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) random walk theory.
   b) efficient market hypothesis.
   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) emerging 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. What is the reason why declining industries may have large cash flow?

   a) Dividends have been suspended.
   b) Expenses are declining more rapidly than sales.
   c) There is no need to invest in new plant and equipment.
   d) Declining industries never have large cash flows.

7. Into which category of companies would you be *most* likely to put a manufacturer of railway cars?

   a) Industrial cyclical
   b) Consumer cyclical
   c) Commodity basic cylical
   d) Blue-chip defensive cyclical

8. Which of the following statements about speculative industries are you *least* likely to agree with?

   a) Emerging industries are considered speculative.
   b) The term speculative does *not* describe large companies.
   c) Shares of growth companies can be considered speculative.
   d) The term speculative industry usually applies to industries in which risk and uncertainty are unusually high because analysts lack definite information.

9. 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

10. 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.

11. You are examining a chart and believe that a head-and-shoulders bottom 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.

12. 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.

13. 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

14. A company earned $1.56 in 2014, $1.65 in 2015, $1.72 in 2016, and $1.80 in 2017. If 2015 is the base year, what is the Trend number for 2017 earnings?

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

15. 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.

16. 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

17. 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.

18. 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

19. 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.

20. 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.

21. 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

22. 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%

23. 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.

24. 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.

25. Which of the following is *not* one of the key questions that the investment quality assessment of preferred shares hinges on?

    a) Is there an adequate cushion of equity behind each preferred share?
    b) Do the company's earnings provide ample coverage for preferred dividends?
    c) For how many years has the company paid dividends without interruption?
    d) Does the company have a history of increasing dividends on its common shares?

CHAPTERS 13 – 14, Test #1 – Answers

1.B 13 – 3.

2.C 13 – 5.

3.B 13 – 8.

4.C 13 – 10/11.

5.A 13 – 11/12.

6.C 13 – 11.

7.A 13 – 12.

8.B 13 – 13.

9.A 13 – 13/14.

10.B 13 – 14.

11.A 13 – 17.

12.A 13 – 20.

13.D 14 – 5.

14.C 14 – 8/9.
$1.80/$1.65 = 1.09 and this should be understood as 109

15.D 14 – 11/12.

16.A 14 – 12/13.

17.D 14 – 13/14.

18.A 14 – 17.

19.C 14 – 18/19.
$3,000,000 / $1,000,000 = 3.0

20.B 14 – 20/21.
[$3,000,000 – (100,000 x .06 x $50)] / 4,500,000 = $.60

21.C 14 – 20/21.
8,000,000 + 1,500,000 x 2.5 = 11,750,000.

22.D 14 – 22.
($.30 x 4) / $30.00 = 4.0%.

23.D 14 – 23/25.

24.A 14 – 25/26.
$.50 / (.09 – .06) = $16.67 which is “intrinsic value” of the stock.

25.D 14 – 26/27.

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. Which of the following is *least* likely to be true of a growth industry?

    a) Cash flows may remain negative.
    b) They have above average returns on capital.
    c) Companies generally pay out large dividends.
    d) Companies tend to exhibit high price-to-earnings ratios.

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 three broadest industry classifications are…

   a) growth, maturity and declining.
   b) cyclical, defensive and speculative.
   c) low tech, blue chip and high tech.
   d) red chip, 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. Which of the following best captures the main difference between fundamental and technical analysis?

   a) The fundamental analyst studies the causes of price movements, while the technical analyst studies the effects of price movements.
   b) The fundamental analyst studies the effects of price movements, while the technical analyst studies the causes of price movement.
   c) The fundamental analysis believes that markets are driven by rational thought only, while the technical analyst believes that markets are driven by emotion only.
   d) The fundamental analyst believes that markets are driven by rational thought only, while the technical analyst believes that markets are driven by both rational thought and emotion only.

9. 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.

10. 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.

11. 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.

12. 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 not crash.
    d) if the vast majority of investors are bullish, there is not enough buying power to push the market higher.

13. 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.

14. 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.

15. 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

16. 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.

17. 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 more debt in its capital structure.
b) Company Two has more debt in its capital structure.
c) Company One has a higher projected growth rate of earnings.
d) Company Two's shares are more liquid than Company One's.

18. 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.

19. There is a company that just paid out its annual dividend of $2.40. You expect that it will be able to grow its dividends at a rate of 5%, and your required return is 9%. If the shares are currently trading at $60, and you believe in the dividend discount model framework, you would agree that…

a) the company's shares are slightly undervalued.
b) the company's shares are fairly valued.
c) the company's shares are slightly overvalued.
d) Insufficient information.

20. When selecting preferred shares, which of the following is *least* likely a question specific to all preferred shares?

a) Are the dividends cumulative?
b) Are there protective features like sinking funds?
c) Is the life of the conversion privilege long enough?
d) Is the yield acceptable compared to yields from other, similar investments?

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 – 4.

2.C 13 – 7.

