QUESTIONS 1 TROUGH 18 RELATE TO ETHICAL AND PROFESSIONAL STANDARDS AND ARE ALLOCATED 27 MINUTES.

1. Correct answer: A

A is correct as a personal bankruptcy does not necessarily constitute a violation of Standard I (D). If the circumstances of the bankruptcy involved fraudulent or deceitful business conduct then failing to disclose it may constitute a violation of the Standards.

2. Correct answer: B

B is correct because Barrett's client base is made up of a small number of large institutions so stating in the advertisement that his client base is a larger number is a misrepresentation and a violation of Standard I(C). In addition, since the advertisement focuses only on the benefits and does not mention the potential risks of these investments it is also potentially misleading to clients.

3. Correct answer: B

B is correct as Miffitt has not violated the confidentiality Standard which involves information about former, current, and prospective clients.

4. Correct answer: A

A is correct as the information concerning the qualified opinion is non-public and if it is material she would be in violation of Standard II(A) if she took investment action based on the information. She should also make reasonable efforts to achieve public dissemination of the information.

5. Correct answer: B

B is correct as Buckner is in violation of Standard III (C) since she did not consider issues such as the limited liquidity or any potential leverage of this new product when she invested a substantial percentage of her client's portfolios in these instruments.

6. Correct answer: C

C is correct. In order to avoid violating Standard III (E) Staal should determine if applicable securities regulations require disclosing the records before she provides the confidential information concerning her client's investments.

7. Correct answer: B

Bravoria violated Standard III (A) in not exercising Loyalty, Prudence and Care. Bravoria had not updated his client's profile in over two years thus should not have made further investments, particularly in high risk investments until such time as he updated the client's risk and return objectives, financial constraints and financial position. Bravoria provided his client with investment statements more frequently than that which is required; i.e. quarterly so was not in violation of regular account information.

8. Correct answer: A

A is correct, because the client only approved the purchase of one below investment grade bond while the portfolio manager has purchased several additional bonds below investment grade without client approval in violation of Standard III (C).

9. Correct answer: C

Members must deal fairly with clients when taking investment actions for them. By treating the mutual funds more favorably than the individual portfolios, Bowers violates the standard relating to fair dealing. Additionally, shares should be allocated on order size basis.

10. Correct answer: A

The Standards do not impose a prohibition on the use of experience or knowledge gained at one employer from being used at another employer. As records created on behalf of an employer are the property of the firm and not the member, Campbell must take care not to use the property or records of his former employer when creating a model for his new employer.

11. Correct answer: B

Lewis must investigate the reliability of the information before making an investment recommendation based on the information.

12. Correct answer: C

Pantoja least likely violates the Standard relating to Diligence and Reasonable Care because he is taking investment actions on his own behalf rather than on behalf of clients. His actions violate the Standards relating to Priority of Transactions (he trades ahead of his employer and its clients), Loyalty to Employer (his actions cause harm to his employer), and Misconduct (his actions reflect adversely on his professional integrity).

13. Correct answer: A

Even though the best practice is to avoid conflicts, when conflicts cannot be reasonably avoided, full disclosure should be made as required by Standard VI (A). As the stock in question has been held for many years it may not be practical to sell it due to things like tax consequences. Since the analyst has been hired to initiate coverage of mining companies it is unlikely that another analyst at that firm would be as competent in completing a research report on mining companies.

14. Correct answer: C

Standard VI (B) requires that investment transactions for clients and employers have priority over transactions in which members have beneficial ownership. By executing her own accounts transactions with those of the hedge fund the analyst has violated this Standard. Micro cap securities can be thinly traded and easily influenced by changes in the volume of activity so that the analyst may benefit when she combines her transactions with the hedge funds and she should let the fund execute its orders before she makes changes to her account.

15. Correct answer: B

B is correct, as there is no indication a violation of Standard VI (B) Priority of Transactions occurred. The Standard concerns transactions for clients having priority over employees' transactions and is not applicable in this case because the manager gives instructions to sell his personal holdings after those of his clients.

16. Correct answer: A

Standard VII is intended to prevent promotional efforts that make promises or guarantees that are tied to the designation. Statement referencing CFA institute, the CFA designation, or the CFA program must not over-promise the competency of an individual or over promise future investment result. “Improving skill” is allowed as long as this statement is true and is not linked to performance or does not imply superior ability. The “assure” statement prominently links the first statement to superior performance is not allowed.

