



FINAL EXAM

Course # 171006 A Complete Guide to Investing

based on the electronic .pdf file(s):

A Complete Guide to Investing

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18 CPE Credit Hours
Financial Planning

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Chapter 1 - Getting Started As An Investor

1. Sources of money for investing do not include
 - Discretionary income.
 - Credit cards.
 - Gift from parent or relative.
 - OPM (other people's money).
2. _____ is NOT an example of intangible investments.
 - Stocks.
 - Real estate.
 - Bonds.
 - Options.
3. Short-term securities involve _____ risk and offer _____.
 - Low; guaranteed rates of return.
 - Little; liquidity.
 - High; generally low returns.
 - High; potentially high returns.
4. The payment made when a bond matures includes
 - Only the final interest payment.
 - The final interest payment plus the face value of the bond.
 - Only the face value of the bond.
 - The final interest payment minus any capital loss on the investment.
5. Options and futures are
 - Convertible securities.
 - Forward contracts.
 - Derivative products.
 - Callable securities.
6. In selecting investments consistent with your goals, you should consider
 - Rates of return and taxes only.
 - The pre-tax rate of return only.
 - Annual dividends and taxes only.
 - Risks, returns, and taxes.
7. _____ means there is an available market to sell the investment.

Liquidity.

Mobility.

Marketability.

Stability.

8. Which one of the following would be the LEAST liquid investment?

Stock.

Series EE bond.

Money market mutual fund.

Real estate.

9. High expense investments do not include

Collectibles.

Limited partnerships.

Actively traded stocks and bonds.

Load mutual funds.

10. Common stocks are a(n) _____ investment representing _____ of a business.

Equity; ownership.

Direct; debt.

Indirect; ownership.

Indirect; debt.

Chapter 2 - Financial Markets And Investment Process

11. The price an individual investor will pay to purchase a stock in the OTC market is the

Spread.

Ask price.

Bid price.

Broker price.

12. Brokerage accounts do not include

Single or joint.

Margin.

Diverse.

Discretionary.

13. What is Nasdaq?

The regulatory agency of the over-the-counter market.

A regional options exchange.

The telecommunication network used by OTC dealers.

A North American commodities exchange.

14. An odd-lot transaction is one having _____ of a security.

Fewer than 100 shares.

More than 100 shares.

Fewer than 1000 shares

More than 1000 shares

15. Which one of the following is a major disadvantage of margin trading?

The reduction in potential diversification.

The reduction in potential profits.

The possibility of deepening loss.

The high rate of interest charged on the loans.

16. One reason for selling a security short is that the investor

Eliminates his or her risk exposure.

Earns the security's dividend or interest income.

Can profit from a declining stock price.

Can eliminate capital gain taxes on any realized profit.

Chapter 3 - Return And Risk

17. From an investor's point of view, periodic payments such as interest and dividends that are received as a result of owning an investment are classified as

Capital gains.

Total return.

Current income.

Active income.

18. Ted bought a stock at a price of \$35. He received a \$2 dividend and sold the stock for \$38. What is Ted's total return on this investment?

5.3%

5.7%

13.2%

14.3%

19. Assume a certain stock was purchased for \$55 and sold a year later for \$61; in addition, over the course of the year, the stock paid a cash dividend of \$2. Based on this information, the holding period return on the stock was

11 percent.

13 percent.

15 percent.

17 percent.

20. Perry bought a stock one year ago for \$39 a share. He received a total of \$1.10 in dividends. Today he sold the stock for \$44 a share. Which one of the following statements is correct concerning this investment?

Perry has current income of \$6.10.

Perry has a capital gain of \$1.10.

Perry has a total return of 15.6%.

Perry has unrealized income of \$5 a share.

21. Taking the n th root of the product of n numbers creates the ____.

Arithmetic mean.

Standard deviation.

Variance.

Geometric average.

22. The geometric (compound) average return calculation is typically employed when:

An investment returns over multiple periods

An equal amount of money invested in each asset in the portfolio

The actual returns from an investment differ from the expected return

The investment makes interim interest payments that can be reinvested

23. In deciding your risk tolerance some of the factors to consider do not include

Family status.

Age.

General economy.

Financial status.

24. The type of risk most often associated with operating difficulties such as strike and technological obsolescence is

Business risk.

Financial risk.

Event risk.

Inflation.

25. The market portfolio, such as Standard & Poor's 500, has a beta of ____.

0.0

0.5

1.0

2.0

26. Inflation risk is high on

CDs.

