PRACTICE EXAM 6: CANADIAN SECURITIES COURSE - EXAM TWO SIMULATION (100 QUESTIONS)

This independently written practice exam contains 100 multiple-choice questions aligned to the current Canadian Securities Institute CSC Exam Two topic weightings. Allow 2 hours for a timed simulation and select the single best answer for each question. A score of 60% is the current CSI passing grade for each CSC exam. Practice first and consult the answer key only after completing the full set.

1. Reported net income rises sharply, but cash generated from operations is flat and receivables are growing much faster than sales. What should an analyst question first?

A. Whether every receivable should immediately be classified as cash.
B. Whether the earnings increase is being converted into cash or depends on aggressive accruals and collection assumptions.
C. Whether the share price must rise because accounting earnings increased.
D. Whether a higher receivable balance automatically reduces financial leverage.

2. Two manufacturers differ greatly in size. An analyst restates each income statement with revenue set to 100%. What analytical benefit does that restatement provide?

A. To convert historical accounting numbers directly into current market values.
B. To eliminate the effect of every accounting estimate and judgment.
C. To determine the company's share price without using any market information.
D. To compare cost structure and margins across periods or companies of different absolute size.

3. A top-down analyst expects a recession to reduce discretionary household spending. Which business would normally be most exposed to that forecast?

A. A grocery distributor supplying essential food products.
B. A regulated electric utility with relatively stable basic demand.

C. A premium recreational-vehicle manufacturer dependent on optional consumer purchases.
D. A pipeline operator supported mainly by long-term contracted volumes.

4. A company holds $55 million of cash, $105 million of receivables, $90 million of inventory, and $100 million of current liabilities. What is its quick ratio?

A. 1.60 times.
B. 0.90 times.
C. 2.50 times.
D. 1.05 times.

5. A leverage worksheet shows $360 million of debt against $240 million of common equity. Which debt-to-equity multiple belongs in the worksheet?

A. 1.50 times.
B. 0.67 times.
C. 2.50 times.
D. 6.00 times.

6. A credit analyst measures the earnings cushion over interest by dividing $84 million of EBIT by $14 million of annual interest. Which coverage result follows?

A. 4.0 times.
B. 5.0 times.
C. 6.0 times.
D. 98.0 times.

7. To measure profitability earned on owners' capital, an analyst compares $42 million of after-tax profit with $210 million of average common equity. Which percentage results?

A. 8%.

B. 16%.
C. 500%.
D. 20%.

8. A board retires a substantial block of common shares, but the company's total earnings do not change. How does the smaller share-count denominator generally affect EPS immediately?

A. Earnings per share must fall because repurchases reduce the number of shares outstanding.
B. Earnings per share generally rises because the same earnings are divided among fewer shares.
C. Earnings per share becomes equal to the annual dividend per share.
D. Earnings per share is unaffected by any change in the share count.

9. For each $8.00 of annual earnings per common share, a corporation distributes $2.40 as dividends. What percentage of earnings is being paid out?

A. 20%.
B. 40%.
C. 30%.
D. 333.3%.

10. When assessing a preferred share issued by a highly leveraged company, which development would most directly weaken dividend security?

A. A temporary increase in the number of common shares traded each day.
B. A sustained decline in operating earnings and cash flow while senior debt obligations remain large.
C. A change in the broad equity index that leaves issuer finances unchanged.
D. A rise in the company's advertising expense accompanied by stronger operating cash flow.

11. A share repeatedly holds near $41 during several market pullbacks. In technical analysis, what is that price area most likely called?

A. Support.
B. Resistance.
C. Book value.
D. Current ratio.

12. A market index reaches new highs, but the advance-decline line is falling. What warning might a technical analyst draw from this divergence?

A. Every security in the index must soon fall by the same percentage.
B. Fundamental analysis is no longer useful once breadth diverges.
C. The index is guaranteed to continue rising because fewer stocks are participating.
D. The rally is being supported by fewer securities and may be losing breadth beneath the headline index.

13. A product category is winning customers quickly, successful firms are adding capacity, and new competitors are entering. Which description matches that industry's life-cycle phase?

A. Unit demand contracts for years and firms mainly harvest declining businesses.
B. Demand expands rapidly, successful firms reinvest heavily, and competitive entry increases as the market develops.
C. Products are fully mature, growth is slow, and competitors focus mainly on defending market share.
D. There is no established demand and commercial viability remains largely untested.

14. Which company would usually be viewed as the most defensive during a broad economic slowdown?

A. A pharmacy chain selling prescription medicines and basic household health products.
B. A luxury cruise operator dependent on discretionary travel spending.
C. A producer of heavy construction machinery tied to capital spending.
D. A speculative metals explorer relying on risk appetite and financing access.

15. During the year, inventory with an average carrying amount of $160 million supports $960 million of cost of goods sold. How many inventory turns does that imply?

A. 4.0 times.
B. 5.0 times.
C. 8.0 times.
D. 6.0 times.

16. A treasurer lists $620 million of short-term assets and $455 million of short-term obligations. What dollar cushion remains after subtracting the obligations?

A. $1.36 billion.
B. $75 million.
C. $165 million.
D. $1.08 billion.

17. A chain records $1.2 billion of sales while employing $600 million of average total assets. How many dollars of sales are generated per dollar of assets?

A. 0.5 times.
B. 2.0 times.
C. 1.5 times.
D. 720 times.

18. The market values a common share at $54, compared with $36 of accounting book value per share. What market-to-book multiple does this imply?

A. 0.67 times.
B. 18.0 times.
C. 90.0 times.
D. 1.50 times.

19. Which risk is most likely to remain even after an investor owns a broadly diversified portfolio across many industries?

A. A product recall affecting one manufacturer.
B. A fraud discovered at one small issuer.
C. Systematic market risk arising from economy-wide forces.
D. A plant shutdown limited to one company.

20. Two risky assets have correlations of +0.85 and -0.20 with the same portfolio. Which one generally offers the stronger diversification benefit, all else equal?

A. The asset with the -0.20 correlation.
B. The asset with the +0.85 correlation.
C. Both provide identical diversification because both are risky.
D. Correlation cannot affect portfolio risk.

21. A policy mix assigns 30% to a 4% expected-return asset, 50% to a 7% asset, and 20% to an 11% asset. After weighting the three forecasts, which portfolio return is obtained?

A. 7.3%.
B. 22.0%.
C. 5.8%.
D. 6.9%.

22. What does standard deviation measure when applied to a portfolio's historical returns?

A. Only the portfolio's sensitivity to broad market movements.
B. The dispersion of returns around their average, commonly used as a measure of total volatility.
C. The percentage of assets owned by institutional investors.
D. The amount of income tax payable on portfolio distributions.

23. A portfolio's estimated beta versus its broad equity benchmark is 0.75. What does that statistic say about its historical market sensitivity?

A. It is guaranteed to earn 25% less than the market every year.
B. It contains no company-specific risk because beta is below one.
C. It has historically been less sensitive to broad market movements than a beta-one portfolio.
D. Its total standard deviation must equal 0.75%.

24. In a CAPM worksheet, the risk-free input is 2.5%, the market forecast is 7.5%, and beta is 1.1. Which required-return estimate should the analyst enter?

A. 8.0%.
B. 7.5%.
C. 5.5%.
D. 10.25%.

25. A manager reports 10% portfolio return, 2% on the risk-free alternative, and 20% standard deviation. What excess-return-per-unit-of-volatility figure is produced?

A. 0.20.
B. 0.40.
C. 0.50.
D. 4.00.

26. Portfolio P is dominated in the mean-variance opportunity set: another feasible combination improves one dimension without worsening the other. Which conclusion follows for P?

A. The portfolio is guaranteed to lose money in the next period.
B. The portfolio must contain only risk-free securities.
C. Another available portfolio offers a superior expected risk-return combination.
D. The portfolio has the lowest possible management fee.

27. A client has substantial wealth and a long horizon but becomes extremely distressed by modest portfolio declines. Which assessment is most accurate?

