Question #1 of 49

In the process of recommending an investment, in order to comply with Standard V(A), Diligence and Reasonable Basis, a CFA Institute member must:

A) support a recommendation with appropriate research and investigation.

B) do both of these.

C) have a reasonable and adequate basis for the recommendation.

Question #2 of 49

Susan Tigra, CFA, is a portfolio co-manager for the Sandia Energy pension fund. Sandra Bulow, a research analyst under Tigra's supervision, creates a new trading model and immediately begins to trade. Susan stops Bulow from trading, but notes that the firm has no guidelines for testing new models. Tigra should *most likely*:

A) report Bulow to the firm's compliance department for violation of Standard V(A) "Diligence and Reasonable Basis."

B) encourage her firm to develop detailed, written guidance that establishes minimum levels of testing for all computer-based models as required by Standard III(C) "Suitability."

C) encourage her firm to develop detailed, written guidance that establishes minimum levels of testing for all computer-based models as recommended by Standard V(A) "Diligence and Reasonable Basis."

Question #3 of 49

A financial analyst and CFA Institute member sends a preliminary research report on a company to his supervisor. The supervisor approves the report, but then the analyst receives news that causes him to revise downward the earnings estimate of the company. The analyst resubmits the report to the supervisor with the new earnings estimate. The analyst soon finds out that the supervisor plans to release the first version of the report with the first earnings estimate without a reasonable and adequate basis. In response to this the analyst must:

A) both insist that a follow up report be issued and take up the issue with regulatory authorities.

B) only insist that the first report be followed up by a revision.

C) insist that the supervisor change the earnings forecast or remove his (the analyst's) name from the report.

Question #4 of 49

Nicole Wise, CFA, is an analyst at Chicago Securities. She attends a meeting with management of one of the companies that she covers. During the meeting, management expresses great optimism about the company's recent acquisition of a new business. Wise is excited about these prospects and issues a research report that states that the company is about to achieve significant success with the new acquisition. Wise has:

A) violated CFA Institute Standards of Professional Conduct because she misrepresented the optimism by turning it to certainty.

B) violated CFA Institute Standards of Professional Conduct because she did not check the accuracy of the statements that management made.

C) not violated CFA Institute Standards of Professional Conduct because she had reasonable reason to believe that the statements in her report were true.

Question #5 of 49

Robert Hamilton, a CFA candidate, is preparing a research report on Pets-R-Us for public distribution. Hamilton's preliminary report contains unfavorable earnings forecasts for the next four quarters. As part of his analysis, Hamilton met with Linda Brisson, the president of Pets-R-Us, and asked her to review the preliminary report for factual inaccuracies. Brisson revised Hamilton's earnings forecasts so that the quarterly earnings showed an upward trend and resulted in positive earnings by the fourth quarter. Hamilton included the revised earnings figures in his report without further review. Although the final report included the basic characteristics of Pets-R-Us, it emphasized certain areas such as projected quarterly earnings but only briefly touched on others. According to CFA Institute Standards of Professional Conduct on research reports, Hamilton:

A) did not violate the Standard.

B) violated the Standard because he did not thoroughly review and analyze any information provided by Brisson.

C) violated the Standard because the report did not give similar attention to all areas but instead emphasized quarterly earnings at the expense of other areas.

Question #6 of 49

Preston Partners is an investment management firm that adopted the Code and Standards as part of its policy manual. Gerald Smithson, CFA, has recently added the stock of Utah Biochemical Company and Norgood PLC to all his client's investment portfolios. Shortly afterwards Utah Biochemical and Norgood announced a merger that increased the share price of both companies. Smithson contends he saw the president of Utah Biochemical dining with the chairman of Norgood, but did not overhear their conversation. Smithson researched both companies extensively and determined that each company was a good investment. He put in a block trade for shares in each company. Preston's policies were not clear in this area as he allocated the shares by starting with his largest client accounts and working down to the small accounts. Some of Smithson's clients were very conservative personal trust accounts, others were pension funds who had aggressive investment objectives. Which standard was NOT broken?

A) Standard III(C)—Suitability.

