be taxed identically to distributions from large-cap funds.

19. An investor purchased 100 mutual fund units on April 1st, 2016 at a price of $20 per unit. There was a $2 distribution paid out in the form of capital gains in late November, after which the investor's total holdings were worth $2,100. As a result, assuming that the investor had a 40% marginal tax rate, she would be responsible for paying ___ in taxes.

    a) Nil
    b) $ 40
    c) $ 80
    d) $100

20. An investor purchased $25,000 worth of mutual funds twenty years ago. Over the years, she received a total or $5,000 dividends that were reinvested into additional units. She sells half of the units for $20,000. What are her capital gains?

    a) There are no capital gains.
    b) $2,500.
    c) $5,000.
    d) $7,500.

21. Which of the following withdrawal plan(s) lead(s) to a steadily declining payout over the years?

    a) Ratio withdrawal plan only.
    b) Ratio withdrawal plan and fixed period plan only.
    c) Ratio withdrawal plan and life-expectancy adjusted plan only.
    d) Ratio withdrawal plan, fixed period plan and life-expectancy adjusted plan.

22. If you see that a mutual fund has a Volatility(Vty) or 9, you would understand that…

    a) over the previous year, it was far *less* volatile than most funds.
    b) over the previous year, it was far *more* volatile than most funds.
    c) over the previous three years, it was far *less* volatile than most funds.
    d) over the previous three years, it was far *more* volatile than most funds.

23. Methods of calculating time-weighted rates of return include:
    i) Sharpe Ratio method
    ii) Modified Dietz method
    iii) Daily valuation method

a) i) & ii)
b) i) & iii)
c) ii) & iii)
d) i), ii) & iii)

24. All of the following are common ways to measure the risk of a mutual fund *except*…

    a) beta.
    b) standard deviation.
    c) the Morningstar rating.
    d) the worst annual losses.

25. Survivorship bias tends to…

    a) inflate returns and overstate assets under management.
    b) inflate returns and understate assets under management.
    c) inflate returns but *not* impact assets under management.
    d) understate returns and overstate assets under management.

CHAPTERS 17 – 19, Test #2 – Answers

1.D 17 – 6/8.
Because structured products are passively managed, they are only exposed to systematic risk.

2.C 17 – 5.

3.C 18 – 6.

4.B 18 – 6.

5.A 18 – 8.

6.A 18 – 9/10.

7.D 18 – 9/10.

8.A 18 – 11.
($25,000,000 – $1,500,000) / 10,000,000 = $2.35.
The $2,000,000 cash is included among the fund's assets.

9.A 18 – 13/14.
$24.00 – ($24.00 x .03) = $23.28.
The load would be 6% in 2008, 5% in 2009, 4% in 2010, and 3% in 2011.

10.A 18 – 14.

11.C 18 – 18.

12.D 18 – 20/23.

13.B 18 – 23/25.

14.D 18 – 27.

15.B 18 – 28.

16.C 18 – 37/38.

17.A 19 – 8.

18.C 19 – 8.

19.B 19 – 13/15.
100 units x $2 = $200. The 50% inclusion rate means that the 40% marginal tax rate would be applied to $100, resulting in a $40 tax burden.

20.C 19 – 13/15.
The cost base of all the units is $30,000, therefore the cost base for half of that is $15,000.
$20,000 – $15,000 = $5,000 capital gain.

21.A 19 – 18/21.

22.D 19 – 22.

23.C 19 – 23/24.

24.C 19 – 25/26.

25.B 19 – 26.

CSC VOLUME TWO: Chapters 20 – 21, Test #1

1. When a beneficiary in a segregated fund contract is named as irrevocable, the beneficiary can only be changed…

    a) with the consent of the annuitant
    b) with the consent of the beneficiary.
    c) with the consent of both the annuitant and beneficiary.
    d) If the beneficiary is made irrevocable, it cannot be changed under any circumstances.

2. What is the maximum maturity guarantee that a segregated fund contract can provide?

    a) 75% after a five year holding period
    b) 100% after a five year holding period
    c) 75% after a ten year holding period
    d) 100% after a ten year holding period

3. An investor bought $20,000 worth of segregated funds that came with the minimum guarantee allowed under provincial legislation. When they had appreciated in price to $25,000, she sold $5,000 worth of units. What is her new guaranteed amount?

    a) $12,000
    b) $13,500
    c) $15,000
    d) $17,500

4. An investor purchased $10,000 guaranteed worth of segregated funds. When he died seven years later, the units were worth $9,000. The death benefit would be…

    a) $1,000.
    b) $9,000.
    c) $10,000.
    d) Nothing. The units were held for more than five years so the death benefit feature no longer applies.

5. A self-employed professional died and left a non-registered investment portfolio of $250,000. $150,000 was held in segregated funds and $100,000 was in mutual funds. He had business related debts of $300,000. His beneficiaries would receive…

   a) Nothing.
   b) $100,000.
   c) $150,000.
   d) $250,000.

6. Which of the following products would *most* likely have the highest MER?

   a) Actively managed mutual fund
   b) Passively managed segregated fund
   c) Actively managed segregated fund with 75% guarantee
   d) Actively managed segregated fund with 100% guarantee

7. Which of the following captures the effect of allocations of the number of units and NAVs of segregated funds and mutual funds.

   a) Distributions increase the number of mutual fund units and increase the price of segregated fund units.
   b) Distributions increase the price of mutual fund units and increase the price of segregated fund units.
   c) Distributions increase the number of mutual fund units and increase the number of segregated fund units.
   d) Distributions increase the number of mutual fund units. Segregated fund units do *not* receive distributions because formally they are insurance contracts.

8. An investor purchased $100,000 worth of segregated funds in 1999 in a non-registered account. Eight years later when they were worth $150,000, she reset their value. In 2016, they were worth $160,000 and she sold them. Assuming that the $60,000 was made up entirely of capital gains, which of the following best describes her tax liability?

   a) She would be responsible for $50,000 worth of capital gains in 2007 and $10,000 in capital gains in 2016.
   b) She would be responsible for paying tax on 100% of the $60,000 capital gains in 2016.
   c) She would be responsible for paying tax on 50% of the $60,000 capital gains in 2016.
   d) She would *not* be able to sell the funds in 2016 because she chose to reset their value in 2007.

9. What is the insurance industry's self-financing provider against the loss of policy benefits in case of corporate insolvency?

   a) CIPF
   b) Assuris
   c) CLHIA
   d) CompCorp

10. A Guaranteed Minimum Withdrawal Benefit (GMWB) Plan is *most* similar to a…

   a) fixed annuity.
   b) probate fund.
   c) portfolio fund.
   d) variable annuity.

11. Under one type of GMWB plan, an investor can purchase the product several years in advance of withdrawals. In that case, the annual growth will be…

   a) 3%.
   b) 5%.
   c) 10%.
   d) Variable, depending on the underlying assets in the product.

12. Portfolio funds offer the benefit of…

   a) lower MERs.
   b) greater diversification.
   c) very active management.
   d) very passive management.

13. Hedge funds are usually structured as _________ and issue a legal document called a(n) ________ which states the objectives, risks and terms of investment.

   a) private placements; offering memorandum
   b) private placements; simplified prospectus
   c) limited partnerships; offering memorandum
   d) limited partnerships; simplified prospectus

14. Alfred Jones, the father of hedge funds, merged which of the following speculative tools into a conservative strategy:

    i) short selling
    ii) leverage
    iii) options

    a) i) & ii) only
    b) i) & iii) only
    c) ii) & iii) only
    d) i), ii) & iii)

15. Which of the following is *least* likely to be a unique benefit of hedge fund investing?

    a) relative returns
    b) risk minimization
    c) lower volatility and higher returns
    d) low correlations with other asset classes

16. The lock-up period *most* directly impacts…

    a) returns.
    b) liquidity.
    c) volatility.
    d) incentive fees.

17. A new hedge fund was launched with a net asset value of $10 per unit. At the end of the first year, it rises to $15. The hurdle rate on which incentive fees are based is 5%. By the end of the second year, the net asset value has fallen to $14. In order for an incentive fee to be paid in Year Three, the NAV must exceed…

    a) $10.00.
    b) $11.03 ($10.00 x 1.05 x 1.05).
    c) $14.70 ($14.00 x 1.05).
    d) $15.75 ($15.00 x 1.05).

18. Which of the following risks is frequently overlooked by investors when they invest in hedge funds?

    a) market risk
    b) manager risk
    c) business risk
    d) regulatory risk

19. Arbitrage is *least* likely to be associated with…

    a) directional strategies.
    b) event-driven strategies.
    c) relative value strategies.
    d) Arbitrage is closely associated with all hedge fund strategies.

20. Which of the following relative value strategies attempts to exploit pricing differences between securities issued by the same company?

    a) Risk arbitrage
    b) Market-neutral
    c) Fixed-income arbitrage
    d) Convertible arbitrage

21. Which of the following is *not* an event-driven hedge fund strategy?

    a) Global macro
    b) High-yield bonds
    c) Distressed securities
    d) Merger or risk arbitrage

22. A hedge fund has gone long $100,000 worth of Amazon and shorted $80,000 worth of Netflix. Its net exposure and leverage are…

    a) 20% and 1.8.
    b) 1.25 and 1.8.
    c) .8 and 1.25.
    d) 20% and 1.25.

23. Most managed futures funds favour using what type of analysis?

    a) Technical analysis
    b) Fundamental analysis
    c) Technical and statistical analysis
    d) Fundamental and statistical analysis

24. Compared to investing in one single mutual fund, multi-strategy, multi-manager fund of funds investing is *least* likely to guarantee…

    a) higher returns.
    b) lower volatility.
    c) greater access.
    d) greater diversification.

25. All of the following are understood as potential disadvantages to fund of funds investing *except*…

a) business risk control.
b) excessive diversification.
c) additional sources of leverage.
d) no guarantee of positive returns.

CHAPTERS 20 – 21, Test #1 – Answers

1.B 20 – 6.

2.D 20 – 6.

3.A 20 – 6/7.
The original protected amount if 75% of $20,000 or $15,000. She sells $5,000 of the $25,000 segregated fund units, or 20% of her holdings. This means that 80% of the original protected amount will be protected – and 80% of $15,000 is $12,000.

4.A 20 – 7/8.

5.C 20 – 8.

6.D 20 – 9.

7.A 20 – 11/12.

8.C 20 – 12/13.

9.B 20 – 15.

10.D 20 – 16/17.

11.B 20 – 16/17.

12.B 20 – 17.

13.C 21 – 6.

14.A 21 – 7/8.

15.A 21 – 9.

16.B 21 – 10.

17.D 21 – 11.

18.C 21 – 12.

19.D 21 – 14.

20.D 21 – 15.

21.A 21 – 17.

22.A 21 – 18/19.

23.C 21 – 20.

24.A 21 – 21/22.

25.A 21 – 21/22.

CSC VOLUME TWO: Chapters 20 – 21, Test #2

1. According to Provincial Legislation, the minimum statutory guarantee for a segregated fund is…

   a) 75% after 5 years.
   b) 75% after 10 years.
   c) 100% after 5 years.
   d) 100% after 10 years.

2. An investor purchased $10,000 worth of segregated fund units that were guaranteed up to 75% of their value assuming that they were held for the requisite period of time. When the units were worth $11,000, she sold $1,000 worth. Her new guaranteed amount would be *closest* to…

   a) $6,750.
   b) $6,825.
   c) $7,500.
   d) $9,000.

3. An investor purchased $10,000 worth of segregated fund units in 2010 with a 100% maturity guarantee. When they were worth $13,000 in 2014, she reset their value. Which of the following best describes her protection?

   a) She is guaranteed to receive at least $10,000 as long as she holds them until 2020.
   b) She is guaranteed to receive at least $13,000 as long as she holds them until 2020.
   c) She is guaranteed to receive at least $13,000 as long as she holds them until 2024.
   d) She is guaranteed to receive at most $13,000 as long as she holds them until 2024.

4. Creditor protection implies that if a business owner dies with non-registered investments and business-related debts that are greater than the value of the investments…

   a) after probate fees, his beneficiaries will split the value of the investments with the creditors.
   b) after probate fees, his beneficiaries will receive the full value of the investments.
   c) his beneficiaries will receive half the value of the investments without any probate fees.
   d) his beneficiaries will receive the full value of the investments without any probate fees.

5. Which of the following is a key estate planning benefit of segregated funds compared to mutual funds?

   a) death benefit
   b) the reset feature
   c) bypassing probate
   d) the maturity guarantee

6. The main disclosure document for a segregated fund is the…

   a) prospectus.
   b) information folder.
   c) simplified prospectus.
   d) annual information form.

7. Segregated funds are…

   a) usually valued daily and at least weekly.
   b) usually valued daily and at least monthly.
   c) usually valued daily and at least quarterly.
   d) usually valued weekly and at least monthly.

8. Which of the following *best* describes the protection of segregated funds and mutual funds against issuer insolvency?

   a) Both segregated funds and mutual funds are government guaranteed up to a maximum of $1,000,000 per eligible customer
   b) Segregated funds are guaranteed by Assuris to a maximum of $60,000 per eligible customer and mutual funds are guaranteed by the MFDA's Investor Protection Corporation to a maximum of $100,000 per eligible customer
   c) Segregated funds are guaranteed by Assuris to a maximum of $60,000 per eligible customer and mutual funds are guaranteed by the MFDA's Investor Protection Corporation to a maximum of $1,000,000 per eligible customer
   d) Segregated funds are guaranteed by Assuris to a maximum of $100,000 per eligible customer and mutual funds are guaranteed by the MFDA's Investor Protection Corporation to a maximum of $1,000,000 per eligible customer

9. On July 1st, 2014 an investor purchased 100 segregated fund units and 100 mutual fund units. At the end of the year, there were distributions of interest income in the amount of $100 associated with his segregated funds and $200 associated with his mutual funds. What is the total amount of the distributions that the investor would be responsible for paying tax on?

   a) $100
   b) $200
   c) $250
   d) $300

10. Which of the following is *not* one of OSFI's key requirements for segregated fund contracts?

   a) The initial term of the contract cannot be more than 10 years.
   b) There can be no guarantee of any amounts payable before the annuitant's death or contract maturity date.
   c) The maturity guarantee payable at the end of the term of the policy cannot be less than 100% of the gross premiums paid by the contract holder.
   d) All of the above are key requirements according to OSFI.

11. Under which of the following circumstances is it *most* likely that the holder of a guaranteed minimum withdrawal benefit (GMWB) plan may never receive the principal payments made into the plan?

   a) The holder starts payments immediately and there are early losses in the portfolio.
   b) The holder defers payments for five years and there are late losses in the portfolio.
   c) The holder defers payments for ten years and there are early losses in the portfolio.
   d) It is impossible under a GMWB plan for the holder *not* to at least receive the principal amount invested.

12. An investor put $100,000 into a GMWB in 2010, with a guaranteed payment of $4,000 at that time, even though he chooses to defer withdrawals. Two years later when the underlying assets are worth $95,000, he begins his withdrawals. The amount he would get annually is *closest* to…

   a) $3,800.
   b) $4,000.
   c) $4,200.
   d) $4,400.

13. Which of the following are you *least* likely to agree with in respect to hedge funds compared to mutual funds?

    a) Mutual funds are *more* liquid than hedge funds.
    b) Mutual funds are *more* heavily regulated than hedge funds.
    c) Mutual funds are valued *more* frequently than hedge funds.
    d) Mutual funds take concentrated positions *more* frequently than hedge funds.

14. Which of the following is the primary determinant of whether an investor is considered “sophisticated” or “accredited”?

    a) net worth
    b) education
    c) personal leverage
    d) investment experience

15. Alfred Jones believed that in a falling market, the hedge fund manager should…

    a) have a large cash allocation.
    b) only hold short positions.
    c) short securities that will decline more than the market and go long securities that will decline less than the market.
    d) short securities that will decline less than the market and go long securities that will decline more than the market.

16. In order for a hedge fund to provide the maximum diversification benefit in a portfolio, its historic returns should be…

    a) positively corrected to the portfolio.
    b) negatively correlated to the portfolio.
    c) positively correlated to the portfolio and the market.
    d) negatively correlated to the portfolio and the market.

17. The lock-up period *most* directly benefits…

    a) the hedge fund manager.
    b) the investor in the hedge fund.
    c) The lock-up period benefits the manager and investor equally.
    d) The lock-up period benefits neither the manager nor the investor.

18. Hemali Singh is a Hedge Fund Manager who runs her Fund under the 2 & 20 rule. In 2013, she started the year with $10 million in Assets under Management. After fees were deducted at the end of the year, the Hedge Fund was worth $14 million. At the end of 2014, the Hedge Fund was worth $12 million. At the end of 2015, it was worth $14 million. Assuming that her fund operated under "high water mark" rules, her fees for 2015 would be *closest* to…

    a) $0.
    b) $280,000.
    c) $400,000.
    d) $680,000.

