PRACTICE EXAM 9: 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. Complete the exam before consulting the answer key and explanations.

1. A retailer reports $780 million of revenue and $624 million of cost of goods sold. What gross profit margin does the income statement imply?

A. 20.0%.
B. 80.0%.
C. 16.0%.
D. 25.0%.

2. A company has $360 million of current assets and $240 million of current liabilities. Which current ratio belongs in a liquidity comparison?

A. 1.20 times.
B. 1.50 times.
C. 2.50 times.
D. 0.67 times.

3. Cash and receivables total $184 million, inventory is $96 million, and current liabilities are $160 million. What quick ratio follows from the liquid current assets identified?

A. 0.60 times.
B. 1.75 times.
C. 2.40 times.

D. 1.15 times.

4. An issuer carries $525 million of debt and $350 million of common equity. What debt-to-equity multiple does this capital structure show?

A. 2.50 times.
B. 0.67 times.
C. 1.50 times.
D. 1.17 times.

5. A credit analyst compares $108 million of EBIT with $18 million of annual interest expense. What times-interest-earned ratio results?

A. 6.0 times.
B. 7.0 times.
C. 90.0 times.
D. 5.0 times.

6. A company earns $48 million after tax while average total assets are $600 million. What return on assets is generated?

A. 6.0%.
B. 8.0%.
C. 12.5%.
D. 80.0%.

7. Common shareholders receive $36 million of after-tax earnings on average common equity of $180 million. What return on equity is shown?

A. 50.0%.
B. 5.0%.

C. 20.0%.
D. 16.0%.

8. A corporation earns $96 million for common shareholders and has 24 million weighted-average common shares outstanding. What basic earnings per share follows?

A. $3.20.
B. $6.00.
C. $2.50.
D. $4.00.

9. A company earns $6.00 per share and pays annual dividends of $2.10 per share. What percentage of earnings is retained rather than distributed?

A. 65%.
B. 35%.
C. 28.6%.
D. 71.4%.

10. Comparable companies trade near 15 times earnings. If a stock is priced at $72 and valued on that multiple, what earnings per share is implied?

A. $10.80.
B. $3.60.
C. $4.80.
D. $5.40.

11. A stock trades at 1.8 times book value and its market price is $54. What book value per common share is implied?

A. $36.00.

B. $30.00.
C. $97.20.
D. $24.00.

12. A share pays $1.92 of annual dividends and currently trades at $48. What current dividend yield does the price imply?

A. 2.5%.
B. 5.2%.
C. 25.0%.
D. 4.0%.

13. A stock has bounced several times from the $42 area, but then closes decisively below $42 on unusually heavy volume. How would a technical analyst most likely interpret the event?

A. A guarantee that the stock will never trade above $42 again.
B. A confirmation that $42 has become stronger support.
C. A break of prior support that may signal weakening demand.
D. Proof that book value has increased above $42.

14. A share has repeatedly stalled near $68. It later closes above $68 while trading volume expands markedly. Which technical interpretation is most consistent?

A. A direct calculation of the company current ratio.
B. A guarantee that the next trading day must close higher.
C. A breakdown through support that confirms lower prices.
D. A breakout above resistance with stronger confirmation from volume.

15. An analyst begins with inflation, interest rates, and economic growth, then narrows to industries and finally individual companies. Which analytical sequence is being used?

A. Top-down analysis.
B. Bottom-up analysis.
C. Passive index replication.
D. Market-neutral portfolio construction.

16. Another analyst starts with a company competitive advantages, margins, balance sheet, and valuation before forming a view on the broader sector. Which process best describes the starting point?

A. Liability-driven investing.
B. Bottom-up analysis.
C. Top-down analysis.
D. Technical index replication.

17. During an economic slowdown, which business would generally be expected to show the more defensive demand pattern?

A. A speculative mineral explorer without producing assets.
B. A high-end recreational boat manufacturer.
C. A luxury resort operator dependent on discretionary travel.
D. A regulated electricity distributor serving basic household demand.

18. Reported earnings increase quickly while operating cash flow falls and receivables expand much faster than sales. What analytical concern deserves the closest attention?

A. Whether receivables should automatically be reclassified as cash.
B. Whether a higher accounting profit guarantees a higher share price.
C. Whether reported earnings quality is weakening because cash collection is not keeping pace.
D. Whether the company can ignore working-capital changes when assessing cash flow.

19. An investment committee assigns 30% of a portfolio to a 4% expected-return sleeve and 70% to a 10% expected-return sleeve. Which figure belongs in the total expected-return row?

A. 14.0%.
B. 8.2%.
C. 5.8%.
D. 7.0%.

20. A return series has a standard deviation of 4%, while another comparable series has a standard deviation of 11%. What does the difference primarily indicate?

A. The second series has greater variability of returns around its average.
B. The first series has more systematic risk by definition.
C. The first series is guaranteed to avoid losses.
D. The second series must have a higher average return.

21. A stock has a beta of 0.75. Which interpretation is most appropriate within portfolio analysis?

A. It is guaranteed to earn 25% less than the market every year.
B. It has no company-specific risk because beta is below one.
C. Its returns have historically been less sensitive to broad market movements than a beta-one asset.
D. It must move opposite to the market whenever the market rises.

22. A valuation worksheet shows a 2.5% risk-free rate, an 8.5% expected market return, and a stock beta of 1.1. Under CAPM, which return should the analyst enter?

A. 11.0%.
B. 9.1%.
C. 6.6%.
D. 8.5%.

23. Two risky assets have a return correlation of -0.45. What diversification implication follows compared with a correlation near +1.0?

A. Negative correlation eliminates all systematic market risk automatically.

B. Correlation determines each security expected return rather than co-movement.

C. The combination guarantees a positive portfolio return every period.

D. Combining them can provide greater diversification because their returns do not move together as closely.

24. A set of portfolios is plotted by expected return and standard deviation. Which portfolios belong on the efficient frontier?

A. Those offering the highest expected return available for each level of risk, or the lowest risk for a given return.

B. Those with the largest number of securities regardless of risk or return.

C. Only portfolios invested entirely in the risk-free asset.

D. Those with the lowest management fee even if dominated on risk and return.

25. An investor can financially withstand a large loss but becomes highly distressed by modest market declines. Which two-part risk assessment best captures the situation?

A. Low risk capacity because all emotional discomfort is financial inability.

B. Low risk capacity and high risk willingness.

C. High risk capacity and automatically high risk willingness.

D. High risk capacity but low risk willingness.

26. A client must make a large tuition payment in eighteen months. How should that obligation appear in an investment policy process?

A. As a reason to ignore cash holdings because long-term return is more important.

B. As an automatic instruction to invest the payment amount in illiquid private equity.

C. As a liquidity and time-horizon constraint that can affect the asset mix.

D. As proof the client should maximize leverage immediately.

27. A pension policy sets long-run targets of 55% equities, 35% fixed income, and 10% real assets. What type of decision are these target weights?

A. Strategic asset allocation.
B. Tactical asset allocation.
C. Security settlement.
D. Technical resistance analysis.

28. A manager temporarily raises equities above the policy target because valuations appear unusually attractive, while staying inside permitted ranges. Which decision is this?

A. Custody reconciliation.
B. Tactical asset allocation.
C. Strategic asset allocation.
D. Passive full replication.

29. A portfolio target for equities is 50% with an allowed range of 45% to 55%. A rally pushes equities to 59%. What is the main purpose of rebalancing?