B) Standard IV(C)—Responsibilities of Supervisors.

C) Standard V(A)—Diligence and Reasonable Basis.

Question #7 of 49

In the preparation of a research report, a CFA Institute member may emphasize certain matters, touch briefly on others, and omit some altogether:

A) under no circumstances.

B) provided that the analyst has a reasonable basis for his or her actions.

C) provided that the analyst both has a reasonable basis and is unconstrained by the Mosaic theory.

Question #8 of 49

Ethyl Redd recently joined Bloomington Investments as a research analyst. After spending an afternoon looking through the research team's archives, Redd is not sure Bloomington maintains the records that support the team's analysis and recommendations for the minimum 7-year period called for by Standard V(C), Record Retention. What is Redd's *most* appropriate course of action?

A) Keep her own copies of the relevant records and maintain them at home for a minimum 7-year holding period.

B) Review the firm's record retention procedures with her supervisor or compliance officer to ensure that they comply with the Standard, or suggest ways to bring them into compliance.

C) Decline to participate in any new research until she can verify that the firm is in compliance with the Standard.

Question #9 of 49

Kim Lee is a research analyst at Superior Investments and 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!" After returning to her office, Lee issues a research report describing the compound as an "IQ booster with huge potential." This statement:

A) is reasonable given the information she was provided by the company.

B) is allowable but only if quoted verbatim from her conversations with management.

C) lacks a reasonable and adequate basis in fact.

Question #10 of 49

The following scenarios refer to recommendations made by two analysts.

- Jean King, CFA, is a quantitative analyst at Quantlogic, Inc. King uses computer-generated screens to differentiate value and growth stocks based on accounting numbers such as sales, cash flow, earnings, and book value. Based on her analysis of all domestically traded stocks in the U.S. over the past year, King concludes that value stocks as a class have underperformed growth stocks over that period. Using only this analysis, she recommends that account executives at Quantlogic sell all value stocks from the portfolios for which they have discretionary authority to trade and replace these stocks with growth stocks.
- James Capelli, CFA, is a fundamental analyst at Wheaton Capital Management, which focuses on regional stocks. His analysis of Branson Wireless includes the investment's basic characteristics such as information about historical earnings, ownership of assets, outstanding contracts, and other business factors. In addition to conducting both a general industry analysis and a company financial analysis, Capelli interviews key executives at Branson. Based on his analysis, he concludes that the company's future prospects are strong and issues a "buy" recommendation.

According to CFA Institute Standards of Professional Conduct, did King and Capelli have a reasonable and adequate basis for making their recommendations?

A) Both King and Capelli have a reasonable basis for their recommendations.

B) King has a reasonable basis for his recommendation, but Capelli does not.

C) Capelli has a reasonable basis for his recommendation, but King does not.

Question #11 of 49

An analyst who routinely purges the files that support his research and recommendations:

A) is acting in accordance to Standard III(E), Preservation of Confidentiality.

B) may be violating Standard V(C), Record Retention.

C) is acting in accordance to Standard IV(A), Loyalty to Employer.

Question #12 of 49

A client calls his money manager and asks the manager to liquidate a large portion of his assets under management for an emergency. The manager warns the client of the risk of selling many assets quickly but says that he will try to get the client the best possible price. This is a violation of:

A) Standard III(C), Suitability.

B) Standard V(A), Diligence and Reasonable Basis.

C) none of the Standards listed here.

Question #13 of 49

An analyst receives a research report from a colleague. The colleague's report has an elaborate table with performance data on publicly traded stocks. The colleague says the data in the table consists of measures provided by Standard & Poor's. The analyst finds the table a useful reference for a report she is writing. She uses several pieces of data from the table. The analyst is potentially in violation of:

A) no particular standard because this is appropriate activity.

B) Standard V(A), Diligence and Reasonable Basis, if she does not first verify the data in the table is accurate.

C) Standard I(C), Misrepresentation, concerning the use of the work of others.

Question #14 of 49

While copying some of her research materials at work, Mary Jones comes across a few incomplete research notes written by one of her colleagues. As a result of reading the notes, and without further review, Jones immediately changes one of her stock recommendations from sell to buy. Which of the following CFA Institute Standards has Jones violated?

