

Examination Booklet

Advanced Diploma of Financial Services (Financial Planning)

Module 3: Advanced Investment Analysis & Planning

Practice Exam

(2008/2009 Financial Year)

This is a closed book exam.

Time allowed is 90 minutes.

- Question 1** Which of the following are likely to have readily available information regarding a particular investment product?
- I. The fund manager
 - II. Research houses
 - III. The daily print media
 - IV. Periodical investment magazines
- a) I, II and III
 - b) I and II
 - c) II and III
 - d) I, II, III and IV
- Question 2** Which of the following would be considered an example of quantitative research?
- a) Relative performance as compared to peer investment
 - b) Adviser and client support
 - c) Administrative efficiency
 - d) Fund manager size and strength
- Question 3** A client has indicated that she is not interested in having her superannuation investments discussed. She is only interested in starting the right sort of regular savings plan. From an advice perspective
- a) The adviser need only record in file notes that there was a restriction in place
 - b) The adviser must endeavour to ensure the client is aware of the risks of such an advice restriction
 - c) The adviser must provide advice to the client, without any reference in the Statement of Advice to the restriction the client imposed
 - d) The adviser must not provide any advice, since the adviser is unable to address all potential issues the client might have

- Question 4** A client has completed the fact find document and posted it back to the adviser. Their retirement goals show that they want to be go on regular holidays to visit their children. You would be required to speak with them....
- a) Because the FSRA requires that advice only be given in person
 - b) Because the SIS Act requires that any advice regarding retirement and use of superannuation funds must be provided in person
 - c) In order to determine the likely cost of such visits (for example, interstate or international?)
 - d) In order to ensure they had received your Financial Services Guide (FSG)
- Question 5** Which of the following is likely to have a major impact on a long term strategy recommendation for a client?
- a) An increase in the Australian company tax rate
 - b) A drop in the Australian company tax rate
 - c) A major terrorist attack
 - d) The client's tolerance to short term volatility
- Question 6** A client has just heard about a private company that is being rumoured to float some time in the next 6 - 12 months. The float and the dates for the float are not confirmed. On being asked for an opinion on the float the adviser should:
- a) Indicate that there is insufficient information currently available to make a recommendation to either buy or not
 - b) Tell the client to subscribe now, and to sell the shares later if they are unlikely to be a worthwhile investment
 - c) Tell the client to subscribe now and pull out of the purchase agreement later if appropriate
 - d) Make some provision in the client's asset allocation for any proposed share investment, with a view to either investing in the float or reallocating funds once sufficient information is to hand later

Question 7

An adviser is associated with a major investment company. She is looking to do research on one of the company's products. She initially consults the fund provider's research information. What risks are there in solely using the provider's research?

- I. Any negative information may not be made public
- II. The research team may be under resourced and so the research may have little value
- III. The research from the provider might be from before a major change to the product took place
- IV. The research team may be insufficiently expert on the product, and so the research may have little value

- a) I, II, III and IV
- b) I, II and IV
- c) II and IV
- d) I, II and III

Question 8

A client presents you with an article from last month's 'Investwell' Magazine article stating that ABC fund has performed badly over the last 2 years. He is keen to withdraw his holdings in the fund and wants your advice.

What research information about the fund might make you hesitant to recommend he withdraw his funds?

- I. News that the investment management team was recently replaced by a highly respected team from a competitor
- II. A conflicting assessment from a different research house
- III. Finding out that 'Investwell' Magazine is majority owned by ABC
- IV. News that ABC's Investment inflows have doubled over this time last year