Stocks.

- Options.
- Bond prices.

Chapter 4 - Fundamental Analysis

27. A major premise of fundamental analysis is that

- A stock's price is based on its past cash flows, rather than on anticipated future cash flows.
- Market sectors do not move in concert with business cycles.
- All securities have an intrinsic value, but some securities may be incorrectly priced in the market at any given time.
- A security's risk has relatively little effect on the security's return.

28. Which one of the following is not an objective of ratio analysis?

- Appraise the position of a business.
- Identify trouble spots that need attention.
- Provide the basis for forecasts about the course of future operations.
- Uncover major external catastrophes.

29. The analysis of financial statements involves the in-depth study of the

- Role of non-diversifiable risk in an investor's portfolio.
- Financial condition and operating results of a given firm.
- Pattern of security prices as revealed in chart formations.
- Role of diversifiable risk in an investor's portfolio.

30. Which one of the following is NOT a macroeconomic variable?

- Leading indicators.
- Capacity utilization.
- Marginal utility of money.
- Real GDP.

31. Solvency is

- Financial leverage.
- Enough liquidity.
- Being able to meet long-term debt as it becomes due.
- Borrowing capacity.

32. A total asset turnover of 3 means that every

- \$1 in sales is supported by \$3 of assets.
- \$3 in assets produces \$1 in net earnings.
- Total assets are replaced on average every 3 years.

\$1 in assets produces \$3 in sales.

33. The measure that indicates how many times the firm's before-tax earnings would cover interest.

Total asset turnover.

Current ratio.

Time interest earned.

Net profit margin.

34. The _____ reflects both the firm's future growth prospects in earnings and the level of risk associated with future earnings.

Return on equity.

P/E ratio.

Price/book value ratio.

Dividend yield.

Chapter 5 - Technical Analysis

35. Primary assumptions underlying technical analysis includes all EXCEPT:

Market action discounts everything

Destiny is self-fulfilling

Supply and demand determine market price

Prices move in trends

36. Supply and demand have very little to do with the _____ of security.

Price.

Risk.

Return.

Marketability.

37. _____ refers to the rate of change of a stock price or market index over a period of time.

Accumulation.

Momentum.

Distribution.

Consolidating.

38. What is the Odd-Lot Trading Indicator?

Sell when small traders (odd-lot sellers) sell.

Hold when small traders sell.

Sell when small traders buy.

Buy round-lots.

39. _____ is not an indicator reflecting a contrarian view.

- Mutual fund cash positions.
- The short interest ratio.
- The odd-lot trading indicator.
- The index of bullish sentiment.

Chapter 6 - Common Stocks And Preferred Stocks

40. Securities as a broad range of investment instruments do not include

- Common stock.
- Treasury stock.
- Bonds.
- Option.

41. Characteristics of common stock do not include

- Price stability.
- Voting rights.
- Inflation hedge.
- Preemptive right.

Chapter 7 - How Much Are You Willing To Pay For A Common Stock?

42. The adage that "the sooner one receives a return on a given investment, the better," reflects the financial concept known as the

- Time value of money.
- Quick response.
- Historical dividend theory.
- Expected yield factor.

43. Approaches to determine a fundamental value for a security investment do not include:

- Charting.
- Multiplier of earnings.
- Dividend-oriented.
- P-E ratio.

44. Common stock growth dividends cannot be explained by

- Zero growth case.
- Constant growth case.
- Exponential growth case.

Modified constant growth case.

45. Some price/earnings ratios approaches do not include

Historical P/E ratios.

Market-relative P/E ratios.

Price-sales (P/S) ratios.

First-Last Bid ratios.

Chapter 8 - Fixed Income Securities

46. Bond characteristics do not include

Indenture.

Voting rights.

Trustee.

Maturity date.

47. As an investment vehicle, fixed income securities can provide income in the form of

Current income only.

Capital gains only.

Both current income and capital gains.

Neither current income nor capital gains.

48. The single most important force in the bond market is

The rate of inflation.

The movement of the stock market.

The real rate of return.

The behavior of interest rates.

49. Which one of the following correctly describes the effect of a decline in interest rates on bond prices?

The prices of existing bonds are not affected.

The prices of existing bonds fall.

The prices of existing bonds rise.

The prices of newly issued bonds are lowered.