A) Standard III(A), Loyalty, Prudence, and Care.

B) Standard I(B), Independence and Objectivity.

C) Standard V(A), Diligence and Reasonable Basis.

Question #15 of 49

Janet Coleman, CFA, is preparing a research report on Union Power and Light. Due to deregulation, utility companies face increased competition. During the past year, three of the five utility companies in her region have cut their dividends by 50%, on average, to provide more internal funds for investment purposes. In a discussion with Union's chief executive officer, Coleman learned that Union expects to have a record amount of capital expenditures during the next year. Although Union subsequently issued a press release about its capital expenditure plans, it did not make any public statements about a change in dividend policy. Coleman reasons that the management of Union will be under pressure to cut its dividends within the next year to remain competitive. Coleman issues a research report in which she states:

"Union Power and Light will decrease its dividend from $2 to $1 a share by the second quarter. We expect that Union will strengthen its competitive position by using more internally generated funds to finance its investment opportunities. If investors buy the stock now at around $50 a share, their total return could exceed 20% on the stock."

Based on CFA Institute Standards of Professional Conduct, which of the following statements about Coleman's actions is *most accurate*?

A) Coleman did not violate the Standards.

B) Coleman violated the Standards because she used material nonpublic information.

C) Coleman violated the Standards because she failed to separate opinion from fact in her research report.

Question #16 of 49

According to CFA Institute Standards of Professional Conduct, members are *least likely* required to:

A) distribute a detailed research report to clients with any recommendation.

B) analyze the investment's basic characteristics before recommending a specific investment to a broad client group.

C) make diligent efforts to determine whether third party research relied on is sound.

Question #17 of 49

Jim Crockett is a portfolio manager for Miami Advisors and reports to Vicki Tubbs, the Chief Investment Officer. Miami has developed a proprietary model that has been thoroughly researched and is known throughout the industry as the Miami model. The model is purely quantitative and takes a given set of client characteristics and universe of potential securities and forms a portfolio for the investor. Individual portfolio managers are responsible for selecting securities to fit into the model based on recommendations from the firm's research department and the managers' own judgment. Because of the specific nature of the inputs to the model, each manager is responsible for applying the model on his or her own computer. The basic philosophy of the process is thoroughly explained to clients. Crockett does not understand the basics of the model, but feels that since it provides pure quantitative output, he does not need to understand it. However, he misapplies the model for several of his clients. In reviewing some of Crockett's portfolios, Tubbs finds the errors and points them out to Crockett. Which of the following statements regarding Tubbs and Crockett is CORRECT?

A) Tubbs has violated the Standards by failing to supervise adequately.

B) Crockett has violated the Standards by not exercising diligence and thoroughness in making investment recommendations.

C) Crockett has violated the Standards by not considering the appropriateness and suitability of the investment for his clients.

Question #18 of 49

Peggy Green, CFA, is a research analyst following Brown Co. All the information she has gathered suggests the stock should be rated a weak "hold." During a recent lunch, Green overheard another analyst say that the stock should be rated a "buy." Green returns to her office and issues a "buy" recommendation. Green:

A) violated CFA Institute Standards of Professional Conduct because she did not seek approval of the change from her firm's compliance director.

B) has violated CFA Institute Standards of Professional Conduct because she did not have a reasonable and adequate basis for making this recommendation.

C) has violated CFA Institute Standards of Professional Conduct because she failed to distinguish between fact and opinion.

Question #19 of 49

Several years ago, Hilton and Ross, a full service investment firm, managed the initial public offering of eCom, Inc. Now, eCom wants Hilton and Ross to underwrite its secondary public offering. A senior manager at Hilton and Ross asks Brent Whitman, CFA, one of its equity analysts, to write a favorable research report on eCom to help make the underwriting a success. Whitman conducts a thorough analysis of eCom and concludes that the company has serious problems that do not suggest a favorable financial outlook. Nevertheless, Whitman writes a favorable report because he is fearful of losing his job. Hilton and Ross publicly distribute a report that only contains a buy recommendation and a brief description of the basic characteristics of eCom. Whitman has violated:

A) Both Standard I(B) Independence and Objectivity and Standard V(A) Diligence and Reasonable Basis.