A. To eliminate every tax and transaction cost from the account.
B. To restore the portfolio toward its approved risk and allocation limits.
C. To convert the strategy automatically into a market-neutral fund.
D. To guarantee equities will fall next month.

30. A manager holds securities in nearly the same weights as a broad index and makes only small sampling adjustments. Which approach is being used?

A. Passive index management.
B. Active concentrated selection.
C. Event-driven merger investing.
D. Global macro positioning.

31. A portfolio manager deliberately overweights selected industries and individual companies after fundamental research. Which source of active return is the manager trying to create?

A. A custody gain created by faster settlement.
B. A guaranteed return identical to the benchmark.
C. Automatic elimination of market risk through diversification.
D. Value added from active allocation and security selection.

32. An equity manager prefers profitable companies whose shares trade at low multiples relative to normalized earnings and book value. Which style is most consistent?

A. Money market management.
B. Bond immunization.
C. Value investing.
D. Growth investing.

33. An equity manager emphasizes businesses expected to expand revenue and earnings faster than the market and accepts relatively high valuation multiples. Which style fits?

A. Value investing.
B. Growth investing.
C. Passive cash management.
D. Duration matching.

34. A bond portfolio has modified duration of 5.2 years. Using the duration approximation only, what price change is suggested by a 0.50 percentage-point rise in yield?

A. About a 5.2% decline.
B. About a 1.0% decline.
C. About a 2.6% decline.
D. About a 2.6% increase.

35. An investor splits fixed-income money equally among bonds maturing in one, three, five, seven, and nine years. What portfolio technique is being used?

A. A bond ladder.
B. A single bullet maturity.
C. An equity market-neutral strategy.
D. A barbell with only shortest and longest maturities.

36. A performance dashboard reports a 9% portfolio return, a 3% risk-free rate, and 12% standard deviation. Which Sharpe ratio should be displayed?

A. 0.25.
B. 0.75.
C. 1.50.
D. 0.50.

37. A mutual fund owns $945 million of assets, owes $45 million of liabilities, and has 30 million units outstanding. What NAV per unit is calculated?

A. $33.00.
B. $30.00.
C. $31.50.
D. $28.50.

38. A conventional open-end mutual fund receives a large new subscription. What structural response is most consistent with an open-end fund?

A. The fund share count is permanently fixed after its first offering.
B. The fund must guarantee the subscriber a positive one-year return.
C. The fund can issue additional units to the investor at the applicable NAV-based transaction value.
D. The investor must buy existing units from another investor on an exchange.

39. An investor is comparing two funds with similar recent returns. Why is reviewing the fund objectives, risks, costs, holdings, and mandate still necessary?

A. Because disclosure guarantees the higher-returning fund will repeat its performance.
B. Because the fund name alone determines legal suitability for every client.
C. Because portfolio holdings are irrelevant once a historical return is known.
D. Because similar past returns can come from different exposures, strategies, costs, and risks.

40. Fund A and Fund B earn the same 7.5% gross portfolio return, but Fund A has ongoing expenses 0.8 percentage point higher. Ignoring other differences, what effect is expected?

A. Fund A should leave a lower net return for investors.
B. The expense difference changes only the benchmark, not investor results.
C. Fund A must leave a higher net return because higher fees create more income.
D. Both funds must have identical net returns because gross return is the same.

41. A client wants a mutual fund primarily for short-term liquidity and relative capital stability rather than aggressive growth. Which category is the closest match?

A. A long-duration high-yield bond fund.
B. A money market fund.
C. A leveraged commodity-oriented fund.
D. A concentrated small-cap equity fund.

42. A client wants a single conventional fund mandate that can combine stocks and bonds and vary their proportions over time. Which category is the closest match?

A. A pure money market fund.
B. A single-sector equity fund.
C. A balanced or asset-allocation fund.
D. A short-selling market-neutral fund.

43. A bond mutual fund extends its average duration from four years to eight years without changing credit quality. Which risk becomes more pronounced?

A. Settlement risk on every domestic bond coupon.
B. Voting dilution from new common-share issues.
C. Commodity storage risk from physical inventories.
D. Interest-rate sensitivity to changes in market yields.

44. A pre-authorized plan invests $750 in the same mutual fund each month. If the current unit price is $25, how many units are purchased before any charge?

A. 25 units.
B. 33.3 units.
C. 30 units.
D. 18.75 units.

45. A retiree requests a $1,500 monthly systematic withdrawal from a fund whose NAV is $30 per unit. How many units must be redeemed for the payment, ignoring charges?

A. 50 units.
B. 45 units.
C. 60 units.
D. 500 units.

46. A year-end statement shows a taxable mutual-fund distribution that was used immediately to buy more units, so no cash reached the investor. Why does the cost-base ledger still need an entry?

A. Every reinvested distribution must reduce adjusted cost base as return of capital.
B. Reinvestment automatically makes the distribution permanently tax-free.
C. The new units always have zero cost because the investor received no cash.
D. The distribution can remain taxable and the reinvested amount generally becomes part of the cost of the additional units.

47. Two similar active funds have comparable gross returns, but one trades its portfolio far more frequently. Why can higher turnover reduce the return investors keep?

A. Frequent trading can create commissions, spreads, market impact, and additional implementation costs.

B. Frequent trading guarantees lower risk regardless of what securities are bought.

C. Turnover determines the legal ownership structure rather than trading activity.

D. Higher turnover automatically converts the fund into a passive index product.

48. A Canadian small-cap equity fund is compared only with a broad large-cap index. What evaluation problem can that create?

A. The broad index guarantees the fund must hold exactly the same securities.

B. The benchmark may not reflect the fund investment universe and risk exposures, making performance comparison misleading.

C. Any equity index eliminates the need to consider fees and risk.

D. A benchmark is used only to calculate the fund legal unit count.

49. Fund X returned 11% with substantially more volatility than Fund Y, which returned 9%. What additional analysis is most useful before ranking the managers?

A. Rank the funds only by the number of portfolio holdings.

B. Choose Fund X automatically because its raw return is higher.

C. Compare risk-adjusted performance rather than total return alone.

D. Ignore volatility because risk has no relation to fund evaluation.

50. A mutual fund gradually shifts from its stated conservative mandate into concentrated speculative holdings. Why should an investor care about the change even if recent returns are strong?

A. A fund mandate matters only before the first purchase and never afterward.

B. The altered holdings may create a different risk profile than the investor selected and expected.
C. Concentration guarantees lower risk because fewer securities are easier to monitor.
D. Strong recent returns automatically amend the mandate for every investor.

51. An investor wants to purchase ETF units at 11:15 a.m. rather than wait for an end-of-day fund transaction. Which ETF feature makes that possible?

A. ETF units generally trade on an exchange throughout the trading day.
B. ETF sponsors guarantee every intraday trade occurs exactly at NAV.
C. Retail investors redeem each single unit directly for the full underlying basket.
D. The ETF stops valuing its portfolio whenever the exchange is open.

52. An ETF has NAV of $40.00 per unit and trades at $40.60. What premium to NAV does the market price represent?

A. 15.0%.
B. 0.6%.
C. 1.0%.
D. 1.5%.

53. An index ETF trades noticeably above the value of its underlying basket. How can an authorized participant potentially profit while helping narrow the gap?

A. Require the exchange to fix the ETF price permanently at NAV.
B. Stop all retail trading until the benchmark provider changes the index.
C. Redeem ETF units for the basket and immediately buy more ETF units at the premium.
D. Create ETF units from the underlying basket and sell the higher-priced ETF units.

