2020 CFA® Exam Prep

IFT Mock Exams

Level I

Mock Exam 1

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Exam 1 Morning Session

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	Total:	**180**

Start time: 9:00 AM

End time: 12:00 PM

Allocate an average of 1.5 minutes per question for a total of 180 minutes (3 hours).

B) Suitability.
C) Diligence and Reasonable Basis.

Question	Q-Code: L1-ES-MX1P-005

5 A former wealth manager, Jack Hughes, has decided to start a private money management firm, Western Capital. Hughes believes that the new firm needs to quickly build assets under management of €1.50 billion by the end of its first financial year in order to be successful. Therefore, Hughes uses public records to contact former clients to solicit their business. He also advertises on various web portals with the following statement: “Great opportunities and incentives of up to €15,000 for investment advisers who join the firm with a minimum of €150,000 in committed investments.” Which of the following is *most likely* correct according to the CFA Institute Standards?

A) A member or candidate may not accept Hughes’ offer because the committed investments of €150,000 required from the investment advisers violate the Code and Standards.
B) A member or candidate who is currently employed may accept the new position, because he/she can arrange for enough clients to move with him/her to the new firm.
C) A member or candidate currently unemployed is eligible for the new position.

Question	Q-Code: L1-ES-MX1P-006

6 Ollie Green is a research analyst with Stellar Investments, and has been asked to write a report on Royal Tento Inc. (RTI), one of the leaders in the mining industry. During a recent mining and metallurgical event organized by the mining industry, he learns that RTI has won the contract for iron ore mining at an extremely attractive price due to the faith placed by that country’s government in RTI’s ability and reputation to explore and produce successfully in far flung territories. Green meets with the representative of RTI at the event who confirms the news. Back at the office, Green digs up more about RTI and its competitors and also downloads various independent research reports on RTI and the industry. He decides on a “buy” recommendation for RTI stock by stating, “It’s a fact that the price of iron ore is on an upward trajectory, hence future prospects of RTI are very bright.” Before Green presents his report to his supervisor for review, he instructs his portfolio manager to purchase RTI’s stock for his portfolio. The CFA Institute Standard *least likely* violated by Green is:

A) diligence & reasonable basis.
B) priority of transactions.
C) communication with clients and prospective clients.

Question	Q-Code: L1-ES-MX1P-007

7 Anum Asad, CFA, is a portfolio manager for high net worth individuals with a value investment mandate. To be assured of her investment decisions, her clients insist that she execute the same orders for her personal portfolio as well. Does Asad *most likely* violate Standard VI (B) Priority of Transactions with any of the following actions?

A) Subscribing to a hot IPO.
B) Buy a highly liquid stock of a publicly listed company.
C) Buy a 10-year bond from the primary market.

Question	Q-Code: L1-ES-MX1P-008

8 Hassan Sooriya recently left his job as a portfolio manager at an investment bank to start his own investment management firm. Few years ago, Sooriya had earned his CFA charter, which he feels should be advertised in the new marketing material he is creating for his firm. He makes the following two statements in the marketing material:

I. “As a CFA charterholder, I am committed to the highest ethical standards.
II. The CFA Program is globally recognized and attests to a charterholder’s success in the field of investment management and analysis.”

Has Sooriya violated Standard VII (B) – Reference to CFA Institute, the CFA Designation, and the CFA Program in his advertising material?

A) No.
B) Sooriya violated Standard VII (B) in the first statement.
C) Sooriya violated Standard VII (B) in the second statement.

Question	Q-Code: L1-ES-MX1P-009

9 Which of the following is *least likely* a feature of the GIPS standards?

A) Consistency of input data used to calculate performance is critical to effective compliance with the GIPS standards.
B) Firms must comply with all the applicable laws and regulations regarding the calculation and presentation of performance.
C) The GIPS standards help establish investment industry best practices for calculating and presenting investment performance hence promoting investor interests and confidence.