B) Standard I(B) Independence and Objectivity, only.

C) Standard V(A) Diligence and Reasonable Basis only.

Question #20 of 49

Rhonda Meyer, CFA, is preparing a research report on Moon Ventures, Inc. In the course of her research she learns the following:

- Moon had its credit rating downgraded by a prominent rating agency 3 years ago due to sales pressure in the industry. The rating was restored 3 months later when the pressure resolved.
- Moon's insider trading has been substantial over the last 3 months. Holdings of Moon shares by officers, directors, and key employees were reduced by 50% during that period.

In Meyer's detailed report making a buy recommendation for Moon, both the credit rating downgrade and the insider trading were omitted from the report.

Meyer has:

A) violated the Code and Standards by not including the insider trading information and by not including the credit rating downgrade in her report.

B) not violated the Code and Standards in her report.

C) violated the Code and Standards by not including the insider trading information in her report.

Question #21 of 49

Steve Jones is a portfolio manager for Gregg Advisors. Gregg has developed a proprietary model that has been thoroughly researched and is known throughout the industry as the Gregg model. The model is purely quantitative and screens stocks into buy, hold, and sell categories. The basic philosophy of the model is thoroughly explained to clients. The director of research frequently alters the model based on rigorous research—an aspect that is well explained to clients, although the specific alterations are not continually disclosed. Portfolio managers then make specific sector and security holding decisions, purchasing only securities that are indicated as "buys" by the model. Jones thoroughly understands the model and uses it with all of his clients. Jones is:

A) not violating the Standards either in purchasing stocks without a thorough research basis or in not disclosing all alterations of the model to clients.

B) violating the Standards in not disclosing all alterations of the model to clients, but not in purchasing stocks without a thorough research basis.

C) violating the Standards in purchasing stocks without a thorough research basis and in not disclosing all alterations of the model to clients.

Question #22 of 49

In preparing research reports, which of the following is *least likely* required or recommended by the Code and Standards?

A) Attribute paraphrases and summaries of material prepared by others.

B) Send all reports to the firm's legal counsel to ensure compliance with securities laws.

C) Maintain copies of materials that were relied on in preparing the research report.

Question #23 of 49

Todd Gable, CFA, was attending a noon luncheon when he overheard two software executives talking about a common vendor, Datagen, about how wonderful they thought the company was, and about a rumor that a major brokerage firm was preparing to issue a strong buy recommendation on the stock. Gable returned to the office, checked a couple of online sources, and then placed an order to purchase Datagen in all of his discretionary portfolios. The orders were filled within an hour. Three days later, a brokerage house issued a strong buy recommendation and Datagen's share price went up 20%. Gable then proceeded to gather data on the stock and prepared a report that he dated the day before the stock purchase.

Gable has:

A) violated the Standards by improper use of inside information.

B) violated the Standards by using the recommendation of another brokerage firm in his report.

C) violated the Standards by not having a reasonable basis for making the purchase of Datagen.

Question #24 of 49

Susan Plumb is the supervisor of her firm's research department. Her firm has been seeking the mandate to underwrite Wings Industries' proposed secondary stock offering. Without mentioning that the firm is seeking the mandate, she asks Jack Dawson to analyze Wings common stock and prepare a research report. After reasonable effort, Dawson produces a favorable report on Wings stock. After reviewing the report, Plumb then adds a footnote describing the underwriting relationship with Wings and disseminates the report to the firm's clients. According to CFA Institute Standards of Professional Conduct, these actions are:

A) not a violation of any Standard.

B) a violation of Standard V(A), Diligence and Reasonable Basis.

C) a violation of Standard VI(A), Disclosure of Conflicts.

