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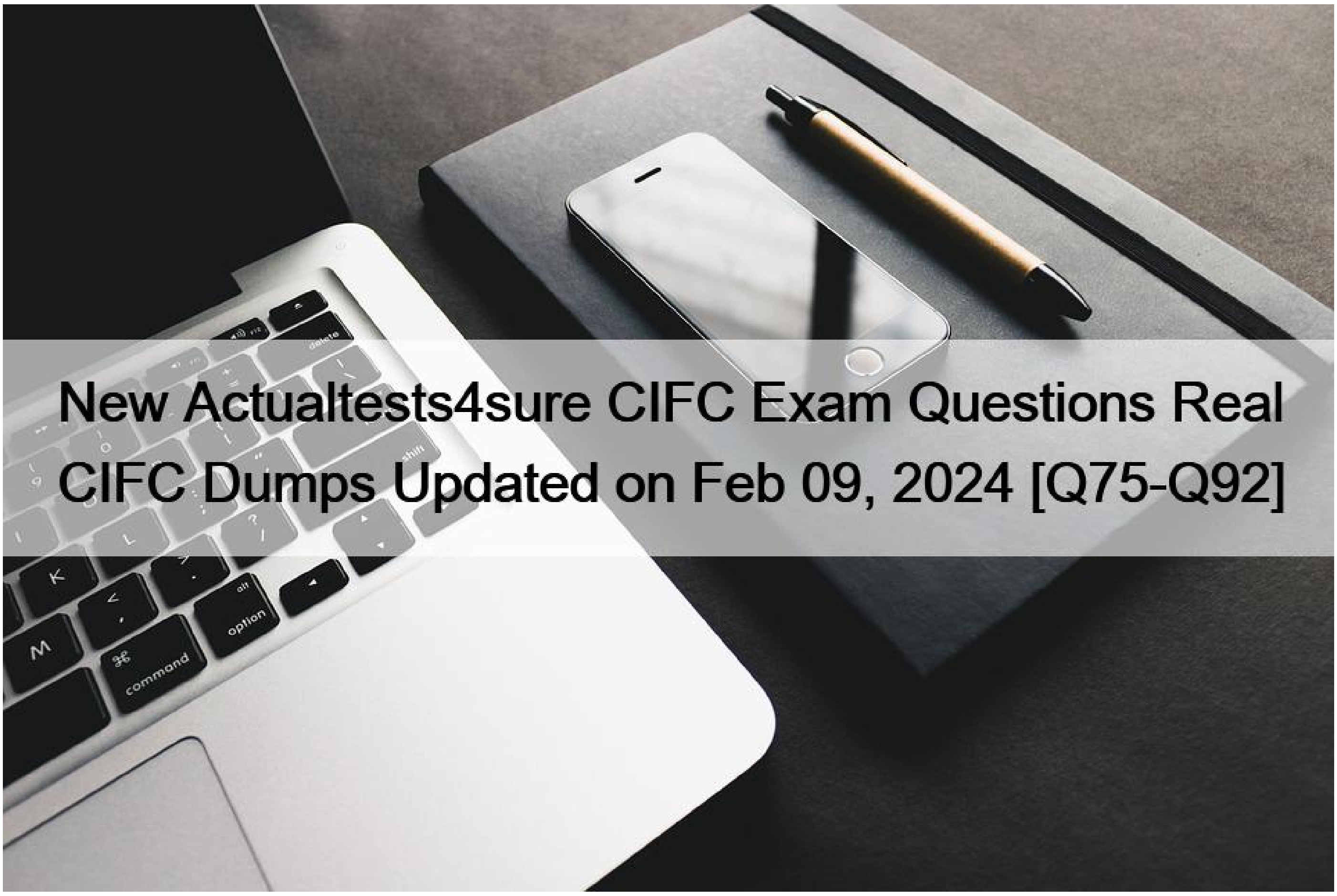

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QUESTION 75

Xian-Li believes she is a sophisticated investor. She has constructed her own portfolio and has had some success. She does not believe in studying a company’s details such as earnings, expenses, or assets. She is more concerned with patterns in a company’s stock price over time. She believes patterns form and can be used to predict future movements in the market.

