

## Examination Booklet

# Diploma of Financial Services (Financial Planning)

## Module 3: Investment Planning

## Practice Exam

(2008/2009 Financial Year January)

This is a closed book exam.  
Time allowed is 90 minutes.

- Question 1** Your research department have provided the following estimates on shares in Whatif Ltd.:
- | Return | Probability |
|--------|-------------|
| 4%     | 0.2         |
| 6%     | 0.4         |
| 9%     | 0.3         |
- The expected return for this share is:
- a) 5.9%
  - b) 6.9%
  - c) 7.1%
  - d) 6.5%
- Question 2** Greg owns shares in the SuperShoe Company. The purchase price was \$3 per share and the dividend paid was 45 cents per share. He sells the shares for \$4 each. What is the actual rate of return on his investment?
- a) 45.88%
  - b) 53.66%
  - c) 57.33%
  - d) 48.33%
- Question 3** Which term best describes the movement in the capital value of investments?
- a) Volatility
  - b) Market risk
  - c) Flexibility
  - d) Economic risk
- Question 4** What is the process of spreading an investment portfolio across several types of investments called?
- a) Asset allocation
  - b) Diversification
  - c) Asset management
  - d) Volatility

- Question 5**      What is opportunity risk?
- a) The risk of investing in products with a maturity date, where upon maturity the investor may not be able to achieve returns as high as they received on the previous investment
  - b) The risk of not being in the market or a market sector
  - c) The risk that information about a particular investment might be inaccurate
  - d) The risk relating to changes in inflation rates and interest rates
- Question 6**      Which of the following statements is true with regards to the 'standard deviation' of an investment?
- a) The greater the volatility, the lower the standard deviation
  - b) It measures the volatility of the return on an investment from its expected return
  - c) The lower the volatility, the higher the standard deviation
  - d) It measures the probability of an expected rate of return
- Question 7**      As the financial services industry produces a large amount of research and promotional material, it is the financial adviser's responsibility to:
- a) Ignore this material as it is usually inaccurate
  - b) Take into account only the material provided by their licensee
  - c) Ignore the material if it conflicts with his/her own opinion
  - d) Read the material and form their own opinion
- Question 8**      Rani invests \$22,000 for one year at an interest rate of 5.75% pa. What would be the 'simple' interest earned in one year?
- a) \$2,530
  - b) \$1,299
  - c) \$1,265
  - d) \$633

- Question 9** Charlotte has invested \$50,000 into an investment offering 9% pa compounded quarterly. How much will she receive in 10 years' time?
- a) \$62,460
  - b) \$121,759
  - c) \$118,368
  - d) None of the above
- Question 10** Phil and Fiona have just retired and wish to invest their superannuation of \$120,000 into an annuity to provide them with additional income. They both expect to live for another twenty years and require the income to last for their lifetime.
- If the annuity has an earning rate of 6% pa compounded quarterly, what is the maximum payment that Phil and Fiona can withdraw from the annuity at the end of each quarter and still have the payments continue for 20 years?
- a) \$2,616
  - b) \$1,800
  - c) \$2,586
  - d) \$1,500
- Question 11** Louise has decided to invest \$40,000 in a 3 year term deposit. Interest is compounded quarterly at a nominal rate of 6% pa and she receives regular income payments of \$1,000 each quarter.
- What is the amount that will be returned to her at the end of the 3 year period?
- a) \$47,641
  - b) \$34,784
  - c) \$47,825
  - d) \$44,457
- Question 12** The 'internal rate of return' (IRR) is used to measure:
- a) An investor's discount rate
  - b) The degree of profitability
  - c) The compounding of investment returns
  - d) The value of an annuity

- Question 13** When comparing investment returns, what is 'net present value' equal to?
- a) The present value of the future cash flows, plus the initial investment
  - b) The present value of the investment, less the initial investment
  - c) The present value of the investment, plus the initial investment
  - d) The present value of the future cash flows, less the initial investment
- Question 14** Which of the following is NOT a factor in pricing bank bills?
- a) Coupon (interest) rate
  - b) The issuing bank's expected return
  - c) Maturity date
  - d) Face value
- Question 15** What is the yield curve on interest-bearing securities influenced by?
- a) Demand for securities only
  - b) Supply and demand of securities
  - c) Supply of securities only
  - d) Market expectations for securities
- Question 16** Which of the following situations would cause a DECREASE in the domestic interest rate offered on fixed interest investments?
- a) An increase in the level of imports relative to exports
  - b) An increase in overseas interest rates
  - c) A depreciation of the domestic currency
  - d) A higher than expected rate of inflation in the domestic economy
- Question 17** What level of risk is 'inscribed stock' considered to carry?
- a) High risk
  - b) Risk free
  - c) Low risk
  - d) Medium risk