54. An ETF trades at a meaningful discount to the value of its underlying holdings. Which authorized-participant action can help reduce the discount?

A. Create additional ETF units and sell them into the already discounted market.
B. Buy discounted ETF units, redeem creation-unit blocks, and receive the more valuable underlying basket.
C. Guarantee every retail holder the fund NAV regardless of market conditions.
D. Change the benchmark constituents without following the index methodology.

55. A trader sees an ETF market of $24.92 bid and $25.08 ask. How many dollars separate the quoted buying and selling prices?

A. $0.32.
B. $0.08.
C. $0.16.
D. $0.24.

56. An index returns 6.4% for a period while its ETF returns 5.9%. If tracking difference is defined as ETF return minus index return, what is the result?

A. -0.5 percentage point.
B. -6.4 percentage points.
C. +12.3 percentage points.
D. +0.5 percentage point.

57. A thinly traded ETF is volatile and an investor refuses to pay more than $31.40 per unit. Which order best expresses that price constraint?

A. A market order with no price restriction.
B. A sell stop order at $31.40.
C. A buy limit order at $31.40.
D. A short sale entered without any limit price.

58. An ETF has low exchange volume, but the securities in its underlying basket are highly liquid and authorized participants are active. Why might the ETF still support meaningful trading capacity?

A. ETF liquidity can be supported by the underlying market and creation-redemption process, not only displayed ETF volume.

B. Every ETF with low volume must have the same wide spread regardless of holdings.

C. Low displayed ETF volume proves new units can never be created.

D. Only the sponsor advertising budget determines ETF trading liquidity.

59. A two-times daily leveraged ETF is held through a volatile month in which the benchmark rises and falls repeatedly. Why can the month-end result differ from exactly two times the benchmark cumulative return?

A. Leverage guarantees an exact two-times cumulative result over every holding period.

B. Daily resetting and compounding make the outcome dependent on the path of daily returns.

C. Compounding affects only conventional mutual funds and not exchange-traded products.

D. The ETF stops tracking its benchmark after the first losing day.

60. Why can in-kind creation and redemption contribute to tax efficiency for some ETFs in non-registered accounts?

A. All ETF distributions become tax-free whenever units are created in kind.

B. ETF investors can never realize a capital gain when selling their units.

C. The mechanism automatically converts interest income into eligible dividends.

D. It can transfer securities in kind, reducing portfolio sales that might realize gains.

61. A hedge fund borrows and uses derivatives so $100 of investor capital controls $170 of gross exposure. What is the main effect of this leverage?

A. It can magnify gains and losses relative to the investor capital supporting the positions.

B. It converts every risky position into a principal-protected investment.

C. It guarantees losses cannot exceed the interest charged on borrowing.

D. It removes margin and liquidity risk because more assets are controlled.

62. A hedge-fund team pairs long and short positions within industries and hedges most broad equity beta so performance depends mainly on relative stock selection. Which strategy label fits best?

A. Money market cash management.
B. Equity market-neutral or low-net long-short investing.
C. Principal-protected note investing.
D. Passive broad-market indexing.

63. A portfolio earns returns from merger spreads, restructurings, and other transaction-specific corporate catalysts. Which alternative-investment style best describes the mandate?

A. Passive index replication.
B. Money market management.
C. Long-only dividend growth.
D. Event-driven investing.

64. A manager forms views on global inflation, central-bank policy, growth, currencies, interest rates, equity indexes, and commodities. Which alternative style is being used?

A. Closed-end income investing.
B. Equity market-neutral.
C. Global macro.
D. Money market indexing.

65. A systematic manager buys futures markets with persistent upward trends and sells those with persistent downward trends according to programmed rules. Which approach is this?

A. Long-only value equity.
B. Managed futures or trend-following.
C. Principal-protected structuring.
D. Merger arbitrage.

66. Before allocating to an alternative manager with strong past returns, which due-diligence area is most important beyond the return series itself?

A. The colour of the manager logo and office furniture.
B. Whether the fund name contains the word alternative.
C. How frequently the portfolio manager appears on television.
D. Valuation, leverage, liquidity, counterparties, custody, operational controls, and risk management.

67. A private-equity fund has not yet called all of an investor committed capital. Why can the unfunded commitment create a liquidity-planning need?

A. Capital calls become optional whenever public markets decline.
B. All committed capital is always funded in full on the signing date.
C. The fund may call capital later even though private holdings can be difficult to sell quickly for cash.
D. Private-equity interests trade continuously on public exchanges at transparent prices.

68. An investor wants diversified commercial-property exposure without purchasing and operating individual buildings. What feature of a listed REIT can address that preference?

A. Exchange-traded access to a diversified pool of real-estate assets or businesses.
B. Direct legal title to one specific building chosen by the investor.
C. Elimination of financing, tenant, and interest-rate risk.
D. A guarantee that rents and property values can never decline.

69. A segregated-fund account value falls before its stated maturity date, but the contract contains a maturity guarantee. Which statement correctly describes how that protection works?

A. It prevents the market value from declining at any time before maturity.
B. It guarantees every underlying investment will outperform its benchmark.
C. It removes all fees, taxes, and insurer credit exposure from the contract.
D. It applies according to specified contract terms, dates, percentages, withdrawals, and insurer obligations.

70. A closed-end portfolio is valued at $32.00 per share while exchange buyers pay $28.80. Express the $3.20 price shortfall as a percentage of NAV.

A. 20%.
B. 10%.
C. 3.2%.
D. 11.1%.

71. A market-linked note promises face-value repayment at maturity, but the issuing institution later becomes unable to pay its debts. Which risk shows why the principal promise is not absolute?

A. Issuer credit risk because repayment depends on the issuer meeting its obligation.
B. The note market value cannot decline before maturity under any circumstances.
C. Principal protection makes the note identical to insured cash regardless of issuer.
D. The investor is guaranteed the full uncapped index return including all dividends.

72. A market-linked GIC credits the lesser of the linked-index gain or an 8% maximum return for the term. If the index rises 13%, what linked return is credited under the stated cap?

A. 5%.
B. 13%.
C. 8%.
D. 21%.

73. A structured note pays 70% of any positive index return, with no additional return if the index falls. If the index rises 12%, what linked return does the participation formula produce before other terms?

A. 17.1%.
B. 7.0%.
C. 12.0%.

D. 8.4%.

74. An alternative fund imposes a one-year lock-up and later requires ninety days notice for redemptions. What investor risk does this create most directly?

A. A liquidity mismatch if the investor needs cash before the fund permits withdrawal.
B. Automatic elimination of market and leverage risk during the lock-up.
C. A requirement that all holdings become exchange-traded during the notice period.
D. A guarantee that the fund will earn a higher return because capital is locked.

75. Why can a high historical Sharpe ratio be misleading for an alternative strategy that holds illiquid assets valued infrequently?

A. A high Sharpe ratio guarantees the strategy cannot experience a loss.
B. Sharpe ratio measures only management fees and not investment returns.
C. Reported volatility may be artificially smoothed and fail to capture liquidity, tail, leverage, or valuation risk.
D. Infrequent valuation makes all future returns legally fixed.

76. A split-share structure gives one class priority for distributions and a stated amount of capital before the other class receives residual value. Which class generally bears more residual capital-value volatility?

A. The underlying issuer secured bondholders.
B. The capital-share class.
C. The preferred-share class with priority claims.
D. A government-insured deposit class.

77. Interest earned in a non-registered Canadian investment account is received in cash. What is its general tax character for an individual investor?

