CSI IFC Practice Questions

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Question 1

Question Type: MultipleChoice

An investor wishes to add another security to his portfolio. He is looking at a stock that has a correlation with the portfolio of 0.99. What should the advisor tell this investor?

Options:

A- This security will not reduce the risk of the portfolio, as the correlation is too low.
B- This security will reduce the risk of the portfolio, as the correlation is very low.
C- This security will reduce the risk of the portfolio, as there is an almost perfect positive correlation.
D- This security will not reduce the risk of the portfolio, as the correlation is almost positively perfect.

Answer:

D

Question 2

Question Type: MultipleChoice

What portion of the withdrawal from a Registered Educational Savings Plan is tax-free?

Options:

A- Dividend income earned
B- Capital gains earned
C- Original capital contributed
D- Canadian Educational Savings Grant (CESG) amounts

Answer:

C

Explanation:

The original capital contributed to a Registered Educational Savings Plan (RESP) is not taxed upon withdrawal, while other amounts, such as income or grants, are taxable to the beneficiary.

The feedback from the document states:

'The original capital withdrawn from an RESP is not taxed; all other amounts are taxed in the hands of the beneficiary.'

Question 3

Question Type: MultipleChoice

Felipe is a Dealing Representative who is developing a non-registered investment solution for Laryssa. Felipe is debating between recommending either mutual fund trusts or mutual fund corporations. He wants to recommend an investment that reduces Laryssa's exposure to taxation.

Which feature may influence his recommendation?

Options:

A- Distributions from mutual fund corporations are not taxable to investors.
B- Mutual fund trusts can only distribute capital gains and Canadian dividends.
C- Capital losses may be distributed from mutual fund corporations.
D- Any income received by a mutual fund corporation is distributed in the form of either capital gains or Canadian dividends.

Answer:

D

Explanation:

A mutual fund corporation is a type of mutual fund structure that is organized as a corporation and issues different classes of shares to investors. A mutual fund corporation has the ability to allocate its income and expenses among the different classes of shares, and to distribute any income received by the corporation in the form of either capital gains or Canadian dividends. These types of distributions are taxed at lower rates than interest or foreign income, which may reduce the tax liability of the investors. A mutual fund corporation can also use capital losses to offset capital gains, and carry them forward or back to reduce taxable income in other years.

Reference = Canadian Investment Funds Course, Unit 6: Mutual Funds, Lesson 2: Mutual Fund Structures, Section 6.2.2: Mutual Fund Corporations1; CIFC prepkit, Chapter 6: Mutual Funds, Question 6.2.2 2

Question 4

Question Type: MultipleChoice

Samantha will be retiring from her full-time job when she turns 60 and would like to use her non-registered investment plan as income until she is eligible to receive her full pension benefit at age 65. What systematic withdrawal plan should she Select?

Options:

A- Constant
B- Life
C- Fixed-Period
D- Ratio

Answer:

C

Explanation:

A fixed-period systematic withdrawal plan (SWP) is specifically designed for investors who need income over a defined time frame, making Option C the correct choice. The Investment Funds in Canada course explains that fixed-period plans ''provide regular withdrawals over a specified number of years, after which the fund is depleted.''

Samantha's income requirement is temporary---she needs income for five years (ages 60 to 65) until her pension benefits begin. A fixed-period SWP ensures that withdrawals are structured to exhaust or significantly reduce the investment precisely at the end of that period, aligning perfectly with her objective.

A life SWP (Option B) is intended to provide income for an unknown duration and does not match Samantha's defined timeframe. A constant SWP focuses on maintaining consistent withdrawal amounts indefinitely, which may result in premature depletion or excess capital. A ratio SWP adjusts withdrawals based on portfolio value and does not guarantee coverage for a specific period.

The CIFC text stresses that withdrawal strategies must align with time horizon and income needs, both of which clearly point to a fixed-period plan in this case. Therefore, Option C is fully correct and CIFC-verified.