50. A 6%, \$1,000 bond was issued three years ago by the Ibis Corporation. If the prevailing market rate for interest on comparable bonds is now 5%, then the Ibis bond pays its bondholders annual interest of

\$60, and the bond would sell for less than its par value.

\$60, and the bond would sell for more than its par value.

\$50, and the bond would sell for less than its par value.

\$50, and the bond would sell for more than its par value.

51. If a bond is called

- It is in response to an action taken by the bondholder.
- The result is normally a reduced rate of return for the bondholder.
- It is most likely in response to higher market interest rates.
- It means the bond has matured and the principal needs repaid.

52. Many term bonds are issued with a sinking fund provision. This provision indicates

- The total amount of debt the issuer plans to incur over the next ten year period.
- The type of collateral used in issuing the bond.
- The degree of call risk associated with the bond.
- The annual repayment schedule that will be used to pay off the issue.

53. Serial obligation bonds differ from most other bonds because

- They are secured by the assets of the issuer.
- Their par value is usually well below \$1,000.
- Their term-to-maturity is usually 30 years or more.
- They possess multiple maturity dates.

54. Which of the following federal agencies does not make up the secondary market in home mortgages?

- FNMA (Fannie Mae).
- GNMA (Ginnie Mae).
- S&L.
- Freddie Mac.

55. Fixed income securities do not include

- Certificates of deposit (CDs).
- Banker's acceptances (BAs).
- Eurodollars.
- Federal Reserve deposits.

Chapter 9 - Investing In Options

56. Leverage instruments do not include

- Warrants.
- Guarantees.
- Options.
- Futures.

57. The cost of an option (premium) depends on all EXCEPT

- The prime reserve rate.
- The volume of trading in the option.
- The exchange on which the option is listed.
- The variable in price of the related security.

58. For a call purchased on an organized security exchange, the strike price specifies the

- Price at which each of the shares of the underlying stock can be bought.
- Prevailing market price of one share of the underlying stock.
- Cost of buying one option contract based on the value of the underlying stock.
- Fundamental value of the matching put.

59. For all practical purposes, listed stock options always expire

- On the first business day of the month.
- On the first Monday every month.
- On the third Friday of the month of expiration.
- Three months from the date of the option purchase.

60. Southwest, Inc. stock is trading at \$48 a share. The July 45 call on Southwest has a strike of \$45. What is the value of one July 45 call contract?

- \$1
- \$2
- \$200
- \$300

61. If a call is out-of-the money, then the

- Market price of the stock is less than the strike price of the option.
- Call is selling for less than \$1 per each share of underlying stock.
- Call option has expired without being exercised.
- Call does not have an expiration date in the current month.

62. The most important factor affecting the market price of a put or call is the

- Market interest rate.
- Expiration date.
- Price behavior of the underlying common stock.
- Price behavior of the corresponding warrant.

63. A "spread" is the purchase of an option for the long position and does NOT include

- Vertical.
- Horizontal.
- Diagonal.
- Straddle.

Chapter 10 - Futures Contracts

64. _____ futures is NOT a type of financial futures.
- Interest rate.
 - Commodity.
 - Foreign currency.
 - Stock-index.
65. One reason that commodities appeal to investors is because they
- Act as hedges against inflation during periods of rapidly rising consumer prices.
 - Offer high returns for low risks.
 - Do not require much specialized knowledge on the part of the investor.
 - Are a suitable investment vehicle for one's retirement savings.
66. One of the biggest differences between a futures option and a futures contract is that
- The option limits the loss exposure to the price of the option.
 - The futures contract limits the loss exposure to the price of the contract.
 - An option can be traded on the secondary market, whereas a futures contract cannot.
 - A futures contract can be traded on the secondary market, whereas an option cannot.
67. The futures market contains two primary types of traders: hedgers and speculators. In this context, speculators
- Trade futures contracts because of a need to protect a position in an underlying commodity.
 - Trade futures contracts to earn a profit on expected swings in the price of a futures contract.
 - Are usually ranchers or farmers who actually raise or grow the commodity being traded.
 - Provide the underlying strength to the futures market and are the reason this market exists.
68. The minimum amount of margin that must be kept in an account for futures contracts is known as the
- Round-trip cost.
 - Forward basis.
 - Maintenance deposit.
 - Initial deposit.
69. Which of the following is NOT true with respect to financial futures?
- Due to fluctuation in interest and exchange rates, financial futures can be used as a hedge.
 - Financial futures have a higher margin requirement than commodities do.
 - They may also be used to speculate, having potential for wide price swings.
 - Financial futures trading is similar to commodity trading.