A. A capital gain only when the interest is withdrawn from the account.

B. Tax-free income merely because the investment is held through a brokerage account.

C. Interest income that is generally included in taxable income under the applicable rules.

D. An eligible dividend automatically entitled to the dividend tax credit.

78. A taxable Canadian corporation pays a dividend to an individual investor in a non-registered account. Which tax mechanism generally distinguishes this income from ordinary interest?

A. Canadian dividends are always completely tax-free to every individual investor.

B. Canadian dividends can be grossed up and may qualify for a dividend tax credit, depending on the dividend type.

C. The full dividend is treated only as a capital gain when received.

D. Dividend income is ignored unless the shares are sold in the same year.

79. An investor has a net capital loss remaining after the current-year capital-gain calculation. Subject to the rules, what is the general use of that loss?

A. It can generally be applied against taxable capital gains in eligible years rather than against ordinary employment income.

B. It automatically becomes deductible interest expense on investments.

C. It must always be deducted first from salary and wages.

D. It creates an immediate cash refund equal to the entire loss.

80. Which statement best describes the usual tax pattern for deductible RRSP contributions, investment growth inside the plan, and ordinary withdrawals?

A. RRSP withdrawals are always tax-free because contributions were made from after-tax money.

B. Only government-bond income can grow tax-deferred inside an RRSP.

C. Contributions are never deductible and all investment income is taxed annually inside the plan.

D. Eligible contributions can reduce taxable income, growth is generally tax-deferred inside the plan, and withdrawals are generally included in income.

81. An investor withdraws $9,000 from a TFSA this year. What general contribution-room effect should the investor remember?

A. The withdrawal permanently destroys an equal amount of contribution room.

B. The amount can always be re-contributed immediately in the same year without regard to existing room.

C. Every TFSA withdrawal is fully taxable and creates an RRSP deduction.

D. The withdrawn amount is generally added back to TFSA contribution room at the beginning of the next calendar year.

82. An investor sells capital property for $27,500, pays $500 of selling costs, and has adjusted cost base of $22,000. What capital gain is calculated before applying the inclusion rules?

A. $27,000.

B. $4,500.

C. $5,000.

D. $5,500.

83. An advisory account charges 0.85% annually on $720,000 of assets covered by the agreement. Ignoring other charges, what annual asset-based fee is calculated?

A. $6,120.

B. $7,200.

C. $61,200.

D. $612.

84. A client must approve every trade in one account, while a qualified portfolio manager can trade another account within a written mandate without calling first. What distinguishes the second account?

A. The client gives up legal ownership of the account assets.

B. It is discretionary within the documented mandate.

C. The account no longer requires objectives or investment restrictions.

D. The manager can ignore the written mandate whenever markets are volatile.

85. Before recommending any product to a new client, which information set is most important to establish first?

A. Objectives, financial circumstances, time horizon, liquidity needs, risk profile, and other relevant client constraints.
B. Only the compensation paid to the advisor by available products.
C. Only the product that generated the highest return last year.
D. Only the client age, because age determines every suitable portfolio.

86. A client has substantial wealth and stable income but says a 5% portfolio decline would cause sleeplessness and immediate selling. Which element most directly limits the risk profile?

A. Market capitalization of the securities owned.
B. Low risk willingness or tolerance.
C. Tracking error of a benchmark index.
D. High risk capacity automatically overrides the concern.

87. A household will need a substantial down payment within twelve months. What portfolio characteristic becomes especially important for money earmarked for that goal?

A. Maximum exposure to illiquid private equity.
B. High leverage to maximize expected return before the purchase.
C. A portfolio designed only for a thirty-year retirement objective.
D. Liquidity and capital stability consistent with the short time horizon.

88. After marriage and the birth of a child, a client finds that old registered-plan and insurance designations no longer match the intended estate distribution. What planning principle follows?

A. Estate planning becomes unnecessary once any investment account names a beneficiary.

B. A will automatically rewrites every registered-plan and insurance beneficiary designation.
C. Major life changes can make old designations inconsistent with current intentions and the broader estate plan.
D. Beneficiary designations never affect registered plans or insurance proceeds.

89. Two products appear capable of meeting the client needs, but one pays the advisor materially more. What issue must be addressed before choosing between them?

A. Compensation differences are irrelevant whenever both products are legal.
B. A compensation conflict that could influence the recommendation away from the client interests.
C. The advisor should conceal compensation so the client considers only performance.
D. Higher compensation proves the product is more suitable for every client.

90. A client loses a job, expects to withdraw money within six months, and reports substantially lower household income. What should occur before further investment recommendations?

A. Assume the old profile remains valid because the account number is unchanged.
B. Increase risk automatically so expected gains can replace the lost salary.
C. Ignore the withdrawal because long-run market returns are more important than current needs.
D. Update the relevant client information and reassess liquidity, objectives, time horizon, and risk capacity.

91. A university endowment team researches securities, constructs portfolios, and manages assets within a board-approved mandate. Which institutional role is the team performing?

A. Stock-exchange operation.
B. Sell-side market making.
C. Buy-side portfolio management.
D. External financial-statement auditing.

92. An institution hires a bank to safeguard securities, collect income, process corporate actions, reconcile records, and support settlement. What service is the bank providing?

A. Custody services.
B. Strategic asset allocation advice only.
C. Credit-rating agency portfolio management.
D. Sell-side equity research.

93. A dealer analyst publishes company and industry research for institutional investors and the firm capital-markets clients. Which side of the marketplace does that role represent?

A. The buy side.
B. The institutional custodian only.
C. The sell side.
D. The asset-owner governance committee.

94. A pension trader needs to buy a block much larger than displayed liquidity at the best quoted price. Why might the order be worked gradually across venues and time?

A. Because dividing an order guarantees the market will move in the trader favour.
B. Because institutional orders are legally prohibited from trading at once.
C. Because every share must execute at exactly the same price regardless of liquidity.
D. To reduce market impact and information leakage while seeking better overall execution.

95. A trading desk evaluates quoted price, spread, commissions, available liquidity, speed, fill probability, information leakage, and market impact. What execution concept is being applied?

A. Best execution as an overall process rather than a single-price test.
B. Strategic asset allocation for the institution long-run policy.
C. Issuer credit analysis based only on financial statements.
D. A guarantee that every trade receives the lowest price of the day.

96. After an institutional trade is executed, systems confirm obligations and arrange delivery of securities against payment. Which stage of the transaction is this?

A. Fundamental security analysis.
B. Clearing and settlement.
C. Strategic asset allocation.
D. Technical resistance testing.

97. A trading desk compares its actual execution prices with an arrival-price benchmark and separates commissions, spread, delay, and market impact. What process is this?

A. Capital-asset pricing analysis.
B. Common-size financial-statement analysis.
C. Dividend payout analysis.
D. Transaction-cost analysis.

98. An institution wants an execution algorithm that trades roughly in proportion to expected market volume through the day. Which benchmark-oriented approach is closest?

A. Bond-ladder investing.
B. VWAP-oriented execution.
C. Value-screen investing.
D. TWAP-oriented execution.

99. A policy permits real assets between 8% and 15% of a portfolio. Market moves push the allocation to 17%. What governance response is most appropriate?

A. Apply the mandate monitoring, escalation, and corrective procedures to address the breach.
B. Ignore the breach because gains automatically suspend policy limits.
C. Rewrite the policy retroactively so 17% becomes compliant without approval.
D. Increase the allocation further because all market-created breaches should be amplified.

100. An asset owner hires an investment consultant. Which assignment most closely matches the consultant role rather than custody or trade execution?