3.A 13 – 8.

4.C 13 – 11.

5.B 13 – 11/12.

6.B 13 – 12.

7.C 13 – 12.

8.A 13 – 14.

9.B 13 – 15.

10.D 13 – 20.
($21.25 + $19.50 + $20.50 + $20.75) / 4 = $20.50.

11.B 13 – 21.

12.A 13 – 22.

13.A 14 – 3/4.

14.C 14 – 11/12.

15.B 14 – 15/16.

16.C 14 – 20/21.
[$6,250,000 – (50,000 x .06 x $50)] / 4,500,000 = $1.36

17.A 14 – 23/24.

18.A 14 – 24/25.

19.A 14 – 25/26.
($2.40 x 1.05) / (.09 – .05) = $63.00.
$63 is fair value, therefore at $60 the company is slightly undervalued.

20.C 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 & B is 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. "Earnings momentum" is *most* closely associated with…

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

13. 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.

14. 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.

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

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

16. 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.

17. 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

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

    a) GICs.
    b) T-bills.
    c) Redeemable GICs.
    d) Instalment debentures.

19. 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.

20. 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.

21. 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.

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. The portfolio monitoring process involves which three key areas of focus:
i) Industry trends and the overall economic climate
ii) Analysis of trends in government taxing and spending
iii) Expectations for individual securities and capital markets
iv) Changes in the investor's goals, financial position, and preferences

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

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 – 4/5.
[(1,000 – 980) + 50] / 980 = 7.14%

2.D 15 – 6.

3.B 15 – 7/8.

4.B 15 – 7/8.

5.A 15 – 9/10.

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 – 10/11.

7.D 15 – 10/11.

8.B 15 – 10/11.

9.C 15 – 12.

10.C 15 – 12.

11.A 15 – 12/13.

12.B 15 – 14.

13.B 15 – 15.

14.C 15 – 16.

15.A 15 – 17.

16.D 15 – 17.

17.B 16 – 6/7.

18.D 16 – 10.

19.C 16 – 14.

20.A 16 – 14.

21.D 16 – 14.

22.C 16 – 18/20.

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.B 16 – 20.

24.C 16 – 21/22.

25.D 16 – 22/23.

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. 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.

8. 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

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. 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

11. 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.

12. 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 selecting the securities
    b) designing the investment policy statement; developing the asset mix; and selecting the securities
    c) determining investment objectives and constraints; designing an investment policy statement; and developing the asset mix
    d) determining investment objectives and constraints; developing the asset mix; and monitoring the client, the market, and the economy

13. 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.

14. 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.

15. 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

16. 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

17. 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

18. 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.

19. 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.

20. What is understood as the single *most* important step in the portfolio management process?

    a) Asset allocation
    b) Securities selection
    c) Market timing decisions
    d) All of these are equally important

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 – 4/5.
[(101 – 102) + 7] / 102 = 5.9%.

2.B 15 – 6/7.

3.A 15 – 7.

4.D 15 – 7/8.

5.C 15 – 9.

6.B 15 – 9/10.
$250,000 x .70 x 1.1 + $250,000 x .30 x 1.05 = $271,250.

7.A 15 – 10/11.

8.A 15 – 11.

9.D 15 – 12.

10.B 15 – 14.

11.D 15 – 15/16.

12.C 16 – 3.

13.D 16 – 5/6.

14.B 16 – 8.

15.D 16 – 10.

16.D 16 – 10.

17.C 16 – 14.

18.A 16 – 14.

19.C 16 – 14.

20.A 16 – 15.

21.C 16 – 16/17.

22.A 16 – 16/17.

23.B 16 – 18/19.

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 – 22/23.

25.B 16 – 22/23.

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

1. 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.

2. 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

3. 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.

4. 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.

5. 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

6. Refer to Q. #5. 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

7. 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.

8. 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.

9. 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.

10. 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.

11. 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.

12. 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.

13. 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

14. The term "glide path" is *most* closely associated with…

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

15. 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

16. 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

17. 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.

18. 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).

19. What does an ETF provider use to launch a new ETF?

    a) Prime broker
    b) Broker-dealer
    c) Investment dealer
    d) Designated broker

20. What is the primary reason why ETFs have lower costs than other passively managed pooled products?

    a) ETFs are exchange-traded.
    b) ETFs have fewer holding than other products.
    c) ETFs have lower tracking error than other products.
    d) It is *not* true that ETFs have lower costs than other passively managed pooled products.

21. Which of the following ETFs is *most* likely to use a goal-oriented approach?

    a) Active
    b) Synthetic
    c) Rules-based
    d) Covered call

22. When would investors purchase an inverse exchange-traded fund?

    a) When they are bullish
    b) When they are bearish
    c) When they are seeking to outperform the index
    d) When they are seeking to assume less risk than the index.

