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.
   b) that the yield curve is tilting.
   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 resources 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) threat of new entry, competitive rivalry, threat of substitutes
   b) threat of new entry, degree of government protection, threat of substitutes
   c) competitive rivalry, threat of substitutes, degree of government protection
   d) threat of new entry, threat of substitutes, 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 2017, $1.65 in 2018, $1.72 in 2019, and $1.80 in 2020. If 2018 is the base year, what is the Trend number for 2020 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 – 4.

3.B 13 – 7.

4.C 13 – 10/11.

5.A 13 – 11.

6.C 13 – 11.

7.A 13 – 12.

8.B 13 – 12.

9.A 13 – 13.

10.B 13 – 13.

11.A 13 – 15/16.

12.A 13 – 19.

13.D 14 – 5.

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

15.D 14 – 10/11.

16.A 14 – 12/13.

17.D 14 – 13.

18.A 14 – 16.

19.C 14 – 17/18.
$3,000,000 / $1,000,000 = 3.0

20.B 14 – 19/20.
[$3,000,000 – (100,000 x .06 x $50)] / 4,500,000 = $.60

21.C 14 – 19/20.
8,000,000 + 1,500,000 x 2.5 = 11,750,000.

22.D 14 – 21.
($.30 x 4) / $30.00 = 4.0%.

23.D 14 – 22/24.

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

25.D 14 – 25.

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.
    b) that the yield curve is inverted.
    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 – 6.

3.A 13 – 7.

4.C 13 – 10/11.

5.B 13 – 11.

6.B 13 – 11.

7.C 13 – 12.

8.A 13 – 13.

9.B 13 – 15.

10.D 13 – 19.
($21.25 + $19.50 + $20.50 + $20.75) / 4 = $20.50.

11.B 13 – 20.

12.A 13 – 21.

13.A 14 – 3/4.

14.C 14 – 10/11.

15.B 14 – 14/15.

16.C 14 – 19/20.
[$6,250,000 – (50,000 x .06 x $50)] / 4,500,000 = $1.36

17.A 14 – 23/24.

18.A 14 – 22/24.

19.A 14 – 22/24.
($2.40 x 1.05) / (.09 – .05) = $63.00.
$63 is fair value, therefore at $60 the company is slightly undervalued.

20.C 14 – 25/26.

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 in its 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

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) Common shares, debentures, treasury bills
    b) Bonds, preferred shares, common shares
    c) Preferred shares, bonds, treasury bills
    d) Treasury bills, preferred shares, debentures

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.

12.B 15 – 13/14.

13.B 15 – 14/15.

14.C 15 – 15/16.

15.A 15 – 16.

16.D 15 – 17.

17.B 16 – 6/8.

18.D 16 – 10.

19.C 16 – 14.

20.A 16 – 14.

21.D 16 – 14.

22.C 16 – 18/19.

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 – 20/21.

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. Two of the most common risk measures are:

   a) Alpha and beta
   b) Beta and correlation
   c) Beta and standard deviation
   d) Correlation and 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) Common shares
    b) Convertible bonds
    c) Equity 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 structuring a portfolio?

    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 – 10/11.

9.D 15 – 12.

10.B 15 – 13/14.

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 – 11.

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 before purchasing 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 error 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 – 8.

3.A 17 – 9/10.

4.C 17 – 10/11.
($25,000,000 – $500,000)/5,000,000 = $4.90.

5.D 17 – 12.
$25/(100% – 3%) = $25.77.

6.B 17 – 12.
$.77/$25.00 = 3.08%.

7.D 17 – 13.
$14.00 x (1 – .05) = $13.30.

8.D 17 – 13.

9.C 17 – 14.

10.A 17 – 15.

11.A 17 – 17.

12.D 17 – 22/23.

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 – 10/11.

22.B 19 – 12.

23.D 19 – 15.

24.A 19 – 22.

25.D 19 – 23.

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) For large orders, place large portions of the trade at once.
    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 – 6.

2.B 17 – 6.

3.A 17 – 8.

4.A 17 – 9/10.

5.D 17 – 9.

6.A 17 – 13.
$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 – 13.

8.A 17 – 17/18.

9.B 17 – 19/20.

10.D 17 – 22.

11.B 17 – 23.

12.C 17 – 31.

13.C 18 – 6.