A. Maintain the issuer shareholder register as transfer agent.

B. Hold legal custody of all securities and settle every transaction.

C. Help with governance, investment policy, asset-allocation analysis, manager research, and performance evaluation.

D. Act as principal on every trade and guarantee the institution a profit.

Practice Exam 9: Answer Key and Explanations

1. A — Gross profit is revenue minus cost of goods sold, so the company retains $156 million before operating expenses. Dividing $156 million by $780 million gives 20.0%. The 80% choice is the cost-of-goods-sold percentage, while the other percentages do not follow the gross-margin calculation. Analysts should compare the result with prior periods and relevant peers before drawing a broader conclusion.

2. B — The current ratio divides current assets by current liabilities. Dividing $360 million by $240 million gives 1.50 times. A result above one indicates current assets exceed current obligations, but it does not show how liquid each current asset actually is. The 0.67 choice simply reverses the ratio. One ratio rarely supports a complete valuation conclusion by itself.

3. D — The quick ratio focuses on the more liquid current assets and excludes inventory in this calculation. Dividing $184 million of cash and receivables by $160 million of current liabilities gives 1.15 times. Using total current assets would produce 1.75, while 0.60 reflects inventory alone relative to liabilities. One ratio rarely supports a complete valuation conclusion by itself.

4. C — Debt-to-equity divides debt by common equity. The calculation is $525 million divided by $350 million, producing 1.50 times. The 0.67 choice reverses the relationship. The ratio describes financial leverage, but analysts normally consider it alongside cash flow, interest coverage, asset quality, and industry characteristics. Analysts should compare the result with prior periods and relevant peers before drawing a broader conclusion.

5. A — Times-interest-earned or interest coverage compares EBIT with annual interest expense. Dividing $108 million by $18 million gives 6.0 times. The multiple indicates the earnings cushion available before interest is paid. Subtracting the balances or treating the dollar difference as a coverage multiple would not measure the stated relationship. One ratio rarely supports a complete valuation conclusion by itself.

6. B — Return on assets compares profit with the asset base used to generate it. Dividing $48 million by $600 million gives 0.08, or 8.0%. Reversing the ratio gives an unrelated multiple, and the other percentages do not use the stated numerator and denominator. ROA is especially useful when comparing asset efficiency.

7. C — Return on equity divides earnings available to common shareholders by average common equity. Dividing $36 million by $180 million produces 20.0%. The measure focuses on profitability relative to owners capital. It can be influenced by leverage, so a high ROE should not automatically be interpreted as superior operating performance without context.

8. D — Basic earnings per share divides earnings available to common shareholders by the weighted-average number of common shares. Dividing $96 million by 24 million shares gives $4.00 per share. A change in the share-count denominator can alter EPS even if total earnings are unchanged, which is why the weighted-average count matters.

9. A — The payout ratio is $2.10 divided by $6.00, or 35%. The retention ratio is the complement: 100% minus 35% equals 65%. The retained portion can support reinvestment, debt reduction, or other corporate uses. A high retention rate does not guarantee that management will earn attractive returns on the retained capital.

10. C — A price-earnings multiple equals market price divided by earnings per share. Rearranging gives EPS equal to price divided by the multiple. Dividing $72 by 15 produces $4.80. Multiplying rather than dividing would give an implausibly large number and would reverse the valuation relationship stated in the question. One ratio rarely supports a complete valuation conclusion by itself.

11. B — Price-to-book equals market price divided by book value per share. Rearranging gives book value equal to $54 divided by 1.8, which is $30.00. Multiplying the two figures gives $97.20 and reverses the intended relationship. Book value is an accounting measure and may not reflect current economic value of every asset.

12. D — Dividend yield divides annual dividends per share by current market price. The calculation is $1.92 divided by $48, giving 0.04, or 4.0%. This measure differs from the payout ratio, which uses earnings rather than price as the denominator. Yield can change simply because the share price changes. One ratio rarely supports a complete valuation conclusion by itself.

13. C — Support is a price area where buying previously halted declines. A decisive break below that level, especially on strong volume, can suggest that the prior demand zone has weakened. Technical analysis identifies patterns and probabilities rather than guarantees. Book value is a fundamental accounting measure and is not established by a chart breakdown.

14. D — Resistance is a zone where selling pressure has repeatedly limited advances. A close above that level can be viewed as a breakout, and heavier volume may strengthen the signal by showing broader participation. The interpretation is probabilistic, not a promise of continued gains, and it does not replace fundamental analysis of the issuer.

15. A — Top-down analysis begins with broad economic and market conditions, then considers sectors or industries before selecting individual securities. Bottom-up analysis starts with company-specific fundamentals instead. Passive replication and market-neutral construction are portfolio approaches rather than the macro-to-industry-to-company analytical sequence described in the stem. Analysts should compare the result with prior periods and relevant peers before drawing a broader conclusion.

16. B — Bottom-up analysis begins with the individual business and its financial condition, competitive position, earnings quality, and valuation. Broader industry or economic factors may still matter, but they are not the starting point. Top-down analysis reverses the sequence, while index replication and liability-driven investing are portfolio-management approaches rather than company-analysis methods.

17. D — Defensive businesses usually sell products or services that customers continue to need even when economic activity weakens. Basic utility demand is generally less discretionary than luxury travel, recreational boats, or speculative resource exploration. Defensive classification does not eliminate company, regulatory, or market risk; it describes relative sensitivity to the business cycle.

18. C — A widening gap between accounting profit and operating cash flow can signal aggressive accruals, slower collections, or other earnings-quality concerns. Rapid receivable growth relative to sales deserves investigation because reported revenue may not be converting into cash promptly. The pattern is a warning sign to analyze, not automatic proof of misconduct.

19. B — Expected portfolio return is the weighted average of component expected returns. The calculation is 0.30 times 4% plus 0.70 times 10%, giving 1.2% plus 7.0%, or 8.2%. Simply averaging the two returns ignores the unequal weights, while adding them produces a number that is not a weighted portfolio expectation. Objectives and constraints remain part of the portfolio decision.

20. A — Standard deviation measures the dispersion of returns around their average, so the 11% series has shown more variability than the 4% series. Standard deviation does not by itself identify expected return, distinguish systematic from specific risk, or guarantee that a lower-volatility investment cannot lose money. It is one broad measure of total variability.

21. C — Beta measures systematic sensitivity relative to a market benchmark. A beta of 0.75 suggests the security has historically moved less than a beta-one market exposure, on average. Beta is not a guaranteed return relationship and does not measure all company-specific risk. Actual future returns can differ substantially from historical sensitivity estimates.

22. B — CAPM adds the risk-free rate to beta times the market risk premium. The premium is 8.5% minus 2.5%, or 6.0%. Multiplying by 1.1 gives 6.6%, and adding 2.5% produces 9.1%. Using the market return alone or omitting the risk-free component would not follow the stated model. Objectives and constraints remain part of the portfolio decision.

23. D — Correlation describes how returns move together. A negative correlation means the assets have tended to move in opposite directions to some degree, so combining them can reduce portfolio variability relative to highly positively correlated assets. Diversification does not guarantee positive returns or remove all market risk, and correlation does not determine each asset expected return.

24. A — The efficient frontier contains portfolios that are not dominated by another feasible portfolio on the risk-return trade-off. For a given risk level, an efficient portfolio offers the highest expected return, and for a given expected return it offers the lowest risk. Security count, fees, or the presence of a risk-free asset alone do not define efficiency.