19. Which of the following is one of the biggest – and *most* overlooked – risks associated with hedge fund investing?

    a) tax risk
    b) manager risk
    c) business risk
    d) leverage risk

20. An Investment Manager is examining several different hedge funds. Everything else being equal, he would prefer those hedge funds with…

    a) short lock-ups and low high water marks.
    b) short lock-ups and high high water marks.
    c) long lock-ups and low high water marks.
    d) long lock-ups and high high water marks.

21. The lowest market exposure to the underlying market direction is found in which of the following hedge fund categories?

    a) Directional
    b) Event-driven
    c) Global macro
    d) Relative value

22. High leverage is *most* closely associated with which of the following hedge fund strategies?

    a) global macro
    b) long/short equity
    c) convertible arbitrage
    d) fixed-income arbitrage

23. Merger or risk arbitrage generally involves…

a) taking a long position in the acquiring company.
b) taking a long position in the company being acquired.
c) taking a long position in the acquiring company and a short position in the company being acquired.
d) taking a short position in the acquiring company and a long position in the company being acquired.

24. A Commodity Trading Advisor (CTA) would *most* likely be involved with which of the following hedge funds?

a) Managed futures
b) Distressed securities
c) Equity market-neutral
d) Convertible arbitrage

25. In a fund of funds hedge fund structure…

a) the volatility of the fund of funds should be lower than the average volatility of the funds in the portfolio.
b) the volatility of the fund of funds should be the same as the average volatility of the funds in the portfolio.
c) the volatility of the fund of funds should be lower than the volatility of the least volatile fund in the portfolio.
d) It is *not* possible to generalize about the volatility of the fund of funds and the volatility of the individual funds in it.

CHAPTERS 20 – 21, Test #2 – Answers

1.B 20 – 6.

2.B 20 – 6.

3.C 20 – 7.

4.D 20 – 8.

5.C 20 – 9.

6.B 20 – 10.

7.B 20 – 10.

8.C 20 – 11.

9.C 20 – 11/12.

10.C 20 – 15.

11.D 20 – 16/17.

12.D 20 – 16/17.

13.D 21 – 5/6.

14.A 21 – 6.

15.C 21 – 7/8.

16.B 21 – 9.

17.A 21 – 10.

18.B 21 – 10/11.
The manager would receive the 2% management fee, which would be approximately 2% of $14 million or $280,000.

19.C 21 – 12.

20.B 21 – 10/11.

21.D 21 – 14.

22.D 21 – 16.

23.D 21 – 17.

24.A 21 – 20.

25.A 21 – 21/22.

CSC VOLUME TWO: Chapters 22 – 24, Test #1

1. Historically, which of the following types of funds typically trade at a discount to their NAV?

   a) Open-end funds
   b) Closed-end funds
   c) Both open-end and closed-end funds
   d) Neither open-end nor closed-end funds

2. Compared to open-end funds, closed-end funds offer all of the following advantages to investors *except*:

   a) Closed-end funds can be short-sold. Open-end funds cannot.
   b) Closed-end funds are typically *more* fully invested than open-end funds.
   c) Closed-end funds are typically *more* fully diversified than open-end funds.
   d) Capital gains, dividends and interest distributions are paid directly to closed-end fund investors.

3. What is a potential disadvantage of REIT investment?

   a) REITs are *not* subject to full disclosure rules.
   b) REITs may *not* provide limited liability to investors.
   c) REITs are *not* liquid investments compared to real estate.
   d) REITs do *not* provide income for investors – all growth is in the form of capital gains.

4. In terms of advisor compensation,

   a) ETF purchasers always pay a commission.
   b) ETF purchases always pay a back-end load.
   c) ETF purchases pay a commission, unless the purchase is within a fee-based account.
   d) ETF purchases will always pay a load, but it could be either back-end or front-end.

5. Tracking error is usually defined as the…

   a) simple difference between the predicted return of the ETF and its actual return.
   b) simple difference between the return on the underlying index or reference asset and the return of the ETF.
   c) negative return that the investor experiences by investing in the ETF rather than investing directly in the reference asset.
   d) fees that the investor must pay for the ETF compared to a fee-free investment in the underlying reference asset.

6. Private equity finances firms in all of the following ways *except*…

   a) turnaround.
   b) distressed debt.
   c) leveraged buyout.
   d) secondary offerings.

7. What allows private equity managers to have access to legitimate inside information?

   a) Private equity managers have greater expertise than *most* investors.
   b) Private equity managers are often buying majority ownership in the company.
   c) Private equity managers develop special relationships with company management.
   d) There is no such thing as "legitimate inside information."

8. An investor in a venture capital fund would like to sell his holdings before the lock-up period. Therefore, it will *likely* be necessary to sell his holdings…

   a) back to the venture capital fund at its market value.
   b) back to the venture capital fund at a discount to its market value.
   c) to a third party at a discount to its market value.
   d) It is *not* possible to sell holdings during the lock-up period.

9. Key differences in the fee structure for managed accounts, compared to mutual funds include all of the following *except*…

   a) fees are transparent.
   b) fees tend to be lower.
   c) fees are *not* standardized.
   d) fees are tax-deductible for registered accounts.

10. The fees in a fee-based account are *least* likely to be based on the…

   a) type of investment.
   b) dollar size of the account.
   c) estimated number of trades.
   d) client's investment objectives.

11. Which of the following is *not* true with respect to discretionary and managed accounts?

    a) Discretionary accounts may *not* be solicited. Managed accounts may be solicited.
    b) Managed accounts are usually opened for a short period of time, as a matter of convenience. Discretionary accounts are managed on an on-going basis.
    c) Discretionary authority with respect to a managed account must be given by the client in writing.
    d) IAs other than partners or directors may *not* accept authorization for a simple discretionary account.

12. Single-manager accounts…

    a) pursue a passive management style in order to minimize fees.
    b) manage each account differently, placing unique trades for each one.
    c) are much more concerned with asset allocation than individual security selection.
    d) often maintain a model portfolio and then execute bulk purchases and sales.

13. In a multi-manager account structure, the overlay manager is *least* likely to be responsible for which of the following?

    a) Individual security selection
    b) Providing market insight to advisors
    c) Setting the overall optimal asset mix
    d) Conducting ongoing due diligence reviews

14. How does a mutual fund wrap differ from a fund of funds?

    a) In the mutual fund wrap, the client holds the actual funds.
    b) In the mutual fund wrap, the client decides which funds he/she prefers.
    c) In the mutual fund wrap, fees are much lower than holding individual mutual funds.
    d) In the mutual fund wrap, returns are guaranteed.

15. What is a unique benefit of multi-disciplinary accounts?

    a) Lower fees
    b) Lower volatility
    c) Higher levels of optimal asset allocation
    d) Greater access to the portfolio managers

16. The private family office is targeted to clients with assets in excess of…

    a) $ 500,000.
    b) $ 1,000,000.
    c) $10,000,000.
    d) $50,000,000.

17. A principal-protected note is best understood as a(n)…

    a) debt-like security that does *not* have a maturity date.
    b) debt-like security that has a maturity date.
    c) equity-like security that does *not* have a maturity date.
    d) equity-like security that has a maturity date.

18. PPN's are *least* likely to be based on…

    a) indexes.
    b) hedge funds.
    c) mutual funds.
    d) exchange-traded funds.

19. What kind of bond is frequently combined with a call option to create a principal protected note?

    a) long-term bond
    b) short-term bond
    c) zero-coupon bond
    d) Government of Canada bond

20. An investor purchased a PPN for $25,000 whose return was linked to the S&P/TSX 60. Five years later when the PPN matured, it was worth $30,000. The $5,000 gain would *most* likely be taxed as…

    a) capital gains.
    b) interest income.
    c) either capital gains or interest income – the investor would decide.
    d) either capital gains or interest income – the originator would decide.

21. An index has an initial level of 10,500 and an ending level of 13,000. If an index-linked GIC has a participation rate of 40%, the investor's return would be *closest* to…

    a) 5%
    b) 10%
    c) 15%
    d) 25%

22. An investor is contemplating purchasing either a preferred share or capital share from a newly created split share structure. If she believed that the underlying company would be very profitable, and it would reward shareholders by buying back shares in open market operations, she would buy…

    a) capital shares.
    b) preferred shares.
    c) both capital and preferred shares.
    d) neither capital nor preferred shares.

23. Which investors in the split share structure expose themselves to “inherent leverage”?

    a) Capital share investors.
    b) Capital share investors, but only if they are buying the shares on margin.
    c) Preferred share investors.
    d) Preferred share investors, but only if they are buying the shares on margin.

24. In the securitization process, the originator pools assets into a reference portfolio and sells them to a separate legal entity known as a(n)…

    a) mezzanine tranche.
    b) unique purpose vehicle.
    c) special purpose vehicle.
    d) senior securitized tranche.

25. Mortgage-backed securities (MBSs) are also known as…

    a) pass-through securities.
    b) special purpose vehicles.
    c) collateralized debt obligations.
    d) asset-backed commercial paper.

CHAPTERS 22 – 24 , TEST #1 ANSWERS

1.B 22 – 5/6.

2.C 22 – 5/6.

3.B 22 – 7/9.

4.C 22 – 10.

5.B 22 – 18/19.

6.D 22 – 30.

7.B 22 – 31/32.

8.C 22 – 32.

9.D 23 – 5/6.

10.D 23 – 6.

11.B 23 – 7/8.

12.D 23 – 8/9.

13.A 23 – 10.

14.A 23 – 11.

15.C 23 – 12.

16.D 23 – 13.

17.B 24 – 5.

18.D 24 – 5.

19.C 24 – 6.

20.B 24 – 10.

21.B 24 – 11.

22.A 24 – 14/15.

23.A 24 – 13/14.

24.C 24 – 16.

25.A 24 – 20.

CSC VOLUME TWO: Chapters 22 – 24, Test #2

1. Closed-end funds that have the flexibility to buy back their outstanding shares are known as…

    a) open funds
    b) unitary funds.
    c) interval funds.
    d) discrete funds.

2. In what manner are income trusts *most* similar to fixed-income securities like bonds and debentures?

    a) Income trusts trade over-the-counter.
    b) Income trusts have a set maturity date.
    c) Income trusts pay distributions semi-annually.
    d) Income trusts re-act to changing interest rates.

3. REIT managers are *most* likely to invest in…

    a) newly developed properties to minimize risk.
    b) newly developed properties in order to maximize return.
    c) established income-producing properties to minimize risk.
    d) established income-producing properties to maximize return.

4. An ETF has been established where construction rules are developed by the ETF provider and published in advance. This would be understood as a(n)

    a) active ETF.
    b) synthetic ETF.
    c) rules-based ETF.
    d) covered call ETF.

5. The use of leveraged ETFs implies a…

    a) lower risk tolerance for the investor.
    b) higher risk tolerance for the investor.
    c) lower return requirement for the investor.
    d) higher return requirement for the investor.

6. A commodity ETF…

    a) is prohibited from using derivatives.
    b) may use futures contracts to replicate physical holding.
    c) may use futures contracts, but may not roll them over.
    d) may use option contracts, and must roll them over.

7. Private equity financing in underperforming or out of favour industries that are undergoing restructuring is understood as…

   a) turnaround.
   b) early stage.
   c) later stage.
   d) growth capital.

8. Which of the following *most* accurately describes the role of private equity managers in the participation of a company in which they have invested?

   a) Private equity managers almost never participate.
   b) Private equity managers only participate if the company is undergoing financial difficulties.
   c) Private equity managers participate in developing the business plan and selecting senior executives.
   d) Private equity managers typically make themselves the CEO and President and also have a presence on the Board of Directors.

9. Which of the following is *least* likely to be a reason to account for the strong growth rate in fee-based accounts?

   a) Affluent clients approve of having the advisor's fee linked to the performance of their portfolio.
   b) Advisors can spend more time on financial planning and wealth management needs under the fee-based model.
   c) There is less disclosure under the fee-based model, which means the client is *not* inundated with confusing information.
   d) The fee-based model provides the client with more confidence in the advisor because the client doesn't worry that trades are being put through to generate commissions.

10. Which of the following is *not* a key difference between the fees for managed accounts and mutual fund MERs?

   a) Fees tend to be lower for managed accounts.
   b) Fees are *not* standardized for managed accounts.
   c) Fees are tax-deductible for non-registered, managed accounts.
   d) Fees are bundled in managed accounts and broken out more clearly with mutual funds.

11. A high net worth investor who monitors his portfolio very carefully is planning a month long hiking trip in South America. As a matter of convenience, it might make sense for him to open a(n)…

   a) managed account.
   b) fee-based account.
   c) discretionary account.
   d) single-manager account.

12. All of the following are rules for managed and discretionary accounts *except*…

    a) Discretionary authority may *not* be solicited whereas managed accounts may be solicited.
    b) Only partners and directors may accept authorization for a simple discretionary account.
    c) Discretionary authority with respect to a managed account must be given in writing by the client.
    d) There is a strict time limit of no more than one year that gives the Investment Advisor the authority to manage the account.

13. Which of the following best describes the “active” approach for an exchange-traded wrap account?

    a) The manager determines the client’s long term risk tolerance, then applies a short-term tactical allocation approach.
    b) The manager determines the client’s long term risk tolerance, then applies a short-term dynamic allocation approach.
    c) The manager determines the client’s long term risk tolerance, then applies a short-term strategic allocation approach.
    d) The manager determines the client’s long term return requirement, then actively manages the ETFs to achieve that return objective.

14. Multi-manager accounts require the services of a(n)…

    a) overlay manager.
    b) supervisory manager.
    c) due diligence manager.
    d) mutual fund wrap manager.

15. In the unified managed account structure, the investing models are held within the account in _______ to effectively combine detailed reporting of separately managed accounts, while maintaining the enhancement of the single custody account.

    a) silos
    b) wraps
    c) sleeves
    d) portfolios

16. Which of the following is *not* true of principal-protected notes (PPNs)?

    a) It is a debt instrument issued by a bank.
    b) In Canada, PPNs are issued only by the big insurers.
    c) The interest rate is tied performance of an underlying asset.
    d) The three main PPN functions performed by the banks are guarantor, manufacturer and distributor.

17. The two *most* popular types of PPNS issued in Canada are…

    a) Index-Linked PPNs with a participation rate and Stock Basket-Linked PPNs.
    b) Index-Linked PPNs without a participation rate and Stock Basket-Linked PPNs.
    c) Stock Market-Linked PPNs with a participation rate and Hedge-Fund Linked PPNs.
    d) Stock Market-Linked PPNs without a participation rate and Hedge-Fund Linked PPNs.

18. Which is *least* likely to be one of the risks associated with PPNs?

    a) Credit risk
    b) Default risk
    c) Liquidity risk
    d) Performance risk

19. An investor in an index-linked GIC prefers…

    a) high index returns and a cap rate of 0%.
    b) high index returns and a cap rate of 50%.
    c) high index returns and a cap rate of 90%.
    d) An investor in an index-linked GIC is *not* impacted by the cap rate.

20. When split shares are created, it is generally for a term of…

    a) one year.
    b) one year to three years.
    c) one year to five years.
    d) three years to ten years.

21. The originator in an asset-back securities generally groups the assets and sells them to a…

    a) guarantor.
    b) originator.
    c) strategic partner.
    d) special purpose entity.

22. Which is *not* one of the tiers in a standard 3-tier tranche for an asset-backed security?

    a) junior
    b) senior
    c) secured
    d) mezzanine

23. What is the primary reason why asset-backed commercial paper was initially designed to mature from 90 to 180 days?

a) A short maturity minimized rollover risk.
b) A short maturity minimized business risk.
c) A short maturity minimized interest rate risk.
d) A short maturity minimized pass-through risk.

24. Which is the primary benefit of a mortgage-backed security?

a) There is no prepayment risk.
b) There is a monthly income stream.
c) The term is always a minimum of 10 years.
d) The income stream is composed of interest and capital gains.

25. Which of the following is not another benefit of a mortgage-backed security?

a) They are very liquid.
b) The minimum investment is $1,000.
c) They are eligible for RRSPs and RRIFs.
d) They are fully guaranteed by the Government of Canada.

CHAPTERS 22 – 24 , TEST #2 ANSWERS

1.C 22 – 5.

2.D 22 – 7.

3.C 22 – 7/8.

4.C 22 – 11/16.

5.B 22 – 12/13.

6.B 22 – 15.

7.A 22 – 30.

8.C 22 – 31/32.

9.C 23 – 4.

10.D 23 – 5/6.

11.C 23 – 7/8.

12.D 23 – 7/8.

13.A 23 – 9.

14.A 23 – 10.

15.C 23 – 12.

16.B 24 – 5.

17.A 24 – 6.

18.B 24 – 9.

19.C 24 – 11/12.

20.D 24 – 13.

21.D 24 – 16/17.

22.C 24 – 17.

23.A 24 – 18.

24.B 24 – 20/21.

25.B 24 – 22.

CSC VOLUME TWO: Chapters 25 – 27, Test #1

1. With respect to tax minimization, with which statement would you agree?

   a) Tax evasion is condoned by tax authorities.
   b) Full utilization of non-allowable deductions is condoned by tax authorities.
   c) When properly handled, income splitting with family members is an acceptable tactic.
   d) There are no circumstances under which postponement of receiving income is allowable.

