Question #1 of 34

Procedures for compliance with Standard III(C), Suitability, include determining all of the following with respect to a client EXCEPT:

A) liquidity needs.

B) return objectives.

C) social habits and interests.

Question #2 of 34

Carol Hull, CFA, is an investment advisor whose prospective client, Frank Peters, presents special requirements. To construct an investment policy statement for Peters, Hull inquires about Peters' investment experience, risk and return objectives, and financial constraints. Peters states that he has a great deal of investment experience in the capital markets and does not wish to answer questions about his tolerance for risk or his other holdings. Under Standard III(C), Suitability, Hull:

A) is permitted to manage Peters' account without any knowledge of his risk preferences.

B) must decline to enter into an advisory relationship with Peters.

C) may accept Peters' account but may only manage his portfolio to a benchmark or index.

Question #3 of 34

Janine Walker is an individual investment advisor with 200 individual clients. When she first obtains a client, Walker solicits personal data that helps her formulate an investment recommendation, including tax status, income, expenditure needs, and risk tolerance. The Standards:

A) require Walker to update the data regularly.

B) only require to update a client's data when a material change is being made to the clients' portfolio.

C) require updating a client's data only when a material change occurs to the personal data.

Question #4 of 34

Karen Jackson is a portfolio manager. Jackson is friendly with David James, president of Acme Medical, a rapidly growing biotech company. James has provided Jackson with recommendations in the biotech industry, which she buys for her own portfolio before buying them for her clients. For three years, Jackson has also served on Acme Medical's board of directors. She has received options and fees as compensation.

Recently, the board of Acme Medical decided to raise capital by voting to issue shares to the public. This was attractive to board members (including Jackson) who wanted to exercise their stock options and sell their shares to get cash. When the demand for initial public offerings (IPO) diminished, just before Acme Medical's public offering, James asked Jackson to commit to a large purchase of the offering for her portfolios. Jackson had previously determined that Acme Medical was a questionable investment but agreed to reconsider at James' request. Her reevaluation confirmed the stock to be overpriced, but she nevertheless decided to purchase Acme Medical for her clients' portfolios.

Did Jackson violate Standard III(C) Suitability concerning portfolio recommendations and actions?

A) Yes, because she did not deal fairly with all clients.

B) No.

C) Yes, because she did not consider the appropriateness and suitability of investment recommendations or actions for each portfolio or client.

Question #5 of 34

A candidate or member is *least likely* violating the Standard regarding the confidentiality of client information if he shares confidential client information, when not required by law, with:

A) the CFA Institute Professional Conduct Program.

B) the co-owner of the client’s account.

C) the client’s attorney.

Question #6 of 34

According to Standard III(C) Suitability, which of the following is *least likely* to be considered a relevant factor in determining the appropriateness and suitability of investment recommendations or actions for each portfolio or client?

A) Best interests of the investment professional.

B) Needs and circumstances of the portfolio or client.

C) Basic characteristics of the total portfolio.

Question #7 of 34

Standard III(E), Preservation of Confidentiality, applies to the information that an analyst learns from:

A) current clients and prospects only.

B) current clients, former clients, and prospects.

C) current clients and former clients only.

Question #8 of 34

Kim Lee manages a variety of accounts at Superior Investments. Some are permitted to invest in tax-exempt issues only; others may not invest in a stock unless it pays dividends. Lee is researching a biotech firm specializing in the analysis of "mad cow" disease. While touring company facilities and meeting with management, she learns that they believe they may have found a way to reverse the disease. Moreover, one manager conjectured, "Suppose that we reversed the disease in someone who didn't even have it? We might then be able to boost that individual's IQ into the stratosphere!" Lee returns to her office and buys shares for all accounts under her supervision. This action is:

A) a violation of the Standard concerning fiduciary duties.

B) a violation of the Standard concerning appropriateness and suitability of investment actions.

C) appropriate given the obvious potential of the therapy.

Question #9 of 34

James Bush, CFA, is meeting with an investor, George Stephan, for the first time. During their first meeting, Bush, before making any inquiry regarding the client's circumstances, outlines several investment strategies and also describes a specific stock with what Bush believes offers a high potential for large gains, and recommends that Stephan include this stock in his portfolio. With regard to suitability, Bush's actions:

A) violate the Standards because Bush must determine Stephan's risk tolerance, objectives and needs before making any investment recommendations.

B) comply with the Standards.

C) violate the Standards because Bush must obtain information on which securities the client has invested in previously, in order to make appropriate investment recommendations.