Question	Q-Code: L1-ES-MX1P-010

10 Mubashir Malik, finance director at MLT Industries, has been asked to attend an out of city investment conference where industry experts will cover important issues facing the investment community. The conference is hosted by BMX Securities, a firm currently used by MLT's pension fund. BMX has offered to cover all travel and registrations' costs for Malik and one additional member of his management team. At the conclusion of the conference, the host has arranged for viewing of a live soccer match followed by a lavish dinner at an expensive hotel for the conference participants in order to attract the best industry experts. Which of the following actions is *most appropriate* if Malik wants to avoid violating the Code and Standards?

A) Malik may only accept the travel and conference related expenses.
B) Malik may accept the travel and conference related expenses and also accept the after conference dinner.
C) Malik should bring a colleague with him and accept the travel and conference related expenses for both of them.

Question	Q-Code: L1-ES-MX1P-011

11 Which of the following is *least likely* correct under the Code and Standards?

A) Financial analysts may use conclusions as recommendations derived from analysis of public and nonmaterial nonpublic information, even if those conclusions would have been material inside information if directly communicated by the company
B) Financial analysts are free to act on material nonpublic information if it is received from industry experts.
C) Member or candidate should make reasonable efforts to achieve public dissemination of material information.

Question	Q-Code: L1-ES-MX1P-012

12 Chris Isaac, works as a registered broker and investment advisor with TopWorth Securities and Brokerage. Isaac has just attended a rigorous training session organized and led by the Stacy Fenworth, regional director of TopWorth and the compliance department to educate and train the brokers of the firm about a new comprehensive fee-based account, GoldAccount. At the end of the training session, Fenworth had distributed compliance procedures for establishing and maintaining GoldAccount which is specifically for clients with assets over USD100,000. She had also explained to the participants that as per regulatory rules, they should have reasonable basis for assigning the account to a particular customer. An annual review of the GoldAccount will be conducted to ascertain its status and applicability. Isaac feels that Tracy Keegan, one of his clients who is an active trader, with assets now approaching to USD110,000, is the right candidate since her transaction fees will be discounted by nearly 75% from their current costs. Keegan agrees after reading the disclosure material provided by Isaac and accepts the recommendations. Has Isaac violated any CFA Institute Standards by recommending the GoldAccount to Keegan?

A) Yes, related to diligence and reasonable basis.
B) Yes, relating to suitability
C) No

Question	Q-Code: L1-ES-MX1P-013

13 Stuart Anderson, CFA, is a portfolio manager at Maxima Investments. He manages fee-paying client accounts including accounts of his close family members. The family members' accounts are similar in every way to the regular clients' accounts and pay the same fee. When the eagerly awaited IPO of SK&L Pharmaceuticals becomes available, Anderson first distributes the issue to his family members, then to his clients, provided it is appropriate for them and finally to his own account. Which of the following standards has Anderson *least likely* violated?

A) Suitability.
B) Priority of transactions.
C) Fair dealing.

Question	Q-Code: L1-ES-MX1P-014

14 Gary Sanders is the head of compliance of a 1,000-employee asset management firm. He has been diagnosed with

78 The annualized cost of trade credit (%) if you pay your supplier on day 30, assuming a 365-day year and trade credit terms of 1/10 net 30 is *closest* to?

A) 20.1.
B) 27.9.
C) 36.6.

Question Q-Code: L1-PM-MX1P-001 Section 3

79 Which of the following institutional investors will *most likely* have the highest level of risk tolerance?

A) Life insurance company.
B) University endowment.
C) Commercial bank.

Question Q-Code: L1-PM-MX1P-002 Section 4

80 The risk that a counterparty will not pay an amount owed on an obligation is *most likely* known as:

A) credit risk.
B) solvency risk.
C) market risk.

Question Q-Code: L1-PM-MX1P-003 Section 5

81 The portfolio on the minimum-variance frontier with the lowest standard deviation is *least likely:*

A) attainable.
B) the global minimum-variance portfolio.
C) the optimal risky portfolio.

Question Q-Code: L1-PM-MX1P-004 Section 4

82 An investment manager has the following information regarding his portfolio's return and volatility as compared to the market:

	Return	**Risk**
Market	6.35%	10.54%
Portfolio	8.68%	15.73%

Given that the risk-free rate is 5.50%, M^2 would be *closest* to:

A) 3.9 percent.
B) 1.3 percent.
C) -2.6 percent.