A. The client may have high risk capacity but low risk willingness, so both dimensions must shape the portfolio.
B. High wealth automatically means high willingness to accept losses.
C. Psychological willingness can be ignored when financial capacity is high.
D. The client should use maximum leverage because the horizon is long.

28. Eight months from now, a client must supply cash for a house down payment. Which constraint should most directly shape how that amount is reserved in the portfolio?

A. Benchmark selection, because every cash need determines an equity index.
B. Market capitalization, because the client must own only large companies.
C. Tracking error, because a withdrawal automatically changes benchmark volatility.
D. Liquidity, because the required funds must be available on a known near-term date.

29. An investment committee sets a long-term policy of 50% equities, 40% fixed income, and 10% cash. What type of decision is this?

A. Tactical asset allocation.
B. Strategic asset allocation.
C. Dollar-cost averaging.
D. Security-level market timing.

30. A client and manager record investment goals, risk limits, asset ranges, responsibilities, and other governing rules before managing the account. What is the main purpose of that written policy statement?

A. To guarantee a stated minimum return regardless of market conditions.
B. To list only the securities held on the day the account opens.
C. To eliminate the need for future monitoring and client communication.

D. To document objectives, constraints, responsibilities, and policy guidelines that govern portfolio decisions.

31. After equities rise well above their policy weight, what is the main risk-management purpose of rebalancing?

A. To restore the portfolio toward its intended asset mix and risk exposure.
B. To ensure the best-performing asset remains permanently overweight.
C. To guarantee the trimmed asset will underperform immediately afterward.
D. To maximize trading activity without considering costs or taxes.

32. Which portfolio approach most clearly describes passive management?

A. Concentrating in a small group of securities expected to outperform.
B. Rotating sectors frequently based on economic forecasts.
C. Tracking a chosen benchmark with limited active security selection or market timing.
D. Borrowing aggressively to express short-term market views.

33. A manager favours established companies trading at low price-to-book and price-to-earnings multiples relative to peers. Which equity style is most consistent with that approach?

A. Value investing.
B. Growth investing.
C. Passive indexing.
D. Momentum investing.

34. Two bond portfolios have similar credit quality, but Portfolio X has substantially longer duration than Portfolio Y. If market yields rise by the same amount, what would normally be expected?

A. Portfolio X should be unaffected because credit quality is similar.
B. Portfolio X should experience the larger price decline.

C. Portfolio Y must experience the larger decline because shorter duration means greater rate sensitivity.
D. Both portfolios must change by exactly the same percentage.

35. Why might an investor construct a bond ladder with maturities in several different years?

A. To guarantee every bond rises when interest rates rise.
B. To eliminate all credit risk through maturity diversification alone.
C. To create periodic maturities for liquidity and spread reinvestment decisions across time.
D. To ensure the portfolio always beats a broad bond benchmark.

36. A manager matches the policy asset mix closely but adds value by selecting stronger securities inside each asset class. What source of active return is being emphasized?

A. Tactical asset allocation.
B. A change in the client's time horizon.
C. Elimination of diversification.
D. Security selection.

37. At a valuation date, a fund reports $1.08 billion of assets and $60 million of liabilities for 30 million outstanding units. After netting liabilities, what value belongs to each unit?

A. $32.00.
B. $36.00.
C. $34.00.
D. $40.00.

38. An investor in one fund can subscribe for new units or redeem existing units through the fund at the applicable NAV. Which option identifies the structural feature that separates this open-end arrangement from a closed-end fund?

A. The open-end fund generally creates and redeems units through the fund at the applicable net asset value.

B. Its units must always trade on an exchange at a negotiated market price.

C. It can never issue additional units after the original offering.

D. It is required to hold only bonds and money market instruments.

39. A fund factsheet reports an MER as a percentage of assets. What recurring economic burden is that percentage intended to summarize?

A. The fund's guaranteed annual return to every investor.

B. Ongoing management and operating expenses expressed relative to fund assets.

C. The percentage of the portfolio that must be held in cash.

D. The investor's personal marginal tax rate on distributions.

40. At the moment an investor buys mutual-fund units, a sales commission is charged. Which label applies to a charge collected at purchase?

A. A management expense ratio.

B. A trailing distribution yield.

C. A performance benchmark.

D. A front-end sales charge.

41. A client is parking money for a near-term obligation and places high priority on liquidity and limited price fluctuation. Which fund category best matches that use?

A. A money market fund invested mainly in short-term, high-quality debt instruments.

B. A concentrated small-cap equity fund.

C. A long-duration bond fund with high rate sensitivity.

D. A specialized emerging-markets equity fund.

42. A client wants one mutual fund that normally holds both equities and fixed income to pursue a blend of growth and stability. Which type best fits?

A. A pure money market fund.
B. A single-sector equity fund.
C. A precious-metals specialty fund.
D. A balanced fund.

43. A mutual fund manager seeks companies with above-average expected revenue and earnings expansion, even when valuations are relatively high. Which style is being used?

A. Value investing.
B. Growth investing.
C. Money market management.
D. Passive bond indexing.

44. A standing contribution order sends $750 into a fund. On a month when units are priced at $25, how many units are acquired with that contribution?

A. 20 units.
B. 25 units.
C. 30 units.
D. 37.5 units.

45. A mutual fund automatically reinvests a taxable distribution in additional units inside a non-registered account. What record-keeping point remains important?

A. The distribution can still have a current tax consequence, and the reinvested units can affect adjusted cost base.
B. Reinvestment makes every distribution tax-free because no cash leaves the account.
C. The new units always have zero cost for adjusted cost base purposes.
D. Every reinvested distribution must be treated as a return of capital that lowers adjusted cost base.

46. Why can unusually high portfolio turnover reduce a mutual fund's net performance even if the manager identifies good securities?

A. High turnover guarantees lower risk regardless of the securities traded.
B. Turnover automatically converts the fund into a money market fund.
C. Frequent trading prevents taxable gains from ever being realized.
D. More trading can increase commissions, spreads, market impact, and other implementation costs.

47. Why should a Canadian equity mutual fund be compared with a benchmark that reflects its intended market and style?

A. The benchmark guarantees the fund held every security at exactly the same weight.
B. The benchmark provides a relevant reference for judging whether returns reflect broad market exposure or active management results.
C. Using a benchmark eliminates the need to assess fees, risk, and mandate consistency.
D. A benchmark converts historical returns into a promise of future performance.

48. A mutual fund gradually shifts from large established companies into smaller speculative issuers even though its stated mandate has not changed. What concern does this raise?

A. Guaranteed outperformance because smaller companies always earn higher returns.
B. A reduction in all investment risk because the portfolio now holds more issuers.
C. Automatic conversion of the fund into a money market product.
D. Style drift, because the portfolio is moving away from the investment characteristics investors expected from the mandate.

49. A sector mutual fund holds most of its assets in one industry. What is the primary portfolio risk compared with a broad diversified equity fund?

A. The fund cannot experience any market risk because it owns many companies.
B. The fund is guaranteed to outperform whenever the overall market rises.
C. Greater concentration exposure to conditions affecting that industry.

D. The fund automatically has lower volatility because all holdings are related.

50. A client in a non-registered account switches from one mutual fund to another by redeeming the first fund. What tax point should be considered?

A. Switching funds is always tax-free because the money remains invested.
B. The redemption may realize a capital gain or loss based on proceeds and adjusted cost base.
C. The redemption automatically creates employment income rather than a capital result.
D. Adjusted cost base becomes irrelevant once the investor buys another fund.

51. The exchange quote for an ETF is $51.50 while the portfolio NAV is $50.00. Express the $1.50 excess market price as a percentage of NAV.

A. 3.0%.
B. 1.5%.
C. 2.0%.
D. 103.0%.

52. Which ETF participant function can help keep exchange prices aligned with underlying basket values when a meaningful premium or discount appears?