Question #10 of 34

Albert Long, CFA, manages portfolios of high net worth individuals for HKB Corp. Alice Thurmont, one of his close friends, heads a local charity for homeless children that depends on donations to operate. Because donations have declined during the past year, the charity is experiencing financial difficulty. Thurmont asks Long to give her a partial list of his clients so that she can contact them to make tax-deductible donations. Because Long knows that the charity provides much benefit to the community, he provides Thurmont with the requested list.

Betty Short, CFA, also works for HKB Corp. She receives a letter from CFA Institute's Professional Conduct Program (PCP) requesting that she provide information about one of HKB's clients who is being investigated. Short complies with the request despite the confidential nature of the information requested by the PCP.

Based on Standard III(E), Preservation of Confidentiality, which of the following statements about Long and Short's actions is CORRECT?

A) Short violated Standard III(E) but Long did not violate Standard III(E).

B) Long violated Standard III(E) but Short did not violate Standard III(E).

C) Both Long and Short violated Standard III(E).

Question #11 of 34

Millie Walker, CFA, established an aggressive growth portfolio for her client, Jesse Wilmer, over three years ago. Wilmer was placed on Walker's employer's client mailing list, and received monthly account statements and the firm's newsletter, which regularly informed clients that they should contact their account representative with any change in their personal circumstances or investment objectives. As of January, of this year, Walker had not spoken to Wilmer nor received any correspondence from Wilmer since the account was established. Walker has:

A) not violated the Code and Standards because Wilmer has been reminded regularly about the opportunity to inform Walker about any changes.

B) not violated the Code and Standards because there has been regular correspondence from Walker's firm to Wilmer.

C) violated the Code and Standards because the manager has not performed an update of Wilmer's financial situation and investment objectives.

Question #12 of 34

Bob Hatfield, CFA, has his own money management firm with two clients. The accounts of the two clients are equal in value. One of the clients gets married and the assets of the new spouse and the client are combined. With the larger portfolio of the now married client, Hatfield determines that they can assume a higher level of risk and begins a change in the policy concerning that portfolio. Which of the following would violate Standard III(C), Suitability?

A) Implement a similar policy for the other client who did not just get married.

B) Assess the return objectives of the newly married client and his spouse.

C) Assess the time horizon of the newly married client and his spouse.

Question #13 of 34

Lance Tuipulotu, CFA, manages investments for 400 individuals and families and often finds his resources stretched. When his largest investors petition him to include a 5% to 7% allocation of non-investment-grade bonds in their portfolios, he decides he needs additional help to meet the request. He considers various independent advisors to use as submanagers, but determines that the most qualified advisors would be too expensive. Reasoning that a lower-cost provider would enable him to pass the savings along to his clients, he chooses that provider to invest the new bond allocation. Tuipulotu has violated:

A) Both Standard III(C) Suitability and Standard V(A) Diligence and Reasonable Basis.

B) Standard III(C) Suitability by failing to consider the appropriateness of the non-investment-grade bonds.

C) Standard V(A) Diligence and Reasonable Basis by letting fee structure determine the selection of the submanager.

Question #14 of 34

Greg Stiles, CFA, may withhold from CFA Institute information about a client acquired in the regular performance of his duties:

A) for neither of the reasons listed.

B) only if Stiles is a relative of the client.

C) only if Stiles has a special confidentiality agreement with the client.

Question #15 of 34

Paul Salyer,a portfolio manager, is making a presentation to a prospective client. Paul says that as a new portfolio manager, he made an average annual rate of return of 50% in the last two years at his previous firm and that based on this, he can guarantee a 50% return to the client. Which of the following statements is in accordance with Standard III(D), Performance Presentation?

A) Implying that he can guarantee a return.

B) Stating his past performance as long as it is fact.

C) Imputing his past performance to future performance.

Question #16 of 34

Nancy Korthauer, CFA, has launched a new hedge fund called the Korthauer Tautology Fund and is actively soliciting clients from competitor's firms. Client presentations are necessarily brief and often take place with the prospective client's current investment advisor in the room. The Code and Standards require that:

A) a prospective client's current investment advisor not participate in meetings.

B) all client presentations provide a thorough review of all elements of the investment management process. Abbreviated presentations are forbidden.

C) member or candidate provide (on request) additional detail information which supports the abbreviated presentation.

Question #17 of 34

A money manager, who is a member of CFA Institute, states that, "Our aggressive growth fund produced a 12% annualized return last quarter. This illustrates the superior results our firm produces." The fund return stated by the manager is accurate. Is this a violation of Standard III(D) Performance Presentation?

A) No, because the manager has stated a fact.

B) No, because a brief summary of results is acceptable as long as more complete information is made available.

C) Yes.