14.C 18 – 12.
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 – 14/16.

16.B 18 – 17/18.

17.C 18 – 18/19.

18.B 18 – 21.

19.B 19 – 8.

20.A 19 – 10.

21.C 19 – 10/12.

22.A 19 – 11/12.

23.D 19 – 13.

24.A 19 – 16.

25.C 19 – 22.

CSC VOLUME TWO: Chapters 20 – 23, Test #1

1. Which of the following is *not* one of the three general groups of alternative investments?

   a) Directional
   b) Event-driven
   c) Relative-value
   d) Absolute-value

2. Which of the following is not one of the main reasons to invest in alternative investments?

   a) To add beta
   b) To add alpha
   c) To diversify the portfolio
   d) To increase the portfolio's absolute return nature

3. The risk measure on the efficient frontier is…

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

4. The risk of receiving a poor fill price based on expected delays in execution is *best* understood as…

   a) trading risk.
   b) leverage risk.
   c) trading model risk.
   d) deal brokerage risk.

5. Distressed securities is understood as a(n)…

   a) directional strategy.
   b) event-driven strategy.
   c) relative-value strategy.
   d) risk arbitrage strategy.

6. The convertible arbitrage strategy generally involves…

   a) buying convertible securities and converting them.
   b) buying convertible securities and buying common shares.
   c) buying convertible securities and selling short common shares.
   d) selling short convertible securities and buying common shares.

7. There is a hedge fund that has $40 million in capital. It is long $30 million and short $20 million. Its net exposure is:

   a) 0.25.
   b) 1.25.
   c) 1.3.
   d) 2.0.

8. What indicates a tendency to obtain returns below the normal distribution?

   a) Kurtosis
   b) Excess kurtosis
   c) Positive skew
   d) Negative skew

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 – 23, Test #1 – Answers

1.D 20 – 4.

2.A 20 – 6.

3.D 20 – 7.

4.A 20 – 10/11

5.B 21 – 3.

6.C 21 – 7.

7.A 21 – 18.
($30m - $20m) / $40m = .25

8.D 21 – 27.

9.D 20 – 13/14.

10.C 20 – 18.

11.C 22 – 10/11.

12.D 22 – 11.

13.A 22 – 11/12.

14.A 22 – 11/12.

15.D 22 – 14/15.

16. A 22 – 14/15.

17.D 22 – 16.

18.B 22 – 17.

19.C 23 – 6.

20.B 23 – 9.

21.B 23 – 9/10.
(13,000 / 10,500 – 1) x .4 = 9.5%.

22.A 23 – 11/14.

23.A 23 – 12/13.

24.C 23 – 14.

25.A 23 – 17.

CSC VOLUME TWO: Chapters 20 – 23, 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 individual is permitted to invest in hedge funds?

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

7. What is the most effective way to deal with the operational risk associated with any individual hedge fund?

   a) Diversification
   b) Due diligence
   c) Funds of funds investing
   d) Insurance through derivative products

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 2018, 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 2019, the Hedge Fund was worth $12 million. At the end of 2020, it was worth $14 million. Assuming that her fund operated under "high water mark" rules, her fees for 2020 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 a market-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 of an asset-backed security generally groups the assets and sells them to a…

    a) guarantor.
    b) distributor.
    c) strategic partner.
    d) special purpose vehicle.

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 – 23, Test #2 – Answers

1.B 22 – 5.

2.B 22 – 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.D 22 – 7.

4.C 22 – 7.

5.B 22 – 9.

6.A 20 – 12.

7.B 20 – 11.

8.A 20 – 15.

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

10.B 20 – 13/14.

11.C 22 – 10.

12.C 22 – 10/11.
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 22 – 11/13.

14.C 22 – 11/13.

15.B 22 – 14/15.

16.C 22 – 15.

17.A 22 – 16.

18.C 22 – 17/18.

19.B 23 – 6.

20.C 23 – 8.

21.C 23 – 9/10.

22.D 23 – 11.

23.D 23 – 14/15.

24.C 23 – 15.

25.C 23 – 17/18.

CSC VOLUME TWO: Chapters 24 & 25, 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 2019 when her income was $50,000. If her income increased by 10% in 2020, 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 2015 when Norel was $100 per share. In 2017, he purchased an additional 300 at $25 per share, and then another 2,000 at $1.00 per share in 2018. In 2020, 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 2020, 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 2020 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 2020 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 2020 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 2020 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 2020:

- $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 24 & 25, Test #1 – Answers

1.C 24 – 3.