- a) I, II and III
- b) I and II
- c) IV
- d) I, II, III and IV

- Question 9** Advisers need to do risk assessments of possible investments. Which of the following should result in close scrutiny of a provider's investment methods?
- a) A share fund with returns now better than the market average, after 1 year of below average performance
 - b) An annuity provider who has recently dropped their annuity rate to now be slightly below the average for the market
 - c) A 'Cash Fund' where the returns are regularly 1.5% higher than any other 'Cash Fund'
 - d) An Allocated Pension whose 'growth' option has a higher after tax return than the same option within its super fund
- Question 10** A fund manager selects stocks based on detailed fundamental analysis of the individual stocks to identify long term value. What investment style would this fund manager be said to be using?
- a) Growth
 - b) Style Neutral
 - c) Growth at a Reasonable Price (GARP)
 - d) Value
- Question 11** Jane, an adviser, has chosen for her client to invest in fixed interest and cash. What type of asset allocation strategy would this be?
- a) Balanced
 - b) Defensive
 - c) Moderate
 - d) Growth
- Question 12** What method is the financial adviser using if s/he determines asset allocation using one of the following?
- > Allocation of a fixed percentage to different asset classes
 - > Grouping of assets into 2 major categories and allocation of fixed percentage to each group
- a) Tactical Asset Allocation
 - b) Strategic Asset Allocation
 - c) Defensive vs Growth Strategy
 - d) Risk Tolerance

- Question 13** Which of the following are considered 'growth' asset classes?
- a) Shares, property and superannuation funds
 - b) Shares, property and Insurance bonds
 - c) Shares and property
 - d) Shares, property, superannuation and insurance bonds
- Question 14** Which of the following is correct with regard to the withholding tax system?
- a) Few countries use the withholding tax system
 - b) This system operates for dividends and capital gains
 - c) This system operates for dividends only
 - d) It is a system whereby the ATO withholds tax from dividends coming from overseas
- Question 15** Currency risk is a risk when investing overseas. Within Currency Risk, Translation Risk refers to?
- a) Changes in exchange rates that result in assets already held overseas being revalued
 - b) The exchange rate moving once a commitment is made to a particular exchange rate for a future purchase/sale
 - c) Amounts received from money invested overseas may vary if rates move
 - d) The risk of there being conflicting interpretations in how contracts are worded, given that our trading partners commonly don't use English as their primary language
- Question 16** Interest rates in Australia have just increased by 1%. This is likely to result in the Australian dollar:
- a) Depreciating as foreign money is sold and Australian dollars bought in order to buy Australian fixed interest investments
 - b) Staying where it is, since capital flows into and out of Australia do not have any impact on the value of the Australian dollar against other currencies
 - c) Appreciating as foreign money is sold and Australian dollars are bought in order to buy Australian fixed interest investments
 - d) Appreciating by 1%

Question 17 “Tax effective investments” are commonly such investments as:

- a) Private construction and films
- b) Finance
- c) Agriculture and film
- d) Private equity ventures

Question 18 Your client has indicated that she likes her asset allocation. She is concerned that her fund manager's style might see prolonged periods of over then underperformance.

She is keen to have less volatility in her performance, but still be heavily exposed to shares. A viable option for your client is for her portfolio to be wholly invested using:

- a) Passive funds management
- b) Active funds management
- c) Growth funds management
- d) Value funds management

Question 19 An investor has told you that his portfolio is managed by a value manager. He is concerned that this style may not be appropriate for all his funds, and so is considering allocating some of his money to alternative fund management approaches.

He might consider which of the following combinations in order to vary the investment fund management styles?

- a) GARP, Growth and Passive
- b) Passive, Active and Style Neutral
- c) Technical, Fundamental and Contrarian
- d) Deep Value, Strong Growth and Passive

- Question 20** Markowitz's Modern Portfolio Theory demonstrated that securities did not all move the same way at the same time, and that risk could be reduced by:
- a) Selecting mainly blue chip stocks, who had a history of lower investment volatility
 - b) Selecting securities that moved differently to each other
 - c) Selecting a variety of industry stocks, and thereby reduce portfolio risk
 - d) Selecting mainly smaller companies, since they moved in different ways to larger companies
- Question 21** If a stock has a beta of 2 what are the consequences?
- a) It would rise and fall at the same rate as the market
 - b) It would move at half the rate of the market
 - c) It will rise and fall twice as much as the market
 - d) It indicates no sensitivity to the market
- Question 22** How can business or operating risk be described?
- a) The firm will not generate sufficient sales revenue to cover the fixed costs of its operation
 - b) The firm will not generate sufficient sales revenue to finance the fixed charge liabilities on its balance sheet
 - c) The managers running the firm that issued the securities are incompetent and may lead the company into insolvency
 - d) That employment costs and government charges will exceed the sales revenue generated by the firm