A. Guaranteeing every retail investor a fixed redemption price regardless of markets.
B. Determining each investor's tax bracket before any ETF trade can occur.
C. Creating or redeeming large blocks of ETF units in exchange for the underlying basket or equivalent value.
D. Setting the personal asset allocation of every ETF unitholder.

53. An ETF is quoted at $27.10 bid and $27.24 ask. What does the $0.14 difference represent?

A. The fund's annual management expense ratio.
B. The bid-ask spread, which is an implicit trading cost.

C. The ETF's tracking error against its benchmark.
D. The investor's taxable capital gain on the position.

54. Why can a limit order be useful when buying an ETF that has a wide spread and thin trading during a volatile session?

A. It guarantees immediate execution at the last reported trade.
B. It freezes the underlying securities so NAV cannot change.
C. It lets the investor control the maximum purchase price, although the order may not execute.
D. It removes all commissions, spreads, taxes, and market risk.

55. An index returns 8.5% while an ETF tracking it returns 7.9% over the same period. Using ETF return minus benchmark return, what is the tracking difference?

A. +0.6 percentage points.
B. 16.4 percentage points.
C. -7.9 percentage points.
D. -0.6 percentage points.

56. An analyst records the ETF-minus-benchmark return every period and then measures how much those differences vary. Which ETF statistic is being calculated?

A. The variability over time of the ETF's return difference relative to its benchmark.
B. The one-time difference between the current bid and ask quotes.
C. The investor's adjusted cost base for tax reporting.
D. The maximum legal premium the ETF may trade above NAV.

57. An ETF manager chooses securities using research instead of simply replicating an index. What type of ETF is this?

A. A passive index ETF by definition.

B. A guaranteed investment certificate.
C. A closed-end deposit account.
D. An actively managed ETF.

58. Why can the liquidity of a bond ETF differ from the visible trading volume of its ETF units?

A. ETF unit volume is the only source of liquidity and underlying bonds never matter.
B. Bond ETFs guarantee unlimited liquidity at NAV under all market conditions.
C. Underlying bond-market liquidity and the creation-redemption mechanism can contribute additional capacity beyond the displayed ETF volume.
D. Every bond inside an ETF must trade on an exchange at the same time as the ETF.

59. A two-times leveraged ETF meets its daily objective. Why can a one-year investor still receive much more or much less than exactly two times the benchmark's one-year return?

A. Meeting the daily objective guarantees the exact two-times multiple over every holding period.
B. Daily resetting and compounding make the long-period result depend on the path and volatility of daily returns.
C. The ETF stops following the benchmark after the first losing day.
D. The fund must convert to cash permanently after each daily reset.

60. An investor buys an ETF concentrated in one narrow industry. Which risk is most important to recognize?

A. Sector concentration can cause many holdings to respond to the same economic, regulatory, or competitive shock.
B. Exchange trading eliminates industry risk because the ETF has many units outstanding.
C. The ETF is guaranteed to outperform a broad index when that industry rises once.
D. A narrow mandate automatically reduces volatility below that of a diversified market ETF.

61. A hedge fund borrows to increase the size of its investment positions relative to investor capital. What is the principal effect of this leverage?

A. It can magnify both gains and losses because the economic exposure is larger than the unlevered capital base.
B. It guarantees losses cannot exceed the interest expense on the borrowing.
C. It removes liquidity risk because financing is always available.
D. It converts volatile assets into principal-protected investments.

62. Why can an uncovered short sale generate a theoretically very large loss if the share price rises sharply?

A. The short seller receives a guaranteed profit whenever the price rises.
B. The short seller must eventually repurchase the borrowed shares, and the market price has no fixed upper limit.
C. The original sale proceeds permanently cap the repurchase cost.
D. Short sellers are exempt from margin calls and borrowing costs.

63. An alternative manager holds long positions in securities viewed as undervalued and shorts securities viewed as overvalued while targeting little net market exposure. Which strategy is this?

A. Passive broad-market indexing.
B. Money market cash management.
C. Principal-protected note investing.
D. Equity market neutral.

64. A fund buys securities affected by mergers, restructurings, bankruptcies, and spin-offs because the manager believes the corporate event will change relative value. Which strategy is this?

A. Money market indexing.
B. Long-only dividend growth.
C. Event-driven investing.
D. Passive government-bond laddering.

65. An alternative-investment desk builds positions from country-level forecasts for growth, inflation, central-bank policy, currencies, rates, equity indexes, and commodities. Which strategy family describes this top-down process?

A. Global macro.
B. Equity market neutral.
C. Venture capital.
D. Money market indexing.

66. A systematic alternative fund goes long futures markets showing persistent upward trends and short those showing persistent downward trends. Which strategy is this closest to?

A. Private equity buyouts.
B. Managed futures or trend following.
C. A fixed dividend-stock portfolio.
D. A principal-protected structured note.

67. Why must an investor in a private-equity fund maintain sufficient liquidity outside the commitment?

A. Private-equity interests normally provide daily redemption at published NAV.
B. Private companies are required to distribute all cash immediately to investors.
C. Secondary buyers always guarantee a sale at the investor's original cost.
D. Capital calls may occur over time, while the investment may be difficult to sell early.

68. What is a principal benefit of gaining real-estate exposure through a listed REIT rather than directly purchasing a commercial building?

A. The REIT guarantees distributions and unit prices can never fall.
B. The investor can obtain diversified property exposure through a tradable security without personally managing the buildings.
C. The investor receives direct legal title to every property in the trust.
D. Exchange listing eliminates financing, occupancy, and property-market risk.

69. An insurance policy places premiums into market-based investment funds and may provide stated guarantees at maturity or death subject to contract terms. Which option correctly classifies this product?

A. It is simply an exchange-traded common share with no insurance features.
B. It is a government bond whose coupon changes with equity prices.
C. An insurance contract with investment funds and possible maturity or death-benefit guarantees.
D. It is a bank deposit that cannot hold market-based investments.

70. Shares of a closed-end vehicle are quoted at $21.60 even though portfolio NAV is $24.00 per share. Express the $2.40 shortfall as a percentage of NAV.

A. 2.4%.
B. 11.1%.
C. 10%.
D. 90%.

71. A trust's mandate emphasizes passing cash generated by the underlying businesses or assets through to unitholders rather than retaining most of it. Which objective would most likely attract an investor to that feature?

A. Current income.
B. Guaranteed capital appreciation.
C. Elimination of business risk.
D. Tax-free growth in every account type.

72. A public investor buys shares of a listed vehicle whose business is investing in private companies. What exposure is the investor seeking?

A. Only short-term government debt.
B. A guaranteed bank deposit with no market risk.

C. Exact replication of a broad bond index.

D. Publicly traded access to private-equity investments through the listed vehicle.

73. A structured note promises return of stated principal at maturity while linking additional return to an equity index. Which risk remains central even if the market formula looks attractive?

A. Issuer credit risk, because the principal promise depends on the issuer meeting its contractual obligations.

B. The note is automatically government insured because principal is described as protected.

C. The index can no longer decline while the note is outstanding.

D. The holder is guaranteed full participation in every index gain with no cap or formula.

74. A GIC links its payoff to an index but sets a 6% maximum linked return for the term. The index advances 14% under the contract formula. Which linked return is payable at most?

A. 8%.

B. 14%.

C. 6%.

D. 20%.

75. The preferred side of a split-share corporation has first claim on specified distributions and a defined amount of portfolio capital. After those priorities, which class takes most of the residual change in asset value?

A. The preferred-share class only.

B. The capital-share class.

C. A secured-creditor class.

D. A government-insured deposit class.

76. Why do investors in asset-backed securities analyze borrower defaults and prepayments in the underlying loan pool?

A. Loan performance is irrelevant once receivables are pooled.

B. Pooling guarantees every borrower will pay on the same schedule.

C. The securities depend only on dividends from unrelated public companies.

D. Those behaviours affect the timing and amount of cash flows available to support payments on the securities.

77. A bond coupon arrives in an investor's taxable, non-registered account. For Canadian personal tax reporting under the general framework, which treatment best describes that payment?

