

# **Sample Questions**

## **AWM**

### **Multiple Choice Questions**

### **Financial instruments – Bonds**

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Calculate the price change in USD for a bond with a market value of USD 5,000, a 4% coupon and a 3.4 modified duration if yields rise by 0.75%.

- ☐ USD -161.25.
- ☐ USD -150.00.
- ☐ USD -127.50.
- ☐ USD -112.50.

**Solution: c)**

$$(-3.4) \cdot (0.0075) \cdot (5,000) = \text{USD } -127.50$$

Hence option c) is the correct answer.

### **Financial instruments – Options**

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Karl purchases one call option on Air Canada stock. Air Canada stock is listed on the TSX (Canadian Stock Exchange). The exercise price of this American option is CAD 30 per share. Which one of the following statements is right?

- ☐ Karl has the right to buy 100 shares of Air Canada at CAD 30 per share at any time on or before the option's expiry date.
- ☐ Karl must buy 100 shares of Air Canada at CAD 30 per share at any time on or before the option's expiry date.
- ☐ Karl has the right to buy 100 shares of Air Canada at CAD 30 per share only on the option's expiry date.
- ☐ Karl must buy 100 shares of Air Canada at CAD 30 per share only on the option's expiry date.

**Solution: a)**

Karl has the right to buy 100 shares of Air Canada at CAD 30 per share at any time on or before the option's expiry date. American option holders have rights, not obligations. If it is not in the option holder's financial interest to exercise the option, he does not have to do so.

Hence option a) is the correct answer.

### **Financial instruments – Funds**

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Why is the performance of an investment in units of a fund (the performance reported by the investment fund) different from a direct investment in the portfolio of assets held by the fund for the same period?

- I) The accrued income (the coupons accrued, for example) are not included in the net asset value of the investment fund. This reduces the performance of an investment in fund units, compared with a direct investment in the portfolio of assets.
  - II) Tax deducted at source, which can be claimed back by the investment fund, is not included in the net asset value of the investment fund. This reduces the performance of an investment in fund units, compared with a direct investment in the portfolio of assets.
  - III) The fund management and administration fees are taken into account when calculating the net asset value of the investment fund. This reduces the performance of an investment in fund units, compared with a direct investment in the portfolio of assets.
- ☐ All of the above statements I), II) and III) are true.
  - ☐ Only statements I) and II) are true.
  - ☐ Only statements I) and III) are true.
  - ☐ Only statement III) is true.

**Solution: d)**

- I) Incorrect, accrued income is taken into account in the calculation of net asset value.
- II) Incorrect, tax deducted at source, which can be claimed back by the investment fund, is taken into account in the calculation of the net asset value (included under other assets).
- III) Correct.

Hence option d) is the correct answer.

**Wealth Management – Wealth accumulation, discovery and marketing**

Which of the following statements is incorrect?

- ☐ When faced with volatility in the markets, clients in the accumulation stage can forget that they are implementing a long term approach and that over time, the importance of volatility lessens.
- ☐ A factual discussion during which the client advisor presents facts and figures on the performance of different asset classes is sufficient to make all clients understand and accept risk.
- ☐ Though risk tolerance questionnaires can be a useful tool, it is important that advisors understand the client's fears and the underlying reasons for this fear.
- ☐ Since risk tolerance is an emotional concept, an advisor should try to uncover the client's emotional concerns about risk.

**Solution: b)**

b) is wrong. Fear of risk is not often successfully countered by an intellectual or factual discussion about the investment itself. Wealth advisors should help clients define what risk is and to understand what is behind the client's fears.

Hence option b) is the correct answer.

### **Wealth Management – Portfolio management process**

Which of the following is not a step in the portfolio management process?

I) Asset allocation.

II) Security and manager selection.

III) Rebalancing the portfolio.

- ☐ All of the above statements I), II) and III) are true.
- ☐ Only statements I) and II) are true.
- ☐ Only statements I) and III) are true.
- ☐ No statement is true.

**Solution: d)**

All statements are steps in the portfolio management process.

Hence option d) is the correct answer.

### **Wealth Management – Fundamental analysis**

Company C has revenue of EUR 160,000, an operating profit of EUR 45,000 and a net profit of EUR 25,000. In addition, you know that total assets amount to EUR 320,000 and total liabilities to EUR 120,000.

What is the ROE (return on equity) of Company C?

- ☐ 7.8%.
- ☐ 12.5%.
- ☐ 14.1%.
- ☐ 22.5%

**Solution: b)**

Common equity = assets - liabilities = 320,000 – 120,000 = 200,000

ROE = net profit / equity = 25,000 / 200,000 = 12.5%.

Hence option b) is the correct answer.

### **Wealth Management – Portfolio monitoring and performance evaluation**

A client has CAD (Canadian dollars) 1 million in a fund wrap allocated to 4 underlying funds. Last year the funds and their respective benchmarks realized the returns in the following

table:

| Fund                      | Weight in Fund Wrap | Return | Benchmark Return |
|---------------------------|---------------------|--------|------------------|
| Canadian Equity Fund      | 35%                 | 10%    | 12%              |
| International Equity Fund | 25%                 | 15%    | 14%              |
| Canadian Bond Fund        | 25%                 | 9%     | 6%               |
| International Bond Fund   | 15%                 | 2%     | 5%               |

Calculate the relative performance of the fund wrap compared to the fund wrap's blended benchmark.

- ☐ It outperformed by 0.25%.
- ☐ It outperformed by 0.10%.
- ☐ It underperformed by 0.15%.
- ☐ It underperformed by 0.30%.

**Solution: c)**

The return on the fund wrap =  
 $(35\% \times 10\%) + (25\% \times 15\%) + (25\% \times 9\%) + (15\% \times 2\%) = 9.80\%$ .

While the return on the blended benchmark =  
 $(35\% \times 12\%) + (25\% \times 14\%) + (25\% \times 6\%) + (15\% \times 5\%) = 9.95\%$ .

Which means the fund wrap underperformed the blended benchmark by 0.15%.

Hence option c) is the correct answer.

### **Taxation – Standard income model**

Can the following financial instrument be considered as a mixed bond according to the Standard Income Model?

- Issue date: 20.03.2012
- Issue price: 95%
- Denomination: 5,000
- Currency: CHF
- Coupon: 7.125%
- Coupon payment: March 22<sup>nd</sup> of each year
- Interest Calculation method: 30/360
- Maturity: 22.03.2022
- Redemption price: 100%

- ☐ Yes.

- ☐ No.
- ☐ Impossible to answer with the available information.

**Solution: a)**

A mixed bond is defined as a financial instrument issued at a discount (below the redemption price) and that distributes interest in the form of cash flow. It is called mixed, because its properties are a mix of vanilla bond and Zero-coupon.

Therefore, this bond can be considered as a mixed bond according to the standard income model

Hence option a) is the correct answer.