25. D — Risk capacity concerns the financial ability to absorb losses without impairing essential goals, while risk willingness concerns psychological comfort with uncertainty and declines. The investor can therefore have high capacity and low willingness. A suitable portfolio should consider both because ignoring willingness can lead to panic selling even when the investor can financially tolerate volatility.

26. C — A known near-term cash requirement creates a liquidity need and shortens the practical horizon for the assets expected to fund it. The investment policy should recognize the obligation before selecting securities. Long-lockup or highly volatile assets may be unsuitable for that portion because the investor may need dependable access to cash on a specific schedule.

27. A — Strategic asset allocation establishes long-term target exposures to major asset classes based on objectives, liabilities, risk tolerance, and constraints. Tactical allocation makes shorter-term deviations around those targets. Settlement and technical chart analysis are different activities. Strategic weights provide a policy anchor that can guide rebalancing and performance evaluation over time.

28. B — Tactical asset allocation involves shorter-term departures from strategic policy weights to express a market view while remaining within the mandate. Strategic allocation sets the long-run policy anchor. Full replication seeks to track a benchmark, and custody reconciliation is an operational function. Tactical decisions add active risk and can underperform if the market view is wrong.

29. B — Rebalancing moves portfolio exposures back toward strategic targets or permitted ranges after market movements or cash flows cause drift. The purpose is policy and risk control, not a forecast that recent winners must reverse. Rebalancing can create costs and taxes, so implementation matters, but profitable drift does not make mandate limits irrelevant.

30. A — Passive index management seeks to approximate a benchmark by replicating or sampling its holdings with limited discretionary deviations. Active concentrated, event-driven, and global macro approaches intentionally seek returns from manager judgments that differ from benchmark weights. Passive management can still experience tracking differences because of fees, trading, sampling, cash, and implementation choices.

31. D — Active management intentionally departs from benchmark weights through security selection, sector positioning, or other judgments in an effort to add value. Those choices create active risk and can underperform. Custody and settlement are operational functions, while benchmark replication aims to minimize rather than deliberately create differences from the reference portfolio.

32. C — Value investing searches for securities believed to be inexpensive relative to fundamentals such as earnings, book value, or cash flow. Growth investing emphasizes faster expected expansion and may accept higher valuation multiples. Money market management and bond immunization are fixed-income or cash approaches. A low multiple can still reflect genuine business deterioration, so judgment remains necessary.

33. B — Growth investing emphasizes companies with above-average expected expansion in earnings, revenue, or market opportunities, often accepting richer current valuations for that potential. Value investing focuses more on securities considered inexpensive relative to fundamentals. Cash management and duration matching are not equity security-selection styles. Growth expectations can disappoint even when the underlying business remains strong.

34. C — The duration approximation estimates percentage price change as negative duration times the yield change. Multiplying 5.2 by 0.005 gives 0.026, or 2.6%, and the sign is negative because yields rose. Convexity and other effects can refine the estimate, but the question asks for the basic duration approximation. Objectives and constraints remain part of the portfolio decision.

35. A — A bond ladder staggers maturities across several dates so portions of the portfolio mature and can be reinvested over time. This spreads reinvestment timing and can provide recurring liquidity. A barbell concentrates at short and long ends, while a bullet clusters maturities. The structure does not eliminate interest-rate or credit risk.

36. D — The Sharpe ratio divides excess return by total volatility. Excess return is 9% minus 3%, or 6%. Dividing 6% by 12% gives 0.50. The measure helps compare return earned per unit of standard deviation, but it does not capture every risk, especially illiquidity, tail risk, or nonlinear exposures. Objectives and constraints remain part of the portfolio decision.

37. B — Net asset value per unit equals assets minus liabilities, divided by units outstanding. Net assets are $900 million. Dividing $900 million by 30 million units gives $30.00 per unit. Using gross assets without subtracting liabilities would overstate NAV. The figure is an accounting value at the fund valuation point, not a guaranteed sale price.

38. C — Open-end mutual funds generally create new units when investors subscribe and redeem units when investors withdraw, using NAV-based procedures. Secondary-market trading between investors and a permanently fixed share count are features associated with other structures. Open-end status changes the unit-issuance mechanism; it does not guarantee investment performance or remove fees and risk.

39. D — Historical return alone does not reveal how a fund produced that result. Two funds can have different mandates, concentration, leverage, duration, sector exposure, fees, or liquidity while reporting similar returns. Reviewing disclosure and holdings helps identify those differences. Past performance is not a promise, and product selection still has to match the investor circumstances.

40. A — Ongoing fund expenses are charged against fund assets and reduce the return remaining for investors. If gross portfolio performance is identical, the fund with higher expenses should generally produce a lower net result by approximately the cost difference before other effects. Higher fees do not guarantee better management, lower volatility, or superior future returns.

41. B — Money market funds invest mainly in short-term, high-quality money-market instruments and generally emphasize liquidity and lower price volatility rather than aggressive capital growth. They are not risk-free or equivalent to guaranteed deposits. Small-cap, long-duration high-yield, and leveraged commodity strategies can carry materially greater market, credit, or interest-rate risk. Fund selection should also consider mandate, costs, risk, liquidity, and tax context.

42. C — Balanced or asset-allocation funds combine equities and fixed income within one managed mandate, often seeking a blend of growth, income, and risk control. The actual mix can vary by fund. Money market and sector funds focus on narrower exposures, while market-neutral strategies use different alternative techniques rather than a conventional mixed-asset mandate.

43. D — Duration measures sensitivity of bond prices to changes in market yields. Increasing duration generally increases the percentage price movement expected for a given yield change, all else equal. Holding credit quality constant does not remove this interest-rate effect. Voting dilution and commodity storage are unrelated to a diversified bond fund, while settlement is not what duration measures.

44. C — The number of units purchased equals the fixed contribution divided by the unit price. Dividing $750 by $25 gives 30 units. With a fixed-dollar contribution, lower unit prices buy more units and higher prices buy fewer. This is the mechanical feature behind dollar-cost averaging, which encourages discipline but does not guarantee a profit.

45. A — A systematic withdrawal funded by redemptions requires enough units to generate the requested cash. Dividing $1,500 by the $30 NAV gives 50 units. If NAV later falls while the cash payment remains fixed, more units would have to be redeemed. That can accelerate depletion when withdrawals exceed sustainable portfolio income and growth.

46. D — Automatic reinvestment changes what happens to the cash, not necessarily the tax character of the distribution. A taxable distribution may still have to be reported, while the reinvested amount generally contributes to the cost of the newly acquired units. Accurate adjusted-cost-base records help avoid counting the same economic amount again as a later capital gain.

47. A — Portfolio turnover can create explicit and implicit transaction costs, including commissions, bid-ask spreads, and market impact. Those costs reduce the return remaining for investors unless active decisions add enough value to offset them. Turnover can also affect tax realization in taxable accounts. High turnover itself does not establish diversification, skill, or lower risk.

48. B — A meaningful benchmark should resemble the market segment, style, and risk exposures the fund is designed to pursue. Comparing a small-cap strategy only with a broad large-cap index can confuse category effects with manager value added. Benchmark analysis should be combined with review of fees, volatility, mandate, holdings, and consistency of the investment process.

49. C — Raw return does not show how much risk was taken to earn it. Risk-adjusted measures can help determine whether the additional return compensated investors for materially greater volatility or other exposure. Such measures are not perfect and should be interpreted with the mandate, benchmark, fees, liquidity, and time period rather than treated as a complete ranking system.