- Question 23** How does holding approximately 15 independent stocks help reduce risk?
- a) It doesn't, since the 15 stocks need to be in related industries for the diversification to have the most impact
 - b) It doesn't, since the stocks held are all still shares, and are therefore volatile
 - c) The underperformance of one company and/or industry is likely to only have a moderate impact on all the other stocks held
 - d) The under performance of one company and/or industry is unlikely to also have a negative impact on the other companies/ industries held by the investor
- Question 24** If Security X has a standard deviation of 8% and an expected return of 9%, then:
- a) 68% of returns would be expected to be between 8% and 17%
 - b) 68% of returns would be expected to be between 1% and 17%
 - c) 95% of returns would be expected to be between 1% and 17%
 - d) 95% of returns would be expected to be between 8% and 16%
- Question 25** A major Australian company has its head office near where you work. As you walk along the street you pick up a document headed "TOP SECRET. Not for publication until 4pm tomorrow". You see that it is dated today.
- It contains highly sensitive information about a major accounting problem the company faces. Millions will have to be wiped from the company's value. If you believe that the market is strongly efficient:
- a) Then you will be able to benefit from this knowledge by selling any shares you might have in the company, since the price will not yet reflect the confidential information
 - b) You will be able to benefit from this knowledge by either buying a put option over your shares, or selling your shares immediately
 - c) Then it is already too late for you to benefit from this knowledge
 - d) Then there might be some scope to benefit from this news, but you would have to move quickly before the news leaks out

- Question 26** A fund with a high Sharpe measure indicates that:
- a) The return for the investor is high, irrespective of the asset class in which the fund invests
 - b) The return for the investor is low, irrespective of the asset class in which the fund invests
 - c) The return is not necessarily high, but is high for the risk initially taken on by an investor
 - d) The investment return is quite variable from one measure to the next
- Question 27** To review the revenue and expenses for a company over a specified period you would examine:
- a) The Statement of Financial Position
 - b) The Cash Flow Statement
 - c) The Statement of Financial Performance
 - d) The Balance Sheet
- Question 28** A business accounts for its revenue and expenditure when invoices they have issued are paid. This is an example of
- a) Accrual accounting
 - b) Cash Accounting
 - c) Current Expenditure accounting
 - d) Pay As You Go accounting
- Question 29** The value of a car fleet leased by a businessman is \$300,000 in Year 1. Using the reducing balance method to calculate depreciation, what is the written down value at the beginning of Year 3 at 30% depreciation?
- a) \$102,900
 - b) \$147,000
 - c) \$120,000
 - d) \$210,000

- Question 30** Garry has given his adviser Glenys a prospectus for an upcoming float of a company. He wants Glenys' opinion on whether he should invest in it or not. Which of the following should make Glenys wary of recommending the investment?
- a) Disclosure of the business' dispute resolution system
 - b) Disclosure of the risk that the investor is taking on with the investment
 - c) An application form that is available on request, but not part of the prospectus
 - d) Information sufficient for the investor to make an informed decision about investing in the company
- Question 31** CAT Company has earned a net profit of \$4 million. At the end of the year they have 3,000,000 shares outstanding. What are the earnings per share?
- a) \$0.50
 - b) \$0.75
 - c) \$1.33
 - d) \$1.00
- Question 32** What is the quick ratio for IT company, Future Solutions that has \$8 million in current assets, \$5 million in current liabilities and \$2 million in inventories?
- a) 0.625
 - b) 0.4
 - c) 1.2
 - d) 0.875
- Question 33** You would like to determine the relationship between statement of financial position items, in terms of debt, owner's equity and areas of gearing. Which financial ratios would you use?
- a) Profitability Ratios
 - b) Liquidity Ratios
 - c) Efficiency Ratios
 - d) Capital Structure Ratios