Question #25 of 49

Maggie McCarthy is an individual investment advisor who uses mutual funds for her clients. She typically chooses from a list of 40 funds that she has thoroughly researched. The Figgs, a married couple that are a client, asked her to consider the Boilermaker fund for their portfolio. McCarthy had not previously considered the fund because when she first conducted her research three years ago, Boilermaker was too small to be considered. However, the fund has now grown in value, and after doing thorough research on Boilermaker, she found the fund was by far the most outstanding large company value fund in her list of funds. She puts the fund in the Figgs' portfolio, and in all new clients portfolios, but not in any of her other clients' portfolios. Her reasoning is that her existing clients were comfortable with their current holdings, and she did not want to risk disturbing their comfort. Has McCarthy violated any Standards? McCarthy has:

A) not violated the Standards.

B) violated the Standards by not dealing fairly with clients.

C) violated the Standards by not having a reasonable and adequate basis for making the recommendation.

Question #26 of 49

Ted Riczek, CFA, is an independent investment advisor. Riczek often makes investment recommendations to clients based on research from several third-party sources. The Code and Standards *most likely* require Riczek to:

A) make a reasonable effort to verify that the third-party research is sound.

B) perform his own research rather than relying on third-party research.

C) disclose to his clients the sources of any third-party research that supports his recommendations.

Question #27 of 49

Lee Hurst, CFA, is an equity research analyst who has recently left a large firm to start independent practice. He is able to re-create several of his previous recommendation reports, based on his clear recollection of supporting documentation he compiled at his previous employer. He publishes the reports and obtains several new clients. Hurst is *most likely*:

A) in violation of Standard V(A) Diligence and Reasonable Basis.

B) in violation of Standard V(C) Record Retention.

C) not in violation of any Standard.

Question #28 of 49

Bertrand Greene, CFA, is preparing a report on Blanding, Inc. Blanding's earnings have increased in each of the last six years by an average of 11.8%. Based on his analysis, Greene projects that Blanding's earnings will increase by 12.5% in each of the next two years. Greene will violate the Code and Standards if he states:

A) "I expect Blanding's earnings growth to increase to 12.5% annually in the next two years."

B) "Blanding's earnings will grow at 12.5% annually in each of the next two years."

C) "Blanding's earnings have been compounding at approximately 11.8% annually."

Question #29 of 49

Wes Smith, CFA, works for Advisors, Inc. In order to remain in compliance with Standard V(A), Diligence and Reasonable Basis, Smith may recommend a security in which of the following situations?

A) For either of the reasons listed here.

B) Advisors' research department recommends a stock.

C) Smith reads a favorable review of the security in a widely read periodical.

Question #30 of 49

Joni Black, CFA, works for a portfolio management firm. Black is a partner of the firm and is primarily responsible for managing several large pension plans. Black has just finished a research report in which she recommends Zeta Corporation as a "Strong Buy." Her rating is based on solid management in a growing and expanding industry. She just handed the report to the marketing department of the firm for immediate dissemination. Upon returning to her desk she notices a news flash by CNN reporting that management for Zeta Corporation is retiring. Black wishes she did not recommend Zeta Corporation as a "Strong Buy," but believes the corporation is still a good investment regardless of the management. What course of action for Black is *best*? Black:

A) should report the new information to her immediate supervisor so that they can determine whether or not the marketing department should send out the report as written.

B) should revise the recommendation based on this new information.

C) may send out the report as written as long as a follow up is disseminated within a reasonable amount of time reflecting the changes in management.

Question #31 of 49

An analyst has found an investment with what appears to be a great return-to-risk ratio. The analyst double-checks the data for accuracy, keeps careful records, and is careful to not make any misrepresentations as he simultaneously sends an e-mail to all his clients with a "buy" recommendation. According to Standard V(A), Diligence and Reasonable Basis, the analyst has:

A) violated the Standard if he does not verify whether the investment is appropriate for all the clients.

B) violated the Standard by communicating the recommendation via e-mail.

C) fulfilled all obligations.

Question #32 of 49

Patricia Hoolihan is an individual investment advisor who uses mutual funds for her clients. She typically chooses funds from a list of 40 funds that she has thoroughly researched. The Burns, a married couple that are a client, asked her to consider the Hawkeye fund for their portfolio. Hoolihan had not previously considered the fund because when she first conducted her research three years ago, Hawkeye was too small to be considered. However, the fund has now grown in value, and cursory research uncovers no fundamental flaws with the fund. She puts the fund in the Burns' portfolio but not in any of her other clients' portfolios. The fund ends up being the best performing fund on her list. Hoolihan has:

A) violated the Standards by not having a reasonable and adequate basis for making the recommendation.