Question Q-Code: L1-PM-MX1P-005 Section 5

83 Which of the following pooled investments is *most likely* to result in the highest brokerage costs?

A) Open ended mutual funds.
B) Exchange-traded funds.
C) Stock funds.

Question Q-Code: L1-PM-MX1P-006 Section 2

84 The correlation between the historical returns of Stock A and Stock B is 0.40. If the variance of Stock A is 0.25 and the variance of Stock B is 0.30, the covariance of returns of Stock A and Stock B is *closest* to:

A) 0.03.
B) 0.06.
C) 0.11.

Question Q-Code: L1-PM-MX1P-007 Section 4

85 The stock of RAK Corporation has a beta of 0.85. If the risk-free rate of return is 2% and the expected market return is 9%, the expected return for RAK is *closest* to:

A) 5.95%.
B) 7.95%.
C) 9.70%.

Question Q-Code: L1-PM-MX1P-008 Section 2

86 Which of the following is *least likely* an absolute risk objective?

A) No greater than a 3% probability of returns below 2% in any 6-month period.
B) No decrease in portfolio value of more than 2% at any point over the 6-month period.
C) No greater than a 2% probability of returns more than 9% below the return on the S&P 500 Index over any 6-month period.

Question Q-Code: L1-EQ-MX1P-001 Section 5

87 Which of the following statements about investing is *most likely* accurate?

A) An investor who takes a short call position benefits from an increase in the price of the underlying.
B) An investor who has the right under a contract to sell an underlying asset is said to have a long call position.
C) The return of a borrowed security is referred to as covering the short call position.

Question Q-Code: L1-EQ-MX1P-002 Section 2

88 An analyst gathers the following information for NYSE-3, a price-weighted index, comprised of Cola, Fizz and Scotch:

Security	**Number of shares**	**Beginning of period price ($)**	**End of period price ($)**	**Total Dividend ($)**
Cola	1,000	50	49	15
Fizz	1,500	64	72	9
Scotch	1,250	55	68	12

The price return of the index is *closest* to:

A) 4.3 percent.
B) 11.8 percent.
C) 12.7 percent.

Question Q-Code: L1-EQ-MX1P-003 Section 3

89 According to the efficient market hypothesis, security prices reflecting only past prices and trading volume information is indicative of a market that is:

A) weak-form efficient.
B) strong-form efficient.
C) semi-strong-form efficient.

Question Q-Code: L1-EQ-MX1P-004 Section 4

90 A management buyout is *most likely* in a company which has:

A) large amounts of undervalued assets.
B) low cash flows.
C) high dividend payout ratios.

Question Q-Code: L1-EQ-MX1P-005 Section 5

91 Which of the following is *least likely* a characteristic of the shakeout stage?

A) Increasing profitability.
B) Intense competition.
C) Slow growth

Level I Mock 1 Afternoon Session Solutions

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Test Code: Level I Mock 1 Afternoon Session

Number of questions: 120

Question	Q-Code: L1-ES-MX1P-001
1	Rohan Sharma is an independent advisor based in Mumbai. All his clients are domiciled in India. The Securities and Exchange Board of India (SEBI) launched REITs recently to make investments in the real estate sector accessible to investors without buying physical property. To promote REITs as an asset class, advisors are given incentives to sell REITs. Rohan perceives REITs as a good diversification tool and recommends it to all his clients. Rohan *least likely* violated which of the following standards? A) Independence and Objectivity. B) Suitability. C) Knowledge of the law.
Answer	**C)** Knowledge of the law.
Explanation	C is correct. There is no violation of law as a REIT is permitted as a product in India. He is most likely in violation of Standard I (B) Independence and Objectivity as he has an incentive to sell REITs. He also violated Standard III (C) Suitability by recommending it to all his clients. *Guidance for Standards I-VII*