2. Which of the following is *not* true with respect to the “taxation year” in Canada?

   a) All individuals must use the calendar year as their tax year.
   b) Corporations may choose any fiscal year, as long as it is consistent.
   c) Corporations may *not* change their fiscal year under any circumstances.
   d) All of the above are true.

3. An investor had an average tax rate of 25% and a marginal tax rate of 35% in 2013 when her income was $50,000. If her income increased by 10% in 2014, how much tax would she have to pay for that fiscal year?

   a) $ 1,750
   b) $13,750
   c) $14,250
   d) $19,250

4. An investor purchased 100 shares in 2001 when Nortel was $100 per share. In 2003, he purchased an additional 300@ $25 per share, and then another 2,000 @$1.00 per share in 2005. In 2006, Nortel executed a 1 for 10 consolidation. What was the cost base of his shares?

   a) $ 8.13
   b) $42.33
   c) $51.50
   d) $81.25

5. An investor purchased a $1,000 face value 6% convertible debenture at 95. When the trade settled, she owed the seller another $120 worth of accrued interest. If the conversion terms are 50 shares for each $1,000 face value, then the adjusted cost base of the shares upon conversion would be…

   a) $19.00.
   b) $20.00.
   c) $21.40.
   d) $22.40.

6. On February 1st 2016, an investor purchased 1,000 shares of ABC Security at $20.00 per share. Five days later, he sold them at $18.00. Six months later, he re-entered the market and bought 1,000 shares of ABC Security at $12.00 per share. Which of the following would *best* describe the tax treatment of these transactions?

   a) The investor would be able to claim a capital loss of $2,000 for 2016 and would have a cost base on his shares of $12.00.
   b) The investor would *not* be able to claim a capital loss of $2,000 for 2016 and would have a cost base on his shares of $12.00.
   c) The investor would be able to either claim a capital loss of $2,000 for 2016 or could have a cost base on his shares of $10.00.
   d) The investor would be able to either claim a capital loss of $2,000 for 2016 or could have a cost base on his shares of $14.00.

7. An investor purchased a security on December 22nd and would like to sell it five days later to claim a tax loss for that calendar year. This would be acceptable as long as…

   a) the shares were sold before the end of the year.
   b) the trade settled before the end of the year and the shares were *not* subsequently re-purchased within that year.
   c) the trade settled before the end of the year and the shares were *not* subsequently re-purchased within thirty days.
   d) Shares must be held a minimum of thirty days before they can be sold in order to claim a tax loss.

8. Which of the following type or types of pension plans is *most* similar to an RRSP plan with respect to its risk-return characteristics for the holder?

   a) defined benefit plans
   b) defined contribution plans
   c) defined benefit plans and money purchase plans
   d) defined benefit plans and defined contribution plans

9. In order to calculate the maximum allowable contribution to an RRSP in a given year, you must take the…

   a) lesser of 15% of the previous year's earned income or the dollar limit for that year.
   b) lesser of 18% of the previous year's earned income or the dollar limit for that year.
   c) greater of 15% of the previous year's earned income or the dollar limit for that year.
   d) greater of 18% of the previous year's earned income or the dollar limit for that year.

10. Julia Sung had the following income in 2016:

- $50,000 salary
- $10,000 bonuses
- $12,000 gross rental income, $5,000 net rental income
- $5,000 interest income
- $3,000 capital losses

Assuming no carry forwards, what is her 2016 RRSP contribution limit?

a) $10,800
b) $11,700
c) $12,060
d) $13,320

11. An investor purchased 1,000 shares of ABC Securities for $2 each, and 500 shares of DEF Securities for $2.50 in his trading account. When both ABC Securities and DEF Securities were each $2.25 per share, he contributed his holdings of both into his RRSP plan. What are the tax implications of these contributions?

a) None.
b) There is a capital gain of $125.
c) There is a capital gain of $250.
d) There is a capital gain of $500.

12. Which of the following is *not* an option for the RRSP holders when they reach the age of 71?

a) Purchase a life annuity
b) Transfer the proceeds to a RRIF
c) Take out all funds as a lump sum
d) Keep the funds in the RRSP plan

13. Which of the following is true with respect to a tax-free savings account (TFSA)?

a) Contributions to a TFSA are *not* tax-deductible.
b) Unlike an RRSP, there are no contribution limits to a TFSA.
c) You must have earned income to contribute to a TSFA in any year.
d) There are limits on how much can be withdrawn from the TFSA in any single year.

14. A parent sets up an RESP for his child, and by the time she is ready to attend university, there is $75,000 in it. However, because the child receives a full scholarship, there is no need to pay tuition and other educational expenses. Which of the following *best* describes the options available to the parent?

   a) The parent can transfer the full amount of $75,000 into his RRSP.
   b) The parent can transfer $50,000 into his RRSP.
   c) The parent can transfer $50,000 into his RRSP, provided there is available contribution room.
   d) The parent must withdraw the full amount immediately, paying a penalty tax of 20%.

15. Attribution rules mean that…

   a) tax consequences of income-producing assets may be passed back to the taxpayer.
   b) if income-splitting between spouses is *not* properly achieved, there may be large tax penalties.
   c) it is *not* possible for a taxpayer to discharge directly the debts of a spouse, a designated minor or non-arm's length individual.
   d) if investments are transferred by way of gift, then the giver of the asset is responsible for paying taxes on income earned by those investment.

16. If the initial interview is successful from both the advisor's and client's viewpoint, the advisor should…

   a) ask for referrals.
   b) send the client a thank you letter.
   c) formalize the relationship with a formal contract.
   d) immediately begin trading in order *not* to miss market opportunities.

17. With respect to personal data…

   a) the investment advisor should *not* ask for sensitive information such as health and employment status.
   b) the investment advisor should *not* ask for sensitive information such as health and employment status, but use it if it is offered.
   c) the investment advisor should *not* ask for sensitive information such as health and employment status, and decline to hear it if it is offered.
   d) information such as age, marital status, health and employment income is essential to prepare a proper financial plan.

18. During the mid-earning years, *most* people tend to focus on…

a) growth and income.
b) growth and tax minimization.
c) income and tax minimization.
d) It is not possible to generalize.

19. Investment advisor Ronald Chung is working at his desk when one of his biggest clients, a sophisticated investor with a $2 million portfolio, calls in and asks to place a trade for a very risk penny stock that trades on the TSX Venture Exchange. Mr. Chung does *not* think this is a suitable investment. According to the Code of Ethics…

a) Mr. Chung must accept the order.
b) Mr. Chung must *not* accept the order.
c) Mr. Chung must provide appropriate cautionary advice.
d) Mr. Chung should consult with his supervisor and have his supervisor speak with the client.

20. Investment advisor Greg Gilroy has been working with Paul Travis for the past twenty years and they have a close friendship. One day, Travis calls Gilroy and asks him for a personal loan of $25,000 so that he doesn't have to liquidate securities in a bear market. The Code of Ethics…

a) require Gilroy to make that loan.
b) recommend that Gilroy make that loan.
c) forbid Gilroy from making that loan.
d) recommend against making that loan.

21. An investment advisor, Paula Kozlovsky manages the portfolio of Jonathan Quinn. One day, the RCMP contact Ms. Kozlovsky and ask her to disclose his recent trading history. According to Standard E, Confidentiality…

a) Ms. Kozlovsky cannot disclose this information.
b) Ms. Kozlovsky cannot disclose this information unless she gets Mr. Quinn's permission to do so.
c) Ms. Kozlovsky cannot disclose this information unless she is convinced that Mr. Quinn is guilty of come crime.
d) Ms. Kozlovsky must disclose this information, assuming that the RCMP have the proper authority.

22. Which of the following functions is *not* associated with the Front Office of a sell-side trading firm?

a) Research
b) Sales and trading
c) Corporate finance
d) Legal and compliance

23. Prime brokerage services used primarily by hedge funds are *least* likely to include…

a) research.
b) security lending.
c) portfolio accounting.
d) margin and portfolio financing.

24. The goal of the agency trader is to fill orders…

a) and minimize commissions.
b) and maximize commissions.
c) with minimal market impact.
d) with maximum market impact.

25. Liability traders are generally assigned…

a) specific clients.
b) specific markets.
c) specific sectors of the market.
d) proactive capital rather than reactive capital.

CHAPTER 25 – 27, TEST #1 ANSWERS

1.C 25 – 5.

2.C 25 – 5/6.

3.C 25 – 7.
She pays $12,500 on tax on her first $50,000 and $1,750 on the additional $5,000 the next year. Altogether, this is $14,250.

4.D 25 – 12/13.
(100 x $100 + 300 x $25 + 2,000 x $1) / 2,400 = $8.125. After the 1 for 10 consolidation, the new cost base would be $81.25.

5.A 25 – 13.
$950/50 = $19.00.

6.A 25 – 15/16.

7.C 25 – 16/17.

8.B 25 – 18.

9.B 25 – 18/20.

10.B 25 – 19/20.
Salary, bonuses, and net rental income are combined for $65,000 of earned income in total. 18% of that is $11,700.

11.C 25 – 20.

12.D 25 – 21/22.

13.A 25 – 23/24.

14.C 25 – 25/26.

15.A 25 – 28.

16.C 26 – 6.

17.D 26 – 7/8.

18.B 26 – 10.

19.C 26 – 15.

20.D 26 – 18.

21.D 26 – 20.

22.D 27 – 14/15.

23.A 27 – 17/18.

24.C 27 – 28/29.

25.C 27 – 29/31.

CSC VOLUME TWO: Chapters 25 – 27, Test #2

1. All of the following are legitimate tax avoidance strategies *except*…

   a) postponing the receipt of income.
   b) full utilization of non-allowable deductions.
   c) selecting investments that provide a better after-tax yield.
   d) splitting income with other family members under prescribed rules.

2. An investor is a salaried employee at George Brown College. It costs him about $1,000 per year to ride the TTC to work – otherwise he would never use the public transit system. He needs advice as to whether he can deduct this expense for tax purposes. The *best* explanation is that…

   a) he cannot because employment income is taxed on a net receipt basis.
   b) he cannot because employment income is taxed on a gross receipt basis.
   c) he can because this is considered a business expense.
   d) he can as long as he saves the transfers and documents the expenditures carefully.

3. Using the chart reproduced below, calculate the Federal Income Tax payable for an investor who makes $105,000 in earned income.

PLEASE REFER TO THE FOLLOWING INCOME TAX RATE CHART FOR 2014

Taxable income	Tax
On the first $43,953	15%
Over $43,953 and up to $87,907	22%
Over $87,907 and up to $136,720	26%
Over $136,720	29%

   a) $20,707
   b) $23,642
   c) $25,891
   d) $27,300

4. An investor received a dividend from a taxable Canadian corporation in the amount of $250.00. What would be the i) gross-up and ii) dividend tax credit?

   a) i) $95.00 and ii) $37.55
   b) i) $95.00 and ii) $51.82
   c) i) $345.00 and ii) $37.55
   d) i) $345.00 and ii) $51.82

5. An investor has both a large investment and an RRSP account. His administration fee on the RRSP is $125 and he is considering taking out a loan to make this year's RRSP contribution. In order to minimize his tax burden, the *best* recommendation would be for her to…

   a) claim the $125 tax deduction for the RRSP administration fee and take out a $10,000 RRSP loan.
   b) claim the $125 tax deduction for the RRSP administration fee and take out a $10,000 loan applied against either the RRSP or investment account and write off the interest expense against gains in either account.
   c) take out a $10,000 loan applied against either the RRSP or investment account and write off the interest expense against gains in either account.
   d) take out a $10,000 loan applied against the investment account and write off the interest expense against gains in the investment account.

6. An investor purchased 500 shares of ABC security at $12 per share in 2012 and a commission of 1.5% of the purchase price was charged. In 2014, when the shares were $12.50 per share, the 500 were sold and a flat commission charge of $29 was applied. What is the taxable capital gain (assuming a 50% inclusion rate)?

   a) $ 65.50
   b) $ 94.50
   c) $125.00
   d) $131.00

7. An investor purchased 300 shares of CISCO systems in 2000 at $60. In 2001 he bought another 200 at $35 and finally another 400 shares at $18 in 2002. In 2014, he sold 200 shares at $24 per share. What is the adjusted cost base of the shares that he sold?

   a) $18.00
   b) $35.78
   c) $37.67
   d) $60.00

8. An investor bought 100 shares of XYZ Company at $20 in 2010. A year later, she bought a XYZ convertible debenture with a face value of $1,000 at par, convertible into 25 common shares of XYZ. Subsequently, she exercised the conversion option. What is the adjusted cost base of her 125 XYZ shares?

   a) $20
   b) $24
   c) $30
   d) Insufficient information

9. The special type of loss that results from the sale and purchase of the same security within a limited time frame where the loss is *not* tax deductible as a capital loss is known as a(n)…

   a) zero-tax loss.
   b) accrued loss.
   c) deferred loss.
   d) superficial loss.

10. In a particular year, December 31st falls on a Tuesday. The last day that an investor can sell her shares and claim a capital loss is…

   a) Thursday December 26.
   b) Friday December 27.
   c) Monday December 30.
   d) Tuesday December 31.

11. An individual works at Bombardier where there are a number of employee benefit plans. He wants to know his RRSP contribution limit for a given year. In order to calculate how much he can contribute to his RRSP, it is necessary to…

   a) add only his pension plan contributions to his RRSP limit.
   b) add his pension plan contributions and deferred profit sharing plan contributions to his RRSP limit.
   c) deduct his pension plan contributions and deferred profit sharing plan contributions from his RRSP limit.
   d) do nothing. RRSP contribution limits are NOT affected by pension contributions or deferred profit sharing plan contributions.

12. An investor has $50,000 in his RRSP plan. He wants to take out $10,000 for a dream vacation. Which of the following *best* describes the implications of this decision?

   a) He would *not* be allowed to withdraw the money under any circumstances.
   b) He would *not* be allowed to withdraw the money unless Revenue Canada made a special exemption for him.
   c) He would be allowed to withdraw the money but the growth portion would be taxed at his highest marginal rate.
   d) He would be allowed to withdrawn the money but the entire amount would be taxed at his highest marginal rate.

13. In the year 2014, Mr. Wilson earned $40,000 in base salary and $10,000 in commission income from his sales job at the bank. He earned net rental income of $5,000 and interest income of $1,500. Half of that interest income was earned inside his RRSP account. He also received $200 in royalty payments for an article he published in the newspaper. For 2014, his RRSP contribution limit would be…

a) $ 9,000.
b) $ 9,936.
c) $10,071.
d) $10,206.

14. An investor earned $100,000 in 2014. His wife earned a similar amount and contributed the maximum to her spousal RRSP. Earlier in the year he had contributed $5,000 to his own RRSP. Which of the following *best* describes his options with his remaining contribution room?

a) He can only contribute another $13,000 into his RRSP.
b) He can contribute another $13,000 into his RRSP and $18,000 into his wife's spousal RRSP.
c) He can contribute another $13,000 into either his RRSP or into his wife's spousal plan.
d) He can contribute $13,000 in his wife's spousal plan.

15. Which of the following is *not* true of RESPs?

a) Contributions into the plan are tax-deductible.
b) The lifetime maximum contribution per beneficiary is $50,000.
c) There are two types of RESPs: pooled plans and self-directed plans.
d) The Canada Education Savings Grant (CESG) provides matching grants to prescribed limits.

16. Spousal RRSPs are *most* closely associated with the tax planning strategy of…

a) income splitting.
b) discharging debts.
c) transferring income.
d) gifting to family members.

17. All of the following are objectives of a financial plan *except*…

a) it must be complex.
b) it must be achievable.
c) it must accommodate small changes in lifestyle.
d) it must provide for some luxuries as well as necessities.

18. An investment advisor hears on the radio that one his client's largest holdings is under investigation by the SEC for *not* fully disclosing its financial difficulties. He expects the stock to fall a great deal when market opens. The investment advisor's best course of action is to…

    a) *not* call the client because it will upset him.
    b) *not* call the client because it's better the if the client hears it from media reports himself.
    c) call the client and remind him of all the good trades that have been made for him in the past.
    d) call the client and try to explain in simple terms what is happening and what it means to the client.

19. Most people who are aged from 25 – 35 are in their early earning years and if fund are available, the primary investment objective is generally…

    a) safety.
    b) growth.
    c) income.
    d) People aged from 25 – 35 are in their mid-earning years.

20. What is at the base of the financial planning pyramid?

    a) RRSPs
    b) Insurance
    c) Treasury bills
    d) Government of Canada bonds

21. If a registrant acquires material non-public information…

    a) the registrant is required to act on it to benefit clients.
    b) the registrant is required to act on it to benefit clients first, then may themselves act on it.
    c) the registrant is required to act on it to benefit clients, and required to themselves to act on it subsequently.
    d) the registrant is required neither to communicate the information, nor to act upon it.

22. Is it permissible for registrants to use knowledge of clients' orders as a basis for recommendations to other clients?

    a) Yes.
    b) Yes, as long as the client has a successful track record.
    c) Yes, as long as the client account is a fee-based account.
    d) No.