70. Interest rate futures are traded on all the following EXCEPT

- Savings bonds.
- Treasury notes.
- Treasury bills.
- Municipal bonds.

Chapter 11 - Global Investing

71. The advantages of global investment include all EXCEPT

- Greater universe for stock selection.
- Opportunity to reduce risk exposure.
- Currency exchange rates can enhance appreciation.
- Political or sovereign risks are greater.

72. Adding international investments to a portfolio of US securities _____ your risk.

- Increases.
- Neutralizes.
- Reduces.
- Does not impact.

73. Which of the following statements is FALSE about ADRs?

- ADRs are certificates that represent stock in foreign companies.
- ADR investors have to go through foreign brokers and information on company operations is usually available in English.
- A foreign company places shares in trust with a U.S. bank, which in turn issues ADRs to U.S. investors.
- An ADR's depository bank performs all clerical functions

74. _____ is not an international ETF fund.

- Spiders.
- iShares MSCI Austria Index ETF.
- iShares MSCI EAFE Index Fund.
- Dow Jones Stoxx 50 ETF.

Chapter 12 - Tax-Advantaged Investments

75. Before investing in Real Estate Investment Trusts (REITs) you must consider all the following EXCEPT

- Prior owners.
- Profitability.

Annual cash flow.

Condition of property.

76. Company-sponsored pension funds do not include:

Qualified company retirement plans.

Roth IRAs.

Profit sharing plans.

401 (K) salary reduction plans.

77. _____ is NOT an excellent investment vehicle for retirement planning.

Limited partnerships.

Social security.

Individual Retirement Accounts (IRAs).

Annuities.

78. REITs are companies similar to

Closed-end mutual funds.

Open-end mutual funds.

Real estate operating companies.

ETFs.

Chapter 13 - Mutual Funds

79. A mutual fund has \$10 million in assets and \$1 million in liabilities. There are 400,000 fund shares outstanding. What is the net asset value (NAV) of this fund?

\$25.00

\$22.50

\$12.50

\$11.25

80. Closed-end funds are

Less liquid than open-end funds.

Best purchased when they are selling at a premium.

Purchased directly from the funds' manager.

Traded at nav.

81. An ETF is a

Mutual fund.

Money market fund.

Stock.

Life cycle fund.

82. A fund which invests exclusively in energy stocks is an example of a(n)

- Income fund.
- Company fund.
- Sector fund.
- International fund.

83. A fund that is designed to match the performance of a measure such as the S & P 500 or the Russell 2000 is called a(n)

- Index fund.
- Targeted fund.
- Sector fund.
- Block fund.

84. Dollar cost averaging is a procedure by which an investor

- Buys more stock as its price increases.
- Times investments in order to buy low and sell high.
- Invests a fixed dollar amount in a security at fixed intervals.
- Maintains a constant ratio of conservative and aggressive investments.

85. Hedge funds use aggressive investment strategies. These strategies do not include

- Leverage.
- Long sale.
- Program trading.
- Derivatives.

86. Mutual funds may NOT include

- Money market funds.
- Growth funds.
- Estate funds.
- Aggressive growth funds.

Chapter 14 - Diversification, Portfolio Constriction, And Asset Allocation

87. One of the best ways to allocate assets is with _____.

- Commodities.
- Government securities.
- Mutual funds and ETFs.
- ADRs

88. _____ is one of several statistics that you can use to construct and/or adjust your

own portfolio.

Beta coefficients.

Alpha coefficients.

Coefficients of variation.

Variance.

89. Marti is 31 years old and is saving for retirement. Which one of the following portfolio allocations might best suit her situation if she is willing to accept a fair amount of risk in exchange for long-term capital appreciation?

60% bonds, 15% money funds and 25% real estate.

5% money funds, 35% bonds and 60% growth stocks.

25% bank CDs, 40% corporate bonds, 15% money market, 20% value stocks.

50% mortgage bonds, 5% money market, 45% municipal bonds.

90. Fred and Martha are in their seventies and retired. Which one of the following sets of portfolio statistics might best suit their situation if their primary investment goal is current income with limited risk?

Beta of .83 and a dividend yield of 6.3%

Beta of .86, and a dividend yield of 4.6%

Beta of 1.6 and a dividend yield of 6.4%

Beta of 1.1 and a dividend yield of 5.4%

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