Question #18 of 34

A money manager is meeting with a prospect. She gives the client a list of stocks and says, "These are the winners I picked this past year for my clients. Their double-digit returns indicate the type of returns I can earn for you." The list includes stocks the manager had picked for her clients, and each stock has listed with it an accurately measured return that exceeds 10%. Is this a violation of Standard III(D), Performance Presentation?

A) No, because the manager had the historical information in writing.

B) Yes, because the manager cannot reveal historical returns of recent stock picks.

C) Yes, unless the positions listed constitute a complete presentation (i.e., there were no stocks omitted that did not perform in the double digits).

Question #19 of 34

Paula Munson, CFA, manages a mutual fund with an objective to emphasize income over capital gains. Magic Technologies is a growth stock that pays no dividend, but Republic's research department believes the stock will dramatically outperform the S&P 500 over the next 12 to 18 months. Based on this strong recommendation, Munson adds Magic stock to her fund's portfolio. Munson has:

A) violated the Standards by failing to comply with her portfolio's style mandate.

B) not violated the Standards and improved the diversification of the fund.

C) violated the Standards by relying on research that she did not perform herself.

Question #20 of 34

While servicing his clients' accounts, an analyst who is a CFA charterholder, determines that one client is probably involved in illegal activities. According to Standard III(E), Preservation of Confidentiality, the analyst may NOT do which of the following?

A) Contact CFA Institute about the determination.

B) Contact the appropriate governmental authorities about the determination.

C) There are no exceptions in this list.

Question #21 of 34

While it would be customary to report both five-year and ten-year performance data, Seminole Equity Partners has been in existence for only eight years. Because of this, Kurt Dambach does not report ten-year data but reports for both five years and since the inception of the fund. This he notes in a footnote at the bottom of the information sheet. This action is:

A) a violation of the Standard concerning prohibition against misrepresentation.

B) in accordance with the Code and Standards since he has indicated the basis in a footnote.

C) a violation of the Standard concerning performance presentation.

Question #22 of 34

Stephen Rangen, a broker, has three accounts consisting of unsophisticated, inexperienced individual investors with limited means. One of these accounts is an elderly couple. The clients want to invest in safe, income-producing investments. They rely heavily on Rangen's advice and expect him to initiate most transactions in their respective accounts. In managing their accounts, Rangen pursues the following strategies: (1) buys U.S. treasury strips and non-dividend paying over-the-counter (OTC) stocks recommended by his firm's research department, (2) uses margin accounts, and (3) concentrates the equity portion of their portfolio in one or two stocks. Rangen's approach leads to extremely high turnover rates in all three accounts.

Which of the following statements about Rangen's conduct is *most accurate*? Rangen's conduct:

A) meets the requirements of the Code and Standards because his firm's research department recommended the U.S. Treasury strips and non-dividend paying stocks.

B) meets the requirements of the Code and Standards because his clients are aware of the risks that he is taking in managing their accounts.

C) does not meet the requirements of the Code and Standards because his investment strategy is inconsistent with his clients' objectives.

Question #23 of 34

A CFA charterholder may disclose confidential information about a client when:

A) the CFA Institute Professional Conduct Program requests it.

B) it is a necessary step in proceeding with research on client preferences.

C) the information is nonmaterial.

Question #24 of 34

Greg Stiles, CFA, keeps a list of his clients' birthdays and has personally sent them a birthday card each year at the appropriate time. With respect to this action, which of the following may be a violation of Standard III(E), Preservation of Confidentiality?

A) Hiring a company outside the firm to perform the task.

B) The mere act of sending a birthday card each year.

C) Sending a gift along with the card.

Question #25 of 34

The O'Douls (husband and wife) have decided to work with Jane Mack, CFA, to have her recommend an investment portfolio for them. The O'Douls are novice investors and Mack has determined their asset allocation model falls into the conservative category. After researching various investment options for the O'Douls, Mack has made a recommendation that they divide their account on a 25%/75% basis between shares of a computer peripherals manufacturing company her brokerage firm is underwriting and investment grade corporate bonds. The O'Douls are not aware that Mack's firm is underwriting an offering of the company in question. Which CFA Institute Standard(s) has Mack violated given her actions?

A) Standard V(A), Diligence and Reasonable Basis, and I(D), Misconduct.

B) Standard VI(A), Disclosure of Conflicts, and III(C), Suitability.

C) Standard III(B), Fair Dealing, and III(A), Loyalty, Prudence, and Care.

Question #26 of 34

Patricia Young is an individual investment advisor who uses a computer model to place each of her clients into an appropriate portfolio. The model analyzes a range of simulated portfolios and computes for each the probabilities of achieving various levels of return. Young then selects the portfolio that provides the highest probability of achieving the clients' minimum required return. By using this process, Young is:

A) violating Standard III(C) - Suitability.