- Question 34** Which financial ratios are concerned with the ability of a company to meet its debts?
- a) Profitability Ratios
 - b) Efficiency Ratios
 - c) Liquidity Ratios
 - d) Capital Structure Ratios
- Question 35** The quick ratio and the current ratio are both liquidity ratios. Their use helps determine a company's:
- a) Ability to pay all their debts
 - b) Ability to pay their short term obligations
 - c) Ability to move its inventory
 - d) Total asset value in relation to its total debts
- Question 36** A client has a debt of \$150,000. He is paying the loan off at a rate of \$1,000 per month. If the loan compounds monthly, and the annual interest rate is 7%, how much will still be owed in 5 years time?
- a) \$141,051
 - b) \$284,237
 - c) \$134,211
 - d) \$97,723
- Question 37** Sandra is evaluating an investment opportunity costing \$250,000 that returns \$43,000 a year for the first three years and \$65,000 for the remaining four years. Using a discount rate of 7% what is the net present value of the investment to the nearest dollar?
- a) \$41,569
 - b) \$139,123
 - c) \$389,889
 - d) \$42,569

- Question 38** Andrea is evaluating an investment opportunity costing \$395,000 that returns \$60,000 for the first three years, and \$73,000 for the remaining four years. Using the discount rate of 7%, what is the net present value of the investment to the nearest dollar?
- a) -\$35,698
 - b) -\$78,054
 - c) \$40,061
 - d) \$71,221
- Question 39** Valuations are problematic. This is:
- a) False, since there are a number of varying methods to value assets
 - b) True, since the past performance of an asset will bear no relation to its future performance
 - c) False, since there are valuation methods for each asset
 - d) True, since a present value has to be placed on unknown future incomes and capital movements
- Question 40** Which of the following valuation methods take into account the fact that companies are generally expected to grow over time?
- a) Dividend Discount Model
 - b) Gordon Dividend Growth Model
 - c) Capitalisation of Future Maintainable Earnings
 - d) Discounted Cash flow Method
- Question 41** Business A owns businesses B, C and D. Which of the various valuation methods is most appropriate for Business A?
- a) Capitalisation of Future Maintainable Dividend
 - b) Notional Realization of Assets
 - c) Capitalisation of Future Maintainable Profit
 - d) Discounted Cash Flow

- Question 42** Why are terminal values required for DCF calculations?
- a) They are not required since the shares do not have a finite life
 - b) To allow the appropriate discount rate to be selected
 - c) To allow valuations of assets with finite lives
 - d) They allow assets with an infinite life (such as shares) to have a final cash flow
- Question 43** A shareholding is paying \$0.10 per share. You have decided that the Capitalisation of Future Maintainable Dividends is the appropriate method for valuation. What other factor or factors do you need in order to work out the value of the shares?
- a) Capitalisation rate and discount rate
 - b) Discount rate and starting share value
 - c) Capitalisation rate
 - d) Earnings per share
- Question 44** A client has defined himself as hating risk. He has invested only in government and/or bank guaranteed fixed interest investments. You are of the belief that the client is taking on some major risks. One in particular is:
- a) Risk of being invested in the wrong investment within that asset class
 - b) Risk of losing purchasing power over time
 - c) Risk associated with not investing in superannuation
 - d) Risk to liquidity brought about by investing in long term fixed interest investments
- Question 45** What is one of the main disadvantages of having a client complete a risk tolerance questionnaire?
- a) The questionnaire generally asks a number of different questions to assess risk tolerance
 - b) Some clients may have trouble completing the form
 - c) Clients with little investment experience may have trouble gauging their own investment tolerance
 - d) Some clients are reluctant to fill out additional paperwork

Question 46

Your client Carson started out as a moderately conservative investor. Over time you have been able to move his asset allocation to a more aggressive allocation. Which of the following are indicators that his risk tolerance has indeed gone up over time?

- I. In a market downturn, he doesn't phone you to ask about his portfolio
- II. He phones during a market downturn with a question about investing more money
- III. He asks you about possibly using a gearing strategy to increase his long term investments
- IV. You hear from a product provider that he has asked for statements to be sent monthly and not six monthly as they had been
- V. He asks for instructions on how to use the internet to check his balance more regularly

- a) I, II and III
- b) II and III
- c) IV and V
- d) I, II, III and V

Question 47

A client is of the opinion that the stockmarket has risen higher than is appropriate for fair market value. She is keen to sell down her share portfolio and wait for the correction. She will then get back in once the prices have dropped.