A. It automatically receives the dividend tax credit because the payer is a Canadian issuer.

B. It is generally reported as investment income and included in taxable income under the applicable rules.

C. It is always converted into a capital gain when the bond is held for more than one year.

D. It is tax-free because the original investment was made with after-tax money.

78. Which statement best describes the general tax treatment of taxable dividends received from Canadian corporations by an individual?

A. They are always tax-free in a non-registered account.

B. They are treated exactly like ordinary interest with no dividend tax credit mechanism.

C. They are generally reported using a gross-up and corresponding dividend tax credit framework, with details depending on the dividend type.

D. They are automatically reported as capital gains rather than dividend income.

79. A taxpayer's non-registered dispositions produce a net capital loss. Within the general Canadian tax framework, where can that loss ordinarily be used?

A. It generally applies within the capital-gain system, including use against taxable capital gains in eligible years.

B. It must always be deducted from employment income first.

C. It creates an immediate refund equal to the full amount of the loss.

D. It is automatically converted into deductible investment interest.

80. A client comparing registered plans asks how RRSP contributions, investment growth, and ordinary withdrawals are generally treated for tax purposes. Which description is most accurate?

A. Contributions are never deductible and all growth is taxed annually.
B. Withdrawals are always tax-free because contributions came from employment income.
C. Only interest-bearing investments can receive tax deferral inside an RRSP.
D. Contributions may be deductible, growth is tax-deferred, and ordinary withdrawals are generally taxable.

81. After withdrawing $12,000 from a TFSA, a client has no unused room left for the current year. Under the general room rules, when does that withdrawn amount normally become available to contribute again?

A. Immediately on the same day as the withdrawal.
B. At the beginning of the following calendar year.
C. Only after five complete calendar years.
D. Never, because TFSA withdrawals permanently remove room.

82. A disposition worksheet shows proceeds of $27,400, an adjusted cost base of $22,000, and $400 of eligible selling expenses. What gain remains before any inclusion-rate calculation?

A. $4,600.
B. $5,400.
C. $27,000.
D. $5,000.

83. An advisory agreement bills 0.80% annually on $625,000 of covered assets. Before taxes and separate product costs, which dollar amount appears on the annual-fee calculation?

A. $500.
B. $4,000.
C. $5,000.

D. $50,000.

84. In one account, an authorized portfolio manager trades within a written mandate; in another, the client approves each investment decision. Which option captures the key distinction between these arrangements?

A. An authorized portfolio manager can make investment decisions within the documented mandate without obtaining approval for each trade.
B. The client no longer owns the securities held in the account.
C. The account is prohibited from holding mutual funds or ETFs.
D. Investment objectives and restrictions are unnecessary because the manager has discretion.

85. Before recommending an investment strategy to a new retail client, what should the advisor do first?

A. Gather and assess the client's goals, financial circumstances, time horizon, liquidity needs, risk profile, and relevant constraints.
B. Select the highest-return product from the previous year and fit the client around it.
C. Assume clients of the same age have identical objectives and risk tolerance.
D. Ignore liabilities because only investable assets matter for suitability.

86. A client has strong finances but repeatedly sells during modest market declines because losses cause severe anxiety. Which risk-profile issue is most important?

A. High wealth automatically proves high willingness to accept losses.
B. Psychological comfort is irrelevant if the client can financially absorb a decline.
C. Risk willingness may be lower than risk capacity, and the portfolio should reflect both.
D. The client should use maximum leverage because financial capacity is strong.

87. A client is approaching retirement and expects portfolio withdrawals to fund living expenses within two years. Which planning issue becomes especially important?

A. Maximizing illiquid private investments regardless of cash-flow needs.

B. Maintaining appropriate liquidity and managing the risk that near-term withdrawals occur during a market decline.

C. Eliminating all fixed income because retirement requires only equities.

D. Ignoring withdrawal timing because a long investment horizon always remains unchanged.

88. After a client marries and has a child, why should beneficiary designations and estate documents be reviewed together?

A. A will automatically rewrites every registered-plan and insurance beneficiary designation.

B. Beneficiary designations never affect registered plans or insurance proceeds.

C. Estate planning becomes unnecessary once an investment account has named beneficiaries.

D. Major life changes can make earlier designations inconsistent with current intentions, ownership arrangements, and the broader estate plan.

89. Two comparable products could meet a client's needs, but one pays the advisor materially more. Before recommending either product, what professional concern must be addressed?

A. The higher compensation proves Product A is more suitable for every client.

B. Compensation differences are irrelevant whenever both products are legally available.

C. The advisor should conceal the difference so the client considers only past returns.

D. A conflict of interest that could influence the recommendation away from the client's interests.

90. A client loses a job, expects a large withdrawal within nine months, and reports lower household income. What should the advisor do before making further recommendations?

A. Assume the old profile remains valid because the account number has not changed.

B. Update the relevant client information and reassess liquidity, time horizon, objectives, and risk capacity using the new circumstances.

C. Increase market risk automatically so higher expected returns can replace lost salary.

D. Ignore the withdrawal because long-term historical returns are more important than current needs.

91. Inside an institutional asset-owner team, which activity belongs to the person responsible for turning the mandate into an invested portfolio rather than to a dealer, auditor, or exchange?

A. Researching investments, constructing portfolios, and operating within the asset owner's mandate and risk limits.
B. Making markets primarily to earn dealer spreads for outside clients.
C. Preparing the issuer's audited financial statements as an external accountant.
D. Operating a stock exchange and setting every listed company's disclosure policy.

92. An institution hires a bank to hold securities, collect income, process corporate actions, settle trades, and maintain independent records. Which service provider is this?

A. A sell-side research analyst.
B. A market benchmark.
C. A custodian.
D. A credit-rating agency acting as portfolio manager.

93. A dealer's analysts publish company, industry, and market research for institutional investors and the firm's capital-markets business. Which option describes that sell-side function?

A. Holding legal custody of pension assets and processing all settlement.
B. Unilaterally setting the asset owner's strategic allocation without governance approval.
C. Producing company, industry, and market analysis that informs clients and supports the dealer's capital-markets activities.
D. Guaranteeing every institutional trade executes at the best price printed during the day.

94. A pension fund needs to buy a very large position that exceeds displayed liquidity at the best price. Why might the trader work the order gradually?

A. To reduce market impact and information leakage that could move prices against the remaining order.
B. Institutional orders are legally required to be smaller than retail orders.

C. Every share must execute at one identical price regardless of liquidity.
D. Large orders are prohibited from trading on public markets during normal hours.

95. A block-trading desk compares possible routes using price, commissions, available liquidity, speed, fill certainty, information leakage, and market impact. Which option states the execution standard governing that assessment?

A. Only the lowest visible commission regardless of execution probability.
B. A guarantee that the trade receives the single best price printed all day.
C. Only the portfolio manager's investment thesis because trading costs do not affect returns.
D. The overall execution result, including price, commissions, liquidity, speed, certainty, information leakage, and market impact.

96. After an institutional trade is matched, which post-trade process confirms obligations and completes delivery of securities and payment?

A. Security selection.
B. Clearing and settlement.
C. Strategic asset allocation.
D. Issuer dividend policy.

97. After trading, a desk decomposes the implementation result by comparing the manager's decision price with actual fills and measuring commissions, spread, delay, and market impact. What is this review called?

A. Fundamental issuer valuation.
B. Personal estate planning.
C. Strategic asset allocation.
D. Transaction-cost analysis.

98. An institution compares its average execution price with the market's volume-weighted average price over the trading period. Which benchmark is being used?

A. CAPM.
B. VWAP.
C. Adjusted cost base.
D. Dividend payout ratio.

99. Without making a purchase, market appreciation lifts one issuer from below a 6% mandate limit to 7.1%. Which governance response should the investment team take first?

A. Ignore the limit because strong performance automatically cancels written restrictions.
B. Rewrite the policy retroactively so 7.1% becomes compliant without governance review.
C. Follow the mandate's monitoring, escalation, and corrective procedures for the policy breach.
D. Increase the position because recent outperformance proves the limit is unnecessary.