- Question 18** Which of the following is NOT a method through which securities on the primary market can initially be traded?
- a) Private placement
  - b) Public loan
  - c) Tender/auction
  - d) By issue of bills of exchange
- Question 19** A \$150,000 security has 30 days to maturity, and a yield of 6.75% pa. What is the price of the security?
- a) \$139,875
  - b) \$149,985
  - c) \$149,172
  - d) \$160,125
- Question 20** Which area of the domestic currency market generally has financial instruments trading with a maturity period of less than 12 months?
- a) The domestic financial market
  - b) The capital market
  - c) The foreign market
  - d) The money market
- Question 21** A bank bill has a face value of \$150,000. It has 180 days to maturity and currently sells in the market for \$145,000. What is the annual yield?
- a) 1.88%
  - b) 3.39%
  - c) 6.99%
  - d) 3.45%
- Question 22** What do preference shares and fixed interest have in common?
- a) They are purchased through a broker
  - b) They invest in debt instruments
  - c) They experience little volatility
  - d) They pay income at a fixed rate

- Question 23** Which regulatory body sets the rules that apply to the quality and disclosure standards for companies listing on the Australian Securities Exchange (ASX)?
- a) ASIC
  - b) APRA
  - c) ASX
  - d) ACCC
- Question 24** Metals and oils shares are examples of which stock market sector?
- a) Industrial
  - b) Fuels
  - c) Building materials
  - d) Resources
- Question 25** What system is now used to trade shares?
- a) Sell to the highest bidder
  - b) A computer system – CLICK XT Integrated Trading System
  - c) Via a representative of the Australian Securities Exchange
  - d) Via the Clearing House Electronic Sub-register System (CHESS)
- Question 26** Dodgies Ltd earns \$0.39 per share. The current share price is \$6.75. What is the Price Earnings Ratio (PER)?
- a) 5.7
  - b) 0.57
  - c) 17.3
  - d) 2.63
- Question 27** Within the industry a 'chartist' undertakes:
- a) Fundamental analysis
  - b) Technical analysis
  - c) Study of the company's intrinsic value
  - d) Comparisons between the intrinsic share value and the current share price

- Question 28** Shares that become eligible for dividends after a period of time, or after a certain amount of dividends are paid to ordinary shareholders, are known as which security type?
- a) Ordinary shares
  - b) Deferred dividend shares
  - c) Contributing shares
  - d) Preference shares
- Question 29** With regards to 'bonus' and 'rights' issues, which of the following statements is correct?
- a) They are extremely beneficial to the recipient as they pay higher dividends than other share types
  - b) They are of very little benefit to the recipient in the short-term
  - c) They are of very little benefit to the recipient in the long-term
  - d) They are extremely beneficial to the recipient as they are capital gains tax exempt when sold
- Question 30** In the financial section of the newspaper that reports on the trading and details of listed shares, 'dividend times covered' indicates:
- a) The number of times the dividend covers the share price
  - b) The number of times the dividend is covered by earnings per share
  - c) The number of times a dividend has been paid
  - d) Dividends multiplied by cover price
- Question 31** Ron has a marginal tax rate of 15% and he has received \$1,870 in fully franked dividends. Ignoring other income, what is his tax liability (not including Medicare levy)?
- a) \$801 credit from the Australian Taxation Office (ATO)
  - b) \$454 payable to the Australian Taxation Office (ATO)
  - c) \$401 credit from the Australian Taxation Office (ATO)
  - d) \$318 payable to the Australian Taxation Office (ATO)

- Question 32**      A client explains that they do not want to sell their residential investment property near the beach because they may move into it when they retire. This is an example of:
- a) An advantage - security
  - b) An advantage - self-use
  - c) A disadvantage - liquidity issue
  - d) A disadvantage - government charges
- Question 33**      A DISADVANTAGE of indirect property investment is:
- a) The lack of personal control over the investment
  - b) The lack of liquidity
  - c) You cannot take advantage of gearing
  - d) The burden of property management
- Question 34**      Which of the following is NOT true with regards to property syndicates?
- a) They are usually small and involve one property
  - b) There is usually provision for early termination of the syndicate
  - c) They are formed for a set period, after which time the property is sold and proceeds distributed
  - d) They are only offered privately
- Question 35**      Brett and Diane own an investment property. Their current rental income is \$290 per week and the property is valued at \$305,000. What is the annual yield generated by this property?
- a) 2.35%
  - b) 4.15%
  - c) 4.94%
  - d) 4.23%