23. Which of the following is *not* true about soft dollar arrangements?

a) They are arrangements where an institutional client purchases services via commission dollars rather than an invoice for the goods or services.
b) Soft dollar arrangement can only be used for order execution and research services.
c) The institutional client must ensure that all soft dollar arrangements benefit the client and be disclosed to the client.
d) Soft-dollar commissions are more prevalent in fixed-income transactions than in equity transactions.

24. The primary role and responsibility of equity market makers is to…

a) trade profitably for the firm.
b) provide a constant, two-sided market.
c) ensure that trading in their own accounts is reasonable.
d) assist others in the execution of their orders with respect to their stock of responsibility (SOR).

25. Which of the following parties is *most* likely to use algorithmic trading?

a) Buy-side retail investors.
b) Sell-side retail investors.
c) Buy-side institutional investors.
d) Sell-side institutional investors.

CHAPTER 25 – 27 , TEST #2 ANSWERS

1.B 25 – 5.

2.B 25 – 6.

3.A 25 – 7.
The taxpayer owes $6,493 on the first $43,953, $9,670 on the next $43,954, and $4,444 on the next $17,094 for a total of $20,707.

4.B 25 – 9.
The gross-up is 38% or $95.00 and the dividend tax credit is 15.02% of the taxable amount of the dividend, or $51.82.

5.D 25 – 9/10.

6.A 25 – 12.
The shares cost $6,090. The proceeds were $6,221. Therefore, the total gain is $131.00 which means that the taxable amount is 50% of that, or $65.50.

7.B 25 – 12/13.
900 shares were purchased in total, at a total cost of $32,200. Therefore, the average is $35.78.

8.B 25 – 13/14.
The investor spent $3,000 altogether and has 125 shares. The average price is $24.00.

9.D 25 – 15.

10.A 25 – 16/17.

11.C 25 – 17/18.

12.D 25 – 22.

13.B 25 – 19/20.
($40,000 + $10,000 + $5,000 + $200) x .18 = $9,936.

14.C 25 – 20/21.

15.A 25 – 25/26.

16.A 25 – 27.

17.A 26 – 5.

18.D 26 – 7.

19.B 26 – 10.

20.B 26 – 11.

21.D 26 – 20.

22.D 26 – 20.

23.D 27 – 22.

24.B 27 – 31.

25.C 27 – 36.

CSC VOLUME TWO: Half Exam #1

1. An investor had $1,000 to divide into a two security portfolio. She put 70% into Security A and the remainder into Security B. Security A returned 8% and Security B returned 6%. What is the total dollar appreciation in the portfolio?

   a) $68.00
   b) $70.00
   c) $74.00
   d) $78.00

2. Mr. Y is married to Ms. X. Both of them earn $50,000 per year. If Mr. Y contributes $5,000 into his RRSP, then how much could he contribute into his wife's RRSP plan?

   a) $ 0.00
   b) $4,000
   c) $9,000
   d) $13,000

3. Quantitative methods of analysis can be applied in…

   a) neither fundamental nor technical analysis.
   b) fundamental analysis only.
   c) technical analysis only.
   d) both fundamental and technical analysis.

4. In the mutual fund structure, who holds the ultimate responsibility for the activities of the fund?

   a) Directors
   b) Fund Managers
   c) Distributors
   d) Custodians

5. Generally speaking, compared to mutual funds that invest in the same class of securities, the MERs of segregated funds are…

   a) lower
   b) the same
   c) higher
   d) It is not possible to generalize.

6. Which of the following is *not* true with respect to the sector rotator manager style?

   a) It applies a top-down investing approach.
   b) Managers typically buy liquid, large-cap stocks.
   c) The primary focus is to identify the current phase of the business cycle.
   d) The turnover for this style tends to be low.

7. The Life-Expectancy Adjusted Withdrawal Plan is a variation of the…

   a) Fixed-Period Withdrawal Plan.
   b) Fixed-Dollar Withdrawal Plan.
   c) Ratio Withdrawal Plan.
   d) None of the above.

8. The most popular indicator for tracking momentum and conducting divergence analysis is/are…

   a) oscillators
   b) MACD
   c) Cycle Analysis
   d) Elliott Wave Theory

9. You are an investment advisor dealing with a new client, Mr. Weepy. He is adamant that you will *not* invest in any of the Canadian Chartered Banks because one of them forced his parents into bankruptcy years ago. This constraint should be understood as a(n)…

   a) legal requirement.
   b) moral and ethical consideration.
   c) emotional factor.
   d) realism factor.

10. The volatility of bond funds is related to…

   a) the volatility of the stock market.
   b) phases of the business cycle.
   c) interest rate fluctuations.
   d) By definition, bond funds are not volatile, holding their NAV at a constant $10 per unit.

11. An investor received $100 in capital gains and $100 in dividends from a taxable Canadian Corporation. Assuming a 26% Federal Tax Bracket, what is the total amount of tax she'd have to pay from both sources of income?

   a) $23.15
   b) $27.45
   c) $30.65
   d) $39.00

12. In Canada, mutual funds *must* be set up as…

   a) open-end trusts.
   b) closed-end trusts.
   c) closed-end trusts or corporations.
   d) open-end trusts, closed-end trusts or corporations.

13. In order to calculate the Sharpe ratio for a portfolio, in addition to the return or expected return of the portfolio, you must know…

   a) the risk-free rate.
   b) the standard deviation of the portfolio.
   c) the standard deviation of the portfolio or the risk-free rate.
   d) the standard deviation of the portfolio and the risk-free rate.

14. For a technical analyst, a resistance level is where…

   a) supply exceeds demand and prices begin to fall.
   b) supply exceeds demand and prices begin to rise.
   c) demand exceeds supply and prices begin to fall.
   d) demand exceeds supply and prices begin to rise.

15. Hedge funds targeted toward high-net worth and institutional investors are generally structured as…

   a) general partnership and trusts.
   b) limited partnerships and trusts.
   c) general partnerships and limited partnerships.
   d) corporations.

16. The central document of segregated fund disclosure is the…

   a) simplified prospectus.
   b) prospectus.
   c) information folder.
   d) offering memorandum.

17. Which of the following is *not* true of the management expense ratio?

    a) It is lower than the management fees.
    b) It excludes trading and brokerage costs.
    c) It tends to be higher for equity funds than for money market and index funds.
    d) It is expressed as a percentage of the fund's average net asset value for the year.

18. An investor begins the year with a portfolio worth $250,000. She is properly balanced with 60% of her portfolio in equities, 30% in bonds, and 10% cash. Over the year, the equity portion increases by 5% and the bond portion falls by 10%. The cash portion is unchanged. In order to re-balance the portfolio correctly, the manager would have to…

    a) sell $2,250 in equities and buy $2,250 in bonds.
    b) sell $7,500 in equities and buy $5,000 in bonds and $2,500 in cash.
    c) sell $7,500 in equities and buy $7,500 in bonds.
    d) do nothing – the portfolio's value hasn't changed.

19. An investor is holding mutual fund units in her non-registered account. As long as she does *not* sell the units…

    a) she will *not* be responsible for paying any tax on gains.
    b) she will be responsible for paying tax on all gains.
    c) she will be responsible for paying tax on dividend and interest income only.
    d) she will be responsible for paying tax on dividend and interest income and realized gains only.

20. Ford Motor Company is an example of a(n)…

    a) blue-chip company.
    b) commodity basic cyclical company.
    c) industrial cyclical company.
    d) consumer cyclical company.

21. Which of the following ensures that a hedge fund manager is paid an incentive fee only on net new profits?

    a) lockup period
    b) high-water mark
    c) relative value
    d) accredited investor exemption

22. Assume that December 31st falls on a Friday. If an investor wants to capture a tax loss on common shares for that year, he must sell on or before…

a) December 24th
b) December 28th
c) December 31st
d) February 28th

23. A mutual fund prospectus is normally _______ than a typical prospectus for a new issue of common shares.

a) longer and more complicated
b) more detailed and more complicated
c) shorter and simpler
d) shorter and sweeter

24. Justine Lowe is a young professional woman with an above-average ability and willingness to assume risk and a long time horizon. As a result, an appropriate asset allocation for her might be…

a) 100% equities
b) 80% equities and 20% bonds
c) 70% equities, 25% bonds and 5% cash
d) 34% equities, 33% bonds and 33% cash

25. Which of the following securities *best* reduces systematic risk?

a) equity mutual funds
b) equity index funds
c) long-short hedge fund
d) No security reduces systematic risk.

26. One focus of National Instrument 81 – 102 which covers the use of derivatives by mutual fund managers is to…

a) allow the use of derivatives to minimize risk while ensuring that derivatives are *not* used speculatively.
b) prevent mutual fund managers from using derivatives to facilitate market entry and exit.
c) disallow mutual fund managers from using derivatives to create clone funds.
d) ensure that the use of permitted derivatives is clearly set out in the fund's simplified prospectus.

27. You are examining an industry where profit margins are falling, even as cash flow is negative. At the same time, strong earnings are being reported. You would conclude…

    a) that management is not fully disclosing.
    b) that this industry is in its emerging stage.
    c) that this industry is in its growth stage.
    d) that this industry is in its declining stage.

28. You are about to meet a 40-year old prospect for the first time. She has been employed for the same company for 12 years and recently made Vice-President. Given that she is in her mid-earning years, it is likely that her investment objectives would be…

    a) safety and growth.
    b) income and tax minimization.
    c) growth and income.
    d) growth and tax minimization.

29. A security is currently $25 per share. You think that there is a 50% chance that it will be unchanged over the course of the next year, and a 50% chance that it will reach $30. Its beta is 1.2, the expected market return is 8%, and the risk-free rate is 5%. According to the CAPM model…

    a) You should *not* buy this security because its expected return of 10% is not more than 20% greater than the 8% market return.
    b) You should *not* buy this security because its expected return of 10% is not more than 20% greater than the 8.6% return estimated by the CAPM model.
    c) You should buy this security its expected return of 10% exceeds the 8.0% expected return of the market.
    d) You should buy this security because its expected return of 10% exceeds the 8.6% required by the CAPM model.

30. Refer to Question #29. What is the security's alpha?

    a) 0.0
    b) 1.4
    c) 2.0
    d) Insufficient information.

31. The most frequently observed reversal pattern in technical analysis is the…

    a) head-and-shoulders formation
    b) reverse head-and-shoulders formation
    c) continuation pattern
    d) oscillator pattern

32. Which of the following is *not* true with respect to RESPs?

a) Contributions into an RESP plan are *not* tax-deductible.
b) The maximum amount that can be contributed in a single calendar year for each beneficiary is $4,000.
c) Contributors are allowed to transfer a maximum of $50,000 to their RRSPs if beneficiaries do not attend qualifying school programs.
d) There is a lifetime maximum of $100,000 per beneficiary.

33. The back-end load schedule for a mutual fund starts at 6% in year one and declines by 1% each year thereafter. It is based on current market value. An investor paid $21 a unit and 18 months later sold her units when they were $18. The back-end load would be…

a) $.90
b) $1.00
c) $1.08
d) $1.26

34. The rate of inflation and price-earnings multiple have…

a) a direct relation.
b) an indirect relation.
c) an inverse relation.
d) no relation.

35. According to Provincial legislation, the maximum maturity guarantee for a segregated fund is…

a) 75% after a five year holding period.
b) 75% after a ten year holding period,
c) 100% after a five year holding period.
d) 100% after a ten year holding period.

36. At what age is it necessary for a Canadian citizen to terminate an RRSP plan?

a) 65
b) 69
c) 71
d) 90

37. What is the offering or purchase price for a mutual fund with a NAV of $20 and a Sales Charge of 5%?

a) $19.00
b) $19.50
c) $21.00
d) $21.05

38. The nominal return for a security was 6%. If inflation were 3%, then its real return was…

a) 0%
b) 3%
c) 9%
d) Insufficient information.

39. All of the following are benefits of hedge funds except…

a) low correlation to traditional asset classes
b) absolute return
c) potentially lower volatility and higher returns
d) tax implications

40. A security will earn $2.00 this year and has a dividend payout ratio of 30%. If an analyst thinks that the company will have a long-term sustainable growth rate of 6%, then what required return is necessary to justify a fair market value of $20?

a) 8%
b) 9%
c) 10%
d) Insufficient information.

41. In 2005, Inderpaul Singh earned $50,000 in salary and $10,000 in commissions from his employment. His gross rental income on a condominium $8,400 and the net rental income was $5,000. In addition, he earned $2,000 in interest income and $1,000 in capital gains. Given this information, what is his allowable RRSP contribution for this year?

a) $10,800
b) $11,700
c) $12,150
d) $12,240

42. A bond with one-year to maturity, carrying a 7% coupon was purchased at 103. What is its Total Return?

a) 3.9%
b) 4.0%
c) 5.5%
d) 7.0%

43. All of the following are prohibited mutual fund practices *except…*

a) purchases of more than 10% of the total securities of a single issuer.
b) buying on margin.
c) short-selling.
d) any exposure to private placements.

44. All of the following are disadvantages of fund of hedge fund investing *except…*

a) diversification
b) additional costs
c) additional leverage
d) no guarantees of positive returns

45. You are comparing three equity mutual funds that all began operations a decade ago. FUND A has returned 10% with a standard deviation of 12%. FUND B has returned 9% with a standard deviation of 15%. FUND C has returned 8% with a standard deviation of 8%. Based on this information alone, you would conclude that…

a) FUND A has performed the best because it has the highest return.
b) FUND C has performed the best because it has the lowest volatility.
c) You would invest in either FUND A or FUND B.
d) You would invest in either FUND A or FUND C.

46. The difference between the working capital ratio and the quick ratio is…

a) The working capital ratio is a more stringent test of liquidity.
b) To calculate the quick ratio, you deduct inventories from the working capital ratio.
c) Working capital ratio compares current assets to current liability while the quick ratio compares current assets to long-term liabilities.
d) There is no difference between the working capital ratio and the quick ratio.

47. If an investment manager wanted the opportunity to allow deviation from the long-term asset mix, she should employ a…

a) strategic approach.
b) tactical approach.
c) insured approach.
d) Deviations from the long-term asset mix are not allowable.

48. What is at the base of the Financial Planning Pyramid?

a) Home purchase.
b) RRSP investment.
c) Insurance.
d) RESP investment.

49. Passive management is *most* closely associated with…

a) indexing.
b) multi-managers.
c) ethical investing.
d) specialty investing.

50. You are examining a company that is issuing bonds and using the proceeds to buy back shares in the marketplace. As a result…

a) its debt-equity ratio will be lower.
b) its debt-equity ratio will be unchanged.
c) its debt-equity ratio will be higher.
d) It could be any of the above depending on at what price the shares were purchased.

CSC TWO HALF EXAMINATION #1 ANSWERS

1.C	2.B	3.D	4.A	5.C	6.D	7.A	8.B	9.B	10.C
11.A	12.D	13.D	14.A	15.B	16.C	17.A	18.B	19.D	20.D
21.B	22.B	23.C	24.C	25.C	26.A	27.C	28.D	29.D	30.B
31.A	32.D	33.A	34.C	35.D	36.C	37.D	38.B	39.D	40.B
41.B	42.A	43.D	44.A	45.D	46.B	47.B	48.C	49.A	50.C

CSC VOLUME TWO: Half Exam #2

1. A tilting yield curve generally means that…

   a) both long term bonds and stocks fall in value.
   b) both long term bonds and stocks rise in value.
   c) long term bonds fall in value and stocks rise in value.
   d) long term bonds rise in value and stocks fall in value.

2. The relationship between inflation and interest rates is best described as…

   a) direct
   b) indirect
   c) inverse
   d) random

3. It is the midst of a recession. You are examining a company whose decline in earnings is less than that of normal companies. You would conclude that it is in its __________ phase.

   a) initial growth
   b) growth
   c) mature
   d) declining

4. You are a Canadian equity analyst and believe that the Canadian dollar that is currently at $.86 US will trade at par within five years. You would conclude that for American industries that import Canadian raw materials and sell in the US market…

   a) the appreciating Canadian dollar will be good for these American companies and the Canadian companies that supply them.
   b) the appreciating Canadian dollar will be bad for these American companies and the Canadian companies that supply them.
   c) the depreciating Canadian dollar will be good for these American companies and the Canadian companies that supply them.
   d) the depreciating Canadian dollar will be bad for these American companies and the Canadian companies that supply them.

5. A blue-chip company…

   a) maintains earnings and dividends through all phases of the business cycle.
   b) increase its dividends even when the business cycle is in the contraction phase.
   c) tends not to pay dividends, instead re-investing the earnings to grow the business.
   d) in Canada tends to be large international exporters of commodities.