B) violating Standard I(C) - Misrepresentation.

C) not violating the Standards.

Question #27 of 34

The Standard concerning preservation of confidentiality states that members and candidates must keep information confidential about:

A) current clients, former clients, and prospective clients.

B) members and candidates.

C) current clients, former clients, and competitors.

Question #28 of 34

Dan Jeffries is a portfolio manager who is being sued by one of his clients for inappropriate investment advice. The Professional Conduct Program of CFA Institute is investigating Jeffries for the same offense. Jeffries settles the lawsuit with the client while the Professional Conduct Program investigation is ongoing. When the Professional Conduct Program staff questions Jeffries about the problematic investment advice, Jeffries claims he cannot talk about it because doing so would violate the confidentiality of his client. Jeffries has:

A) not violated the Standards by executing the settlement agreement or by refusing to talk about the case with the Professional Conduct Program.

B) violated the Standards by executing the settlement agreement, but not by refusing to talk about the case with the Professional Conduct Program.

C) violated the Standards by refusing to talk about the case with the Professional Conduct Program, but not by executing the settlement agreement.

Question #29 of 34

Greg Stiles, CFA, CAIA, is liquidating a large portion of a client's portfolio because the client is planning to buy a vacation home. Stiles informs one of his colleagues at the firm that the client is looking for a vacation home, because the colleague's wife is a licensed real estate broker. With respect to Standard III(E) Preservation of Confidentiality, this action:

A) does not violate the standards because he did not share the information outside the firm.

B) Does not violate the standards because he did not disclose any details about the client's portfolio or other financial resources.

C) violates the Standard unless the client has given explicit permission to disclose his plans.

Question #30 of 34

Calvin Doggett, CFA, has been contacted by the CFA Institute Professional Conduct Program (PCP) regarding allegations that he has taken investment actions that were unsuitable for his clients. Doggett is questioned by PCP concerning the identity of his clients he considered suitable for investing in a very risky start-up company that eventually went bankrupt.

Doggett will:

A) not violate the Code and Standards only if he reveals the financial condition and investment objectives of his clients on an anonymous basis and does not reveal the names of his clients to PCP.

B) not violate the Code and Standards by revealing the names, financial condition and investment objectives of his clients to PCP.

C) violate the Code and Standards by fully cooperating with a PCP investigation if it means revealing confidential information.

Question #31 of 34

A money management firm has created a new junk-bond fund. When the firm advertised the new fund at its issuance, they used care to accurately compute the returns from the past 10 years for all assets in the fund. The firm used the current portfolio weights to determine an average annual historical return equal to 18% and claim an 18% annual historical return in their advertising literature. With respect to Standard III(D), Performance Presentation, this is:

A) a violation because the advertisement implies the firm generated this return.

B) a violation because the Standard prohibits computing historical returns on risky assets like junk bonds.

C) in compliance.

Question #32 of 34

Janet Reilly has just approached Betty Miller, CFA, about purchasing 10,000 shares of Brookshire Co., a newly incorporated real estate development firm. Reilly is a retired schoolteacher living off the income from her late husband's life insurance policy. This investment will represent a significant shift in her investment portfolio. Miller believes this trade is unsuitable with respect to Reilly's investment policy statement. Consistent with the Standards, Miller should *most appropriately*:

A) follow her firm's procedures for obtaining Reilly's approval to carry out the unsolicited trade request.

B) discuss with Reilly whether she wishes to update her investment policy statement.

C) not accept the order, because it is not a suitable investment for Reilly.

Question #33 of 34

Andrew Mader, CFA, is an analyst with Metro Investment Services. During lunch with some of Metro's managers, Mader is told, "There are going to be major problems at Gebco (a firm that Metro had brought public last year). I was just over there and the place is just crawling with government inspectors." Mader had just issued a report with a "buy" recommendation on Gebco last week. Mader should:

A) not do anything to avoid a violation of fair dealing.

B) immediately issue a new report, but only after stopping by Gebco himself to corroborate the story.

C) not do anything because to do so would violate his obligation to preserve confidentiality.

Question #34 of 34

Ned Brenan manages two dozen pension accounts, one of which earned over 25% during the past two years. Brenan tells prospective clients that based on past experience they can expect a 25% return on their funds. Which of the following statements is CORRECT?

A) Brenan has violated Standard of Professional Conduct III(D), Performance Presentation, but Brenan has not violated Standard I(C), Misrepresentation.

B) Brenan has violated both Standard of Professional Conduct III(D), Performance Presentation, and Standard I(C), Misrepresentation.

C) Brenan has not violated Standard of Professional Conduct III(D), Performance Presentation, but Brenan has violated Standard I(C), Misrepresentation.