23. Which of the following statements about tracking risk are you *least* likely to agree with?

    a) Tracking error is most often negative.
    b) Tracking error on ETFs is generally lower in comparison to mutual funds because most ETFs are index-based.
    c) It is usually defined as the difference between the return on the underlying index and the return on the ETF.
    d) All of these statements should be agreed with.

24. Which products are the riskier complements to core ETF holdings?

    a) Satellite holdings
    b) Secondary holdings
    c) Beta-generating holdings
    d) Alpha-generating holdings

25. Which of the following statements about ETNs are you *most* likely to agree with?

    a) ETNs have greater tracking error than ETFs do.
    b) ETNs are *not* subject to call or early redemption risk.
    c) They are debt obligations issued by investment dealers.
    d) They pay a return based on the performance of an index or benchmark.

CHAPTERS 17 – 19, Test #1 – Answers

1.B 17 – 5/6.

2.A 17 – 7.

3.A 17 – 8/9.

4.C 17 – 9/10.
($25,000,000 – $500,000)/5,000,000 = $4.90.

5.D 17 – 11.
$25/(100% – 3%) = $25.77.

6.B 17 – 11.
$.77/$25.00 = 3.08%.

7.D 17 – 12.
$14.00 x (1 – .05) = $13.30.

8.D 17 – 12.

9.C 17 – 13.

10.A 17 – 14.

11.A 17 – 16/17.

12.D 17 – 22.

13.D 18 – 3/4.

14.C 18 – 7.

15.C 18 – 8.

16.C 18 – 10.

17.A 18 – 13/14.

18.B 18 – 14/15.

19.D 19 – 4.

20.A 19 – 7.

21.C 19 – 11.

22.B 19 – 13.

23.D 19 – 15.

24.A 19 – 22.

25.D 19 – 23/24.

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

1. 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.

2. What unique benefit do pre-authorized contribution 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.

3. 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.

4. 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

5. 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.

6. A mutual fund was purchased on January 2nd 2015 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 2018 when they were sold, the investor would receive…

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

7. 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.

8. 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.

9. 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.

10. 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.

11. 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.

12. 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.

13. 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.

14. 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.

15. 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.

16. 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.

17. 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)

18. 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.

19. Why is tracking error for ETFs usually less than for comparable mutual funds?

    a) ETFs pursue a pure indexing strategy.
    b) Administrative and trading costs are lower.
    c) ETFs tend to trade in more liquid securities than mutual funds.
    d) Tracking error for ETFs is actually greater than for comparable mutual funds.

20. Which of the following are the two methods generally employed to create ETFs?

    a) Sampling and full replication.
    b) Partial replication and full replication.
    c) Random sampling and full replication.
    d) Random sampling and random replication.

21. Which of the following correctly captures the relationship between the MERs of index-based ETFs, actively managed ETFs, and actively managed mutual funds?

    a) Index-based and actively managed ETFs have similar MERs, which are lower than the MERs of actively managed mutual funds.
    b) Index-based ETFs have the lowest MERs, and the MERs of actively managed ETFs and actively managed mutual funds are similar.
    c) Index-based ETFs have the lowest MERs, and the MERs of actively managed ETFs are lower than those of actively managed mutual funds.
    d) Index-based ETFs have the lowest MERs, and the MERs of actively managed ETFs are higher than those of actively managed mutual funds.

22. Which of the following ETFs is constructed with derivatives, such as swaps?

    a) Synthetic
    b) Commodity
    c) Covered-call
    d) Rules-based

23. All of the following are types of commodity exchange-traded funds *except*…

    a) Equity-based
    b) Futures-based
    c) Physical-based
    d) Forwards-based

24. Compared to mutual funds, cash drag is…

    a) less of a problem for exchange-traded funds.
    b) an equal problem for exchange-traded funds.
    c) more of a problem for exchange-traded funds.
    d) Cash drag does *not* pertain to either mutual funds or exchange-traded funds.

25. Which of the following is *least* likely to be a tip for trading exchange-traded funds?

    a) Avoid trading in the first 15 minutes of the day.
    b) Be careful when trading in ETFs when any major underlying is halted.
    c) Use market orders in order to ensure that the desired ETF is purchased.
    d) Avoid trading ETFs when the market for their underlying securities is *not* trading.

CHAPTERS 17 – 19, Test #2 – Answers

1.C 17 – 5.

2.B 17 – 6.

3.A 17 – 7/8.

4.A 17 – 8/9.

5.D 17 – 8/9.

6.A 17 – 12.
$24.00 – ($24.00 x .03) = $23.28.
The load would be 6% in 2015, 5% in 2016, 4% in 2017, and 3% in 2018.

7.A 17 – 12.

8.A 17 – 16/17.

9.B 17 – 19/20.

10.D 17 – 21/23.

11.B 17 – 23.

12.C 17 – 28/29.

13.C 18 – 6.

14.C 18 – 12/14.
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.

15.A 18 – 15.

16.B 18 – 17.

17.C 18 – 18/19.

18.B 18 – 21.

19.B 19 – 8.

20.A 19 – 10.