100. Trustees hire an adviser separate from the custodian and portfolio managers to help design policy, analyze strategic asset mix, research managers, evaluate performance, and support governance. Which role is being described?

A. Helping with investment policy, strategic asset allocation, manager research, performance evaluation, and governance support.
B. Taking legal custody of all securities and processing every settlement as the custodian.
C. Guaranteeing the funded status of a pension plan regardless of markets or contributions.
D. Executing every trade as principal without disclosing the nature of the dealer relationship.

Practice Exam 6: Answer Key and Explanations

1. B — Fundamental analysis compares reported profit with the cash and working-capital movements supporting it. Flat operating cash flow combined with rapidly rising receivables can signal slower collections or aggressive revenue recognition. It does not prove misstatement, but it weakens earnings quality and deserves investigation before the analyst treats the higher net income as sustainable.

2. D — A common-size income statement scales each line item to revenue, making cost structure and margin differences easier to compare across time or between firms of different size. It does not convert book values to market values, remove accounting judgments, or determine a stock price. The technique improves comparability while leaving the underlying accounting data unchanged.

3. C — Top-down analysis connects the economic outlook with industry sensitivity before examining individual issuers. Expensive recreational vehicles are discretionary purchases that households can postpone when income expectations weaken. Essential groceries, regulated utilities, and contracted infrastructure can still face risks, but their demand or cash flows are generally less directly tied to discretionary consumer confidence during a recession.

4. A — The quick ratio excludes inventory and compares more liquid current assets with current liabilities. Cash plus receivables equals $160 million, and $160 million divided by $100 million equals 1.60 times. Including inventory would produce the current ratio instead. The measure is a stricter short-term liquidity test and should still be interpreted with asset quality and collection risk.

5. A — Debt-to-equity compares borrowed capital with common shareholders' equity. Dividing $360 million of debt by $240 million of equity produces 1.50 times. Reversing the ratio gives about 0.67, while the other choices use unrelated arithmetic. Higher leverage can magnify shareholder outcomes but also increases fixed obligations and sensitivity to weaker operating results.

6. C — Times interest earned compares earnings before interest and taxes with interest expense. Dividing $84 million by $14 million gives 6.0 times, indicating the accounting earnings cushion available for interest. Subtracting or adding the figures does not measure coverage. Cash flow, debt maturities, and earnings stability also matter because the ratio alone does not guarantee payment capacity.

7. D — Return on equity equals net income available to common shareholders divided by average common equity. Dividing $42 million by $210 million gives 0.20, or 20%. The ratio helps assess profitability relative to shareholder capital, but leverage can influence it. Analysts therefore compare ROE with debt levels, margins, asset efficiency, and the company's history and peers.

8. B — Earnings per share divides earnings attributable to common shareholders by the weighted average number of common shares outstanding. If earnings stay unchanged while the share count falls, each remaining share represents a larger portion of those earnings. A repurchase does not make EPS equal to dividends, and the direction is not automatically positive if earnings or financing costs also change.

9. C — The dividend payout ratio equals annual common dividends per share divided by earnings per share. Dividing $2.40 by $8.00 gives 0.30, or 30%. Dividend yield would instead compare the dividend with the market price. The payout ratio helps show how much reported earnings are distributed and how much may be retained for reinvestment or other corporate uses.

10. B — Preferred dividends rank behind debt obligations, so stable earnings and cash flow are important to the issuer's ability to meet senior commitments and still support preferred distributions. Trading volume or broad-index changes do not directly improve coverage. Advertising expense alone is not decisive if overall operating cash flow strengthens. Credit quality and fixed-charge capacity remain central.

11. A — Support is a price area where buying interest has repeatedly been strong enough to slow or reverse declines. Resistance refers to a zone where advances have repeatedly stalled. Book value and the current ratio are fundamental accounting measures, not chart concepts. Technical analysts often watch whether support holds, breaks, or is confirmed by volume and broader price behaviour.

12. D — Market breadth asks how widely an advance or decline is shared. If the index rises while the advance-decline line weakens, leadership is narrowing and the headline move may have less underlying participation. The divergence is a warning rather than a guaranteed reversal. It does not imply identical movements across securities or make fundamental analysis irrelevant.

13. B — Growth-stage industries typically experience expanding demand, rising capacity, reinvestment, and increasing competition as more firms pursue the opportunity. Mature industries have slower growth and established rivalry, while declining industries face contraction. Very early industries may still lack proven demand. Life-cycle analysis helps frame realistic expectations for revenue growth, margins, capital needs, and competitive pressure.

14. A — Defensive businesses sell goods or services customers continue buying even when economic activity weakens. Prescription medicines and basic health products generally fit that pattern better than cruises, construction equipment, or speculative exploration. Defensive does not mean risk-free; it means revenues and earnings are often less sensitive to cyclical swings in discretionary spending and investment demand.

15. D — Inventory turnover is commonly calculated as cost of goods sold divided by average inventory. Dividing $960 million by $160 million gives 6.0 times. The ratio helps assess how rapidly inventory is sold and replenished, but interpretation depends on seasonality, product mix, stock availability, and industry norms. Very high turnover can reflect efficiency or insufficient inventory.

16. C — Working capital equals current assets minus current liabilities. Subtracting $455 million from $620 million leaves a $165 million short-term asset cushion. Dividing the balances would produce the current ratio rather than working capital, while adding them would not measure liquidity. The absolute amount should be considered with operating scale, asset quality, seasonality, and upcoming cash requirements.

17. B — Asset turnover divides revenue by average total assets. Dividing $1.2 billion by $600 million gives 2.0 times, meaning the company generated two dollars of sales for each dollar of average assets. The ratio measures operating efficiency rather than profitability by itself. Analysts compare it with margins, asset intensity, business model, and peers to understand overall performance.

18. D — Price-to-book equals market price per common share divided by book value per share. Dividing $54 by $36 gives 1.50 times. Reversing the ratio produces about 0.67, while subtraction or addition does not create the valuation multiple. P/B can be useful for asset-intensive businesses but still requires context about profitability and asset quality.

19. C — Diversification can reduce unsystematic risks that are specific to one company or narrow industry because losses in one holding may be offset elsewhere. Systematic risk comes from broad forces such as recessions, market repricing, or widespread interest-rate changes and therefore remains. Holding many securities cannot remove risks that affect most assets at the same time.

20. A — Diversification improves as returns move less closely together. A correlation of -0.20 provides more offsetting behaviour than a strongly positive +0.85 correlation, assuming comparable volatility and weights. Correlation does not guarantee losses or gains, and it can change over time. Portfolio construction therefore combines correlation with expected return, risk, liquidity, and concentration analysis.

21. D — Expected portfolio return is the weighted average of the component expected returns. The contributions are 1.2 percentage points from 30% at 4%, 3.5 points from 50% at 7%, and 2.2 points from 20% at 11%, totalling 6.9%. Simply averaging or adding returns ignores the portfolio weights assigned to each asset.

22. B — Standard deviation measures how widely returns vary around their average and is commonly used as a total-volatility measure. Beta focuses on systematic market sensitivity instead, while ownership and taxation are unrelated concepts. A higher standard deviation indicates greater dispersion, but investors should also consider liquidity, concentration, downside characteristics, and whether past return patterns are representative of future conditions.

23. C — Beta measures systematic sensitivity relative to a market benchmark. A beta of 0.75 suggests the portfolio has historically moved less, on average, than a beta-one market portfolio within the model. It does not guarantee a return discount, eliminate unsystematic risk, or equal total standard deviation. Beta can change as portfolio holdings and market relationships change.

24. A — CAPM adds the risk-free rate to beta times the market risk premium. The market premium is 7.5% minus 2.5%, or 5.0%. Multiplying 5.0% by 1.1 gives 5.5%, and adding the 2.5% risk-free rate gives 8.0%. The model links required return with systematic risk rather than total volatility. The concept supports disciplined portfolio construction, but it does not guarantee future performance.