How does Xian-Li evaluate the companies in her portfolio?
* fundamental analysis
* flowchart analysis
* technical analysis
* value analysis
Explanation

Technical analysis is the method of evaluating securities by analyzing the statistics generated by market activity, such as past prices

and volume. Technical analysts do not attempt to measure a security’s intrinsic value, but instead use charts and other tools to identify patterns that can suggest future activity. Xian-Li is using technical analysis to evaluate the companies in her portfolio.
References: Canadian Investment Funds Course (CIFC) | IFSE Institute

QUESTION 76

What information does Fund Facts provide to potential investors?
* What the mutual fund is currently investing in.
* How to calculate the taxes owed from investment income.
* The portfolio management strategy that is used.
* The remuneration paid to the Independent Review Committee.

QUESTION 77

Pierre buys a call option on a stock. What is the implication of this transaction?
* Pierre has the right to buy the stock if he exercises the option.
* Pierre is obligated to sell the stock if the option is exercised.
* Pierre has the right to sell the stock if he exercises the option.
* Pierre is obligated to buy the stock if the option is exercised.

Explanation

According to the What Is a Call Option and How to Use It With Example – Investopedia, a call option is a contract that gives the buyer the right, but not the obligation, to buy an underlying stock at a specified price (the strike price) within a specified time period (the expiration date). The seller of a call option is obligated to sell the stock if the buyer exercises the option. Pierre buys a call option on a stock, which means he has the right to buy the stock if he exercises the option. He can also choose not to exercise the option or sell it before expiration.

QUESTION 78

Louis is the portfolio manager for Quattro Fund. The mandate of the mutual fund is to invest in a combination of cash, fixed income, and equity securities; however, Louis has the ability to adjust the portfolio according to market conditions. If Louis feels that interest rates will fall, he could invest the whole portfolio in equities. If he feels the market is too high, he could take profits and sit totally in cash. What type of mutual fund is Quattro Fund?
* Canadian equity fund
* balanced fund
* commodity pool
* asset allocation fund

Explanation

An asset allocation fund is a type of mutual fund that invests in a combination of cash, fixed income, and equity securities, but has the flexibility to adjust the portfolio according to market conditions and the fund manager’s outlook. The fund manager can change the asset mix to take advantage of opportunities or reduce risks in different asset classes and markets. The fund’s objective is to achieve a balanced risk-return profile by diversifying across different assets and investment styles. Quattro Fund is an example of an asset allocation fund, as it can invest in cash, fixed income, and equity securities, and Louis can adjust the portfolio according to his views on interest rates and the market.

References: Canadian Investment Funds Course, Unit 6, Section 6.2; 4; 5; 6

QUESTION 79

Justin and Yvonne both open a Registered Education Savings Plan (RESP) for their daughter Grace. They plan to regularly contribute $1,000 per year until Grace reaches the age of 17.

Which of the following statements relating to RESP is CORRECT?
* Justin and Yvonne may contribute a combined lifetime maximum of $50,000 for Grace.
* RESPs are attractive to Justin and Yvonne because they are tax-free investment plans.
* There is an annual contribution limit of $2,500 that Justin and Yvonne can contribute to an RESP.
* Contributions made by Justin and Yvonne are eligible for a tax deduction in the year they are contributed.

Explanation

A Registered Education Savings Plan (RESP) is a tax-advantaged savings plan that helps parents and family members save for a child’s post-secondary education. The government also contributes to the plan through the Canada Education Savings Grant (CESG) and the Canada Learning Bond (CLB), depending on the family income and the amount of contributions. However, there are some rules and limits that apply to RESP contributions and government grants. One of them is the lifetime contribution limit, which is the maximum amount that can be contributed to an RESP for a beneficiary from all sources. The lifetime contribution limit is

$50,000 per beneficiary, regardless of how many RESPs are opened for them or who contributes to them.

Therefore, statement A is correct. Justin and Yvonne may contribute a combined lifetime maximum of

$50,000 for Grace to their RESP.

The other statements are incorrect for the following reasons:

Statement B: RESPs are not tax-free investment plans. They are tax-deferred plans, meaning that the contributions are made with after-tax dollars and the investment income earned in the plan is not taxed until it is withdrawn as an educational assistance payment (EAP) for the beneficiary. The EAPs are taxed in the hands of the beneficiary, who usually has little or no income and pays little or no tax.