21.C 19 – 11/12.

22.A 19 – 12.

23.D 19 – 13.

24.A 19 – 16.

25.C 19 – 22.

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

1. 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

2. 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.

3. 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

4. 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.

5. 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

6. 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

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

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

8. 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

9. 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).

10. Which of the following is *least* likely to be understood as an unique advantage of funds of hedge funds?

   a) Due diligence
   b) Access to hedge funds
   c) Guarantee of positive returns
   d) Ability to diversify with a smaller investment

11. An investor lives in a province where the provincial tax credit is the same as the federal tax credit. If she invests $3,000 in a labour-sponsored venture capital corporation, her total tax credit is closest to:

   a) $ 450
   b) $ 750
   c) $ 900
   d) $1,500

12. In order to avoid the recapture of federal tax credits, LSVCCs must be held for…

    a) a minimum of 6 months.
    b) a minimum of 3 years.
    c) a minimum of 5 years.
    d) a minimum of 8 years.

13. Historically, *most* closed-end funds have traded…

    a) at a discount to their NAV.
    b) at their NAV.
    c) at a premium to their NAV.
    d) It is not possible to generalize.

14. When an investor is in a closed-end structure and interest, dividends, and capital gains are received, it generally means that the investor…

    a) receives cash directly.
    b) receives more units and the price remains the same.
    c) sees the value of the units increase while the number is unchanged.
    d) can choose between receiving more units or seeing the value of the units increase.

15. Real estate investment trusts (REITs) typically pay out what percentage of their income to unitholders?

    a) 25%
    b) 50%
    c) 75%
    d) 95%

16. What is a major benefit of REITs compared to direct investment in real estate?

    a) Liquidity
    b) Higher returns
    c) Lower volatility
    d) Greater disclosure

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

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

18. 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."

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 20 – 21, Test #1 – Answers

1.B	20 – 4.
2.B	20 – 5.
3.D	20 – 5.
4.C	20 – 6.
5.D	20 – 7.
6.A	20 – 12.
7.B	20 – 13.
8.C	20 – 13.
9.D	20 – 13/14.
10.C	20 – 16/17.
11.C	20 – 19/20.
12.D	20 – 20.
13.A	20 – 21.
14.A	20 – 21.
15.D	20 – 23.
16. A	20 – 23.
17.D	20 – 24/25.
18.B	20 – 26.
19.C	21 – 6.
20.B	21 – 6.
21.B	21 – 6/7. (13,000 / 10,500 – 1) x .4 = 9.5%.
22.A	21 – 12/13.
23.A	21 – 12/13.
24.C	21 – 15/16.
25.A	21 – 18.

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. 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.

4. 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

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

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

6. 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

7. 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.

8. 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.

9. Hemali Singh is a Hedge Fund Manager who runs her Fund under the 2 & 20 rule. In 2016, 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 2017, the Hedge Fund was worth $12 million. At the end of 2018, it was worth $14 million. Assuming that her fund operated under “high water mark” rules, her fees for 2018 would be *closest* to…

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

10. 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 hurdle rates.
   b) short lock-ups and high hurdle rates.
   c) long lock-ups and low hurdle rates.
   d) long lock-ups and high hurdle rates.

11. Which of the following statements about investment amounts and tax credits are you *most* likely to agree with in respect to LSVCCs?

   a) There is a maximum amount that you may invest and there are annual maximum amounts to the tax credits.
   b) There is a maximum amount that you may invest but there is no annual maximum amount to the tax credits.
   c) There is *not* a maximum amount that you may invest and there are annual maximum amounts to the tax credits.
   d) There is *not* a maximum amount that you may invest but there are annual maximum amounts to the tax credits.

12. Jacques invested $5,000 into his RSP in the province of Quebec, whose provincial tax credit matches the federal tax credit. Assuming a 40% marginal tax rate, the effective after-tax cost of the investment is closest to:

   a) $1,000.
   b) $1,250.
   c) $1,500.
   d) $2,500.

13. 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

14. 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.

15. What is a potential disadvantage of REIT investment?

   a) REITs are *not* subject to full disclosure rules.
   b) REITs sometimes have thin trading volumes.
   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.

16. Which of the following statements about the risks associated with business trusts are you *most* likely to agree with?

    a) They are subject to the same interest rate risk as fixed-income securities and are less stable than the equity market.
    b) They are subject to the same interest rate risk as fixed-income securities and are as stable as the equity market.
    c) They are subject to the same interest rate risk as fixed-income securities and are more stable than the equity market.
    d) They are subject to less interest rate risk as fixed-income securities and are more stable than the equity market.

17. 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.

18. 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.

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

    a) index-linked PPNs and hedge fund-linked PPNs.
    b) index-linked PPNs and stock basket-linked PPNs.
    c) stock basket-linked PPNs and hedge-fund linked PPNs.
    d) stock basket-linked PPNs and fixed-income linked PPNs.

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

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

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

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

22. 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.