6. Which of the following securities leverages a Balance Sheet?

   a) Bonds only
   b) Bonds and debentures only
   c) Bonds, debentures and preferred shares only
   d) Bonds, debentures, preferred shares and common shares

7. If according to trend ratio, a company's EPS increased to 145 over its base year, you would understand that…

   a) Its earnings per share increased by $1.45
   b) Its earnings per share increased by 145%
   c) Its earnings per share increased by $.45
   d) Its earnings per share increased by 45%

8. Which of the following is the proper formulation for operating cash flow ratio?

   a) Cash flow from operations/Current liabilities
   b) Cash flow from operations/Total liabilities
   c) Cash flow/Current Liabiltilities
   d) Cash flow/Cost of Goods Sold

9. Technical analysis is based on all of the following assumptions except:

   a) All influences on market action are automatically accounted for in price activity.
   b) Prices tend to move in trends and those trends persist for fairly long periods of time.
   c) The future repeats the past.
   d) Equity markets are efficient in the informational sense only.

10. The most popular way of measuring market breadth is with…

    a) the advance-decline line.
    b) new highs and new lows.
    c) Elliott Wave Theory.
    d) moving average convergence-divergence (MACD).

11. An investor purchased a security on January 1st 2003 for $18.00 per share. It has a dividend yield of 4%. It paid two regular quarterly dividends then split two for one. The investor then sold her entire position when it was $10.00 per share on a post-split basis. What is her rate of return?

    ____

12. The Canadian government issues a Real Return bond. Which of the following risk(s) would an investor be exposed to?

    a) Liquidity risk
    b) Inflation rate risk and liquidity risk
    c) Interest rate risk and inflation rate risk
    d) Default risk, interest rate risk, and liquidity risk

13. Which of the following best describes the relationship between systematic and non-systematic risk?

    a) Adding securities to a portfolio reduces both systematic and non-systematic risk
    b) Adding securities to a portfolio reduces systematic risk and does not affect non-systematic risk
    c) Adding securities to a portfolio does not affect systematic risk and reduces non-systematic risk
    d) Adding securities to a portfolio does not affect either systematic or non-systematic risk

14. Ms. H. is a 60 year old Finance Professor at the University of Toronto with a reasonably high tolerance for risk. An appropriate asset allocation for her would be…

    a) 0% cash, 30% bonds, 70% equities
    b) 10% cash, 10% bonds, 80% equities
    c) 0% cash, 40% bonds, 60% equities
    d) 20% cash, 40% bonds, 40% equities

15. A portfolio manager is looking at three securities: A has an expected return of 10% and standard deviation of 15%. B has an expected return of 8% and standard deviation of 12%. C has an expected return of 6% and standard deviation of 10%. The correlation between A & B is -.8. The correlation between A & C is .9 The correlation between B & C is 1.0. Which of the following portfolios makes most sense if the manager is only concerned with minimizing risk?

    a) 100% C
    b) 50% A & 50% C
    c) 50%A & 50% B
    d) 50% B & 50% C

16. A security has a beta of 1.4. The market is expected to return 12% and the risk-free rate is 6%. After you examine the security, you expect it to appreciate by 15%. According to the CAPM model…

    a) this security has an alpha of –6.8%
    b) this security has an alpha of -1.0%
    c) this security has an alpha of .6%
    d) this security has an alpha of 3%

17. A portfolio manager is investing for a pension plan. He would….

a) be indifferent whether the gains are in the form of interest income, dividends, or capital gains.
b) prefer that the gains be in the form of interest income rather than capital gains.
c) prefer that the gains be in the form of capital gains rather than interest income.
d) prefer that the gains be in the form of dividends and interest income rather than capital gains.

18. Which of the following is *not* considered a fixed income product?

a) mortgages
b) five year corporate debentures
c) straight preferred shares
d) 180 day t-bills

19. Bottom-up investing is associated with…

a) growth managers only.
b) value managers only.
c) growth and value managers.
d) None of the above.

20. __________ is a portfolio management technique that involves adjusting the asset mix to systematically re-balance the portfolio back to its long-term target.

a) Strategic asset allocation
b) Tactical asset allocation
c) Insured asset allocation
d) Dynamic asset allocation

21. The reason that the trust structure for mutual funds is preferred in Canada is because…

a) the trust structure allows the fund manager to collect MERs.
b) the trust structure enables the fund itself to avoid taxation.
c) the trust structure guarantees investors the right of redemption.
d) the trust structure means that mutual funds cannot go bankrupt.

22. Which of the following is true?

    a) The custodian of a mutual fund provides day-to-day supervision of the mutual fund.
    b) The directors of a mutual fund corporation and the trustees of a mutual fund trust hold the ultimate responsibility for the activities of the fund.
    c) The distributors collect money received from the fund's buyers and from portfolio income.
    d) Mutual funds may not be set up as federal or provincial corporations.

23. A mutual fund has a NAVPS of $14.00, a Sales Charge of 5%, and an MER of 3%. What is its offering or purchase price?

    a) $14.74
    b) $14.70
    c) $14.00
    d) $13.30

24. Which of the following is *not* true?

    a) The Management Expense Ratio is always equal to or greater than the Management Fee
    b) The levels of Management Fees varies widely depending on the type of fund
    c) The Management Fee is included in the Management Expense Ratio
    d) There is no relationship between the Management Fee and the Management Expense Ratio

25. Under a fixed-dollar withdrawal plan…

    a) the plan cannot grow in value.
    b) the plan can only grow in value if the withdrawals exceed the growth in the plan.
    c) the plan can only grow in value if the growth in the plan exceeds the withdrawals.
    d) the plan is guaranteed to last for a certain period of time.

26. Mutual funds issue a _____ while segregated funds issue a(n) _____.

    a) prospectus, simplified prospectus
    b) prospectus, information folder
    c) prospectus, simplified information folder
    d) simplified prospectus, information folder

27. The largest group of mutual funds, based on total assets, is…

    a) money market funds
    b) bond funds
    c) equity funds
    d) speciality funds

28. Which of the following is *not* a benefit of indexing?

    a) It eliminates non-systematic risk.
    b) It tends to lower management fees.
    c) It eliminates systematic risk.
    d) It eliminates the need to conduct individual security analysis.

29. Ms. X. purchased $20,000 worth of segregated funds that had the maximum protection allowed under provincial government guidelines. Three years later, when the fund was worth $30,000, she sold $3,000 worth of it. What is her new protected amount?

    ____

30. A high net worth investor has an average tax rate of 30% and his marginal tax rate is 40%. He puts $3,000 into an LSVCC and contributes it into his RRSP. Effectively, how much does this investment "cost" him?

    ____

31. Which of the following is not true with respect to an ETF compared to a mutual fund?

    a) ETFs do not reduce systematic risk
    b) ETFs provide intra-day liquidity
    c) ETFs cannot be short-sold
    d) ETFs are a form of passive investment

32. The two speculative tools that Alfred Jones employed in pioneering hedge funds were….

    a) leverage and short selling
    b) short-selling and options
    c) short-selling and concentration
    d) leverage and options

33. A portfolio manager has three assets in his portfolio. A is 40% of the portfolio and returns 20%. B is 40% of the portfolio and is unchanged. C is 20% of the portfolio and falls 5%. The portfolio's total return is…

    ____

34. __________ in the hedge fund industry bet on anticipated movements in the market prices of equity securities, debt securities, currencies and commodities.

a) Directional strategies
b) Event-driven strategies
c) Relative value strategies
d) All of the above

35. An investor receives $300 in dividends from a taxable Canadian corporation. Assuming that she is in a 26% tax bracket, what is the tax payable?

____

36. An investor earns $3,000 in interest income and $600 in capital gains. She is in a 40% tax bracket. What is her total tax liability?

____

37. An investor earns $50,000 in salary, $15,000 in commission, has net rental income of $5,000 and earned $2,000 in interest income. What is his RRSP limit based on this information?

____

38. All of the following are maturity options available to an RRSP holder when he/she turns 71 except…

a) withdrawing the proceeds as a lump sum payment
b) transferring the proceeds to RRIF
c) using the proceeds to purchase a fixed term annuity to age 85
d) rolling over the proceeds into a spousal plan

39. Transferring income to family members can trigger…

a) attribution rules
b) tax loss selling
c) arm's length transactions
d) direct discharge of debts

40. Which of the following is true of RESPs?

a) Contributions to the plan are tax-deductible
b) Withdrawals from RESPs are taxed at the marginal rate of the contributor to the plan
c) The Federal Government provides matching grants up to a minimum of $400 per child per year
d) RESPs can have more than one beneficiary per plan

41. Vale-Inco (a nickel producer) and Weyerhauser (a forest products company) are examples of…

a) commodity basic cyclical industries
b) industrial cyclical industries
c) industrial growth industries
d) consumer cyclical industries

42. ABC Security had the following daily closing prices one week:

Monday:	$42.00
Tuesday:	$42.25
Wednesday:	$43.30
Thursday:	$44.10
Friday:	$41.65

A Technical Analyst is looking at the three-day moving averages for Friday's close compared to Thursday's close. She sees that it is…

a) lower by $.20
b) lower by $.33
c) higher by $.33
d) higher by $.55

43. Refer to the previous question. When she looks at her charts, she sees that on Friday the 200 day moving average broke the daily price line from above on light volume. She would interpret this as a signal to…

a) buy the security even though the light volume troubles her.
b) sell the security even though the light volume troubles her.
c) buy the security and she is encouraged by the light volume.
d) sell the security and she is encouraged by the light volume.

44. If inflation increases and everything else remains constant, this means that…

a) real interest rates will fall.
b) real interest rates will increase.
c) nominal interest rates will fall.
d) nominal interest rates will increase.

45. If an American investor purchased Canadian company Bombardier's US$ denominated exchange-traded debentures, he would be exposed to…

a) foreign exchange risk and default risk.
b) liquidity risk and foreign exchange risk.
c) inflation rate risk and default risk.
d) foreign exchange risk, default risk, and interest rate risk.

46. All of the following types of mutual funds are correctly ranked from lowest risk to highest risk except…

a) specialty funds, real estate funds, equity funds, bond funds.
b) money market funds, bond funds, balanced funds, real estate funds.
c) balanced funds, dividend funds, equity funds, specialty funds.
d) mortgage funds, balanced funds, equity funds, specialty funds.

47. What is the primary advantage of an indexing strategy for a bond portfolio?

a) indexing allows the investor to eliminate systematic risk
b) the low fees associated with indexing mean higher returns for a given level of risk
c) indexing allows the investor the benefit of active management and out-performance
d) the low turnover rate in the portfolio means that there are more opportunities for the manager to add value with his/her selections

48. In a segregated fund contract, the beneficiary is the entity or person entitled to receive any maturity or death benefits. Which of the following are true with respect to beneficiaries?

i) A revocable beneficiary offers greater flexibility because the contract holder can alter or revoke the beneficiary's status
ii) The designation of an irrevocable beneficiary is normally made in the segregated fund contract itself, but it can also be made in the contract holder's will
iii) The beneficiary has to be a specific person

a) i) only
b) i) and ii) only
c) i) and iii) only
d) ii) and iii) only

49. A hedge fund manager has simultaneously gone long the equity markets in the amount of $1,000,000 shorted $800,000 worth of equities. We would say that his leverage is…

a) 20%
b) 25%
c) 1.25
d) 1.80

PLEASE REFER TO THE FOLLOWING INCOME TAX RATE CHART FOR 2009

Taxable income	Tax
Up to $40,726	15%
Between $40,726 and $81,452	$ 6,109 + 22% on the next $40,726
Between $81,452 and $126,264	$15,069 + 26% on the next $44,812
Above $126,264	$26,720 + 29% on the remainder

50. An individual earned $87,000 in 2006. What is the tax payable?

____

CSC TWO HALF EXAMINATION #2 - ANSWERS

1B	2A	3C	4B	5A	6C	7D	8A	9D	10A
13.1%	12A	13C	14D	15C	16C	17A	18D	19C	20D
21B	22B	23A	24D	25C	26D	27C	28C	$18K	$900
31C	32A	7%	34A	$30.45	$1,320	$12.6K	38D	39A	40D
41A	42A	43B	44A	45C	46A	47B	48B	49D	$16,511

CSC VOLUME TWO: FINAL EXAM

1. A $1,000 par value 6% coupon bond was purchased at 95 and exactly one year later redeemed by the issuer at par. What was the investor's holding period return?

    a) 6.0%
    b) 9.5%
    c) 11.0%
    d) 11.6%

2. Liquidity for a mutual fund is guaranteed by National Instrument 81-102 with the…

    a) Right of Rescission
    b) Right of Redemption
    c) Right of Settlement
    d) Liquidity for a mutual fund is not guaranteed.

3. According to provincial legislation, maturity guarantees for segregated funds…

    a) must be a minimum of 75% after a ten year holding period.
    b) must be a maximum of 75% after a ten year holding period
    c) must be a minimum of 100% after a ten year holding period
    d) Provincial legislation does not cover maturity guarantees for segregated funds.

4. Purchasing power risk is most closely associated with…

    a) investing too conservatively.
    b) investing too aggressively.
    c) the impact of inflation.
    d) the possibility of default by corporate issuers.

5. Mr. Patel studies interest rates, economic variables and uses computer databases to make his investment recommendations. Mr. Patel is a…

    a) qualitative analyst.
    b) quantitative analyst.
    c) fundamental analyst.
    d) technical analyst.

6. Which of the following (lowest to highest) risk-return relationships for securities is incorrect?

   a) treasury bills, debentures, preferred shares, common shares
   b) debentures, bonds, common shares, derivatives
   c) treasury bills, bonds, preferred shares, derivatives
   d) debentures, preferred shares, common shares, derivatives

7. The most common structure for mutual funds in Canada is the…

   a) open-end trust.
   b) closed-end trust.
   c) open-end corporation.
   d) closed-end corporation.

8. All of the following are structures for hedge funds and hedge fund-like products *except*…

   a) Commodity pools
   b) Closed-end funds
   c) Principal-protected notes
   d) Index-linked notes

9. Harold Huang is a doctor approaching the age of fifty. According to Life Cycle Analysis…

   a) he is in his mid-earning years and his investment objectives should be growth and income
   b) he is in his mid-earnings years and his investment objectives should be growth and tax minimization
   c) he is in his peak earning years and his investment objectives should be safety and income
   d) he is in his peak earnings years and his investment objectives should be growth and tax minimization

10. In the United States, short-term interest rates for government securities are higher than interest rates for long-term government securities. This is understood as…

   a) a tilting of the yield curve and this is favourable for the equity markets
   b) a tilting of the yield curve and this is unfavourable for the equity markets
   c) a falling of the yield curve and this is favourable for the economy
   d) an inversion of the yield curve and this is unfavourable for the economy

11. Which of the following securities is/are considered virtually risk-free?

    a) Treasury bills
    b) Government of Canada bonds
    c) Treasury bills and Government of Canada bonds
    d) No security is considered virtually risk-free.

12. Which of the following parties involved in mutual funds is responsible for preparing the fund's prospectus and reports, and supervising shareholder or unitholder record-keeping?

    a) directors
    b) fund manager
    c) custodian
    d) distributor

13. An investor purchased $30,000 worth of segregated funds with a guaranteed amount of 75%. When they were $36,000, she sold $12,000 worth. What is this investor's new guaranteed amount?

    a) $15,075
    b) $20,100
    c) $22,125
    d) $24,000

14. An investor splits her portfolio 60% - 40% into Security A (60%) which has an expected return of 10% and Security B (40%) which has an expected return of 6%. What is the expected return of this portfolio?

    a) 7.6%
    b) 8%
    c) 8.4%
    d) 9.2%

15. A mutual fund has assets of $28,000,000 that includes $2,000,000 in cash. As well, it has liabilities of $1,000,000. If its NAVPS is $5.19, then there are approximately…

    a) 4,817,000 shares
    b) 5,202,000 shares
    c) 5,395,000 shares
    d) 5,588,000 shares

16. According to Alfred Jones, in a falling market, a successful hedge fund manager…

    a) should purchase shares that will go up over time
    b) should short-sell shares that will go down over time
    c) go long securities that will rise more than the market falls and go short securities that will fall less than the market falls
    d) go long securities that will fall less than the market and go short securities that will decline more than the market

17. Knowing your client means…

    a) knowing everything about him/her
    b) understanding their risk tolerance and return objectives
    c) understanding the financial and personal status and aspirations of the client
    d) filling out the New Account Application Form

18. Harjinder is a young, healthy male who has just made partner at a leading downtown law firm in the Securities Department. A reasonable asset allocation for him would be:

    a) 0% cash, 20% bonds, 80% equities
    b) 5% cash, 30% bonds, 65% equities
    c) 10% cash, 40% bonds, 50% equities
    d) 10% cash, 60% bonds, 30% equities

19. The trailer fee, paid annually to the distributor by the fund manager is also known as the…

    a) service fee
    b) switching fee
    c) front-end load
    d) back-end load

20. An investor holding segregated funds receives a distribution. As a result…

    a) he will have more units at a lower price.
    b) he will have fewer units at a higher price.
    c) he will have the same number of units at a higher price.
    d) he will have the same number of units at a lower price.