B) not violated the Standards.

C) violated the Standards by not dealing fairly with clients.

Question #33 of 49

The Konkol Company implements a new methodology for portfolio valuation that is licensed to them by ABC Statistics. Konkol complies with the CFA Institute Code and Standards by:

A) not discussing the new methodology with clients because there is no need to, as it will not change their risk and yield preferences.

B) discussing the new methodology with clients only when a change in the security selection process is involved.

C) discussing the new methodology with the clients, in its entirety.

Question #34 of 49

Bill Fox, CFA, has been preparing a research report on New London Wire and Cable, one of his major investment clients. He had completed much of his analysis and had planned on having his report typed and bound today. Unfortunately, his briefcase was stolen while he ate breakfast, and he lost all his notes and working papers. The lost materials included his notes from management interviews, conversations with suppliers and competitors, dates of company visits, and his computer diskette containing much of his quantitative analysis. Fox's client needs this report tomorrow. In a panic, Fox called New London's vice president of finance and was faxed a copy of the company's most recent financial projections. Fox remembered that his own analysis showed that management's estimates were too high. He did not remember the exact amount, so he revised New London's figures downward 10%. Fox incorporated some charts and graphs on New London from a research report he received last week from a small regional research firm and some information from a Standard & Poor's reference work in his report, without reference to their sources. Fox has:

A) violated the requirement to have a reasonable basis for a recommendation and the prohibition against plagiarism.

B) violated none of the Standards.

C) violated the requirement to have a reasonable basis for a recommendation, the prohibition against plagiarism, and the requirement to maintain appropriate records.

Question #35 of 49

Standard V(B), Communication with Clients and Prospective Clients, *least likely* requires members to:

A) make clear buy or sell recommendations on the securities covered in research reports.

B) disclose the general principles of investment processes used to analyze and select securities, and construct portfolios.

C) use reasonable judgment regarding the inclusion or exclusion of relevant factors in research reports.

Question #36 of 49

Don Wilson and Nadine Chavis, both CFA charterholders, are investment advisors at Uptown Securities. Wilson recommends that one of his clients buy Alpha Company based on research conducted by Uptown. Chavis recommends that one of her clients sell Alpha Company based on research conducted by another brokerage firm for general distribution. Both recommendations are consistent with each client's investment objectives and within the context of their entire portfolios. Neither Wilson nor Chavis has reason to suspect that any information contained in the research reports from these two sources is inaccurate or inadequately supported. According to Standard V(A) Diligence and Reasonable Basis, do Wilson and Chavis have a reasonable basis for making their investment recommendations?

A) Only one of these advisors has a reasonable basis for his or her recommendation.

B) Neither of these advisors has a reasonable basis for their recommendations.

C) Both of these advisors have a reasonable basis for their recommendations.

Question #37 of 49

Nancy Westfall is an individual investment advisor who uses mutual funds for her clients. She typically chooses funds from a list of 40 funds that she has thoroughly researched. The Craigs, a married couple that is a client, asked her to consider the Eligis fund for their portfolio. Westfall had not previously considered the fund because when she first conducted her research three years ago, Eligis was too small to be considered. However, the fund has now grown in value, and after doing thorough research on the fund, she finds the fund has suitable characteristics to be included in her acceptable list of funds. She puts the fund in the Craigs' portfolio but not in any of her other clients' portfolios. The fund ends up being the poorest performing fund in the Craigs' portfolio. Has Westfall violated any Standards? Westfall has:

A) not violated the Standards.

B) violated the Standards by not dealing fairly with clients.

C) violated the Standards by not having a reasonable and adequate basis for making the recommendation.