23. 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.

24. 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

25. Which of the following statements about Canadian mortgage-backed securities are you *least* likely to agree with?

    a) Underlying mortgages are fully insured by the Canadian Mortgage and Housing Corporation.
    b) MBSs are composed separately of prepayable (open) and non-prepayable (closed) mortgages.
    c) The only taxable part of the income stream from a MBS is the return of principal, the return of interest is *not* taxable.
    d) The most common MBSs are five-year pools denominated in multiples of $5,000, with a return comparable to that of a GIC.

CHAPTERS 20 – 21, Test #2 – Answers

1.B 20 – 5.

2.B 20 – 5.
Original protected amount is $7,500. $1,000/$11,000 of the units were sold, which means that $10,000/$11,000 or 90.91% is held. $7,500 x .9091 = $6,818.18

3.C 20 – 6.

4.C 20 – 6/7.

5.B 20 – 8/9.

6.A 20 – 10.

7.B 20 – 12.

8.A 20 – 13.

9.B 20 – 13/14.
The manager would only receive the 2% management fee, or $280,000.

10.B 20 – 13/14.

11.C 20 – 19/20.

12.C 20 – 19/20.
The combined tax credit would be $1,500. The tax savings would be $2,000.
The effective cost, therefore, is: $5,000 – $1,500 – $2,000 = $1,500.

13.B 20 – 20/21.

14.C 20 – 21.

15.B 20 – 23.

16.C 20 – 23/24.

17.A 20 – 24/25.

18.C 20 – 26.

19.B 21 – 6.

20.C 21 – 9.

21.C 21 – 11.

22.D 21 – 13.

23.D 21 – 15.

24.C 21 – 16.

25.C 21 – 18/20.

CSC VOLUME TWO: Chapters 22 & 23, Test #1

1. 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.

2. An investor had an average tax rate of 25% and a marginal tax rate of 35% in 2017 when her income was $50,000. If her income increased by 10% in 2018, how much tax would she have to pay for that fiscal year?

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

3. An investor purchased 100 shares in 2011 when Norel was $100 per share. In 2003, he purchased an additional 300 at $25 per share, and then another 2,000 at $1.00 per share in 2015. In 2016, Norel 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

4. 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.

5. On February 1st 2017, 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 2017 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 2017 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 2017 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 2017 or could have a cost base on his shares of $14.00.

6. 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.

7. 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

8. 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.

9. Julia Sung had the following income in 2018:

- $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 2018 RRSP contribution limit?

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

10. 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.

11. 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

12. 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.

13. 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%.

14. Under the Canada Education Savings Grant program, the federal government makes a matching grant of ___% of the first $2,500 contributed each year to the RESP of a child under 18.

    a) 10%
    b) 18%
    c) 20%
    d) 25%

15. 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.

16. 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.

17. 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.

18. 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.

19. In the separately managed accounts (SMA) structure, the external portfolio manager is also called the…

    a) sub-advisor.
    b) overlay manager.
    c) investment advisor.
    d) discretionary account manager.

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

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

21. Which of the following *best* describes the relationship between overlay managers and advisors?

    a) Overlay managers report to the advisors.
    b) Advisors reports to the overlay managers.
    c) Overlay managers work in partnership with advisors.
    d) Overlay managers and advisors do not work together.

22. Discretionary authority with respect to a managed account…

a) may be given by the client verbally.
b) must be given by the client verbally.
c) may be given by the client either verbally or in writing.
d) must be given by the client in writing and accepted in writing by the designated supervisor.

23. For full-service fee-based brokerage accounts, fees are generally paid…

a) monthly.
b) quarterly.
c) annually.
d) It is *not* possible to generalize.

24. Fees for full-service brokerage accounts are *least* likely to depend on…

a) dollar size of the account.
b) estimated number of trades.
c) length of time client is with adviser.
d) ancillary services provided such as financial planning and estate planning.

25. Which of the following is *least* likely to be an advantage of the robo-advisory service?

a) Minimum accounts sizes are lower.
b) Costs less than traditional managed accounts.
c) Many investors prefer online services over traditional model.
d) Financial planning and wealth management serves are often supported by technology in early stages of development.

CHAPTERS 22 & 23, Test #1 – Answers

1.C 22 – 3.

2.C 22 – 4/5.
She would be taxed 25% on the first $50,000. She would be taxed 35% on the next $5,000. $12,500 + $1,750 = $14,250.

3.D 22 – 10/11.
Altogether, the investor spent $19,500 and purchased 2,400 shares which is an average of $8.125. After the 1 for 10 consolidation, the price would be $81.25

4.A 22 – 10/11.
950 / 50 = $19.00.

5.A 22 – 13.

6.C 22 – 14.

7.B 22 – 15/17.

8.B 22 – 17.

9.B 22 – 18.
Earned income is $65,000… $65,000 x .18 = $11,700.

10.C 22 – 18.
There is a capital gain of $250 on ABC. The capital loss on DEF would not be considered as an offset.