21. Inflation means…

a) lower interest rates and lower P/E ratios
b) lower interest rates and higher P/E ratios
c) higher interest rates and lower P/E ratios
d) higher interest rates and higher P/E ratios

22. An investor is examining four different securities to add to a portfolio.

	Expected Return	Standard Deviation	Correlation
Security A	12%	24%	- .6
Security B	10%	12%	0.0
Security C	8%	6%	.8
Security D	4%	1%	.1

Which should she select if she is NOT concerned with its effect on the expected return of the portfolio but is only concerned with minimizing risk?

a) Security A
b) Security B
c) Security C
d) Security D

23. Which of the following statements would you agree with in respect to management fees and the management expense ratio?

a) The management expense ratio is always equal to or less than the management fee.
b) Management fees are generally expressed as a straight percentage of the net assets under management.
c) The level of management fees is the same for all types of mutual funds.
d) The management expense ratio does not impact the return enjoyed by the investor.

24. An investor purchased $25,000 worth of segregated funds in 1994. In 2005 when the funds were worth $22,000, she redeemed them. The maturity guarantee was $3,000. Which of the following captures the tax consequences?

a) the maturity guarantee of $3,000 would not be taxable as a capital gain because the investor held the funds for more than ten years
b) the maturity guarantee of $3,000 would not be taxable as a capital gain because the investor suffered a $3,000 capital loss on the funds
c) the maturity guarantee of $3,000 would be taxable as a capital gain but it would be offset by the $3,000 capital loss on the funds
d) the maturity guarantee of $3,000 would be taxable as a capital gain and it would not be offset by the $3,000 capital loss on the funds

25. Employment income is taxed on a…

a) gross receipt basis
b) net receipt basis
c) gross income basis
d) net income basis

26. Which of the following industry stages of growth is typically *most* difficult for equity investors to access?

a) emerging growth
b) growth
c) maturity
d) decline

27. A security has a beta of 1.2. The market return is anticipated to be 10% and the risk-free rate is 4%. If an analyst believed that this security would appreciate by 12% in the coming year, then we could conclude that its alpha is…

a) 0.0%
b) .8%
c) 2.0%
d) 6.0%

28. An investor has put $100,000 into a four-year fixed period withdrawal plan. If it grew by 10% over the year, then the investor would withdraw ______ at the end of the first year.

a) $15,000
b) $25,000
c) $27,500
d) $35,000

29. An investor put $100,000 into a segregated fund contract with a guaranteed amount of $75,000. If he would sell these units after five years when they were worth $60,000, the segregated fund issuer would legally be able to give him a maximum of…

a) $ 45,000
b) $ 60,000
c) $ 75,000
d) $100,000

30. All of the following are advantages of the fund of hedge funds (FoHF) *except*…

a) due diligence
b) reduced volatility
c) additional diversification
d) lower costs

31. All of the following are one of the five competitive forces identified by Michael Porter *except*…

    a) ease of entry and exit for new competitors
    b) extent to which suppliers can pressure the company
    c) level of government taxation and amount of regulation
    d) degree of competition between existing firms

32. A security has a beta of 1.1. Therefore…

    a) if the market increases by 8%, this security will increase by 11%
    b) if the market is flat, this security will be unchanged
    c) if the market falls by 20%, this security will fall by 18%
    d) this security is less volatile than the market

33. An investor with a 30% marginal tax rate purchases a balanced mutual fund worth $40. The fund distributes $1 in interest income and $3 in capital gains. On a per share basis, taxes payable would be…

    a) $0.00
    b) $0.45
    c) $0.75
    d) $1.20

34. An upper-income single parent has $200,000 worth of earned income. She contributes $15,000 to her RRSP and $3,000 to her child's RESP. What is the amount of i) income that she will pay tax on and ii) the CESG for that year?

    a) i) $182,000 & ii) $400
    b) i) $182,000 & ii) $600
    c) i) $185,000 & ii) $400
    d) i) $200,000 & ii) $600

35. A company has the choice of issuing bonds or preferred shares to leverage its return on equity. You would agree with all of the following statements *except*…

    a) Either security would increase the risk profile of the company.
    b) Adding either security would mean earnings would increase during the upswing in the business cycle.
    c) Adding either security would mean earnings would decrease during the downswing in the business cycle.
    d) Issuing preferred shares would add more risk to the company's operations than issuing bonds.

36. What is the opposite of the market timing approach?

    a) buy-and-hold
    b) bottom up
    c) top down
    d) sector rotation

37. Prohibited mutual fund practices include all of the following *except*…

a) short-selling
b) borrowing for leverage purposes
c) selling covered calls
d) purchases of more than 10% of the voting securities of a company

38. Which of the following documents is *not* required to be delivered to a purchaser of a segregated fund contract?

a) Summary Fact Statement
b) Information Folder
c) Acknowledgement of Receipt Form
d) CLHIA guidelines

39. Below are the Federal Income Tax Rates for 2009:

Taxable income	Tax
Up to $40,726	15%
Between $40,726 and $81,452	$ 6,109 + 22% on the next $40,726
Between $81,452 and $126,264	$15,069 + 26% on the next $44,812
Above $126,264	$26,720 + 29% on the remainder

How much Federal Tax would an investor making $120,000 have to pay?

a) $25,885
b) $27,551
c) $32,003
d) $34,800

40. In 2005, a company had EPS of $1.00. It increased to $1.20 in 2006, $1.25 in 2007 and $1.40 in 2008. If 2005 is the base year, then the trend number for 2008 is…

a) 1.40
b) 40
c) 116
d) 140

41. From a portfolio management perspective, which of the following is *not* considered a fixed-income product?

a) strip bonds
b) convertible debentures
c) preferred shares
d) mortgages

42. The Investment Funds Standards Committee classifies Canadian domiciled mutual funds into which of the following four broad groups?

a) Cash and Equivalent Funds, Bond Funds, Canadian Equity Funds, International Equity Funds
b) Asset Allocation Funds, Bond Funds, Equity Funds, Specialty Funds
c) Cash and Equivalent Funds, Fixed-income Funds, Balanced Funds, Equity Funds
d) Balanced Funds, Asset Allocation Funds, Bond Funds, Equity Funds

43. An investor in a 26% tax bracket receives $100 in dividend income and $100 in Capital Gains. How much more will she have to pay in Federal Tax for the dividend income?

a) $2.85 less
b) $5.70 more
c) $6.50 more
d) Exactly the same

44. Calculating the Operating Cash Flow ratio requires the analyst to pull information from the…

a) Cash Flow Statement only
b) Cash Flow Statement and Income Statements
c) Cash Flow Statement and Balance Sheet
d) Cash Flow Statement and Profit and Loss Statement

45. The favoured investment strategy in the stock market trough of the equity cycle is to…

a) sell equities and buy long-term bonds
b) sell long-term bonds and buy equities
c) sell long-term bonds and equities and buy short-term bonds
d) sell short-term bonds and buy long-term bonds

46. An investor borrowed $10,000 for his 2007 RRSP contribution. His interest charges were $500 for the year. In addition, his RRSP had an annual admin fee of $100. In total, the interest and admin expenditures would reduce his taxable income by…

a) $0
b) $100
c) $500
d) $600

Please use the following information for Questions #47 & #48.

A company made $15,000,000 in Net Income. Its interest expense for the year was $3,000,000 and it has 100,000 $50 Par Value 6% Preferred Shares. The company has 6,000,000 shares issued and outstanding and the closing share price was $50.00

47. What is the company's earnings per common share?

    a) $1.95
    b) $2.45
    c) $2.50
    d) $3.00

48. What is the company's price-earnings ratio?

    a) 16.7
    b) 20.0
    c) 20.4
    d) 25.6

49. An investor purchased $4,000 in LSVCCs and contributed them into his RRSP. If his average tax rate is 20% and his marginal tax rate is 25%, the after-tax cost of this purchase is…

    a) $1,200
    b) $1,500
    c) $1,800
    d) $2,000

50. A growth manager looks for all of the following *except*…

    a) High P/E multiples
    b) High Price/Book Value
    c) High Dividend Payout Ratio
    d) High Price/Cash Flow

51. Which mutual fund's NAV is held at a constant $10?

    a) money market funds
    b) bond funds
    c) balanced funds
    d) real estate funds

52. An investor purchased 200 shares in 2004 for $10 per share. The commission was 2% of the purchase value. Early in 2005 she bought 300 more shares at $13, and was charged a flat commission of $50. If she sold 200 shares later that year, the adjusted cost base would be…

a) $10.00
b) $10.20
c) $11.98
d) $13.17

53. Which theory of stock market behaviour argues that investors re-act quickly to the release of new information and that the stock's current price is the best reflection of its true market value?

a) Efficient Market Hypothesis
b) Random Walk Theory
c) Rational Expectations Hypothesis
d) Fair Value Theorem

54. Which equity manager style(s) solely applies a top-down investing approach?

a) value
b) growth
c) sector rotator
d) value and growth

55. The mutual fund industry has responded to segregated funds with…

a) proprietary funds
b) index funds
c) discretionary funds
d) protected funds

56. All of the following are event driven hedge fund strategies *except*…

a) merger arbitrage
b) distressed securities
c) high yield bonds
d) managed futures

57. An investor paid a total of $99,000 for a Government of Canada Bond with a face value of $100,000 priced at 97. (Assume that there were no commission charges.) When the bond matures, the taxable amount of the investor's capital gain will be…

a) $1,000
b) $1,500
c) $2,000
d) $3,000

58. A security earns $2.00 per share. Its dividend payout ratio is 45%. If an investor requires a return of 8% and the long-term growth rate of the security is 6%, then according to the Dividend Discount Model, fair value is…

a) $ 45.00
b) $ 55.00
c) $ 75.00
d) $100.00

59. What document contains the operating rules, guidelines and investment objectives and asset mix agreed upon by the manager and client?

a) New Account Application Form
b) Investment Policy Statement
c) Investor Agreement Form
d) Investment Manager's Contract

60. What types of fixed-income manager looks to profit from differences in rates between federal, provincial and/or corporate bonds?

a) Term to maturity managers
b) Credit quality managers
c) Interest rate anticipators
d) Spread traders

61. Technical analysis is based on all of the following assumptions *except*…

a) all influences on market activity are automatically discounted
b) prices move in trends and those trends persist for relatively long periods of time
c) the Random Walk Theory explains price action
d) the future repeats the past

62. The Government of Canada issued a floating rate bond. If an investor bought this security, which of the following risks would she be exposed to?

a) business risk
b) interest rate risk
c) default risk
d) none of the above

63. Risk in an individual security or portfolio is generally measured by all of the following *except*…

a) standard deviation
b) variance
c) correlation
d) beta

64. An investor would avoid recapture of LSVCC tax credits in all of the following circumstances *except*…

   a) if the redemption request was made within 180 days of the acquisition
   b) if the original purchaser becomes disabled and permanently unfit for work
   c) if the original purchaser, having held the funds for two years, reaches the age of 65
   d) if, as a consequence of the death of the original purchaser, a second investor receives the shares

65. An investor short-sells a security that subsequently becomes worthless due to bankruptcy. According to the Income Tax Act…

   a) the investor is deemed to have sold the security for nil proceeds
   b) the investor is deemed to have purchased the security for nil
   c) the investor is able to claim capital losses on the transaction
   d) the investor is not responsible for capital gains on the transaction

66. Which of the following is not true of income trusts?

   a) An income-trust is in some ways similar to a closed-end fund.
   b) The trust avoids paying tax because it pays out 85% to 95% of its cash flow.
   c) Distributions from a trust never include some return of capital.
   d) Income trusts are organized into three primary categories: Real Estate Investment Trusts, Royalty or Resource Trusts, and Business Income Trusts

67. A support level is established when…

   a) demand exceeds supply and prices increase
   b) demand exceeds supply and prices decrease
   c) supply exceeds demand and prices increase
   d) supply exceeds demand and prices decrease

68. An investor purchases index mutual funds. She would be exposed to…

   a) systematic risk only
   b) non-systematic risk only
   c) both systematic risk and non-systematic risk
   d) neither systematic risk nor non-systematic risk

69. The main creator of mortgage backed securities in Canada is…

a) the IDA
b) the chartered banks
c) Canada Mortgage and Housing Corporation (CMHC)
d) Canada Deposit Insurance Corporation (CDIC)

70. At what age is it mandatory to de-register an RRSP plan?

a) 65
b) 71
c) 90
d) There is no mandatory age.

71. The portfolio management technique that involves adjusting the asset mix to systematically re-balance the portfolio is known as…

a) strategic asset allocation
b) tactical asset allocation
c) dynamic asset allocation
d) integrated asset allocation

72. The most popular way of measuring market breadth is the…

a) new highs and new lows
b) advance-decline line
c) Elliott Wave Theory
d) oscillator index

73. All of the following are main advantages of wrap programs *except*…

a) more individualized asset allocation than a fund of funds
b) the structuring of efficient portfolios to achieve an optimal return
c) enhanced reporting services
d) fees based on asset growth rather than assets under management

74. Alfred Jones, the father of hedge funds, employed two speculative tools to offer protection from a declining equity market while achieving superior returns. One was short-selling. The other was…

a) derivatives
b) hedging
c) leverage
d) principal-protected notes

75. The most commonly used risk-adjusted portfolio measure is the…

a) Benchmark ratio
b) Sharpe ratio
c) Traynor ratio
d) Klinghorn comparison

76. A security had the following weekly closing prices:

Week One	$20.00
Week Two	$20.50
Week Three	$20.75
Week Four	$20.50
Week Five	$21.25

What is the four week moving average at the end of Week Five?

a) $20.60
b) $20.75
c) $20.88
d) $21.00

77. What are the two types of registered pension plans?

a) money purchase plans and defined contribution plans
b) defined contribution plans and defined receipt plans
c) money purchase plans and defined receipt plans
d) defined benefit plans and defined contribution plans

78. In order to correctly forecast the return of fixed-income securities, the investment manager must forecast…

a) the business cycle
b) corporate profits
c) the equity cycle
d) interest rates

79. An ETF is similar to an index mutual fund in that…

a) they both guarantee liquidity through the right of redemption
b) they both trade on the stock exchange
c) they both represent a passive style of investing
d) they both can be short-sold

80. A hedge fund manager is long $120,000 worth of securities and short $80,000 worth of securities. Therefore, her leverage is…

a) .40
b) .60
c) 1.7
d) 2.5

81. An investor has the primary investment objective of safety of principal. Assume that T-Bills currently yield approximately 5%. In order to guarantee the initial value of the portfolio in one year and allow for some growth, the investment manager could…

a) invest 100% of the portfolio in segregated funds
b) invest 95% of the portfolio in Treasury bills and 5% in risky securities
c) invest 100% of the portfolio in Treasury bills
d) diversify the portfolio as widely as possible among cash, bonds and equity products

82. The most popular indicator that technical analysts use to track momentum is/are…

a) oscillators
b) the moving average convergence-divergence
c) cycle analysis
d) Elliott Wave Theory

83. An investor purchased mutual funds unit in 2002 for $10. She sold them for $13 in 2005. As a result, we could conclude that…

a) she would have a taxable gain of $3.00 per unit in 2005
b) she would have a taxable gain of $1.50 per unit in 2005
c) her 2005 tax liability would have to be adjusted upwards by distributions received in previous years
d) her 2005 tax liability would have to be adjusted downwards by distributions received in previous years

84. A self-employed professional died and left a non-registered investment portfolio of $250,000 – $125,000 of which were segregated funds and $125,000 of which were mutual funds. As well, he has business related debts of $200,000. His beneficiaries would receive…

a) $ 50,000
b) $125,000
c) $200,000
d) $250,000

85. Which of the following groups of securities is correctly ranked from highest risk to lowest risk?

a) treasury bills, bonds, preferred shares, common shares
b) derivatives, preferred shares, bonds, debentures
c) common shares, debentures, treasury bills, bonds
d) derivatives, preferred shares, debentures, treasury bills

86. Carolyn Johnson made $50,000 in salary income and $20,000 in commissions. She had gross rental income of $12,000 which netted out to $4,000. In addition, she received $1,500 in royalty payments for various magazine articles and $750 in dividend income. Her RRSP contribution limit would be…

a) $12,600
b) $13,590
c) $15,030
d) $15,165

87. An index-linked GIC is…

a) not insured against issuer default.
b) insured by CIPF.
c) insured by CLHIA.
d) insured by CDIC.

88. A technical analyst notices that the moving average line is broken from below on light volume. He would…

a) interpret this as a buy signal even though the light volume would concern him
b) interpret this as a buy signal and the light volume would confirm this decision
c) interpret this as a sell signal even though the light volume would concern him
d) interpret this as a sell signal and the light volume would confirm this decision

89. Rules outlined in National Instrument 81 – 102 state that new mutual funds must…

a) calculate their NAVPS daily
b) calculate their NAVPS at least weekly
c) calculate their NAVPS at least monthly
d) National Instrument 81 – 102 states that new mutual funds may calculate their NAVPS at their own discretion.