Statement C: There is no annual contribution limit for RESP contributions. However, there is an annual limit for the CESG, which is 20% of the first $2,500 contributed per beneficiary per year, up to a maximum of $500 per year. The CESG also has a lifetime limit of $7,200 per beneficiary.

Statement D: Contributions made to an RESP are not eligible for a tax deduction in the year they are contributed. They are made with after-tax dollars and do not reduce the contributor’s taxable income.

References: Canadian Investment Funds Course, Unit 9, Section 9.1

QUESTION 80

Eleanora receives a $500 eligible Canadian dividend from her mutual fund. Her federal marginal tax rate for the year is 29%. Assuming the enhanced gross-up of 38% and a federal dividend tax credit of 15.02%, how much federal tax will she pay on her dividend?
* $69.90
* $189.16
* $96.46
* $115.40

Explanation

The federal tax on eligible Canadian dividends is calculated as follows:

First, the dividend amount is grossed up by 38%, which means multiplying it by 1.38. This is to account for the corporate tax that has already been paid by the company. Eleanora’s grossed-up dividend is $500 x 1.38 = $690.

Second, the grossed-up dividend is multiplied by the federal marginal tax rate to get the gross federal tax. Eleanora’s gross federal tax is $690 x 0.29 = $200.10.

Third, the grossed-up dividend is multiplied by the federal dividend tax credit rate to get the federal tax credit. This is to avoid double taxation of the dividend income. Eleanora’s federal tax credit is $690 x

0.1502 = $103.64.

Fourth, the federal tax credit is subtracted from the gross federal tax to get the net federal tax. Eleanora’s net federal tax is $200.10 – $103.64 = $96.46.

Therefore, Eleanora will pay $96.46 in federal tax on her dividend. References: How Dividends Are Taxed and Reported on Tax Returns – Investopedia, Dividend Tax Credit in Canada – TurboTax

QUESTION 81

Evan owns retractable preferred shares of Ingram Corp. Which statement CORRECTLY describes a key feature of Evan’s shares?
* Gives Evan the option to convert the Ingram Corp preferred shares into a fixed number of common shares at a predetermined price within a specified period.
* Offers Evan the opportunity to receive additional dividends if Ingram Corp’s profit exceeds a stated level.
* Entitles Evan to sell the shares back to Ingram Corp at a pre-determined price and time in the future.
* Allows Ingram Corp to buy back the preferred shares at a pre-determined price within a defined period.

Explanation

Retractable preferred shares are a type of preferred stock that lets the issuer force the redemption of the shares at a set price and time. The issuer can pay cash or common shares to the retractable preferred shareholders.

References = Retractable Preferred Shares: What it is, How it Works, Example, What are Retractable Preferred Shares? Definition, And How Does it Work? – CFAJournal, Retractable Preferred Shares | Example | Feature – Accountinguide

QUESTION 82

During the calendar year, Firmansyah received a $1,800 eligible dividend from a large Canadian bank and a foreign, dividend from his The USD/CAD exchange rates is 1.3605.

Firmansyah’s federal marginal tax bracket is 29%. The enhanced dividend gross-up rate is 38% and the federal dividend tax credit rate for eligible dividends is 15%.

What federal tax liability will be due from the investment income?
* $522.00
* $348.00
* $695.76
* $870.00

Explanation

To calculate Firmansyah’s federal tax liability from the investment income, we need to follow these steps:

Step 1: Convert the foreign dividend from USD to CAD using the exchange rate given in the question.

The exchange rate is 1.3605 CAD per USD, which means that 1 USD is equivalent to 1.3605 CAD.

Therefore, Firmansyah’s foreign dividend in CAD is:

$500\times1.3605=680.25$

Step 2: Calculate Firmansyah’s grossed-up dividend income from both sources. A grossed-up dividend income is the actual dividend received plus a percentage of the dividend that reflects the corporate tax paid by the issuer. The percentage varies depending on whether the dividend is eligible or non-eligible.

According to [this site], an eligible dividend is a dividend paid by a Canadian corporation that meets certain criteria, such as being listed on a designated stock exchange or being a subsidiary of such a corporation. A non-eligible dividend is a dividend that does not meet these criteria, such as a dividend paid by a foreign corporation or a small Canadian business corporation. The gross-up rate for eligible dividends in 2020 was 38%, while the gross-up rate for non-eligible dividends in 2020 was 15%.