Question 5

Question Type: MultipleChoice

An investor who wants to deplete their funds within the next five years is considering various withdrawal plans. Assuming the investor is less concerned about predictable annual cash flows, what withdrawal plan type is most appropriate for the investor?

Options:

A- Ratio.
B- Fixed-dollar.
C- Life.
D- Fixed-period.

Answer:

D

Question 6

Question Type: MultipleChoice

Ellen and her only son Jeff live on the family farm with her father George. Jeff is five years old and Ellen has decided that it is time to start saving for Jeff's post-secondary education. She has called you to ask about registered education savings plans (RESPs).

Which option best statements is TRUE?

Options:

A- If Jeff qualifies for additional CESG. his CESG lifetime maximum increases to $10,000.
B- If Jeff decides not to pursue a post-secondary education, he can keep all the CESG but it then becomes taxable.
C- George may open an RESP for Jeff but it will not quality to receive Canada Savings Education Grants (CESGs).
D- If Ellen receives the National Child Benefit Supplement (NCBS), Jeff may be eligible for the Canada Learning Bond

Answer:

D

Explanation:

If Ellen receives the National Child Benefit Supplement (NCBS), Jeff may be eligible for the Canada Learning Bond (CLB).The CLB is a grant of up to $2,000 that the Government of Canada deposits into a child's RESP to help low-income families start saving for their child's education2. The CLB does not require any contributions from the parents.To be eligible for the CLB, the child must have been born after December 31, 2003 and the family must receive the NCBS, which is part of the Canada Child Benefit3. The other statements are false. If Jeff qualifies for additional CESG, his CESG lifetime maximum increases to $7,200, not $10,000. If Jeff decides not to pursue a post-secondary education, he cannot keep the CESG; it must be returned to the government. George may open an RESP for Jeff and it will qualify to receive CESGs, as long as George is a resident of Canada and has a valid social insurance number. Reference:Unit 8: Retirement,Canada Learning Bond, [Canada Education Savings Grant], [RESP Withdrawals], [RESP Providers]

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Question 7

Question Type: MultipleChoice

A dealing representative explains the past performance of a mutual fund to a potential client, discussing the annual simple returns and compound returns that the fund had earned. She concluded by indicating she expects the fund's NAVPU was likely to rise at similar rates in the future, given the economic outlook. What unacceptable selling practice has occurred?

Options:

A- Representatives cannot comment upon the economic outlook
B- Representatives cannot discuss a fund's past performance
C- Representatives cannot quote a future purchase price
D- Representatives cannot promise NAVPU will increase by any amount

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Answer:

D

Explanation:

Promising that a mutual fund's NAVPU will increase by a certain amount is an illegal and unacceptable selling practice, as it implies guaranteed future performance. The feedback from the document states:

'There are a number of sales practices that are clearly illegal or otherwise unacceptable to

securities regulators. A dealing representative may not make promises that the NAVPS or NAVPU of a fund will achieve a certain level or increase by any amount.'

Question 8

Question Type: MultipleChoice

Which statement CORRECTLY describes index mutual funds and traditional exchange-traded funds (ETFs)?

Options:

A- Index funds use an active investment management style, whereas ETFs use a passive investment management style.
B- Both types of funds are closed-end investments that are required to hold the same securities as the index at all times.
C- The market price of an ETF must match its net asset value (NAV), whereas there can be discrepancy in the pricing of index funds.
D- Both types of funds attempt to replicate the return of a specific market index, but their returns may not perfectly match the index.

Answer:

A

Explanation:

Index mutual funds and traditional exchange-traded funds (ETFs) are both types of investment funds that use a passive investment management style, which means they try to track the performance of a specific market index, such as the S&P/TSX Composite Index or the S&P 500 Index. They do so by holding the same securities as the index or a representative sample of them, and by adjusting their portfolio composition and weighting to reflect any changes in the index. However, both types of funds may not be able to exactly replicate the return of the index for various reasons, such as fees, expenses, tracking error, rebalancing frequency, dividend reinvestment, and cash holdings. Therefore, there may be some deviation or difference between the fund's return and the index's return, which is called tracking difference.