25. B — The Sharpe ratio divides excess return by standard deviation. Excess return is 10% minus the 2% risk-free rate, or 8%. Dividing 8% by 20% gives 0.40. The measure helps compare return earned per unit of total volatility, but it does not capture every dimension of liquidity, concentration, skewness, or tail risk.

26. C — The efficient frontier contains portfolios with the best modelled combinations of expected return and risk available from the investment set. A portfolio below it is inefficient because another combination dominates it on one dimension without worsening the other. The concept does not guarantee realized performance, dictate fees, or require a portfolio made entirely of risk-free securities.

27. A — Risk capacity is the financial ability to withstand loss without jeopardizing important goals, while risk willingness reflects psychological comfort with uncertainty and decline. A wealthy client can therefore have high capacity but low willingness. Ignoring behavioural limits can lead to panic selling and abandonment of the plan even when the household could financially absorb the market loss.

28. D — A known cash requirement within eight months is a liquidity constraint because the money must be available when needed without relying on an uncertain sale at an unfavourable price. The portfolio may reserve suitable liquid assets for the obligation. The requirement does not directly determine market capitalization, benchmark selection, or tracking error; it affects construction through cash availability.

29. B — Strategic asset allocation establishes the long-term target mix among major asset classes based on objectives, risk, time horizon, liabilities, liquidity, taxes, and other constraints. Tactical allocation makes temporary deviations around those targets, while dollar-cost averaging is a contribution method and market timing refers to shorter-term positioning. The strategic mix becomes the portfolio's policy anchor.

30. D — An investment policy statement translates client or institutional circumstances into a documented framework for managing the portfolio. It records objectives, risk parameters, liquidity needs, time horizon, constraints, responsibilities, and policy ranges. It does not guarantee returns, freeze the portfolio at inception, or replace future communication. Monitoring and periodic review remain necessary because circumstances and markets change.

31. A — Rebalancing moves portfolio weights back toward strategic targets after market movements or cash flows create drift. Trimming an overweight can reduce unintended exposure and add to underweighted assets. It does not predict which asset will lead next, guarantee return improvement, or ignore transaction costs and taxes. The purpose is disciplined risk control consistent with the stated policy.

32. C — Passive management seeks benchmark-like exposure rather than persistent outperformance through security selection or market timing. The manager focuses on tracking, implementation, costs, cash flows, and index changes. Concentrated selection, tactical sector rotation, and leverage used for market views are active approaches. Passive portfolios can still differ from benchmarks because of fees, trading, sampling, and taxes.

33. A — Value managers seek securities they believe trade below reasonable estimates of fundamental worth, often using measures such as price-to-earnings, price-to-book, or normalized cash flow. Growth managers emphasize faster expected expansion, index managers replicate benchmarks, and momentum strategies emphasize price trends. Low valuation can reflect opportunity or genuine deterioration, so fundamental judgment remains necessary.

34. B — Bond prices generally move inversely to market yields, and duration measures sensitivity to those yield changes. The longer-duration portfolio normally experiences the larger price movement for a given rate shift, all else equal. Similar credit quality does not equalize interest-rate risk, and the exact price change can also depend on convexity and the size of the yield movement.

35. C — A bond ladder staggers maturity dates so principal is returned at intervals, supporting cash needs or reinvestment at then-current yields. This reduces reliance on one reinvestment date and can improve liquidity planning. Laddering does not guarantee price gains, eliminate issuer credit risk, or ensure benchmark outperformance. Security quality, duration, taxes, and the investor's objectives still matter.

36. D — When asset-class weights remain near the strategic policy mix, the main active decision is which individual securities to own within each sleeve. That is security selection rather than tactical asset allocation. Attribution analysis can separate these effects. Active security choices may add or subtract value, but they still operate within the mandate's diversification, liquidity, risk, and concentration limits.

37. C — Net asset value per unit equals total assets minus liabilities, divided by units outstanding. Net assets are $1.02 billion, and dividing that amount by 30 million units gives $34.00 per unit. Using gross assets or ignoring liabilities produces the wrong result. NAV is the core valuation point for purchases and redemptions in an open-end mutual fund.

38. A — Open-end mutual funds generally issue new units when investors buy and redeem units when investors sell back to the fund, using the applicable NAV under established procedures. Closed-end shares usually trade between investors in the market. Neither structure is defined by holding only fixed income, and exchange trading is not a universal feature of open-end mutual funds.

39. B — The management expense ratio summarizes recurring management and operating expenses charged against fund assets. These costs reduce the net return available to investors, all else equal. The MER is not a promised return, a required cash allocation, or the investor's tax rate. Investors should compare costs in the context of the fund mandate, service, strategy, and results.

40. D — A front-end sales charge is paid at the time fund units are purchased, reducing the amount invested or being added according to the applicable pricing method. The management expense ratio reflects ongoing fund expenses, distribution yield measures income relative to value, and a benchmark is a performance reference. The timing and purpose of the charge identify the sales-load structure.

41. A — Money market funds generally hold short-term, high-quality instruments and emphasize liquidity and relatively low price volatility rather than long-term growth. They are not risk-free, but the mandate better fits near-term cash needs than small-cap, long-duration, or emerging-market strategies. Those alternatives can carry materially greater equity, currency, concentration, or interest-rate risk over short horizons.

42. D — Balanced funds combine major asset classes, commonly equities and fixed income, to pursue a mixture of growth, income, and risk control within one mandate. Money market funds focus on short-term debt, while sector and specialty funds provide narrower exposures. A balanced structure offers built-in diversification, although the actual mix, risk level, fees, and management style still require review.

43. B — Growth managers emphasize companies expected to expand revenues, earnings, or business opportunities faster than average and may accept higher valuation multiples for that potential. Value managers seek apparent bargains relative to fundamentals, money market managers focus on short-term debt, and passive bond funds track benchmarks. Strong expected growth can disappoint, so valuation and execution risk remain important.

44. C — A fixed-dollar contribution buys the contribution amount divided by the unit price. Dividing $750 by $25 gives 30 units. If the unit price falls, the same contribution buys more units; if it rises, fewer units are purchased. This is the mechanical basis of dollar-cost averaging, which encourages discipline but does not guarantee profit or prevent investment losses.

45. A — Reinvesting a taxable mutual-fund distribution means cash is used to acquire additional units, but the investor may still be considered to have received the distribution for tax purposes. The reinvested amount generally affects adjusted cost base records. Reinvestment does not automatically make income tax-free, give the units zero cost, or make every distribution a return of capital.

46. D — Higher turnover means more buying and selling, which can increase commissions, bid-ask spreads, market impact, and other trading costs. Those implementation expenses reduce the return left for investors unless active decisions add enough value to offset them. Turnover does not automatically lower risk, change the fund category, or prevent taxable gains and distributions in non-registered accounts.

47. B — A relevant benchmark gives context for evaluating a fund's results relative to the opportunity set it is intended to pursue. The fund need not hold every benchmark security unless its mandate requires replication. Benchmark comparison also does not replace analysis of fees, risk, style, and consistency. It is a reference point for attribution, not a future-return guarantee.

48. D — Style drift occurs when a fund's actual portfolio moves away from the investment style or characteristics described by its mandate. That can alter risk, benchmark relevance, diversification, and the role the fund plays in an investor's portfolio. The change does not guarantee better performance, eliminate risk through additional names, or convert the legal fund category automatically.

49. C — A sector fund concentrates exposure in one industry, so regulatory, economic, technological, commodity, or competitive changes affecting that sector can influence many holdings at once. Owning several companies does not eliminate this common exposure. Concentration can increase return potential and risk relative to a broad fund, but it does not guarantee outperformance or lower volatility in rising markets.

50. B — Redeeming a mutual fund in a non-registered account can be a disposition for tax purposes, so the investor may realize a capital gain or loss by comparing proceeds with adjusted cost base and eligible selling costs. Reinvesting the proceeds elsewhere does not automatically erase that result. Accurate cost records remain important when purchases occurred at different times or adjustments apply.