Therefore, Firmansyah’s grossed-up dividend income from both sources is:

$(1800+680.25)\times(1+0.38)=3426.35$

Step 3: Apply Firmansyah’s federal marginal tax rate to his grossed-up dividend income to get his federal tax before credits. A marginal tax rate is the percentage of tax applied to an additional dollar of income. According to [this site], Firmansyah’s federal marginal tax rate for 2020 was 29%, as his taxable income was between $150,473 and $214,368. Therefore, Firmansyah’s federal tax before credits is:

$0.29\times3426.35=993.64$

Step 4: Subtract Firmansyah’s federal dividend tax credit from his federal tax before credits to get his net federal tax liability from the investment income. A dividend tax credit is a percentage of the grossed-up dividend income that reflects the corporate tax paid by the issuer and avoids double taxation.

The percentage varies depending on whether the dividend is eligible or non-eligible. According to [this site], the federal dividend tax credit rate for eligible dividends in 2020 was 15%, while the federal dividend tax credit rate for non-eligible dividends in 2020 was 9.03%. Therefore, Firmansyah’s federal dividend tax credit from both sources is:

$(1800+680.25)\times0.38\times0.15=297.88$

Step 5: Subtract Firmansyah’s federal dividend tax credit from his federal tax before credits to get his net federal tax liability from the investment income. This is the amount of federal income tax that Firmansyah has to pay or has overpaid from the investment income. Therefore, Firmansyah’s net federal tax liability from the investment income is:

$993.64297.88=695.76$

Hence, option C is correct. References: [Canadian Investment Funds Course (CIFC) | IFSE Institute],

[Dividend Tax Credit | TurboTax Canada Tips], [Federal Income Tax Rates for Canada – TurboTax Canada Tips], [Eligible

Dividends | TurboTax Canada Tips]

QUESTION 83

Which of the following individuals would qualify for a full or partial Old Age Security (OAS) pension?
* Lenny, who is 65 years old and was born and raised in Canada, but lived in Jamaica from ages 25 to 65.
* Marcus, who is 60 years old, a Canadian citizen, and has lived in Canada for 20 years.
* Katrina, who is 75 years old and just immigrated to Canada from the U.S. last month.
* Donald, who is 65 years old and has lived in Canada since his birth but worked in Australia for the past

10 years.
Explanation

Lenny would qualify for a partial OAS pension, because he meets the following criteria:

*He is 65 years old or older.

*He is a Canadian citizen or a legal resident at the time of his OAS pension application.

*He has resided in Canada for at least 10 years since the age of 18.

The amount of his partial OAS pension would be proportional to the number of years he has lived in Canada after the age of 18, divided by 40. For example, if he has lived in Canada for 15 years, he would receive 15/40 or 37.5% of the full OAS pension1
References = web search results from search_web(query=”Old Age Security pension eligibility”)

QUESTION 84

Jabir begins the registration process with his new dealer Prosper Wealth Inc. Jabir is excited about his new career and eager to start calling clients, opening new accounts, and selling investments. Which of the following CORRECTLY describes when Jabir will be eligible to open new client accounts and sell investments?
* Upon employment with the dealer
* Upon registration application by the dealer
* Upon passing the proficiency course
* Upon formal confirmation from the regulator

QUESTION 85

What type of shares offer its shareholders the opportunity to receive additional dividends if the company’s profit exceeds a stated level?
* Redeemable preferred shares
* Cumulative preferred shares
* Convertible preferred shares
* Participating preferred shares

QUESTION 86

Winter is a Dealing Representative with Top Tier Investing, a mutual fund dealer and member of the Mutual Fund Dealers Association of Canada (MFDA). Which of the following statements about Winter’s suitability obligation is CORRECT?