2.C 24 – 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 24 – 10.
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 24 – 10.
950 / 50 = $19.00.

5.A 24 – 13.

6.C 24 – 14.

7.B 24 – 15.

8.B 24 – 15/17.

9.B 24 – 17.
Earned income is $65,000… $65,000 x .18 = $11,700.

10.C 24 – 15/18.
There is a capital gain of $250 on ABC. The capital loss on DEF would not be considered as an offset.

11.D 24 – 20.

12.A 24 – 22/23.

13.C 24 – 23/24.

14.C 24 – 23/24.

15.C 24 – 25/26.

16.A 24 – 25/26.

17.C 25 – 3.

18.D 25 – 4/5.

19.A 25 – 7/8.

20.A 25 – 8/9.

21.C 25 – 8/9.

22.D 25 – 10.

23.B 25 – 11.

24.C 25 – 11.

25.D 25 – 11/12.

CSC VOLUME TWO: Chapters 24 & 25, 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 buy dress clothes. Otherwise, he'd live in T-shirts and blue jeans. 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

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 CICO systems in 2010 at $60. In 2011 he bought another 200 at $35 and finally another 400 shares at $18 in 2016. In 2020, 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 2017. 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 2020, 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 2020, 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 2020. 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 24 & 25, Test #2 – Answers

1.B 24 – 25/26.

2.B 24 – 4.

3.B 24 – 4/5.
$45,915 x .15 + $45,915 x .205 + $50,522 x .26 + ($155,000 – $142,353) x .29 = $33,103.

4.B 24 – 5/6.

5.D 24 – 8.

6.A 24 – 10.

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

7.B 24 – 10.
[300 x $60 + 200 x $35 + 400 x $18] / 900 = $35.78.

8.B 24 – 10/11.
[100 x $20 + $1,000]/125 = $24.00.

9.D 24 – 12/13.

10.B 24 – 14.

11.A 24 – 14/16.

12.D 24 – 18.

13.B 24 – 16/17.
Earned income is $55,200. $55,200 x .18 = $9,936.

14.C 24 – 18/19.

15.A 24 – 23/24.

16.A 24 – 18/19.

17.C 25 – 3.

18.D 25 – 5.

19.D 25 – 7.

20.A 25 – 8.

21.C 25 – 11.

22.C 25 – 11.

23.C 25 – 11.

24.B 25 – 11.

25.A 25 – 12.

CSC VOLUME TWO: Chapters 26 & 27, 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 primary values that registered individuals must observe?

   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 26 & 27, Test #1 – Answers

1.C	26 – 3.
2.B	26 – 4.
3.C	26 – 4.
4.D	26 – 5.
5.C	26 – 8.
6.C	26 – 10.
7.B	26 – 8/9.
8.C	26 – 14.
9.D	26 – 16/17.
10.C	26 – 14.
11.D	26 – 16.
12.D	26 – 18.
13.A	27 – 3/4.
14.D	27 – 7.
15.C	27 – 8/9.
16.D	27 – 11.
17.A	27 – 13.
18.A	27 – 13.
19.A	27 – 14.
20.C	27 – 14.
21.A	27 – 15.
22.A	27 – 17.
23.C	27 – 23.
24.B	27 – 26.
25.B	27 – 29/30.

CSC VOLUME TWO: Chapters 26 & 27, 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 26 & 27, Test #2 – Answers

1.A 26 – 3.

2.C 26 – 4.

3.B 26 – 6.

4.A 26 – 8.

5.B 26 – 18.

6.D 26 – 15.

7.D 26 – 18.

8.C 27 – 3/4.

9.D 27 – 7/8.

10.C 27 – 10.

11.A 27 – 10/11.

12.D 27 – 11.

13.B 27 – 13/14.

14.C 27 – 14/15.

15.A 27 – 16.

16.D 27 – 18.

17.C 27 – 18.

18.C 27 – 19.

19.B 27 – 20.

20.C 27 – 21/22.

21.C 27 – 23.

22.D 27 – 24/25.

23.B 27 – 25.

24.C 27 – 23.

25.D 27 – 29.