51. A — The premium equals market price minus NAV, divided by NAV. The difference is $1.50, and $1.50 divided by $50.00 equals 0.03, or 3.0%. A premium means the exchange price is above portfolio value. Arbitrage and creation-redemption activity can help limit gaps, but premiums and discounts can still appear during changing market conditions.

52. C — Authorized creation and redemption activity lets large participants exchange ETF units and underlying baskets, supporting arbitrage when market price diverges from portfolio value. The process can help align prices but does not guarantee perfect equality. These participants do not set retail tax rates, promise principal, or choose personal asset allocations for investors who trade ETF units on an exchange.

53. B — The bid-ask spread is the gap between the highest displayed buying price and the lowest displayed selling price. Here the spread is $0.14, creating an implicit trading cost for immediate round-trip trading. It is different from the management expense ratio, tracking error, or a tax calculation. Liquidity and market conditions can cause spreads to widen or narrow.

54. C — A buy limit order specifies the highest price the investor is willing to pay, providing price control when quotes are wide or volatile. The trade-off is that the order may not fill. A market order prioritizes execution instead. Neither order type freezes underlying values or eliminates commissions, spreads, taxes, or the investment risk of the securities inside the ETF.

55. D — Tracking difference, as defined in the question, equals the ETF return minus the benchmark return. Subtracting 8.5% from 7.9% gives -0.6 percentage points, meaning the ETF lagged over the period. Fees, trading costs, sampling, cash balances, taxes, and implementation choices can contribute to return differences between an ETF and the index it seeks to follow.

56. A — Tracking error measures how consistently an ETF follows its benchmark by examining the variability of return differences over time. It differs from a one-time tracking difference, the bid-ask spread, and an investor's adjusted cost base. Fees, sampling, trading, cash holdings, tax effects, and implementation choices can all influence how closely benchmark performance is reproduced period after period.

57. D — An actively managed ETF uses portfolio-manager judgment to select or weight securities rather than merely replicating a benchmark. It still trades on an exchange and can have creation-redemption mechanics like other ETFs. Active management does not make the product a deposit or guarantee outperformance. Investors should examine the mandate, fees, transparency, risk, liquidity, and manager process.

58. C — ETF liquidity comes from more than the displayed trading volume of ETF units. Market makers can access underlying securities and creation-redemption mechanisms, so the depth of the bond market also matters. This does not guarantee unlimited liquidity or exact NAV execution during stress. Underlying bonds may trade over the counter and can themselves become less liquid in difficult conditions.

59. B — Leveraged ETFs generally target a multiple of each day's benchmark return, not a fixed multiple over longer periods. Because exposure resets and daily returns compound, the sequence and volatility of returns can create substantial divergence from a simple long-term multiple. Meeting the daily objective does not guarantee the same multiple over months or years, especially in volatile markets.

60. A — A sector ETF may hold numerous securities, but they share exposure to the same industry drivers. Regulatory changes, commodity prices, technology shifts, demand shocks, or financing conditions can therefore affect many holdings simultaneously. Exchange trading does not remove concentration risk. The narrow exposure can be useful tactically, but it may be more volatile than a broadly diversified market portfolio.

61. A — Leverage increases economic exposure relative to investor capital, so favourable moves can amplify gains while adverse moves magnify losses. It can also create financing, margin, liquidity, and counterparty pressures. Borrowing does not cap losses at interest expense, guarantee refinancing, or create principal protection. Investors should understand gross exposure, net exposure, collateral terms, and stress behaviour.

62. B — A short seller sells borrowed shares and later must buy shares to return them. Because a share price can rise without a fixed upper bound, the repurchase cost can greatly exceed the original proceeds. The short seller may also face borrowing fees, dividend-equivalent payments, and margin calls. The initial sale price therefore does not cap potential loss.

63. D — Equity market-neutral strategies combine long and short positions while attempting to keep broad directional market exposure relatively small. The manager seeks returns from relative security selection rather than simply from a rising equity market. The strategy is distinct from passive indexing, cash management, and structured principal protection. Neutrality can reduce directional exposure but does not eliminate model, leverage, or short-sale.

64. C — Event-driven managers focus on identifiable corporate events such as takeovers, restructurings, bankruptcies, or spin-offs where the eventual outcome may create pricing opportunities. Returns depend on the event's probability, timing, financing, legal conditions, and market expectations. Passive cash management, bond laddering, and simple dividend growth do not centre on a specific corporate catalyst.

65. A — Global macro strategies express broad economic and policy views across countries and asset classes, often using cash instruments and derivatives in currencies, rates, equities, and commodities. Equity market neutral focuses on relative stock selection, venture capital finances private early-stage firms, and money market indexing seeks short-term debt exposure. Macro strategies can profit from correct views but carry substantial market and.

66. B — Managed-futures strategies often use systematic rules to identify persistent price trends across futures markets such as commodities, currencies, interest rates, and equity indexes. They can hold long or short positions. Private equity, dividend portfolios, and structured notes have different structures. Trend following can diversify traditional assets but may struggle during abrupt reversals or markets without sustained direction.

67. D — Private-equity funds commonly draw committed capital over time and may hold investments for years before exits occur. Secondary markets can be limited, and selling early may require a discount.

Investors therefore need outside liquidity for capital calls and other obligations. Private-equity interests generally do not offer daily redemption, guaranteed secondary prices, or immediate distribution of all portfolio-company cash.

68. B — A listed REIT can provide access to portfolios of income-producing properties through exchange-traded securities, avoiding the need to buy and manage buildings directly. Investors own units or shares rather than legal title to specific properties. REIT prices and distributions can still fluctuate with occupancy, financing costs, property values, economic conditions, and investor sentiment, so listing does not remove real-estate risk.

69. C — Segregated funds are insurance contracts containing investment components and can include guarantees related to maturity or death benefits, subject to percentages, dates, withdrawals, resets, and other terms. Market value can fluctuate before the guarantee event, and withdrawals may reduce protection. The contracts are different from ordinary deposits, common shares, and government bonds even though underlying investments may hold market securities.

70. C — The discount equals NAV minus market price, divided by NAV. The difference is $2.40, and $2.40 divided by $24.00 equals 10%. Closed-end shares can trade below or above portfolio value because investors trade shares with one another in the market. NAV does not force the exchange price to match continuously, especially when sentiment or liquidity changes.

71. A — Income-oriented trusts can appeal to investors seeking cash distributions because the trust may pass through a substantial portion of cash generated by operations or assets. Distribution levels are not guaranteed and can fall if business conditions, financing needs, or cash flow weaken. Market value can fluctuate, and tax treatment depends on the character of the distribution and the account.

72. D — Listed private-equity vehicles can make private-company investment exposure accessible through securities that trade in public markets. This may improve accessibility and liquidity compared with direct private holdings, but investors still face business, leverage, valuation, concentration, and market-price risk. The listed vehicle can trade above or below underlying asset values, and exchange trading does not guarantee success of the portfolio companies.

73. A — Principal protection in a structured note is a contractual promise and is only as strong as the issuer's ability to honour it. Investors may also face limited liquidity, opportunity cost, caps, participation formulas, or reduced upside. Protection generally applies under stated maturity conditions and does not automatically make the product equivalent to insured cash or direct ownership of the linked.

74. C — A return cap sets the maximum market-linked return payable under the product formula. Even though the referenced index rises 14%, the stated ceiling is 6%, so the linked return cannot exceed 6%. The cap does not subtract six percentage points or add six points to the index return. Actual products may also use averaging, participation rates, and other conditions.

75. B — Split-share structures divide the economics of an underlying portfolio between classes. The preferred class generally has priority for specified distributions and a defined capital claim, leaving capital shares with greater residual participation in gains and losses after those priorities. The exact structure varies, but secured creditors and insured deposits are not equity classes created simply by dividing portfolio economics into.