Winter is required to make a suitability determination every time:

i) she makes a recommendation to a client

ii) a client’s investment returns decline.

iii) she opens a new client account

iv) the markets fluctuate.
* i and ii
* i and iii
* ii and iii
* iii and iv
Explanation

According to the MFDA Rules, a Dealing Representative is required to make a suitability determination every time:

The Dealing Representative makes a recommendation to a client;

The Dealing Representative accepts a trade instruction from a client;

The Dealing Representative opens a new account for a client or changes the account type; The Dealing Representative becomes aware of a material change in the client’s KYC information; Securities are transferred or re-registered into the client’s account; or There has been a change in the Approved Person responsible for the client’s account2 A suitability determination is the process of ensuring that any investment action taken for a client is suitable for the client based on their KYC information, such as investment objectives, risk tolerance, time horizon, financial situation, and investment knowledge. A suitability determination also requires putting the client’s interests first and disclosing any material factors involved in the investment action2 Therefore, Winter is required to make a suitability determination every time she makes a recommendation to a client (i) or she opens a new client account (iii). She is not required to make a suitability determination every time a client’s investment returns decline (ii) or the markets fluctuate (iv), unless these events trigger a material change in the client’s KYC information or affect the suitability of the client’s portfolio.

References: 1: MSN-0069 | MFDA 2 (Know-Your-Client (KYC) and Suitability)

QUESTION 87

Your client Gerard is 30 years old and plans to retire at age 65. He has a mutual fund portfolio of $40,000 in which he invests $1,500 monthly. Gerard’s objective is to use these funds to meet the 20% down payment requirement to buy a house for $650,000.

What is Gerard’s investment time horizon not considering market fluctuations?
* 5 years
* 15 years
* 25 years
* 35 years
Explanation

Gerard’s investment time horizon is the length of time he plans to hold his investment until he needs to use the money for his specific goal. In this case, Gerard’s goal is to use his mutual fund portfolio to meet the 20% down payment requirement to buy a house for $650,000. Therefore, his investment time horizon is determined by how long it will take him to accumulate enough money in his portfolio to cover the down payment amount.

Assuming that Gerard does not withdraw any money from his portfolio and that his portfolio earns a constant annual rate of return of 6%, we can use the following formula to calculate how long it will take him to reach his goal:

FV=PV*(1+r)n+PMT*r(1+r)n1

where:

* FV is the future value of the portfolio

* PV is the present value of the portfolio

* r is the annual interest rate

* n is the number of years

* PMT is the monthly payment

We can rearrange the formula to solve for n:

n=log(1+r)logPV+PMT*r1FVPMT*r1

Plugging in the given values, we get:

n=log(1+0.06)log40,000+1,500*0.061130,0001,500*0.061

n=4.98

Therefore, Gerard’s investment time horizon is approximately 5 years, not considering market fluctuations.

This means that he will need to invest his money in a way that matches his risk tolerance and expected return for this time period.

References:

* Canadian Investment Funds Course (CIFC) Study Guide, Chapter 4: Mutual Funds, Section 4.6: Asset Allocation and Diversification, page 4-271

* Future Value of an Annuity Definition – Investopedia2

QUESTION 88

Loretta is looking for a well diversified equity fund. Her ideal mutual fund would hold investments within and outside Canada. Although she is seeking growth, Loretta also wants a mutual fund that invests in quality companies.

Which of the following mutual funds would be the best choice for Loretta?
* Dominion International Growth Fund – this international equity fund invests in small and medium sized companies in countries all around the world.
* Polar Global Blue Chip Equity Fund – this global equity fund invests in large, established companies in mostly stable and mature foreign markets.
* Lennox Energy Fund – this sector fund invests primarily in Canadian oil and gas companies that sell both to domestic and foreign markets.

* Auric Precious Metals Fund – this sector fund invests in Canadian companies that participate in the precious metals sector such as owning mines in foreign countries.
Explanation

Loretta is looking for a well diversified equity fund that invests both within and outside Canada. She also wants a fund that invests in quality companies, which implies that she prefers lower risk and higher stability. A global equity fund would meet her criteria, as it can invest in any country, including Canada, and diversify across different regions and markets. A global equity fund that focuses on large, established companies, also known as blue chip stocks, would also suit her preference for quality and stability, as these companies tend to have strong financial performance, competitive advantages, and consistent dividends. Therefore, the Polar Global Blue Chip Equity Fund would be the best choice for Loretta among the given options.

References: Canadian Investment Funds Course, Unit 6, Section 6.2

QUESTION 89

Frederic recently sold his units in a US dollar (USD) denominated mutual fund. He wants to convert the proceeds back to Canadian dollars (CAD). If he received proceeds of $1,200 USD from the sale and the exchange rate is $1 CAD for $0.99 USD, how much will Frederic receive in Canadian dollars?
* $1-188.00
* $1,200.00
* $1, 12.12
* $1,320.00

QUESTION 90

One of your clients, Harry, has heard that he can defer paying tax on capital gains. He wants to know if what he has heard is correct and if so, how to defer paying taxes on capital gains.