50. B — Mandate consistency matters because investors choose a fund partly for the exposures, risks, and role it is expected to provide. A material style or concentration shift can change portfolio behavior and suitability even if recent performance is strong. Investors should evaluate whether current holdings remain consistent with the fund objective and their own portfolio needs.

51. A — ETF units generally trade between investors on an exchange during the trading day, so orders can execute at prevailing market prices. Those prices can differ from net asset value because of supply, demand, spreads, and market conditions. Intraday trading does not guarantee execution exactly at NAV or direct retail redemption of individual units for the basket.

52. D — The premium equals market price minus NAV, divided by NAV. The difference is $0.60. Dividing $0.60 by $40.00 gives 0.015, or 1.5%. A positive result means the ETF trades above portfolio value. Premiums and discounts can change as trading conditions, underlying prices, and arbitrage activity evolve. ETF implementation also requires attention to spreads, liquidity, tracking, and the underlying portfolio.

53. D — When ETF units trade above the underlying basket value, an authorized participant may acquire the basket, create ETF units, and sell those units at the premium. The added ETF supply and related basket demand can push market price and portfolio value toward each other. Arbitrage helps alignment, but transaction costs and market frictions can leave temporary differences.

54. B — At a discount, an authorized participant can buy ETF units below the basket value and redeem sufficiently large blocks for underlying securities worth more. That buying demand for ETF units and potential selling of the basket can narrow the price gap. The mechanism supports alignment but does not guarantee that premiums or discounts disappear instantly in stressed markets.

55. C — The quoted spread is the ask price minus the bid price. Subtracting $24.92 from $25.08 gives $0.16 per unit. A wider spread generally increases the potential trading cost of buying and later selling, all else equal. Spread size can vary with market conditions, ETF depth, and liquidity of the underlying holdings.

56. A — Tracking difference for the period is ETF return minus benchmark return. Subtracting 6.4% from 5.9% gives -0.5 percentage point. The negative sign means the ETF lagged its benchmark over that interval. Fees, cash, trading, sampling, taxes, and implementation choices can contribute to persistent or temporary return differences. ETF implementation also requires attention to spreads, liquidity, tracking, and the underlying portfolio.

57. C — A buy limit order sets the maximum price the investor is willing to pay. It provides price control but does not guarantee execution if available sellers remain above the limit. A market order prioritizes execution over price control, while a sell stop and an unrestricted short sale do not express the stated purchase objective.

58. A — ETF liquidity has both secondary-market and underlying-market dimensions. Market makers and authorized participants can create or redeem units using the underlying basket, so liquid holdings can support additional trading capacity beyond the ETF historical exchange volume. Investors should still examine spreads, depth, market conditions, and the liquidity of the securities used in the creation-redemption mechanism.

59. B — Daily leveraged ETFs target a multiple of the benchmark return over their stated daily objective period, then reset exposure. Over multiple days, compounding means gains and losses apply to changing bases, so the sequence and volatility of returns matter. The result can therefore diverge materially from a simple multiple of the benchmark cumulative return.

60. D — In-kind creation and redemption can allow an ETF to transfer securities without selling them inside the portfolio, which can reduce realization of gains that might otherwise be distributed. That does not make ETFs tax-free. Investors can still receive taxable distributions and realize gains or losses when selling units, depending on the account and transactions.

61. A — Leverage increases economic exposure relative to the capital supplied by investors. If positions move favourably, gains on capital can be amplified; adverse moves can similarly magnify losses and may trigger financing or margin pressures. Leverage does not guarantee refinancing, remove liquidity risk, or limit losses to the borrowing cost. It changes the scale of exposure.

62. B — A market-neutral or low-net long-short approach pairs long positions with short positions so returns rely more on relative security selection than broad market direction. Neutrality is a target, not a guarantee, because exposures and correlations can change. Passive indexing, cash management, and principal-protected notes use different structures and sources of return.

63. D — Event-driven strategies focus on corporate transactions or situations such as mergers, restructurings, spin-offs, bankruptcies, and other catalysts that can change security values. Buying a takeover target below the offer price is a classic event-sensitive trade. The return depends on deal completion, timing, financing, and break risk rather than simple benchmark replication.

64. C — Global macro strategies take positions across major asset classes and countries based on broad economic and policy views. They may trade currencies, rates, equity indexes, commodities, or related derivatives. Equity market-neutral focuses on relative stock positions, while money market indexing and closed-end income investing do not describe the cross-market macro decision process in the stem.

65. B — Managed-futures trend-following strategies use systematic signals to establish long or short positions across futures markets based on observed price trends. They differ from merger arbitrage, fundamental long-only equity selection, and principal-protected products. Trend systems can diversify traditional portfolios, but rapid reversals, leverage, model risk, and trading costs can create substantial losses.

66. D — Alternative-manager due diligence should examine how returns are produced and whether the organization can control the associated risks. Valuation practices, leverage, liquidity, counterparties, custody, personnel, operational processes, and risk management can be as important as historical performance. Strong returns do not compensate for weak controls, opaque valuation, or redemption terms that do not match the investor needs.

67. C — Private-equity commitments are often drawn over time as the manager identifies investments. The investor therefore needs liquid resources to meet future capital calls, even while existing private holdings may be illiquid and difficult to sell. Failure to plan for unfunded commitments can create a cash mismatch. The commitment structure does not create continuous exchange liquidity.

68. A — A listed REIT can provide exposure to a portfolio of income-producing real estate through a security that trades on an exchange, reducing the need for direct property ownership and management. Exchange liquidity can improve accessibility, but it does not eliminate property-market, financing, tenant, management, or interest-rate risk, and market price can still fluctuate substantially.

69. D — Segregated-fund guarantees are insurance-contract features that apply under stated conditions, such as defined maturity or death events and specified guarantee percentages. Withdrawals, resets, dates, and contract provisions can affect the amount protected. The investment value can fluctuate before the guarantee event, and the guarantee depends on the insurer ability to meet its contractual obligations.

70. B — The discount equals NAV minus market price, divided by NAV. The difference is $3.20, and $3.20 divided by $32.00 equals 10%. Closed-end shares trade in the market, so supply and demand can move price away from portfolio value. A discount can persist and is not automatically paid to shareholders. Complexity can change both return potential and the sources of loss.

71. A — Principal protection is a contractual promise, so the investor still depends on the issuer ability to pay at maturity. The note can also have opportunity cost, limited upside, liquidity constraints, and market-value fluctuations before maturity. Protection of stated principal does not guarantee the full index return or make the product identical to a government-insured deposit.

72. C — The product formula specifies that the credited return cannot exceed 8% for the term. Because the linked index rose 13%, the cap binds and the credited return is 8%. The investor therefore gives up gains above the maximum in exchange for the product protection features. The exact product terms determine participation and payoff.

73. D — A 70% participation rate means the note credits 70% of the positive index return under the stated simplified formula. Multiplying 12% by 0.70 gives 8.4%. The investor does not receive the full 12% benchmark gain. Actual structured notes can also include caps, barriers, averaging, principal terms, fees, and issuer credit risk.

74. A — Lock-ups, notice periods, and redemption gates restrict how quickly investors can withdraw capital. Those terms can be useful to a manager holding less-liquid positions, but they can conflict with an investor own cash-flow needs. Strong performance does not make redemption restrictions irrelevant, and illiquidity can become especially costly during market stress or personal emergencies.