17. Correct answer C

C is correct because the referral arrangements should be disclosed to clients “before entry into any formal agreement for services” and not after the fact.

18. Correct answer: C

This question involves Standard I(C)—Misrepresentation. Statement 1 is a factual statement that discloses to clients and prospects accurate information about the terms of the investment instrument. Statement 2, which guarantees a specific rate of return for a mutual fund, is an opinion stated as a fact and, therefore, violates Standard I(C). If statement 2 were rephrased to include a qualifying statement, such as "in my opinion, investors may earn...," it would not be in violation of the Standards.

QUESTIONS 19 THROUGH 32 RELATE TO QUANTATIVES METHODS AND ARE ALLOCATED 21 MINUTES.

19 Correct answer: B

The effective annual return is: EAR = $(1 + \text{Periodic interest rate})^m - 1$

For weekly compounding, $(1 + 0.10 / 52)^{52} — 1 = 0.10506 = 10.50\%$

For monthly compounding, $(1 + 0.10 / 12)^{12} — 1 = 0.10471 = 10.47\%$

For quarterly compounding, $(1 + 0.10 / 4)^{4} — 1 = 0.10381 = 10.38\%$

Thus, the correct answer is monthly compounding.

20 Correct answer: C

As mean < median < mode, the distribution has long tail in the left and negatively skewed.

21 Correct answer: C

Cash outflow of €86 occurs at t=0, another outflow of €94 occurs at t=1, and an inflow of €212 occurs at t=2. Using a financial calculator, the IRR of these cash flows is 11.60%. The time-weighted rate of return is the geometric mean of the annual rates of return in the stock irrespective of the amounts invested in the various time periods. The rate of return for the first period is (94 - 86)/ 86 = 9.3023% and for the second period is (106 - 94)/ 94 = 12.7660%. The geometric mean is $(1.093023 \times 1.127660)^{0.5} - 1 = 11.02\%$.

22 Correct answer: C

When the economy recession:

E(EPS) = 25% * 2 + 75% *4 = 3.5

Var(EPS) = 25% * $(2-3.5)^2$ + 75% * $(4-3.5)^2$ = 0.75

23 Correct answer: B

Define. Calculate, and interpret the coefficient of variation and the Sharpe ratio.

The Sharpe ratio is defined as: $$S_p = \frac{R_p - R_f}{S_p}$$

In this case, S_A =(10-4)/20=0.30

S_B =(18-4)15=0.9333

S_C =(6-4)/3=0.6667

Portfolio B has the highest Sharpe ratio.

24 Correct answer: A

Two events, A and B, are independent if and only if P(Al B)=P(A) or, equivalently, P(A I B)=P(B). The wording of the question precludes P(A)=P(B); therefore, responses B and C cannot be correct.

25 Correct answer: A

$$S_{\bar{x}} = S_x / \sqrt{n}\,,\quad S_x{}^2 = \frac{\sum (x_i - x)^2}{n-1}$$

In this problem, mean of x =(10+20-8+2-9+5+0-8+3+21-11+5+3+7+11-5-8+12-6+6)/20=2.50

$$\mathrm{S} = (10-2.5)^2 + (20-2.5)^2 + (-8-2.5)^2 + (2-2.5)^2 + (-9-2.5)^2 + (5-2.5)^2 + (0-2.5)^2 + (-8-2.5)^2 + (3-2.5)^2$$
$$+(21-2.5)^2 + (-11-2.5)^2 + (5-2.5)^2 + (3-2.5)^2 + (7-2.5)^2 + (11-2.5)^2 + (-5-2.5)^2 + (-8-2.5)^2 + (1\ 2-2.5)^2$$
$$+(-6-2.5)^2 \div (6-2.52)]/19 = 89.105 \text{ and } \mathrm{S} = \ 9.400$$

The standard error of the mean is therefore $9.440/20^{0.5} = 2.111$

26 Correct answer: B

Correlations near positive 1.00 exhibit strong positive linearity; correlations near negative 1.00 exhibit strong negative linearity. Correlations of zero indicate no linear relation between variables. The closer the correlation is to zero, the weaker is the linear relationship.

27 Correct answer: A

The central limit theorem establishes that the sampling distribution of sample means will be approximately normal; will have a mean equal to the population mean, and will have a variance equal to the population variance divided by the sample size.

28 Correct answer: A

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