CSI CSC2 Practice Questions

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Question 1

Question Type: MultipleChoice

Which fee is paid to mutual fund sales representatives by the mutual fund manager?

Options:

A- Redemption.
B- Trailer.
C- Operating.
D- Management.

Answer:

B

Question 2

Question Type: MultipleChoice

Which ratio, when showing a decreasing trend, suggests declining operating efficiency?

Options:

A- Price-earnings
B- Return on common equity
C- Dividend payout
D- Debt/equity

Answer:

B

Question 3

Question Type: MultipleChoice

What is a characteristic of provincial savings bonds that distinguishes them from other

provincial bonds?

Options:

A- They are backed by provincial assets pledged an security.
B- They can &e purchased only by residents of the province.
C- They can be purchased at any time of the year.
D- They do not have redemption rules.

Answer:

B

Explanation:

A key characteristic of provincial savings bonds is that they can only be purchased by residents of the issuing province. This restriction differentiates them from other provincial bonds, which may be available to investors nationwide or internationally.

Other options:

Backed by provincial assets pledged as security: All provincial bonds are backed by the credit of the issuing government, not specifically by pledged assets.

Purchased at any time of the year: Provincial savings bonds are available only during specific sales campaigns.

Do not have redemption rules: Savings bonds often have specific redemption rules, unlike this statement.

Volume 1, Chapter 6: Fixed-Income Securities, section on 'Provincial and Municipal Bonds' explains the restrictions and features of provincial savings bonds.

Question 4

Question Type: MultipleChoice

What is a limitation of labour-sponsored venture capital corporations (LSVCCs)?

Options:

A- Investments are available at a maximum of $5,000 invested in any one year
B- Investments are subject to a 17.5% federal credit on an annual investment
C- Tax credits need to be repaid if shares are redeemed within eight years
D- Federal tax credits are available only if no provincial tax credit is available

Answer:

C

Question 5

Question Type: MultipleChoice

What do the returns on treasury bills often represent?

Options:

A- Bank prime rate.
B- Inflation rate
C- Risk-free rate
D- Federal funds rate

Answer:

C

Explanation:

Detailed Explanation: Treasury bills (T-bills) are short-term government debt instruments with minimal risk of default. Their returns are often used as a proxy for the risk-free rate in financial analysis, as they represent the theoretical return on an investment with zero credit risk. The risk-free rate is critical for discounting cash flows and comparing returns on various investments.

Other options:

A . Bank prime rate is the interest rate commercial banks charge their most creditworthy customers.

B . Inflation rate is unrelated to the direct return on T-bills, though it impacts real returns.

D . Federal funds rate applies in the U.S. to interbank lending, not directly to T-bills.

CSC Volume 1 (2023 Edition): Chapter on the financial markets, inflation, and trade settlement.

CSC Volume 2 (2024 Edition): Sections on portfolio analysis and risk-free securities.

Question 6

Question Type: MultipleChoice

What responsibility falls on the buy-side portfolio manager?

Options:

A- To busy securities in the market on demand to maintain liquidity in a security.
B- To maintain constant contact with the investment dealer counterparties.
C- To inform the trade about the market conditions and risks.
D- To provide pertinent market information to the department heads of various asset classes.

Answer:

C

Explanation:

The buy-side portfolio manager is responsible for managing investments on behalf of institutional or retail clients. A critical responsibility is to provide the buy-side trader with pertinent market information and analysis of risks to ensure that trades are executed effectively and aligned with the investment strategy.

Explanation of Options:

A . Maintain Liquidity: Incorrect. This is more relevant to market makers or sell-side dealers who provide liquidity in the market.

B . Contact with Dealers: Incorrect. While buy-side managers interact with dealers, their primary role is to strategize, not to maintain constant contact.

C . Informing Traders: Correct. Buy-side managers analyze risks and market conditions and pass this information to traders for execution.

D . Provide Information to Department Heads: Incorrect. This is not a core responsibility of buy-side portfolio managers.

CSC Volume 2, Chapter 27: Responsibilities of buy-side portfolio managers and their

interactions with traders.