What would you tell Harry?
* He should hold profitable investments as long as possible.
* He should invest in mutual funds just before the dividend paying date to pick up the dividend.
* Harry should buy and sell investments actively.
* He should hold unprofitable investments as long as possible.
Explanation

The answer that you should tell Harry is that he should hold profitable investments as long as possible. A capital gain is the difference between the selling price and the purchase price of an asset when the selling price is higher than the purchase price. A capital gain is subject to tax only when it is realized, meaning that the asset is sold or disposed of. Therefore, one way to defer paying tax on capital gains is to hold profitable investments as long as possible and delay selling them until a future year. This allows the investor to postpone paying tax on the capital gain and benefit from the compounding effect of the investment returns. Therefore, option A is correct regarding how to defer paying taxes on capital gains. The other options are not correct or effective ways to defer paying taxes on capital gains. Option B is false because investing in mutual funds just before the dividend paying date does not defer paying taxes on capital gains; rather, it increases the taxable income of the investor by adding dividend income, which may be subject to a gross-up and a tax credit depending on the type of dividend. Option C is false because buying and selling investments actively does not defer paying taxes on capital gains; rather, it triggers more taxable events and increases the transaction costs of investing. Option D is false because holding unprofitable investments as long as possible does not defer paying taxes on capital gains; rather, it reduces the potential return of the portfolio and prevents the investor from using capital losses to offset capital gains from other sources. References: [Capital Gains Tax in Canada | Wealthsimple], [Capital Gains Tax: What It Is and How It Works in Canada], [Capital Gains Tax | GetSmarterAboutMoney.ca]

QUESTION 91

Which of the following statements about capital gains distributions from mutual fund trusts is correct?
* Capital gains from mutual fund distributions are 100% taxable.
* Capital gains distributions are not a disposition and are therefore not taxable.
* Capital gains from mutual fund trusts are deferred until the investor exits the mutual fund.
* Capital gains distributions from a mutual fund trust are reported annually on a T3.

Explanation

According to the Canadian Investment Funds Course, capital gains distributions are the portion of the mutual fund trust’s net realized capital gains that are paid out to the unitholders. Capital gains distributions are not the same as capital gains from selling or redeeming units of the mutual fund trust, which are reported on a T5008 slip. Capital gains distributions are taxable in the year they are received, even if they are reinvested in additional units of the fund. The mutual fund trust will issue a T3 slip to report the amount and type of income that is allocated to each unitholder, including capital gains distributions. The unitholder must report this income on their tax return and pay tax on 50% of the capital gains distributions at their marginal tax rate.

References: 1: Canadian Investment Funds Course – IFSE Institute 2 (Unit 9: Retirement)

QUESTION 92

One of your clients, Sheldon, is 65 years old. He has $30,000 to invest. He has a low risk profile, and an investment objective of receiving regular income. He has a time horizon of 5 years.

Based on Sheldon’s risk profile and investment objective, which of the following investment recommendations is MOST appropriate for Sheldon?
* ABC common shares which had a 20% annual yield during the previous 5 years.
* 3% Government of Canada Bonds at par, which have a maturity that coincides with Sheldon’s time horizon.
* FEG Labour-Sponsored Fund which will give him a tax benefit.
* Debentures of XYZ Corporation will give Sheldon a regular income and an attractive yield.

Explanation

Government of Canada Bonds are fixed income securities issued by the federal government that pay a fixed rate of interest (coupon) and return the principal amount (par value) at maturity. They are considered low risk investments, as they are backed by the full faith and credit of the government. They also provide regular income to investors, as they pay interest semi-annually. For Sheldon, who has a low risk profile and an investment objective of receiving regular income, 3% Government of Canada Bonds at par would be an appropriate investment recommendation, as they would match his time horizon of 5 years and provide him with a stable and predictable income stream. The other options are not suitable for Sheldon, as they involve higher risk, volatility, or complexity.

References = Canadian Investment Funds Course, Unit 5: Types of Investments, Lesson 2: Fixed Income Securities, Section 5.2.1: Government Bonds1; CIFC prepkit, Chapter 5: Types of Investments, Question 5.2.1

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