**Question 36** When investing in property, income losses from rental investments are:

- a) Deductible against other assessable income for individuals
- b) Paid back at the end of the financial year as a tax refund
- c) Carried forward to use against rental income in future years
- d) Simply losses, with no other use

**Question 37** With regard to unit trusts and taxation, which of the following statements is INCORRECT?

- a) Investors may be taxed on any capital gains upon disposal of the investment
- b) Investors may be taxed on the dividends of the trust even if they reinvest those dividends
- c) Investors will not be taxed on any capital gains distributed by the trust
- d) Investors may be taxed on any capital gains as a result of switching from one unit trust to another

**Question 38** Which trust has the following characteristics?

- The investor, along with financial planner assistance, makes major decisions on long-term investment policy
  - Fund managers, in line with their strategy, make tactical asset allocation decisions
  - Funds are broadly split between growth assets and income producing assets
- a) Cash management trust
  - b) Mortgage trust
  - c) Diversified trust
  - d) Master trust

**Question 39** Which of the following is an advantage of investing in managed funds?

- a) Entry and exit fees
- b) Economies of scale
- c) Ongoing management fees
- d) Assets are sold on your behalf, avoiding CGT implications

- Question 40** A person who enters into a 'futures contract' pays a deposit as a percentage of the contract. If the market moves against the investor before delivery date, they may be asked to meet a \_\_\_\_\_?
- a) Margin call
  - b) Close of contract
  - c) Market movement surcharge
  - d) Contract adjustment
- Question 41** In futures terminology, what does 'going long' mean?
- a) Taking a sold position
  - b) Taking a buy position
  - c) Taking a call option initially and then later writing a call option with the same details to close out
  - d) Taking a put option to offset the initial call option
- Question 42** Lucy is concerned that her shares, currently valued at \$4 each, will fall in value over the next 6 months. She takes a put option to sell these shares for \$5 in 6 months' time. This would be known as:
- a) Speculating
  - b) Short selling
  - c) Hedging
  - d) Taking an open position
- Question 43** The agreed contract price of an option for shares is called the \_\_\_\_\_?
- a) Premium
  - b) Underlying share price
  - c) Exercise (strike) price
  - d) Intrinsic value

- Question 44** Which of the following statements is true?
- a) Derivatives are suitable for the average personal investor
  - b) High net worth clients should find the experience of investing in derivatives quite pleasant
  - c) All derivative investments have maximum losses predetermined
  - d) Only registered representatives of the Sydney Futures Exchange can provide advice on futures and options
- Question 45** What are the two most common types of warrants?
- a) Endowment and endorsement warrants
  - b) Endorsement and instalment warrants
  - c) Endowment and instalment warrants
  - d) Endowment and western warrants
- Question 46** Terry is considering exporting Australian made goods at AU\$150 apiece. What is the impact for the American customer if the AUD increases from 0.69 to 0.72?
- a) Each piece will be \$4.50 more expensive
  - b) Each piece will be \$4.50 cheaper
  - c) Each piece will be \$9.00 more expensive
  - d) Each piece will be \$9.00 cheaper
- Question 47** The government may decide to reduce government debt (a result of borrowing funds from a foreign country) when the AUD appreciates in value. This is an example of:
- a) Fiscal policy
  - b) Controlling inflationary pressure
  - c) Regulating the money supply
  - d) Monetary policy

- Question 48** Why should a financial adviser take an interest in foreign exchange?
- a) Foreign exchange movements influence the value of their clients' investments already held in overseas companies
  - b) Because an increase in the exchange rate will mean their clients' cost of living will increase
  - c) There is no need to be concerned with it if their clients only invest in Australian companies
  - d) As it is likely to have a direct impact on clients' salaries
- Question 49** What of the following methods is/are NOT used by investors and fund managers to reduce currency risk?
- a) Leverage
  - b) Spot and forward contracts
  - c) Currency options
  - d) Hedging and speculating
- Question 50** A contract states the following:  
'Australian Dollars will be purchased at a rate of 0.75 in American Dollars in 6 months' time'.  
What is missing?
- a) Rate
  - b) Commodity
  - c) Quantity
  - d) Date