Question 7

Question Type: MultipleChoice

What do technical analysis and fundamental analysis have in common?

Options:

A- They compare the intrinsic value against a security's current price.
B- They are nullified a according to the random walk theory.
C- They are used to predict changes in security prices.
D- They study the causes of security' s price movements.

Answer:

C

Explanation:

Both technical analysis and fundamental analysis are tools used to predict changes in security prices, but they differ significantly in their approaches.

Fundamental Analysis evaluates the intrinsic value of a security by analyzing factors such as a company's financial statements, industry conditions, and macroeconomic trends. It assumes that market prices will eventually reflect a security's true value.

Technical Analysis examines historical price and volume data to predict future price movements. It focuses on identifying patterns, trends, and market sentiment without regard to the underlying fundamentals.

Option A is incorrect because it only describes fundamental analysis. Option B erroneously connects both methodologies to the random walk theory, which discounts their effectiveness. Option D misstates their purpose, as technical analysis focuses on price trends, not the causes of price movements.

Volume 2, Chapter 13: Fundamental and Technical Analysis, Overview of Fundamental and Technical Analysis, Canadian Securities Course.

Question 8

Question Type: MultipleChoice

A shareholder receives rights from a company through direct ownership in shares. Not expecting to exercise them, she sells the rights on the relevant exchange. What is her capital gain?

Options:

A- The sale price less the exercise price of the rights.
B- The current share price less the exercise price of the rights.
C- The sale price of the rights.
D- The current price of the shares less the sale price of the rights.

Answer:

C

Question 9

Question Type: MultipleChoice

TRU Fund portfolio manager decided to deviate from the portfolio long-term target asset mix in order to capitalize on investment opportunities in the domestic bond market. What type of asset allocation is the TRU Fund portfolio manager using?

Options:

A- Strategic.
B- Tactical.
C- Timing.
D- Dynamic.

Answer:

B

Question 10

Question Type: MultipleChoice

What is an example of a common feature of robo-advisor services?

Options:

A- The service is exclusively provided to intermediaries such as advisors and employers
B- The portfolios are rarely rebalanced
C- Portfolios are built primarily with individual stocks and bonds.
D- A telephone call with an advisor verifies that the computer-generated portfolio is suitable for the client.

Answer:

D

Explanation:

Many robo-advisors offer a hybrid model where an automated portfolio recommendation is supplemented by human oversight. A telephone call with an advisor ensures the portfolio generated by the algorithm aligns with the client's risk tolerance and investment objectives. This step helps meet regulatory suitability requirements.

Why Other Options are Incorrect:

A . The service is exclusively provided to intermediaries such as advisors and employers: Robo-advisors are directly available to retail clients and are not exclusive to intermediaries.

B . The portfolios are rarely rebalanced: Robo-advisors typically offer frequent or automatic rebalancing to maintain target asset allocations.

C . Portfolios are built primarily with individual stocks and bonds: Robo-advisors predominantly use ETFs for diversification and cost-efficiency, not individual securities.

Reference: CSC Volume 1, Chapter 1, 'Financial Technology -- Robo-Advisors' highlights the hybrid models and regulatory compliance processes employed by robo-advisors

Question 11

Question Type: MultipleChoice

What is the key objective for investors in alternative strategy funds?

Options:

A- To match the performance of a reference index.
B- To maximize risk-adjusted returns.
C- To achieve absolute returns
D- To exceed the current rate of inflation.

Answer:

C

Explanation:

Alternative strategy funds aim to achieve absolute returns, focusing on positive returns under various market conditions rather than comparing performance to a benchmark index. These strategies often include hedge funds and alternative mutual funds, using techniques like leverage, short selling, and derivatives to manage risk and enhance returns. The goal is not necessarily to outperform an index (as in option A) or match inflation rates (option D) but to deliver consistent positive returns.

Reference

CSC Volume 2, Chapter 21: Alternative Investments: Strategies and Performance, p. 21-3 to 21-24.

Question 12

Question Type: MultipleChoice

Which fee is paid to mutual fund sales representatives by the mutual fund manager?

Options:

A- Redemption.
B- Trailer.
C- Operating.
D- Management.

Answer:

B

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