90. The first two steps of the portfolio process are…

a) designing an investment policy statement and implementing the asset allocation
b) designing an investment policy statement and monitoring the economy, markets, and client
c) determining investment objectives and constraints and designing an investment policy statement
d) determining investment objectives and constraints and formulating an asset allocation strategy

91. According to the Dividend Discount Model…

a) the higher the dollar amount of the dividend and the higher the growth rate, the higher the price of the security
b) the higher the dividend payout ratio and the higher the growth rate, the higher the price of the security
c) the higher the dollar amount of the dividend and the higher the required return, the higher the price of the security
d) the higher the growth rate and the higher the required return, the higher the price of the security

92. A mutual fund was sold with a deferred sales charge that started at 6% in Year One and declined by 1% each year thereafter. If the sales charge is applied on the original purchase amount and the units were purchased for $20 and sold after 18 months for $18, the investor would receive…

a) $17.00
b) $17.10
c) $18.90
d) $19.00

93. When a parent transfers investments to adult children by way of a gift, this results in a(n)…

a) an arm's length transaction
b) attribution rule
c) deferred tax liability
d) deemed disposition

94. The most basic industry rotation strategy involves moving back and forth between…

a) value and growth.
b) blue-chip and speculative.
c) cyclical and defensive.
d) small-cap and large-cap.

95. An investor purchases a mutual fund with a NAVPS of $25.00 and a front-end load of 4%. Its offering or purchase price would be…

a) $24.00
b) $25.00
c) $26.00
d) $26.04

96. The most stringent liquidity ratio is the…

a) working capital or current ratio
b) working capital or acid test ratio
c) quick ratio or current ratio
d) acid test or quick ratio

97. You are examining financial statements and see that a company's debt-equity ratio has increased year-over-year. All of the following would have accounted for this except…

a) The company issued preferred shares.
b) The company paid a large, one-time dividend.
c) The company issued convertible bonds.
d) The company bought back shares in open market transactions.

98. The ______ is an indication of the efficiency of management in turning over the company's goods at a profit.

a) gross profit margin
b) operating profit margin
c) pre-tax profit margin
d) net profit margin

99. To be meaningful, the inventory turnover ratio should be calculated using…

a) gross sales.
b) net sales.
c) gross profit.
d) cost of goods sold.

100. In practice, a common stock's market price reflects…

a) the EPS over the past five to ten years
b) the EPS in the past year
c) the current EPS
d) the anticipated EPS over the next 12 to 24 months

CSC TWO FINAL EXAMINATION #3 – ANSWERS

1.D	2.B	3.A	4.C	5.B	6.B	7.A	8.D	9.B	10.D
11.A	12.B	13.A	14.C	15.B	16.D	17.C	18.B	19.A	20.C
21.C	22.A	23.B	24.C	25.A	26.A	27.B	28.C	29.B	30.D
31.C	32.B	33.C	34.C	35.D	36.A	37.C	38.D	39.A	40.D
41.B	42.C	43.A	44.C	45.B	46.A	47.B	48.C	49.C	50.C
51.A	52.C	53.A	54.C	55.D	56.D	57.B	58.A	59.B	60.D
61.C	62.D	63.C	64.A	65.B	66.C	67.A	68.A	69.C	70.B
71.C	72.B	73.D	74.C	75.B	76.B	77.D	78.D	79.C	80.C
81.B	82.B	83.D	84.B	85.D	86.B	87.D	88.A	89.B	90.D
91.A	92.A	93.D	94.C	95.D	96.D	97.A	98.A	99.D	100.D

CSC VOLUME TWO - FINAL EXAM (2)

1. At the end of 2014, Collins International had total assets of \$2.4 billion and total liabilities of \$1.4 billion. There were 150 million shares outstanding at that time; however the weighted average number throughout the year was 140 million. Book value per share would be…

   a) \$6.67
   b) \$7.14
   c) \$16.14
   d) \$17.14

2. The main disclosure document for a segregated fund is the…

   a) prospectus.
   b) information form.
   c) information folder.
   d) annual information form.

3. Which of the following is *least* likely to be a reason why there has been such high growth in the market for managed and structured products?

   a) Product innovations.
   b) Growth in passive investing.
   c) Demographics fuelling demand.
   d) An increasingly sophisticated marketplace.

4. Jack Tannehill's portfolio was worth \$200,000 at the beginning of the year, allocated 60% to equities, 30% to bonds, and 10% to cash. Over the course of the year, the equities appreciated by 12%, the bonds went up 5%, and the cash portion grew by 2%. What should he do to return the portfolio to its base policy mix?

   a) Sell \$3,600 worth of equities and buy \$2,440 worth of bonds and \$1,160 worth of cash.
   b) Sell \$3,720 worth of equities and buy \$2,340 worth of bonds and \$1,380 worth of cash.
   c) Sell \$3,840 worth of equities and buy \$2,688 worth of bonds and \$1,152 worth of cash.
   d) Buy \$3,840 worth of equities and sell \$2,688 worth of bonds and \$1,152 worth of cash.

5. Which of the following statements about managed and discretionary accounts are you *least* likely to agree with?

   a) Discretionary accounts are typically opened for a short period of time.
   b) A managed account means the client's portfolio is managed on a continuing basis.
   c) The New Account Application Form (NAAF) provides for the identification of discretionary authority over the account.
   d) Discretionary authority for discretionary accounts may be solicited, whereas managed accounts may *not* be solicited.

6. Preferred shares provide an investor with…

   a) good safety, steady income, and variable growth.
   b) good safety, steady income, and steady growth.
   c) little safety, steady income, and variable growth.
   d) good safety, very steady income, and variable growth.

7. A mutual fund salesperson makes the following statements in a client meeting:
   1. I am a registered mutual fund sales person in the province of Ontario.
   2. If the units you buy from me decline in value, I will buy them back from you at your original purchase price.

   Which statement(s) is/are prohibited sales practices?

   a) Both Statements are allowed.
   b) Statement 1 only.
   c) Statement 2 only.
   d) Both Statement 1 and Statement 2.

8. Under what circumstance would a company's working capital ratio and quick ratio be very similar?

   a) When its current assets are equal to its current liabilities.
   b) When its current assets are much larger than its current liabilities.
   c) When only a small part of its current assets consist of inventory.
   d) When only a small part of its current assets consist of receivables.

9. Which of the following is *most* likely a risk feature associated with the value style of investing?

   a) Low historical beta
   b) High vulnerability to market cycles
   c) High annualized standard deviation
   d) Faltering EPS can lead to large percentage price declines

10. An analyst is examining an industry and notes that it is very capital intensive. Which of the following competitive forces does this speak *most* directly to?

   a) Ease of entry for new competitors.
   b) Degree of competition between existing firms.
   c) Potential for pressure from substitute products.
   d) Extent to which suppliers of inputs can put pressure.

11. Robert Barkley is a 50-year old lawyer with a leading Toronto firm. In terms of Life Cycle analysis, you would agree that…

   a) he is in his mid-earning years and his investment objectives would tend to be growth and tax minimization.
   b) he is in his mid-earning years and his investment objectives would tend to be income and tax minimization.
   c) he is in his peak earning years and his investment objectives would tend to be growth and tax minimization.
   d) he is in his peak earning years and his investment objectives would tend to be income and tax minimization.

12. An analyst is provided with the following information:

    Net income = $25 million
    Amortization expense = $5 million
    Increase in working capital = $2 million
    Increase in fixed capital = $6 million

    Cash flow from operations would be *closest* to…

   a) $17 million
   b) $22 million
   c) $28 million
   d) $32 million

13. The hedge fund strategy, convertible arbitrage, *most* frequently involves…

a) going long convertible bonds and short-selling common shares.
b) going long common shares and short-selling convertible bonds.
c) going long convertible bonds and short-selling convertible preferred shares.
d) going long convertible preferred shares and short-selling convertible bonds.

14. According to National Instrument 81 – 102, new mutual funds must, at a minimum, calculate their NAVPS…

a) daily.
b) weekly.
c) monthly.
d) It is up to the discretion of the fund company.

15. A portfolio manager is monitoring her clients' accounts. She believes that there is a 60% chance that the stock market will increase by 10% in the coming year and a 40% chance it will decline by 5%. In either case, the dividend yield, which is now 3%, should remain constant.

How does she expect the equity allocation of her portfolio to perform?

a) Increase by 4%.
b) Increase by 7%.
c) Increase by 10%.
d) Increase by 13%.

16. An investor puts $15,000 into a GIC with a participation rate of 70%. The original index level was 12,000 and its ending level was 14,000. What percentage return did the investor enjoy?

a) 5.0%
b) 11.7%
c) 16.7%
d) Insufficient information

17. A portfolio has an expected return of 8% and an expected standard deviation of 14%. An asset manager is presented with information about four securities that could be added to that portfolio:

    Security 1: Expected return 10%, Standard deviation 22%, Correlation 1.0.
    Security 2: Expected return 10%, Standard deviation 22%, Correlation 0.0.
    Security 3: Expected return 10%, Standard deviation 24%, Correlation –.5.
    Security 4: Expected return 10%, Standard deviation 24%, Correlation –1.0.

    Which of these four securities should be added to the existing portfolio if the primary objective is to minimize risk?

    a) Security 1
    b) Security 2
    c) Security 3
    d) Security 4

18. Which of the following statements about mutual fund performance are you *least* likely to agree with?

    a) Canadian regulators have instituted standard performance data.
    b) Standard performance data includes compounded annual returns for one-, three-, five-, and ten-year periods.
    c) For money market funds, standard performance data includes both the current yield and effective yield.
    d) Past performance is very indicative of future performance.

19. You are examining a company that is paying out a very high percentage of its earnings in the form of dividends. It is *most* likely that this is a…

    a) cyclical company at its earnings peak.
    b) growth company that is cash flow negative.
    c) mining company whose resources are being depleted.
    d) mature company that is buying back shares to boost EPS.

20. Harry Walters, aged 60, has retired and has a generous pension in addition to a $1.2 million investment portfolio. He worries a great deal about losing money. With respect to his risk tolerance, you would say that…

a) both his ability and willingness to assume risk is low.
b) his ability to assume risk is high, but his willingness to assume risk is low.
c) his ability to assume risk is low, but his willingness to assume risk is high.
d) both his ability and willingness to assume risk is high.

21. A fixed income analyst notes that the prices of long-term bonds are rising while the prices of short-term bonds are falling. The predicted impact on the stock market is…

a) bearish.
b) neutral.
c) bullish.
d) uncertain.

22. An investor contributed $5,000 into a TFSA at the beginning of 2014. He bought $5,000 worth of stocks, then sold them for $7,000 later that year. Which of the following *most* accurately captures the tax impact of these two transactions?

a) Contributing the $5,000 into his TFSA will reduce his taxable income by $2,500 in 2014.
b) Contributing the $5,000 into his TFSA will reduce his taxable income by $5,000 in 2014.
c) Contributing the $5,000 into his TFSA will reduce his taxable income by $5,000, but the capital gain of $2,000 will increase his taxable income by $1,000.
d) These two transactions have no impact on his tax situation for 2014.

23. With respect to P/E ratios, you would agree with all of the following *except*…

a) the P/E ratio is calculated for both common and preferred shares.
b) the P/E ratio allows analysts to compare one company with another.
c) the P/E ratio is an indicator of investor confidence and its highs and lows vary with the market cycle.
d) the P/E ratio helps analysts determine a reasonable value for a common stock at any time in the market cycle.

24. An investment advisor makes the following statements, comparing the benefits of exchange-traded funds (ETFs) and index mutual funds:
    1. ETFs allow for short-selling and index mutual funds do not.
    2. ETFs may use leverage and index mutual funds may not.

    The analyst is…

    a) correct about both Statements.
    b) correct about Statement 1 but incorrect about Statement 2.
    c) incorrect about Statement 1 but correct about Statement 2.
    d) incorrect about both Statements.

25. The preparation of a mutual fund's prospectus and reports is a responsibility of the…

    a) registrar.
    b) custodian.
    c) fund manager.
    d) transfer agent.

26. Cola-Cola's most recent annual dividend was $1.20. It is expected to grow its dividends in the future at a constant rate of 5%. An investor has a required rate of return of 9% and estimates that inflation will be 2% over the long-term. According to the dividend discount model, this investor believes that fair value for Cola-Cola's shares is…

    a) $30.00.
    b) $31.50.
    c) $60.00.
    d) $63.00.

27. Only purchasing securities approved for distribution by the appropriate regulatory agency is covered by which of these Canadian Securities Industry Standards of Conduct?

    a) Standard A – Duty of Care
    b) Standard B – Trustworthiness, Honesty and Fairness
    c) Standard C – Professionalism
    d) Standard D – Conduct in Accordance with Securities Acts

28. In order to calculate the net profit margin, it is necessary for the analyst to deduct which of these following items from the company's reported profit?

a) Cost of goods sold
b) Operating expenses
c) Interest expense
d) Share of profit of associates

29. Before providing direct electronic access to a client, an investment dealer must ensure all of the following except…

a) sufficient knowledge on behalf of the client.
b) knowledge in using the order entry systems provided.
c) internal controls to prevent unauthorized, insider trading.
d) knowledge and ability to comply with applicable regulatory requirements.

30. An investor has $10,000 to invest in a mutual fund whose NAVPS is $11.25. She could either buy the units with a front-end load of 2% or a back-end load based on redemption price that begins at 7% in Year One, and declines by 1% per year thereafter. She believes that in exactly 54 months the units will be $15.00, at which time she is committed to selling them.

What should be do?

a) She should buy the units with the front-end load because she will be ahead by approximately $65.
b) She should buy the units with the front-end load because she will be ahead by approximately $130.
c) She should buy the units with the back-end load because she will be ahead by approximately $65.
d) She should buy the units with the back-end load because she will be ahead by approximately $130.

31. A portfolio has a Sharpe ratio of .65. The analyst, however, believes that the risk-free rate will go down in the near future and although she expects the return of the portfolio to remain the same, she believes that there will be less volatility in the markets.

What impact would these two factors have on the portfolio's Sharpe ratio?

	Lower risk-free rate	Lower volatility
a)	reduce	reduce
b)	reduce	increase
c)	increase	reduce
d)	increase	increase

32. Which of the following products minimizes roll-over risk?

a) Split shares
b) Index-linked GICs
c) Principal-protected notes
d) Asset-backed commercial paper

33. Currently, a one-year GIC is yielding 3% and the inflation expectation for the coming year is 1%. An investor buys that GIC, only to find that inflation was actually 2% over that period of time.

What impact would it have on the investor's nominal and real returns?

	Nominal	Real
a)	Not impact	Not impact
b)	Reduce	Not impact
c)	Not impact	Reduce
d)	Reduce	Reduce

34. On January 2, 2010, an investor purchased $25,000 worth of segregated funds with a 75% guaranteed maturity value. On January 2nd, 2012, when the units were worth $30,000, she reset them.

Which of the following *best* explains the implications to this investor?

a) The investor will have a guaranteed amount of $22,500, provided she holds them until January 2, 2020. She is responsible for reporting $5,000 worth of capital gains in 2012.
b) The investor will have a guaranteed amount of $22,500, provided she holds them until January 2, 2022. She is responsible for reporting $5,000 worth of capital gains in 2012.
c) The investor will have a guaranteed amount of $22,500, provided she holds them until January 2, 2020. She is *not* responsible for reporting any capital gains in 2012.
d) The investor will have a guaranteed amount of $22,500, provided she holds them until January 2, 2022. She is *not* responsible for reporting any capital gains in 2012.

35. An analyst is presented with the following information about ABC Company:

2014 Revenue:	$50 million
2014 Gross Profit	$20 million
2014 Average Inventory	$ 5 million

Calculate its inventory turnover ratio for 2014.

a) 4.0
b) 6.0
c) 10.0
d) 12.5

36. Which of the following statements do you *most* likely agree with in respect to the sector rotation style?

a) A top-down investing approach is employed.
b) Small-cap stocks are favoured over large cap stocks.
c) The phase of the business cycle is unimportant to sector rotators.
d) The most basic industry rotation strategy involves shifting back and forth between growth stocks and value stocks.

37. What stock market theory believes that past mistakes can be avoided by using information to anticipate change?

a) Random Walk Theory
b) Efficient Market Hypothesis
c) Rational Expectations Theory
d) No stock market theory believes that past mistakes can be avoided.

38. What statement are you *most* likely to agree with about agency and liability traders?

a) Agency traders set the direction for liability traders.
b) Liability traders set the direction for agency traders.
c) Agency traders are responsible for trading the dealer member's capital.
d) Liability traders prime focus is to facilitate market flows while always making a profit.

39. Which of the following is *not* an advantage of fund of hedge funds investing?

a) Due diligence.
b) Access to hedge funds.
c) Excessive diversification.
d) Professional management.

40. Which of the following is *not* true about the Fund Facts document?

a) Its length is limited to one double-sided page.
b) It presents information in easily understood language.
c) The right of withdrawal lasts up until two days after receipt of the document.
d) The delivery requirement for the Funds Fact document replaced the mandatory delivery of the simplified prospectus.