This client is considering:

- a) Strategic Asset Allocation
- b) Active Asset Management
- c) Tactical Asset Allocation
- d) Passive Asset Management

- Question 48** An adviser is speaking with a client during a review. The client's portfolio has a 15% defensive / 85% growth split.
- The adviser is of the opinion that the 15/85 split is, at the moment, underweight Australian shares given the share environment at the time.
- To make a recommendation to move temporarily away from a long-term benchmark is an example of:
- a) Contrarian Asset Allocation
 - b) Strategic Asset Allocation
 - c) Specific Asset Allocation
 - d) Tactical Asset Allocation
- Question 49** Your client has had a Term Deposit with Westpac for 7 years. It is a 3 month investment that has been repeatedly rolled over on maturity and he has never withdrawn the capital from the term deposit.
- In what circumstance/s, if any, might you recommend that this investment be retained?
- a) This investment should only form part of the client's fixed interest component to their portfolio
 - b) This investment should be only considered as an emergency fund, but should be totally disregarded as part of his asset allocation
 - c) The investment should not be retained, as Term Deposits should not form part of a client's portfolio
 - d) This investment could form part of the fixed interest component to their portfolio, as well as being an accessible emergency fund
- Question 50** Usually a review is done with the expectation that there are no major changes to either the client's circumstances or goals.
- Under what circumstances should a review effectively become a restart of the advice process, rather than a review of the client's situation?
- a) The client has received a 3% wage increase
 - b) Mortgage interest rates have increased by 0.75%
 - c) The client has received an inheritance of \$250,000
 - d) The client was retrenched but quickly picked up a very similar job with similar conditions

Marking Guide

Advanced Diploma of Financial Services (Financial Planning)

Module 3:

Advanced Investment Analysis & Planning

Practice Exam

(2008/2009 Financial Year)

Question	Answer	Topic	Learning Outcome
Question 1	B	Topic 1	Identify research sources and products available to the financial adviser including electronic and print media and research from independent research houses
Question 2	A	Topic 1	Identify research requirements and pathways for a specific inquiry
Question 3	B	Topic 1	Evaluate a client's current situation and identify any issues
Question 4	C	Topic 1	Evaluate a client's current situation and identify any issues
Question 5	D	Topic 1	Establish the basis for strategy development
Question 6	A	Topic 1	Extract and analyse information according to research requirements and parameters
Question 7	A	Topic 1	Make informed decisions with regard to the validity of research information available to the financial adviser
Question 8	B	Topic 1	Make informed decisions with regard to the validity of research information available to the financial adviser
Question 9	C	Topic 1	Make a comprehensive risk assessment of products identified through research
Question 10	D	Topic 2	Evaluate the different investment approaches, including strategic and tactical asset allocation
Question 11	B	Topic 2	Evaluate the different investment approaches, including strategic and tactical asset allocation
Question 12	B	Topic 2	Evaluate the different investment approaches, including strategic and tactical asset allocation
Question 13	C	Topic 2	Determine asset classes to be included in a client's portfolio for a specific investment objective
Question 14	C	Topic 2	Explain the advantages and disadvantages of foreign investment

Question 15	A	Topic 2	Demonstrate an understanding of the three major issues affecting international investment, namely movement of capital, exchange rates and deflation
Question 16	C	Topic 2	Demonstrate an understanding of the three major issues affecting international investment, namely movement of capital, exchange rates and deflation
Question 17	C	Topic 2	Discuss tax effective investments
Question 18	A	Topic 2	Recommend an investment style appropriate to your client
Question 19	A	Topic 2	Recommend an investment style appropriate to your client
Question 20	B	Topic 3	Demonstrate an understanding of the history and principles behind portfolio theory
Question 21	C	Topic 3	Explain the concept of risk and return and its relationship to portfolio theory
Question 22	A	Topic 3	Explain the concept of risk and return and its relationship to portfolio theory
Question 23	D	Topic 3	Explain how diversification reduces risk
Question 24	B	Topic 3	Calculate expected return, standard deviation and variance for both a single security and a portfolio
Question 25	C	Topic 3	Demonstrate an understanding of the efficient market theory and its application to asset pricing
Question 26	C	Topic 3	Explain the application of performance measurement to your role as a financial planner
Question 27	C	Topic 4	Identify and interpret the key components of a statement of financial position (balance sheet), a statement of financial performance (profit and loss statement) and a cash flow statement
Question 28	B	Topic 4	Explain the main accounting conventions underpinning financial reporting