Question #38 of 49

Victor Logan is a portfolio manager for McCoy Advisors, and Jack Brisco is the Director of Research for McCoy. Brisco has developed a proprietary model that has been thoroughly researched and is known throughout the industry as the McCoy model. The model is purely quantitative and screens stocks into buy, hold, and sell categories. The basic philosophy of the model is thoroughly explained to clients. Brisco frequently alters the model based on rigorous research—an aspect that is well explained to clients, although the specific alterations are not continually disclosed. Portfolio managers then make specific sector and security holding decisions, purchasing only securities that are indicated as "buys" by the model. Logan has conducted very thorough research on his own, using the same process that Brisco uses to validate his findings. Logan feels the model is missing some key elements that would further reduce the list of acceptable securities to purchase, however, Brisco has refused to look at Logan's research. Frustrated by this, Logan applies his own version of the model, with the justification that he is still only purchasing securities on the buy list. Because of the conflict with Brisco, he does not disclose the use of the model to anyone at McCoy or to clients. Which of the following statements regarding Logan and Brisco is CORRECT? Logan is:

A) violating the Standards by applying his version of the model and by not disclosing it to clients. Brisco is not violating the Standards.

B) not violating the Standards by applying his version of the model, but is violating the Standards by not disclosing it to clients. Brisco is not violating the Standards.

C) violating the Standards by applying his version of the model and by not disclosing it to clients. Brisco is violating the Standards by failing to consider Logan's research.

Question #39 of 49

Steven Wade, CFA, writes an investment newsletter focusing on high-tech companies, which he distributes by e-mail to paid subscribers. Wade does not gather any information about his clients' needs and circumstances. Wade has developed several complex valuation models that serve as the basis for his recommendations. Each month, his newsletter contains a list of "buy" and "sell" recommendations. He states that his recommendations are suitable for all types of portfolios and clients. Because of their proprietary nature, Wade does not disclose, except in general terms, the nature of his valuation models. He conducted numerous statistical tests of these models and they appear to have worked well in the past. In his newsletter, Wade claims that subscribers who follow his recommendations can expect to earn superior returns because of the past success of his models.

Wade violated all of the following CFA Institute Standards of Professional Conduct EXCEPT:

A) Standard V(B), Communication with Clients and Prospective Clients.

B) Standard I(C), Misrepresentation.

C) Standard III(B), Fair Dealing.

Question #40 of 49

An analyst finds a stock that has had a low beta given its historical return, but its total risk has been commensurate with its return. When writing a research report about the stock for clients with well-diversified portfolios, according to Standard V(B), Communication with Clients and Prospective Clients, the analyst needs to mention:

A) the relationship of the historical beta and return only.

B) both the historical beta and total risk and return.

C) the relationship of the historical total risk to return only.

Question #41 of 49

Patricia Cuff is the chief financial officer and compliance officer at Super Selection Investment Advisors, an organization that has incorporated the CFA Institute Code of Standards into the firm's compliance manual. Karen Trader is a portfolio manager for Super Selection. Trader is friendly with Josey James, president of AMD, a rapidly growing biotech company. Trader has served on AMD's board of directors for the last three years. James has asked Trader to commit to a large purchase of AMD stock for Trader's clients' portfolios. Trader had previously determined that AMD was a questionable investment but agreed to reconsider. Her reevaluation deemed the stock to be overpriced, but Trader nevertheless decides to purchase for her portfolios. Which standard was *least likely* violated?

A) V(A) Diligence and Reasonable Basis.

B) III(B) Fair Dealing.

C) III(A) Loyalty, Prudence, and Care.

Question #42 of 49

An analyst writes a report and includes the forecasts of an econometric model developed by the firm's research department. The analyst identifies the source of the forecast and includes all the relevant statistics concerning the model and his opinion of the model's accuracy. With respect to Standard V(A), Diligence and Reasonable Basis, the analyst has:

A) violated the Standard by including quantitative details in a report.

B) violated the Standard by not testing the model himself.

C) complied with the Standard.