41. An investor whose average tax rate is 20% and marginal tax rate is 26% earned $1,000 of interest income and $1,100 of dividend income. What *most* accurately captures the relative tax burden?

   a) The investor would pay approximately $93 more in taxes on the interest income.
   b) The investor would pay approximately $114 more in taxes on the interest income.
   c) The investor would pay approximately $20 more in taxes on the dividend income.
   d) The investor would pay approximately $26 more in taxes on the dividend income.

42. Adam Li will be turning 71 in the coming year. He has $425,000 in his RSP. Which of the following is *not* an allowable option for him?

   a) Purchase a life annuity.
   b) Transfer to a spousal RRSP.
   c) Purchase a fixed term annuity.
   d) Transfer to a Registered Retirement Income Fund (RRIF).

43. An investor who has a medium risk tolerance, yet needs equities in her portfolio would *most* likely avoid…

   a) venture stocks only.
   b) speculative stocks only.
   c) speculative and venture stocks.
   d) speculative, venture and growth stocks.

44. Which of the following institutional investors is *most* likely to use prime brokerage services?

   a) Hedge funds.
   b) Mutual funds.
   c) Defined benefit plans.
   d) Prime brokerage is designed for use by retail rather than institutional investors.

45. Which of the following factors *tend* to increase the market's P/E ratio?

i) Rising markets
ii) Rising inflation
iii) Rising earnings

a) i) only
b) i) & ii) only
c) i) & iii) only
d) ii) & iii) only.

46. The optimal investment strategy in the stock market trough is to…

a) sell long-term bonds and buy cyclical stocks.
b) sell long-term bonds and buy defensive stocks.
c) sell long-term bonds and buy the stock market index.
d) sell long-term bonds and hold cash.

47. An analyst is looking at a stock's daily price chart over the last year and sees that every time it touches $25 per share, it moves higher, then again declines to $25, before moving higher again. The analyst would conclude that $25 represents…

a) a support level where demand exceeds supply.
b) a support level where supply exceeds demand.
c) a resistance level where demand exceeds supply.
d) a resistance level where supply exceeds demand.

48. Which of the following is *least* likely to be an objective of a good financial plan?

a) It should be achievable.
b) It should be complicated.
c) It should accommodate changes in lifestyle.
d) It should accommodate changes in income level.

49. Defenders of high frequency trading cite all of these favourable market impacts *except*…

a) greater liquidity.
b) less systematic risk.
c) lower bid-ask spreads.
d) higher execution speed.

50. An investor purchased 500 shares of RIM at $17 per share and the commission was 1% of the purchase price. When the shares declined to $10, an additional 2,000 were bought and the commission was a flat $200. If 1,000 shares were subsequently sold at $9 and there was no commission charged, the capital loss would be…

a) $2,514.
b) $2,534.
c) $2,554.
d) $2,754.

51. A middle-aged investor has $100,000 in a target date fund and the present allocation is 50% equities, 40% bonds, and 10% cash. Ten years later, the *most* likely allocation would be…

a) 50% equities, 40% bonds, and 10% cash.
b) 34% equities, 33% bonds, and 33% cash.
c) 40% equities, 45% bonds, and 15% cash.
d) 60% equities, 30% bonds, and 10% cash.

52. A fixed-income manager follows the “interest-rate anticipator” style of fixed-income investing. During which phase of the business cycle would she *most* likely increase the average term of her bond investments?

a) trough
b) recovery
c) expansion
d) peak

53. A technical analyst sees that a bottom head-and-shoulders pattern is forming. He would understand that the stock’s price is reversing when…

a) the stock closes below its neckline on light volume.
b) the stock closes below its neckline on heavy volume.
c) the stock closes above its neckline on light volume.
d) the stock closes above its neckline on heavy volume.

54. For portfolio management purposes, the *best* description of time horizon for a client who is currently employed is…

a) the next ten years of life.
b) the period of time from the present until retirement.
c) the period of time from the present until death.
d) the period of time from the present until the next major expected change in the client's circumstance.

55. Inflation is expected to be 2% in the coming year, but it actually comes in at 0%. This should be…

a) bearish for both stocks and bonds.
b) bearish for stocks but bullish for bonds.
c) bullish for both stock and bonds.
d) bullish for stocks but bearish for bonds.

56. Why is "access to legitimate inside information" considered an advantage of listed private equity investing?

a) There is no such thing as "legitimate" inside information.
b) It implies a more accurate assessment of a company's business plan.
c) It implies that if things start to go wrong, the private equity partners can sell their shares quickly.
d) It implies that private equity investors will have greater influence over management and the decisions they make.

57. Mr. and Ms. Chan are both high income earners whose RRSP contribution limits are at the maximum of $22,970. Both of their RRSPs are organized as Spousal RRSPs. Early in 2014, Mr. Chan puts $10,000 into his own RRSP and Ms. Chan contributed $5,000 into Mr. Chan's RSP. What is the maximum additional amount that can be contributed into Ms. Chan's spousal RRSP for that year?

a) $22,970
b) $30,940
c) $35,940
d) $40,940

58. A mutual fund has $50,000,000 in assets and $5,000,000 in liabilities and 3,780,000 units outstanding. If an investor wants to buy $11,000,000 worth of units, the NAVPS after the purchase would be *closest* to…

a) $11.9048.
b) $12.1693.
c) $13.2275.
d) $13.4921.

59. An investor bought $10,000 worth of mutual funds in 2010. Over the years, there were capital gains distributions of $2,000 and dividend distributions of $1,000. In 2014 she sold the units for $15,000.

What would the cost base of her funds be?

a) $10,000
b) $11,000
c) $12,000
d) $13,000

60. The two secondary investment objectives are *generally* understood to be…

a) liquidity and marketability.
b) liquidity and tax minimization.
c) marketability and safety-of-principal.
d) marketability and regulatory requirement.

61. An analyst was presented with the following information about ABS Inc.

EPS	Year 1	Year 2	Year 3	Year 4
	$2.75	$3.10	$3.30	$3.60

If Year 2 is the base year, what are trend earnings for Year 4?

a) 1.16
b) 116
c) 1.31
d) 131

62. All of the following are passive bond management strategies employed in the institutional marketplace *except*…

a) indexing.
b) bond swaps.
c) immunization.
d) buy-and-hold.

63. Investors would overweight their portfolios in defensive stocks during which of the following business cycle phases?

a) trough
b) recovery
c) expansion
d) recession

64. Which of the following statements about real estate investment trusts (REITs) are you *least* likely to agree with?

a) They must be structured as closed-ended investments.
b) REITs generally represent a good hedge against inflation.
c) They pay out a high percentage of their income, typically 95%.
d) REITs are much *more* liquid than traditional real estate investments.

65. A family set up an RESP for their only child to pay for his university education. Subsequently, however, he was given a full athletic scholarship. There is $35,000 in the RESP. What is the most tax-efficient option for the family?

a) Transfer the full amount into the contributor's RRSP.
b) Transfer the full amount into the contributor's RRSP, provided there is sufficient contribution room.
c) Transfer the full amount into either the contributor's TSFA or RRSP, provided there is sufficient contribution room.
d) The contributor would be required to withdraw the money from the RESP and declare it as ordinary income that year.

66. An investor with an average tax rate of 30% and a marginal tax rate of 40% has two choices to make in saving for requirement. She could buy $4,000 worth of mutual funds outside her RRSP. Or she could contribute the $4,000 to her RRSP and then buy LSVVCs, which would be subject to the maximum federal and provincial credit. How much less tax would she pay that year if she chose the second option?

a) $1,200
b) $2,400
c) $2,600
d) $2,800

67. The overlay manager is responsible for overseeing…

a) ETF Wraps.
b) Private Family Offices.
c) Multi-Manager Accounts.
d) Multi-Disciplinary Accounts.

68. The greatest risk for money market mutual funds is…

a) default risk.
b) liquidity risk.
c) interest rate risk.
d) Money market funds are risk-free securities.

69. A security that has a beta of .8 declined by 6% when the underlying market was down by 10%. We would understand its alpha as…

a) –6%.
b) –2%.
c) +2%.
d) +4%.

70. When a stock's chart is *not* showing a definite trend in either direction, the technical analyst would rely on…

a) oscillators.
b) moving averages.
c) sentiment indicators.
d) the moving average convergence-divergence.

71. A portfolio has an expected return of 8% and standard deviation of 12%. The investment manager examines a security with an expected return of 6% and standard deviation of 6% whose correlation is 1.0 with the existing portfolio. Which of the following statements would you agree with?

a) Adding the security would reduce the portfolio's expected return and it would reduce its expected risk.
b) Adding the security would reduce the portfolio's expected return and it would *not* impact its expected risk.
c) Adding the security would reduce the portfolio's expected return and it would increase its expected risk.
d) We cannot be certain the impact of adding the security on either expected return or expected risk.

72. Which of the following is *not* one of the assumptions on which technical analysis is based?

a) The future repeats the past.
b) Prices move in trends and trends persist.
c) Studying financial statements helps achieve higher returns.
d) All influences on market action are automatically accounted for in price activity.

73. A hedge fund was launched under the 2 & 20 rule – 2% management fees and 20% share of new profits for the manager, subject to a 5% hurdle rate. The fund started the year with $100 million in assets under management. The average value throughout the year was $120 million and the closing value was $130 million. What is the total compensation the manager would receive?

a) $6,920,000
b) $7,920,000
c) $8,080,000
d) $8,400,000

74. Which of the following is *least* likely to be one of the roles and/or responsibilities of the buy-side portfolio manager?

a) Creating the investment mandate.
b) Providing effective trade execution.
c) Developing and executing portfolio strategy.
d) Supervising staff, including traders and administrative personnel.

75. Everything else being equal, if a mutual fund's management fees are higher, the MER will be…

a) lower.
b) the same.
c) higher.
d) Management fees are excluded from the MER.

76. What is the simplest structure for a principal protected note (PPN)?

a) Zero-coupon bonds plus call options.
b) Zero-coupon bonds plus equity indexes.
c) Government of Canada bonds plus call options.
d) Government of Canada bonds plus equity indexes.

77. Under which mutual fund withdrawal plan is it *most* likely that the annual payment will decline in value over time?

a) Ratio withdrawal
b) Fixed-dollar withdrawal
c) Fixed-period withdrawal
d) Life expectancy-adjusted withdrawal

78. Robert Gordon is a doctor nearing retirement age with a higher than average risk tolerance because of his wealth and sophistication. The *most* appropriate asset allocation for him would be…

a) 20% equities, 70% bonds, and 10% cash.
b) 34% equities, 33% bonds, and 33% cash.
c) 40% equities, 55% bonds, and 5% cash.
d) 50% equities and 50% bonds.

79. Which of the following statements do you agree with?

a) A low debt-equity ratio signals low operating risk.
b) A low debt-equity ratio signals high operating risk.
c) A high debt-equity ratio signals low financial risk.
d) A high debt-equity ratio signals high financial risk.

80. Under which of the following circumstances would it be *most* appropriate to overweight an equity portfolio with high beta stocks?

a) The investor has a low risk tolerance and the business cycle is in the peak phase.
b) The investor has a low risk tolerance and the business cycle is in the trough phase.
c) The investor has a high risk tolerance and the business cycle is in the peak phase.
d) The investor has a high risk tolerance and the business cycle is in the trough phase.

81. A small business owner had $200,000 worth of mutual funds and $225,000 worth of segregated funds in his investment portfolio when he passed away. His business related debts were $300,000. How much of his investment portfolio would go through to his heirs?

a) $125,000.
b) $200,000
c) $225,000
d) $425,000

82. Erin Phillips is a full-service investment advisor with DT Waterhome. Her biggest client, Michael Goldman, has signed a disclosure agreement document that provides consent that non-recommended trades are *not* subject to a suitability review. He calls her and wants to place a trade for a security that Erin believes is highly inappropriate for him. What *best* describes what Erin should do?

a) She cannot accept the trade.
b) She should accept the trade, even though it's unsuitable.
c) She should accept the trade, but must have her manager sign off on it.
d) She must accept the trade, but needs Goldman to sign a waiver of responsibility.

83. The right of redemption for mutual funds *most* directly addresses the benefit of…

a) liquidity.
b) diversification.
c) emergency reserve.
d) low-cost management.

84. Which of the following factors are *most* likely to impact how high the fees are in a fee-based account?

a) Number of positions and estimated number of trades.
b) Dollar size of account and estimated number of trades.
c) Dollar size of account and time taken with investment advisor.
d) Estimated number of trades and portfolio's asset allocation strategy.

85. You would agree that…

a) straight-through processing is increasingly becoming a sell-side best practice.
b) straight-through processing is increasingly becoming a buy-side best practice.
c) straight-through processing is increasingly becoming best practice on both the sell-side and buy-side.
d) straight-through processing is increasingly becoming frowned upon as a trading tactic on both the sell-side and buy-side.

86. Responsible designated traders at the TSX must do all of the following except…

a) ensure that a two-sided market is maintained at an agreed upon spread goal.
b) assist others in the execution of their orders with respect to their stock of responsibility.
c) ensure that trading in their own accounts is reasonable and consistent with just and equitable principles of trading.
d) reduce market volatility by widening the bid-ask spread on designated stocks during times of market stress.

87. All of the following are considered “cash” products for portfolio management purposes *except*…

a) treasury Bills.
b) redeemable GICs.
c) Canada Savings Bonds.
d) All of the above are considered cash-like products.

88. The ex-post return is *primarily* used for…

a) evaluating risk.
b) evaluating performance.
c) determining asset allocation.
d) All of the above.

89. You are evaluating a mutual fund and see that its holdings, on average, have a much lower dividend yield than the market while at the same time, above-average P/E ratios. You would conclude that this fund is being run by a…

a) value manager.
b) growth manager.
c) sector rotator manager.
d) The low dividend yield and above-average P/Es are sending conflicting signals.

90. The total amount of equity trades shown to the dealer's traders by its institutional investor clients is commonly referred to as…

a) order flow.
b) bid-ask spread.
c) agency spread.
d) liquidity algorithm.

91. An individual is about to commence her career as an institutional salesperson. You would be least likely to advise her to…

a) build and maintain strong relationships with clients.
b) develop expertise about how to value publicly traded securities.
c) have access to good research and/or investment banking services.
d) develop deep knowledge about the dealer member's products and market factors that affect their pricing.

92. Which of the following statements about managed and structured products are you *least* likely to agree with?

a) Structured products are closed ended.
b) Structured products have an infinite life.
c) Managed products may be actively or passively managed.
d) Managed products have a performance goal of absolute returns and/or risk reduction.

93. Which of the following is not one of the major components under Standard A – Duty of Care in the Canadian Securities Industry Standards of Conduct?

a) Due diligence
b) Know your client
c) Unsolicited orders
d) Respect for client's assets

94. All of the following risks pertain to a capital share in the split share structure *except*…

a) volatility.
b) dividend cuts.
c) inherent leverage.
d) early redemption.

95. The classic approach to top-down analysis starts by analyzing…

a) individual securities.
b) industry-specific factors.
c) macroeconomic factors.
d) monetary and fiscal policy.

96. A hedge fund manager is running a long/short equity fund. She is long $200 million worth of securities and short $150 million. We would say that her leverage is…

a) $50 million.
b) .25
c) .33
d) 1.75

97. An investor is looking at a highly volatile stock. It is currently $50. She believes there is a 30% chance it could go up 30%, a 20% chance it could go up 20%, and a 50% chance that it will decline 15% over the next year. Her expected price is *closest* to…

a) $53.
b) $55.
c) $57.
d) $59.

98. In a mature industry, you are *least* likely to expect that …

a) growth in sales and earnings is stable.
b) earnings and cash flow will be positive.
c) companies are raising lots of equity capital.
d) during recessions, these companies demonstrate lower declines in earnings than other companies.

99. Which of the following is least likely to be understood as a benefit of NHA mortgage-backed securities?

a) Liquidity
b) RSP-RIF eligibility
c) Guaranteed monthly payments
d) Capital appreciation when interest rates decline

100. The lock-up period for a hedge fund…

a) reduces the investor's liquidity.
b) reduces the investor's expected return.
c) reduces the hedge fund manager's expected return.
d) reduce the hedge fund manager's choice of securities.

ANSWERS – PASSING THE CSC VOLUME TWO EXAM (2)

1.A	2.C	3.D	4.B	5.D	6.A	7.C	8.C	9.A	10.A
11.A	12.C	13.A	14.B	15.B	16.B	17.D	18.D	19.C	20.B
21.C	22.D	23.A	24.A	25.C	26.B	27.C	28.D	29.C	30.B
31.D	32.D	33.C	34.D	35.B	36.A	37.C	38.B	39.C	40.A
41.A	42.B	43.C	44.A	45.C	46.A	47.A	48.B	49.B	50.A
51.C	52.D	53.D	54.D	55.C	56.B	57.B	58.A	59.D	60.B
61.B	62.B	63.D	64.A	65.B	66.D	67.C	68.C	69.C	70.A
71.A	72.C	73.A	74.B	75.C	76.C	77.A	78.C	79.D	80.D
81.C	82.B	83.A	84.B	85.B	86.D	87.D	88.B	89.B	90.A
91.B	92.B	93.D	94.D	95.C	96.D	97.A	98.C	99.D	100.A