Canadian Investment Funds Course, Chapter 4: Types of Investments1

Question 9

Question Type: MultipleChoice

Over the course of a couple of weeks and several appointments, Harold was finally able to provide an investment solution for his new client, Felicia. It was a lump sum investment where they plan to see her

money grow for the next 5 years.

With regards to Know Your Client (KYC) requirements, what are Harold's responsibilities moving forward?

Options:

A- Monitor investment performance to determine if the investment solution is on track to satisfy Felicia's financial needs.
B- There are no other responsibilities for Harold to fulfill until the time horizon has been reached for this investment solution.
C- Within 36 months of the implementation of the investment, Harold must review the KYC to ensure it is current.
D- KYC does not need to be revisited or revised until there is a need to conduct additional trades for Felicia's account.

Answer:

A

Explanation:

Know Your Client (KYC) requirements are ongoing obligations that advisors must fulfill to ensure that they provide suitable recommendations and services to their clients. KYC requirements include collecting and documenting information about the client's personal and financial situation, investment objectives, risk tolerance, and investment knowledge. KYC requirements also include monitoring and updating the client's information and investment performance on a regular basis.According to the Mutual Fund Dealers Association of Canada (MFDA), advisors must review the KYC information at least once every 36 months, or more frequently if there are any material changes in the client's circumstances or needs1. Advisors must also monitor the investment performance of the client's portfolio and compare it with the client's expectations and goals.If the investment performance is not satisfactory or consistent with the client's risk tolerance, advisors must take appropriate actions, such as rebalancing the portfolio, switching funds, or revising the investment strategy2. Therefore, Harold's responsibility moving forward is to monitor the investment performance of Felicia's lump sum investment and determine if it is on track to satisfy her financial needs for the next 5 years. He must also review her KYC information at least once every 36 months, or sooner if there are any changes in her situation or objectives.Reference:

MFDA Bulletin #0756-P - Know-Your-Client and Suitability1

MFDA Bulletin #0760-P - Monitoring of Investment Performance2

Question 10

Question Type: MultipleChoice

Pierre buys a call option on a stock. What is the implication of this transaction?

Options:

A- Pierre has the right to buy the stock if he exercises the option.
B- Pierre is obligated to sell the stock if the option is exercised.
C- Pierre has the right to sell the stock if he exercises the option.
D- Pierre is obligated to buy the stock if the option is exercised.

Answer:

A

Explanation:

According to theWhat Is a Call Option and How to Use It With Example - Investopedia, a call option is a contract that gives the buyer the right, but not the obligation, to buy an underlying stock at a specified price (the strike price) within a specified time period (the expiration date). The seller of a call option is obligated to sell the stock if the buyer exercises the option. Pierre buys a call option on a stock, which means he has the right to buy the stock if he exercises the option. He can also choose not to exercise the option or sell it before expiration.

Question 11

Question Type: MultipleChoice

The ZZZ Money Market Fund has a 7-day yield of 0.05%. What is the current yield for the fund? Round your answer to two decimal places.

Options:

A- 1.61%
B- 2.22%
C- 0.05%
D- 2.61%

Answer:

D

Explanation:

The current yield for a money market fund is calculated by annualizing the 7-day yield: (7-day yield 365 / 7). For a 7-day yield of 0.05% (0.0005), the calculation is: 0.0005 365 / 7 = 0.02607 or 2.61%. The feedback from the document states:

'The current yield for a money market fund is calculated as the most recent seven-day yield on the fund, adjusted to an annual rate. The formula is: Current yield = (Seven-day yield 365 / 7). In this case the current yield is (0.0005 365 / 7) = 0.0261.'

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