75. C — Sharpe ratio uses reported return and volatility, so infrequent or model-based pricing can smooth observed returns and make volatility appear lower than the underlying economic risk. Alternative strategies can also contain leverage, nonlinear payoffs, concentration, liquidity risk, and tail exposure that standard deviation does not fully capture. Risk-adjusted metrics should therefore be interpreted with due diligence.

76. B — Split-share structures divide the economics of an underlying portfolio between classes. Preferred shares generally have priority claims on distributions and specified capital amounts, while capital shares receive more of the residual upside and absorb more downside after those obligations.

That embedded leverage can make the capital-share class substantially more volatile than the underlying portfolio itself.

77. C — Interest from ordinary non-registered investments is generally reported as investment income and included in taxable income under the applicable Canadian rules. It is not automatically converted into dividend or capital-gain treatment by the brokerage account. The exact reporting can depend on the investment and timing, but the basic character remains interest income.

78. B — Taxable dividends from Canadian corporations are generally subject to the dividend gross-up and dividend tax credit system, with treatment depending on whether the dividend is eligible or non-eligible. That differs from ordinary interest income. Dividends are not automatically tax-free or converted into capital gains simply because they are paid by a Canadian company.

79. A — Net capital losses generally belong within the capital-gain system. Subject to the rules, they can be used against taxable capital gains in permitted years rather than deducted freely from employment income. Special situations can modify treatment, so taxpayers should keep supporting records. The loss does not automatically create a refund equal to its full economic amount.

80. D — An RRSP generally provides tax deferral. Eligible contributions can reduce taxable income within available deduction limits, 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 exceptions. This differs from a TFSA, where contributions are not deductible and withdrawals are generally tax-free.

81. D — TFSA withdrawals are generally tax-free, and the amount withdrawn is added back to contribution room at the beginning of the next calendar year. Re-contributing in the same year requires enough existing unused room; otherwise an overcontribution can occur. Investors should track transactions carefully because financial institutions do not determine real-time contribution room for the taxpayer.

82. C — The capital gain is proceeds of disposition minus selling costs and adjusted cost base. Net proceeds are $27,500 minus $500, or $27,000. Subtracting the $22,000 adjusted cost base gives a $5,000 capital gain before the applicable inclusion rules are considered. The full sale proceeds are not themselves the economic gain.

83. A — An asset-based fee applies the stated percentage to the assets covered by the agreement. Multiplying $720,000 by 0.0085 gives $6,120. The calculation is independent of the number of trades executed. Clients should still understand which services are included and whether product expenses, transaction charges, taxes, or other costs apply separately.

84. B — A discretionary managed account authorizes a qualified portfolio manager to make investment decisions within the agreed mandate without obtaining approval for each transaction. The client still owns the assets, and objectives, constraints, and restrictions remain essential. Discretionary authority is bounded authority; it does not permit the manager to disregard the mandate or suitability framework.

85. A — Sound recommendations begin with the client rather than with a product. Objectives, assets, liabilities, income, expenses, dependants, liquidity, time horizon, risk capacity, risk willingness, tax considerations, and other constraints create the basis for suitability. Age or past performance alone cannot capture those circumstances, and advisor compensation should not replace client-centered analysis.

86. B — The client may have strong financial capacity to absorb losses but low psychological willingness to experience them. Risk tolerance or willingness can therefore constrain the suitable level of volatility even when net worth is high. Ignoring the behavioural dimension can lead to panic selling and abandonment of the plan during ordinary market declines.

87. D — A near-term known cash requirement creates a short horizon for the money assigned to that goal. Liquidity and capital stability therefore become particularly important because a severe market decline or lock-up could force a loss or prevent timely access. The rest of the household portfolio can have different horizons, but earmarked assets should reflect the specific obligation.

88. C — Beneficiary designations can direct proceeds from certain registered plans or insurance contracts and may interact with the will, ownership structure, taxes, and family circumstances. Marriage, birth, divorce, or death can make old instructions inappropriate. Reviewing the documents together helps identify conflicts and gaps. A will does not automatically update every beneficiary designation in every contract.

89. B — When compensation differs materially, the advisor financial interest can conflict with the client interest. The conflict should be identified and addressed under the applicable standards rather than allowed to determine the recommendation. Suitability, costs, risks, product features, alternatives, and client circumstances should support the decision. Legal availability alone does not make a conflicted recommendation appropriate.

90. D — A material life change can alter cash flow, liquidity requirements, time horizon, objectives, and the financial ability to absorb loss. The advisor should refresh relevant client information before relying on the old recommendation. Automatically increasing risk or ignoring a near-term withdrawal could expose essential funds to losses at the moment the client needs them most.

91. C — Buy-side portfolio managers invest capital on behalf of asset owners such as pensions, endowments, insurers, or funds. Their work includes research, portfolio construction, and risk management within the approved mandate. Market making is generally a dealer function, while external auditing and exchange operation have different responsibilities and do not determine the asset owner portfolio holdings.

92. A — A custodian provides safekeeping and important operational services such as income collection, corporate-action processing, recordkeeping, reconciliation, and settlement support. The custodian is distinct from the portfolio manager who makes investment decisions and from consultants who advise on policy or manager selection. Keeping roles separate supports control, accountability, and independent records.

93. C — Sell-side firms such as investment dealers provide research, trading, underwriting, financing, and market services to institutional clients. Buy-side organizations deploy capital and make investment decisions for asset owners or funds. Custodians focus on safekeeping and operations, while governance committees oversee mandates. Sell-side research can inform decisions but does not transfer portfolio authority to the dealer.

94. D — A very large visible order can signal demand and move prices against the unfilled portion. Working the order can reduce information leakage, adapt to available liquidity, and manage market impact. The trader still weighs urgency and execution risk because slower trading can also be costly. No technique guarantees a better price in every market condition.

95. A — Best execution considers the overall quality of execution in light of the order and market circumstances. Price matters, but so can commissions, liquidity, speed, fill certainty, information leakage, and market impact. The process does not guarantee the best possible print in hindsight. Strategic allocation and issuer analysis address different stages of investment management.

96. B — Clearing and settlement are post-trade processes that determine what each party owes and complete the exchange of securities and cash. They are essential for operational completion and counterparty-risk control after execution. Fundamental analysis and asset allocation occur before or around investment decisions, while technical resistance is a market-analysis concept rather than a post-trade function.

97. D — Transaction-cost analysis evaluates how efficiently an investment decision was implemented by comparing actual execution with a benchmark and decomposing costs such as commissions, spreads, delay, and market impact. It can support broker evaluation and process improvement. Common-size statements, dividend ratios, and CAPM are investment-analysis tools that do not measure post-trade execution quality.

98. B — VWAP-oriented execution attempts to distribute trading in relation to expected or observed market volume so the average execution price tracks a volume-weighted benchmark. TWAP emphasizes trading more evenly through time rather than volume. Bond ladders and valuation screens are portfolio tools. VWAP implementation still faces forecast error, changing liquidity, and market impact.

99. A — Institutional mandates establish approved ranges and monitoring procedures to control portfolio risk. A market-driven breach should trigger the documented governance response, which may include escalation, rebalancing, or another permitted corrective action. Strong performance does not erase policy constraints. Limits should not be ignored or rewritten retroactively without the authority and process required by the mandate.

100. C — Investment consultants advise institutional asset owners on governance, investment policy, strategic asset allocation, manager research and selection, performance measurement, and related oversight. Custodians focus on safekeeping and operations, dealers execute or facilitate trades, and transfer agents maintain issuer records. Consultants provide analysis and recommendations, while final authority remains with the responsible institutional decision-makers.