11.D 22 – 20.

12.A 22 – 22/23.

13.C 22 – 24/25.

14.C 22 – 25.

15.C 22 – 26.

16.A 22 – 27.

17.C 23 – 3.

18.D 23 – 5.

19.A 23 – 7.

20.A 23 – 8.

21.C 23 – 9.

22.D 23 – 10.

23.B 23 – 11.

24.C 23 – 11.

25.D 23 – 11/12.

CSC VOLUME TWO: Chapters 22 & 23, 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 $155,000 in earned income.

PLEASE REFER TO THE FOLLOWING INCOME TAX RATE CHART FOR 2017

Taxable income	Tax
On the first $45,916	15%
On next $45,915 and up to $91,831	20.5%
On next $50,522 and up to $142,353	26%
On next $60,447 and up to $202,800	29%
Of taxable income over $202,800	33%

   a) $27,500
   b) $33,100
   c) $35,069
   d) $44,950

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 2016 and a commission of 1.5% of the purchase price was charged. In 2018, 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 2017, 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 he has a generous defined benefit pension plan. His current service contribution would be restricted to the lesser of 9% of the employee's compensation for the year or

   a) $1,000 plus 70% of their PA for the year.
   b) $1,000 plus 100% of their PA for the year.
   c) $10,000 plus 70% of their PA for the year.
   d) $10,000 plus 100% of their PA for the year.

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 2018, 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 2018, 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 2018. 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. Which of the following statements about fee-based accounts are you *most* likely to agree with?

a) High-net-worth clients do *not* need anything more from their advisors than simple security selection.
b) High-net-worth clients do *not* appreciate the clear disclosure that comes with a fee-based account.
c) Market surveys show that high-net-worth clients want a portion of the advisor's fee tied to assets under management.
d) In a fee-based relationship, clients are *not* confident that recommendations are based on their best interests.

18. The most basic services offered within discretionary managed accounts are…

    a) household accounts.
    b) advisor-managed accounts.
    c) separately managed accounts.
    d) mutual fund wraps and exchange-traded fund (ETF) wraps.

19. Advisors as portfolio managers use which of the following two types of programs to service their clients?

    a) Separately managed accounts and multi-mandate managed accounts
    b) Separately managed accounts and single-mandate separately managed accounts
    c) Single-mandate separately managed accounts and multi-mandate managed accounts
    d) Model-based discretionary account management and non-model-based discretionary account management

20. With multi-mandate managed accounts, who is responsible for consolidating a client's investments within a collection of dedicated accounts and providing oversight?

    a) Overlay manager
    b) Portfolio manager
    c) Investment counselor
    d) Private family office manager

21. Discretionary authority with respect to a managed account…

    a) may be verbal or written.
    b) must be given by the client in writing.
    c) must be given by the client in writing and accepted in writing by the designated supervisor.
    d) must be given by the client in writing and may be accepted either verbally or in writing by the designated supervisor.

22. Some investment dealers offer two levels of fee-based accounts. The higher level typically offers…

    a) estate planning services.
    b) financial planning services.
    c) more, or unlimited, free trading.
    d) estate planning services, financial planning services, and more, or unlimited free trading.

23. Self-directed brokerage accounts fall into which of the following categories?
    i) Fee-based accounts
    ii) Robo advisory services
    iii) Direct security and asset mix guidance

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

24. Investors using the direct guidance model are *least* likely to be provided with the following service:

    a) Unlimited trading.
    b) Free research reports.
    c) Tools to build and monitor an asset allocation.
    d) Investment recommendations, alerts, and reminders.

25. Which of the following is *least* likely to be a disadvantage of the robo-advisory service?

    a) Minimum account sizes are lower.
    b) The one-to-one service may not appeal to high net worth investors.
    c) Local service is limited; service for the most part is provided online.
    d) Financial planning and wealth management services are often supported by technology that is in the early stages of development.

CHAPTERS 22 & 23, Test #2 – Answers

1.B 22 – 26/27.

2.B 22 – 4.

3.B 22 – 4/5.
$45,915 x .15 + $45,915 x .205 + $50,522 x .26 + ($155,000 – $142,353) x .29 = $33,103.

4.B 22 – 5/6.

5.D 22 – 8.

6.A 22 – 10.

$$\frac{(500 \times 12.50 - \$29.00) - (500 \times 12 \times 1.015)}{2} = \$65.60$$

7.B 22 – 10.
[300 x $60 + 200 x $35 + 400 x $18] / 900 = $35.78.

8.B 22 – 10/11.
[100 x $20 + $1,000]/125 = $24.00.

9.D 22 – 13.

10.B 22 – 14.

11.A 25 – 16.

12.D 22 – 19.

13.B 22 – 18.
Earned income is $55,200. $55,200 x .18 = $9,936.

14.C 22 – 19.

15.A 22 – 24/25.

16.A 22 – 27.

17.C 23 – 3.