## Marking Guide

# Diploma of Financial Services (Financial Planning)

## Module 3:

## Investment Planning

## Practice Exam

(2008/2009 Financial Year January)

<b>Question</b>	<b>Answer</b>	<b>Topic</b>	<b>Learning Outcome</b>
Question 1	A	Topic 1	Calculate the rate of return and expected rate of return
Question 2	D	Topic 1	Calculate the rate of return and expected rate of return
Question 3	A	Topic 1	Explain the different types of financial risk, their sources and considerations for the financial adviser
Question 4	B	Topic 1	Explain the different types of financial risk, their sources and considerations for the financial adviser
Question 5	B	Topic 1	Explain the different types of financial risk, their sources and considerations for the financial adviser
Question 6	B	Topic 1	Outline the relationship between risk and return
Question 7	D	Topic 1	Briefly explain the role of the financial media
Question 8	C	Topic 2	Outline the basics of present value and the time value of money
Question 9	B	Topic 2	Calculate repayment schedules using the present value concept
Question 10	C	Topic 2	Solve problems dealing with the present and future value of annuities
Question 11	B	Topic 2	Solve problems dealing with the present and future value of annuities
Question 12	B	Topic 2	Explain the concept of discounted cash flow and its application for financial advisers
Question 13	D	Topic 2	Describe three alternative methods of comparing investment returns
Question 14	B	Topic 3	Identify the strategies and risks involved in investing in fixed interest securities
Question 15	B	Topic 3	Identify the strategies and risks involved in investing in fixed interest securities
Question 16	C	Topic 3	Identify the strategies and risks involved in investing in fixed interest securities

Question 17	B	Topic 3	Describe the structure of the capital markets as they apply to interest-bearing securities
Question 18	D	Topic 3	Describe the structure of the capital markets as they apply to interest-bearing securities
Question 19	C	Topic 3	Explain how investors can access the fixed-interest securities market
Question 20	D	Topic 3	Explain how investors can access the fixed-interest securities market
Question 21	C	Topic 3	Explain how investors can access the fixed-interest securities market
Question 22	D	Topic 4	Explain how shares compare to other investments
Question 23	C	Topic 4	Explain the structure and operation of the share market
Question 24	D	Topic 4	Explain the structure and operation of the share market
Question 25	B	Topic 4	Explain the structure and operation of the share market
Question 26	C	Topic 4	Apply the techniques for measuring return on a share
Question 27	B	Topic 4	Apply the techniques for measuring return on a share
Question 28	B	Topic 4	List the different types of securities available on the share market
Question 29	B	Topic 4	Explain how shares are bought and sold
Question 30	B	Topic 4	Demonstrate an understanding of stock exchange information presented in financial magazines and newspapers
Question 31	C	Topic 4	Calculate dividend imputation
Question 32	B	Topic 5	Outline the advantages and disadvantages of property investment
Question 33	A	Topic 5	Outline the advantages and disadvantages of property investment

Question 34	D	Topic 5	Explain the different vehicles that can be used to invest in property
Question 35	C	Topic 5	Outline the risk and return expectation from property
Question 36	A	Topic 5	Briefly explain the tax consequences of property investment
Question 37	C	Topic 6	Explain the special characteristics of the major types of managed products
Question 38	C	Topic 6	Explain the special characteristics of the major types of managed products
Question 39	B	Topic 6	Discuss the advantages and disadvantages of managed funds
Question 40	A	Topic 7	Explain the concepts of futures and options
Question 41	B	Topic 7	Explain the concepts of futures and options
Question 42	C	Topic 7	Discuss the concept of hedging and how it is achieved
Question 43	C	Topic 7	Distinguish between call and put options
Question 44	D	Topic 7	Discuss the suitability of derivatives for the average investor
Question 45	C	Topic 7	Explain warrants and their role for professional investors
Question 46	A	Topic 8	Explain the impact of foreign exchange when investing and trading internationally
Question 47	A	Topic 8	Identify the market participants and regulatory controllers of the foreign exchange market
Question 48	A	Topic 8	Identify risks of investing and trading internationally
Question 49	A	Topic 8	Describe the different foreign exchange products available to reduce currency risks
Question 50	C	Topic 8	Describe the different foreign exchange products available to reduce currency risks