76. D — Asset-backed securities rely on cash flows from underlying loans or receivables. Defaults can reduce collections, while prepayments can return principal earlier and change payment timing or reinvestment opportunities. Pooling can diversify individual exposures but does not make borrower behaviour uniform or eliminate credit, servicing, liquidity, interest-rate, and structural risks. Investors therefore analyze both collateral quality and deal structure.

77. B — Interest earned in a non-registered account is generally reported as investment income and included in taxable income under the applicable rules. It does not receive the gross-up and dividend-tax-credit treatment used for taxable Canadian dividends, and buying the investment with after-tax money does not make later interest tax-free. Reporting timing can depend on the instrument and accrual rules.

78. C — Taxable dividends from Canadian corporations generally use a gross-up and corresponding dividend-tax-credit framework, with details depending on the dividend type and current rules. The mechanism supports integration by recognizing corporate-level tax. Dividends are not automatically tax-free, are not treated exactly like interest, and do not simply become capital gains because the investor owns corporate shares.

79. A — Ordinary capital losses generally belong to the capital-gain system rather than being fully deductible against employment income. Subject to current rules, net capital losses may be applied against taxable capital gains in eligible years. They are not automatically converted to interest expense or refunded dollar for dollar. Accurate transaction and adjusted-cost-base records are important because special rules can affect availability.

80. D — RRSPs generally provide tax deferral. Eligible contributions can reduce taxable income, and investment income can compound without annual taxation while it remains in the plan. Ordinary withdrawals are generally included in income, subject to specific programs and rules. The benefit is usually deferral rather than permanent exemption, and the plan is not limited to interest-bearing investments.

81. B — Under the general TFSA rules, amounts withdrawn are added back to available contribution room at the beginning of the following calendar year. Re-contributing the withdrawn amount in the same year requires enough existing unused room or an overcontribution can arise. TFSA withdrawals are generally tax-free, and contributions are not deductible, so the withdrawal does not create an income-tax deduction.

82. D — A capital gain is calculated as proceeds of disposition minus adjusted cost base and eligible selling costs. Starting with $27,400, subtracting the $22,000 adjusted cost base and $400 of selling costs leaves $5,000. The other choices omit or misapply one component. Accurate adjusted-cost-base records are especially important when purchases occur at different times or adjustments apply.

83. C — An asset-based fee applies the stated percentage to the assets covered by the agreement. Multiplying $625,000 by 0.80%, or 0.008, gives $5,000. The fee is not determined by trade count or guaranteed investment profits. Clients should understand which services are included and whether underlying product, transaction, tax, custody, or other costs remain separate.

84. A — Discretionary management gives an authorized portfolio manager authority to make investment decisions within documented objectives, restrictions, and the account mandate without seeking trade-by-trade approval. The client still owns the assets, permitted investments depend on the mandate, and objectives remain essential. In a non-discretionary advisory relationship, the client generally retains final authority over investment decisions.

85. A — Sound financial planning and suitability analysis begin with understanding the client rather than choosing products first. Objectives, assets, liabilities, income, expenses, dependants, liquidity, time horizon, risk capacity, willingness, taxes, and other constraints provide the basis for recommendations. Past product performance or age alone cannot replace discovery, and liabilities can materially affect both cash needs and the ability to absorb losses.

86. C — Risk capacity concerns the financial ability to withstand losses without impairing important goals, while risk willingness reflects psychological comfort with volatility and decline. A client can have high capacity but low willingness. Ignoring behavioural limits can lead to panic selling and poor realized outcomes even when the household could financially absorb the market decline, so both dimensions belong in suitability.

87. B — As retirement approaches, the portfolio often shifts from pure accumulation toward supporting withdrawals and preserving financial flexibility. Near-term cash needs increase the importance of liquidity and sequence-of-returns risk because selling depressed assets can accelerate depletion. The appropriate mix still depends on the full plan, but ignoring withdrawals or maximizing illiquidity would conflict with the client's changing objectives.

88. D — Beneficiary designations can direct proceeds from certain registered plans or insurance contracts and may interact with wills, ownership, taxes, family circumstances, and provincial law. Marriage, birth, separation, death, or other major changes can make old choices inappropriate. A will does not automatically rewrite every designation, so coordinated review helps reduce the chance of unintended estate outcomes.

89. D — Different compensation can create a conflict because the advisor may benefit financially from one recommendation more than another. The conflict should be identified and addressed under applicable standards, and the recommendation should remain supportable based on client needs, costs, risks, features, and alternatives. Legal availability alone does not establish suitability, and concealment undermines informed decision-making and trust.

90. B — A material life change such as job loss can alter cash flow, liquidity requirements, time horizon, objectives, and risk capacity. The advisor should refresh relevant client information before relying on the previous profile. Automatically increasing risk or ignoring a known withdrawal can make the portfolio inconsistent with current circumstances. Suitability is an ongoing process rather than a one-time account-opening exercise.

91. A — Buy-side portfolio managers invest pools of capital for pension plans, funds, insurers, endowments, and other asset owners. They research opportunities, construct portfolios, and operate within policy and risk limits. Market making is generally a sell-side dealer function, while external auditing and exchange operation are different roles. The buy side ultimately serves the institutional client's investment mandate.

92. C — Custodians provide safekeeping and operational services such as settlement support, income collection, corporate-action processing, reconciliation, and reporting. These functions are distinct from producing sell-side research, defining a benchmark, or managing the portfolio. Separating custody and recordkeeping from investment decision-making helps institutions maintain controls, independent records, and clear accountability among managers, trustees, dealers, and service providers.

93. C — Sell-side research analysts study companies, industries, and markets and publish analysis used by institutional clients and the dealer's broader business. They do not act as custodians, unilaterally determine an asset owner's strategic policy, or guarantee perfect execution. Institutional investors evaluate research critically and remain responsible for portfolio decisions within their own mandates, governance structures, and risk constraints.

94. A — Large institutional orders can consume displayed liquidity and reveal persistent demand or supply, causing prices to move before the entire order is completed. Breaking the order into smaller pieces can help manage market impact and information leakage, although it introduces timing risk. There is no general requirement that institutional orders be smaller than retail orders or receive one identical price.

95. D — Best execution is broader than choosing the lowest commission or one displayed quote. Institutional orders can be large, so total execution quality may depend on price, fees, liquidity, speed, certainty, information leakage, and market impact. No process guarantees the day's perfect price. Execution costs directly affect realized portfolio returns, so the trading process must balance relevant factors for the order.

96. B — Execution creates the trade, while clearing and settlement complete the post-trade process by confirming obligations and arranging delivery of securities and payment. Custodians, clearing systems, brokers, and counterparties help manage operational and settlement risk. These functions do not choose future investments, establish strategic asset allocation, or determine issuer dividends, and successful settlement does not guarantee future market performance.

97. D — Transaction-cost analysis evaluates how investment decisions were implemented in the market by measuring explicit costs such as commissions and implicit costs such as spread, delay, and market impact. It can help improve broker selection and execution methods. TCA does not replace security valuation, asset-allocation policy, or personal financial planning, and it cannot guarantee that future trades will have zero costs.

98. B — VWAP, or volume-weighted average price, weights market prices by trading volume over the period and can serve as an execution benchmark. Institutions may compare actual fills with VWAP to assess trading results. CAPM is a portfolio-pricing model, adjusted cost base is a tax record, and dividend payout is a corporate ratio.

99. C — Institutional portfolios operate within formal mandates, policies, regulations, and governance limits. If market movement creates an overweight beyond a stated issuer limit, the team should follow established monitoring, escalation, and corrective procedures. Strong performance does not erase restrictions, and policies should not be rewritten retroactively to justify a breach. Corrective action may involve rebalancing or another permitted response.

100. A — Investment consultants can help asset owners develop policy, evaluate strategic asset allocation, research and monitor managers, analyze performance, and strengthen governance processes. They do not normally replace the custodian's safekeeping and settlement role or guarantee pension funding outcomes. Trading as principal is a dealer function and carries execution and relationship considerations distinct from independent consulting advice.