Question #43 of 49

Janice Melfi is a portfolio manager for Soprano Advisors. Soprano has developed a proprietary model that has been thoroughly researched and is known throughout the industry as the Soprano model. The model is purely quantitative and screens stocks into buy, hold, and sell categories. The basic philosophy of the model is thoroughly explained to clients. The director of research frequently alters the model based on rigorous research—an aspect that is well explained to clients, although the specific alterations are not continually disclosed. Portfolio managers use the model to assist them in making portfolio decisions, but, based on their own fundamental research, are allowed to purchase securities not recommended by the model. This fact is not disclosed to the clients, because the head of marketing does not think it is relevant. Which of the following statements regarding the portfolio manager's investment decisions is CORRECT?

A) Soprano is violating the Standards by not disclosing the fundamental research aspect of the investment process.

B) There is no violation of the Standards.

C) Melfi is violating the Standards by using two investment processes that are in conflict with each other.

Question #44 of 49

An analyst notices that for most years that a given class of assets has an abnormally high rate of return, the asset class often has an abnormally low rate of return the next year. Based upon this information, according to Standard V(A), Diligence and Reasonable Basis, the analyst can recommend:

A) an increased allocation of Treasury bills (T-bills) for all portfolios of assets that have increased dramatically in the previous year.

B) neither of these choices.

C) short selling assets that have had a good previous year to all clients.

Question #45 of 49

An analyst finds a stock with historical returns that are not correlated with interest rate changes. The analyst writes a report for his clients that have large allocations in fixed-income instruments and emphasizes the observed lack of correlation. He feels the stock would be of little value to investors whose portfolios are composed primarily of equities. The clients with allocations of fixed income instruments are the only clients to see the report. According to Standard V(B), Communication with Clients and Prospective Clients, the analyst has:

A) not violated the Standard.

B) violated the article in the Standard concerning facts and opinions.

C) violated the Standard concerning fair dealings with all clients.

Question #46 of 49

Bob Hatfield, CFA, has his own money management firm with two clients. The accounts of the two clients are equal in value. It is Hatfield's opinion that interest rates will fall in the near future. Based upon this, Hatfield begins increasing the bond allocation of each portfolio. In order to comply with Standard V(B), Communication with Clients and Prospective Clients, the analyst needs to:

A) make sure that the change is identical for both clients.

B) perform both of these functions.

C) inform the clients of the change and tell them it is based upon an opinion and not a fact.

Question #47 of 49

An analyst has several groups of clients who are categorized according to their specific needs. Compared to research reports distributed to all of the clients, reports for a specific group:

A) will not be allowed because it violates the Standard III(B), Fair Dealing.

B) will definitely include more basic facts.

C) may generally exclude more basic facts.

Question #48 of 49

Cynthia Abbott, a CFA charterholder, is preparing a research report on Boswell Company for her employer, Capital Asset Management. Bob Carter, president of Boswell, invites Abbott and several other analysts to visit his company and offers to pay her transportation and lodging. Abbott pays for her own transportation and lodging, but while visiting the company, accepts an item of small value from Carter. Abbott does not disclose this gift to her supervisor at Capital when she returns. In the course of the company visit, Abbott overhears a conversation between Carter and his chief financial officer that the company's earnings per share (EPS) are expected to be $1.10 for the next quarter. Abbott was surprised that this EPS is substantially above her initial earnings estimate of $0.70 per share. Without further investigation, Abbott decides to include the $1.10 EPS in her research report on Boswell. Using the high EPS positively affects her recommendation of Boswell.

Which of the following statements about whether Abbott violated Standard V(A), Diligence and Reasonable Basis and Standard I(B), Independence and Objectivity is CORRECT? Abbott:

A) violated Standard V(A) but she did not violate Standard I(B).

B) did not violate Standard V(A) but she violated Standard I(B).

C) violated both Standard V(A) and Standard I(B).

Question #49 of 49

Roger Halpert, CFA, prepares a company research report in which he recommends a strong "buy." He has been careful to ensure that his report complies with the CFA Institute Standard on research reports. According to CFA Institute Standards of Professional Conduct, which of the following statements about how Halpert can communicate the report is *most correct*?

A) Halpert can make his report in person, by telephone, or by computer on the Internet.

B) Halpert can transmit his report by computer on the Internet.

C) Halpert can make his report in person.