18.D 23 – 5.

19.D 23 – 7.

20.A 23 – 8.

21.C 23 – 11.

22.C 23 – 11.

23.C 23 – 11.

24.B 23 – 11.

25.A 23 – 12.

CSC VOLUME TWO: Chapters 24 & 25, Test #1

1. Which of the following is *least* likely to be an objective that must be considered when creating a financial plan?

   a) It should be achievable.
   b) It should be realistic, rather than daunting.
   c) It should *not* accommodate changes in lifestyle and income.
   d) It should provide not only for necessities, but also for rewards.

2. Which properly places the final three steps in the financial planning process?

   a) Analyzing data and information; Recommending strategies to meet goals; and Implementing recommendations
   b) Recommending strategies to meet goals; Implementing recommendations; and Conducting a periodic review
   c) Analyzing data and information; Recommending strategies to meet goals; and Conducting a periodic review
   d) Recommending strategies to meet goals; Analyzing data and information; and Conducting a periodic review

3. 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 professional service contract.
   d) immediately begin trading in order *not* to miss market opportunities.

4. 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.

5. The Family commitment years are generally understood to range between…

   a) age 18 to 35.
   b) age 18 to 50.
   c) age 25 to 50.
   d) It is not possible to generalize.

6. In what stage of the life cycle, is the investor *most* likely to be eager to minimize taxes?

   a) Stage 2: Family commitment years
   b) Stage 3: Mature earnings years
   c) Stage 4: Nearing retirement
   d) Stage 5: Retired

7. In what stage of the life cycle do commitments *tend* to be at their heaviest?

   a) Stage 1: Early earning years
   b) Stage 2: Family commitment years
   c) Stage 3: Mature earnings years
   d) Stage 4: Nearing retirement

8. Which of the following is *not* one of the five standards of conduct?

   a) Integrity
   b) Compliance
   c) Due diligence
   d) Confidentiality

9. Appropriate personal trading activity is *most* closely associated with…

   a) Integrity
   b) Compliance
   c) Confidentiality
   d) Professionalism

10. 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.

11. 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.

12. 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.

13. Exempt market dealers are associated with…

    a) the sell side.
    b) the buy side.
    c) both the buy side and sell side.
    d) neither the buy side nor sell side.

14. Direct electronic access *most* benefits…

    a) sell-side retail clients.
    b) buy-side retail clients.
    c) sell-side institutional clients.
    d) buy-side institutional clients.

15. Which of the following is *not* one of the primary responsibilities of the buy-side portfolio manager?

    a) Create the investment mandate
    b) Develop and execute the portfolio strategy
    c) Provide the most effective trade execution
    d) Provide information to assist the firm's marketing and client servicing personnel

16. 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

17. The sale or purchase of a particular group (or basket) of stocks that comprise an index and the simultaneous purchase or sale of a derivative product that is based on the index is known as…

    a) program trading.
    b) securities lending.
    c) financial arbitrage.
    d) structured finance.

18. 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.

19. Dealer research is also known as…

    a) sell-side research.
    b) buy-side research.
    c) trading-side research.
    d) equity-sales research.

20. According to the Canadian Securities Administrators, all of the following are commonly agreed-upon key elements of "best execution" *except*…

    a) price.
    b) speed.
    c) commissions.
    d) total transaction costs.

21. The difference between the bid-ask is known as the…

    a) price spread.
    b) trading spread.
    c) dealer's margin.
    d) client order flow.

22. The process of bringing new debt issues to market is known as underwriting or…

    a) origination.
    b) capital raise.
    c) soft-dollar arrangements.
    d) straight-through processing.

23. 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.

24. All of the following are passive bond management approaches *except*…

    a) Indexing.
    b) Bond swaps.
    c) Buy-and-hold.
    d) Immunization.

25. Detractors of high frequency trading (HFT) cite disadvantages including unfair trading advantages and…

    a) lower bid-ask spreads.
    b) increased systematic risk.
    c) increased non-systematic risk.
    d) both increased systematic and non-systematic risk.

CHAPTER 24 & 25, Test #1 – Answers

1.C	24 – 3.
2.B	24 – 4.
3.C	24 – 4.
4.D	24 – 5.
5.C	24 – 8.
6.C	24 – 10.
7.B	24 – 9.
8.C	24 – 14.
9.D	24 – 16/17.
10.C	24 – 15.
11.D	24 – 17.
12.D	24 – 18/19.
13.A	25 – 3/4.
14.D	25 – 7.
15.C	25 – 8/9.
16.D	25 – 11.
17.A	25 – 13.
18.A	25 – 13.
19.A	25 – 14.
20.D	25 – 14.
21.D	25 – 15.
22.A	25 – 17.
23.C	25 – 23.
24.B	25 – 26.
25.B	25 – 29.

CSC VOLUME TWO: Chapters 24 & 25, Test #2

1. 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.