Question 29	B	Topic 4	Explain the concept of and illustrate some differences between the various methods used to estimate and allocate depreciation
Question 30	C	Topic 4	Demonstrate an understanding of the information contained in a prospectus and how that information can be used by the adviser
Question 31	C	Topic 4	Use ratios as a means of assessing company and market performance
Question 32	C	Topic 4	Use ratios as a means of assessing company and market performance
Question 33	D	Topic 4	Use ratios as a means of assessing company and market performance
Question 34	C	Topic 4	Use ratios as a means of assessing company and market performance
Question 35	B	Topic 4	Make informed decisions about the strength and weaknesses of companies
Question 36	A	Topic 4	Calculate the future values of a stream of payments
Question 37	D	Topic 4	Calculate the present value of a stream of payments
Question 38	A	Topic 4	Calculate and apply the Net Present Value and Internal Rate of Return (IRR) in evaluating investment opportunities
Question 39	D	Topic 5	Appreciate the nature, role and importance of valuation
Question 40	B	Topic 5	Describe key valuation methods
Question 41	C	Topic 5	Explore different methodologies generally used to value equities and equity related securities
Question 42	D	Topic 5	Identify the technical and practical issues that arise when conducting valuations
Question 43	C	Topic 5	Apply the various methodologies in order to determine valuation
Question 44	B	Topic 6	Outline the types of risk that relate to a client's financial position

Question 45	C	Topic 6	Identify, implement and analyse methods of establishing investor risk tolerance
Question 46	A	Topic 6	Identify, implement and analyse methods of establishing investor risk tolerance
Question 47	C	Topic 6	Explain the concepts and application of strategic and tactical asset allocation
Question 48	D	Topic 6	Explain the concepts and application of strategic and tactical asset allocation
Question 49	D	Topic 6	Implement the portfolio construction process for a range of clients
Question 50	C	Topic 6	Explain the importance of ongoing investment portfolio reviews

Formulas for ADFS 3

$r = \frac{\text{Dividends} + (\text{End Price} - \text{Starting price})}{\text{Starting price}} \times 100$	$E(R) = \sum (pr \times r(s))$
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$V = \text{Poss (R)} - \text{Exp (R)}$	$\text{Std Dev} = \sqrt{\sum (\text{Var}^2 \times pr)}$	$CV = \frac{\text{Std Dev}}{ER} \times 100$
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$\text{Req'd R} = \text{RF Rate} + [(\text{Market Return} - \text{Rf Rate}) \times \text{Beta}]$	$\frac{R - R_f}{SD}$	$\frac{R - R_f}{\text{Beta}}$
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$= r - [rf + (\text{Beta} (rm - rf))]$	$\frac{\text{Gross Profit}}{\text{Net Sales}}$	$\frac{\text{Net Profit}}{\text{Net Sales}}$
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$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	$\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$	$\frac{\text{Total Liabilities} \times 100}{\text{Total Equity}}$
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$\frac{\text{Total Liabilities} \times 100}{\text{Total Assets}}$	$FV = PV(1 + i)^n$	$PV = \frac{FV}{(1 + i)^n}$
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$F = d \left\{ \frac{(1+r)^T - 1}{r} \right\}$	$P = d \left\{ \frac{1 - (1-r)^{-T}}{r} \right\}$	$V = D/R$
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$F = \sum d^t \{(1+r)^{T-t}\}$	$P = \sum d^t (1+r)^{-t}$	$V = D/(r-g)$
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	(Total assets – Goodwill – realisation costs – reduction in plant & equip – liabilities) / numbers of shares	$PV = \frac{PMT}{i}$
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