Question	Q-Code: L1-ES-MX1P-002
2	Jayesh Shaan, CFA, is a portfolio manager at Kiaan Investment Company. He develops a derivatives selection model, with promising simulated performance results. He wants to apply the model in managing the risk of his clients' portfolios. He writes a newsletter to all his clients and prospects, explaining the basic format of the model outlining its risks and limitations. He then summarizes the performance results over the past five years using both the historical actual annual outcome of portfolios and the corresponding simulated result. Shaan writes the following concluding statement, "By developing and applying the proprietary derivatives' selection model, the return potential of certain portfolios i.e. where appropriate to include derivatives, increases by 100 basis points over the gross actual returns, and the simulated risk is lowered by 20-30 basis points from the actual risk." "The model is worth employing but Kiaan Investment Company does not guarantee future returns based on past results." Has Shaan violated any CFA Institute Standards? A) Yes, relating to misrepresentation. B) Yes, relating to communication with clients and prospective clients. C) No.
Answer	**C)** No.
Explanation	C is correct. Shaan does not violate any CFA Standards of Professional Conduct in his letter. He presents fair, accurate, and complete information when he presents both actual and simulated results in accordance with Standard III (D) – Performance presentation. He does not guarantee superior future investment returns, in accordance with Standard I(C) – Misrepresentation, and describes the basic format of the model giving risks and limitations of the new investment model as per Standard VI (B) – Communications with clients and prospective clients. *Guidance for Standards I-VII*

Question	Q-Code: L1-ES-MX1P-003
3	Carla Santiago is a portfolio manager. She receives a call from a brokerage firm, Amer Securities. Amer Securities encourages Santiago to route her client trades through their firm. As an incentive, Santiago is told that she will receive a discount on her personal trades. Santiago will *most likely* be in violation of which CFA Institute Standards if she trades through Amer Securities? A) Independence and objectivity. B) Loyalty, prudence and care. C) Responsibilities of supervisors.

Question Q-Code: L1-QM-MX1P-001 Section 3

19 Warren Marcelo plans to buy his dream car worth USD320,000. His current earning allows him to save a maximum of USD2,400 per month. The annual interest rate is 15% compounded monthly. What is the minimum amount of time before Marcelo can buy his dream car?

A) 79 months.
B) 85 months.
C) 134 months.

Answer **A)** 79 months.

Explanation A is correct.

I/Y = 1.25, PV = 0, PMT = **–**2,400, FV = 320,000. Compute N.

N = 78.956

Note: it is important to use a –2,400 for PMT, not +2,400. If +2,400 is used the answer will be incorrect. *Time Value of Money; Section 3.*

Question Q-Code: L1-QM-MX1P-002 Section 4

20 At the start of the year 2014, Daisy Merlin buys one share of a stock for USD14. At the start of 2015, Daisy buys another share of the same stock for USD13. The stock paid a dividend of USD0.50 per share each year. On January 1, 2016, Daisy receives a total of USD31.60 for selling the two shares. The time-weighted and the money weighted returns for Daisy are *closest* to:

	Time weighted return	Money weighted return
A.	9.96%	14.35%
B.	5.80%	11.82%
C.	9.88%	17.28%

A) Option A
B) Option B
C) Option C

Answer **A)** Option A

Explanation A is correct. To determine the time-weighted return, calculate the holding period return.

HPR_1 = 13 + 0.5 / 14 - 1 = 3.57%

HPR_2 = 31.6 + 0.5 x 2 / 13 x 2 - 1 = 25.38%

Time weighted return = $[(0.9643)(1.2538)]^{0.5}$ – 1 = 9.96%

Using a financial calculator, compute IRR.

CF_o = -14 , CF_1 = -13 + 0.5 = 12.5, CF_2 = 31.6 + 0.5x 2 = 32.6, CPT IRR = 14.35%

Money weighted return = 14.35%. *Discounted Cash Flow Applications; Section 4.*

Question Q-Code: L1-QM-MX1P-003 Section 7

21 The following is the information of 7 students' attendance from 65 English classes over the year:

Student	A	B	C	D	E	F	G
Classes attended	50	65	40	56	42	61	65

The sample variance of the attendance is *closest* to:

A) 10.42.
B) 15.50.
C) 108.48.

Answer **C)** 108.48.