2. The letter of engagement or professional service contract between the investment advisor and client should address all of the following questions except…

    a) How will the advisor be compensated?
    b) What services will the advisor provide?
    c) How will the client's assets be allocated?
    d) How long is the professional relationship expected to last?

3. Investment objectives can generally be described as a desire for income, growth of capital, and preservation of capital. Other investment objectives include:

    a) Liquidity and time horizon
    b) Tax minimization and liquidity
    c) Tax minimization and time horizon
    d) Tax minimization and unique goals

4. An asset allocation of 80% equities and 20% in fixed-income securities is *most* closely associated with…

    a) Stage 1: The early earning years.
    b) Stage 2: Family commitment years.
    c) Stage 3: Mature earnings years.
    d) Stage 4: Nearing retirement.

5. Should investment professionals refrain from trading in their own account based on the knowledge of clients' pending orders?

    a) No. This is a violation of Integrity.
    b) No. This is a violation of Confidentiality.
    c) No. This is a violation of Professionalism.
    d) Yes. This is perfectly acceptable.

6. 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.

7. 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.

8. On the investment dealer spectrum, who is positioned at the opposite end from full-service dealers?

   a) Robo-advisors
   b) Sell-side dealers
   c) Self-directed dealers
   d) Investment banking boutiques

9. Which of the following are you *least* likely to agree with in respect to direct electronic access (DEA)?

   a) Investment dealers offer this to their institutional buy-side clients.
   b) The investment dealer must accept responsibility for compliance with regulatory requirements relating to the client's DEA trading activity.
   c) Investment dealers require their DEA clients to sign a written agreement specifying that they will comply with marketplace requirements.
   d) After the pre-trade compliance controls are met, the dealer is *not* required to conduct regular post-trade monitoring.

10. Transaction cost analysis (TCA) takes into account…

   a) explicit costs such as brokerage fees and commissions only.
   b) implicit costs such as brokerage fees and commissions only.
   c) explicit costs such as broker and commission fees and implicit costs such as bid/ask spreads and market impact.
   d) implicit costs such as broker and commission fees and explicit costs such as bid/ask spreads and market impact.

11. Which of the following is *least* likely to be considered a middle office function?

   a) Operations
   b) Risk management
   c) Corporate treasury
   d) Legal and compliance

12. Which of the following is *least* likely to be considered front office?

   a) Sales and trading
   b) Merchant banking
   c) Securities services
   d) Information technology

13. Which of the following is properly understood as a "vitally important aspect of prime brokerage"?

   a) Margin financing
   b) Securities lending
   c) Security settlement
   d) Portfolio accounting

14. Which of the following is *not* one of the general categories of revenues for sell-side equity firms?

   a) Fees
   b) Interest
   c) Equity underwriting
   d) Trading revenue from spreads earned from principal trading

15. The three areas of operations that work interdependently to bring in revenue for the sell-side fixed income firms are:

   a) Trading; Sales; Origination
   b) Bid-ask spreads; Sales; Origination
   c) Bid-ask spreads; Trading; Origination
   d) Bid-ask spreads; Commissions; Trading

16. 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.

17. Which of the following is *not* one of the parties involved in the typical institutional trade?

    a) Dealer
    b) Custodian
    c) Market maker
    d) Investment manager

18. Which of the following is *least* likely to be a challenge with institutional trade processing?

    a) Timing of activities
    b) Inadequate technologies
    c) Straight-through processing
    d) Data integrity and accounting issues

19. What is the entry level position for other jobs in the equity and fixed-income markets?

    a) Research analyst
    b) Research associate
    c) Investment associate
    d) Relationship manager

20. Providing access to good research and investment banking services is a key responsibility for the…

    a) custodian.
    b) investment banker
    c) institutional salesperson
    d) institutional investment banker

21. Which of the following is correct?

    i) Agency traders are also called coverage traders
    ii) Liability traders are also called proprietary traders

    a) i) only
    b) ii) only
    c) both i) & ii)
    d) Neither i) nor ii)

22. Liability trading strategies consist of all of the following strategies *except*…

    a) directional.
    b) event-driven.
    c) relative value.
    d) absolute value.

23. 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).

24. Liability traders are generally assigned…

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

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

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

CHAPTERS 24 & 25, Test #2 – Answers

1.A 24 – 3.

2.C 24 – 4.

3.B 24 – 6.

4.A 24 – 9.

5.B 24 – 18/19.

6.D 24 – 15.

7.D 24 – 18.

8.C 25 – 3/4.

9.D 25 – 7/8.

10.C 25 – 10.

11.A 25 – 10/11.

12.D 25 – 10/11.

13.B 25 – 13/14.

14.C 25 – 14/15.

15.A 25 – 16.

16.D 25 – 17/18.

17.C 25 – 18.

18.C 25 – 19.

19.B 25 – 20.

20.C 25 – 21/22.

21.C 25 – 23.

22.D 25 – 24.

23.B 25 – 24/25.

24.C 25 – 23.

25.D 25 – 29.

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 2019 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