

Roots Institute of Financial Markets

RIFM



Practice Book

Investment Planning



Roots Institute of Financial Markets
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Forward

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- Risk Analysis & Insurance Planning
- Retirement Planning & Employees Benefits
- Investment Planning
- Tax Planning & Estate Planning
- Advanced Financial Planning



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UNIT-1

INTRODUCTION TO INVESTMENT PLANNING

1. The inverse relationship between the price and interest rates of a fixed income instruments is an example of
 - A. Business Risk
 - B. Market Risk
 - C. Competition Risk
 - D. Interest rate Risk

2. Which of the following are characteristics of money market securities?
 - A. They are issued by the Government, municipalities and large corporations that have high quality ratings.
 - B. All have terms to maturity that are 270 days or less.
 - C. All tend to have large amounts of purchasing power risk.
 - D. Both a and b
 - E.

3. A bond's duration measures which one of the following?
 - A. The time structure of a bond's cash flows
 - B. The bond's interest-rate risk
 - C. Both a and b above
 - D. The default risk of the bond issue

4. Mr. Y has invested in the shares of BPL Ltd. It's been forecasted that due to entry of a lot of players in the same industry BPL Ltd. will face a very high level of competition. Mr. Y in this scenario is faced with
 - A. Business Risk
 - B. Market Risk
 - C. Competition Risk
 - D. Interest rate Risk

5. Municipal bonds that are backed by the income from specific projects are known as:
 - A. Income bonds
 - B. Revenue Bonds
 - C. General Obligation bonds
 - D. Debenture bonds

6. Bonds with higher coupons, other things being the same,
 - A. Have more interest-rate risk than bonds with smaller coupons
 - B. Have less interest-rate risk than bonds with smaller coupons
 - C. Have lower duration than smaller-coupon bonds
 - D. Both B and C



62. A lower coefficient of variation implies:

- A. The value in a set are relatively less dispersed from the mean and hence less risky
- B. The value in a set are relatively more dispersed from the mean and hence less risky
- C. The value in a set are relatively more dispersed from the mean and hence more risky
- D. None of the above is true

63. Mr. Sumit invested in Morgan Stanley Dynamic Equity Fund which has a standard deviation of 15% and in Meril Lynch Top 100 Equity Fund which has a standard deviation of 10%. The two funds have a perfectly negatively correlated. What weights of both the funds will eliminate all the portfolio risk.

- A. 40% and 60%
- B. 60% and 40%
- C. 40% and 40%
- D. 70% and 30%

64. When will be the investor's risk reward trade off better?

- A. With lower coefficient of variation
- B. With Higher coefficient of variation
- C. With coefficient of variation equal to 1
- D. None of the above is correct

65. Calculate the beta of a security with the help of the following details.

S.D. of stock=14%

S.D. of market= 18%

Coefficient of correlation= 0.84

- A. 0.33
- B. 0.65
- C. 1.65
- D. 1.33

66. Calculate the yield on a long term corporate bond having some probability of default if its bond default premium and the return on long term government paper are 0.37% and 10.36% respectively?

- A. 10.73%
- B. 9.99%
- C. 10.37%
- D. Data insufficient

67. Which of the following best describes the coefficient of determination?

- A. It is % age of risk explained by the market



- B. It is % age of total risk explained by the market
- C. It is % age of unsystematic risk explained by the market
- D. It is % age of diversified risk explained by the market

68. Calculate the bond default premium of a corporate bond having a yield of 10.25%. The yield on long term government paper is 9.75%

- A. 0.55%
- B. 0.50%
- C. 1.50%
- D. Data insufficient

69. Calculate the Equity risk premium of Onyx Ltd. stock using the following information:

Return on equity during the year= 15%

Return on corporate bond= 8.5%

Return on Treasury bill= 7.5%

- A. 8.5%
- B. 6.5%
- C. 7.5%
- D. 15%

70. Using the following information calculate the yield on long term Government Security:

Bond Horizon Premium = 0.87%

Treasury Bill Yield = 7.79%

Short term Government Bond Yield= 8.27%

- A. 6.92%
- B. 8.66%
- C. 7.79%
- D. 0.87%

159. Calculate the expected value of a security with possible outcomes of

10%, with a probability of .2

20%, with a probability of .5

-25%, with a probability of .3

- A. 4.5%
- B. 17.5%
- C. 19.5%
- D. 7.5%

160. The geometric mean is



- A. The better measure of expected return for the next period.
- B. Always less than or equal to the arithmetic mean.
- C. A measurement of the arithmetic average rate of return over multiple periods.
- D. Sometimes larger than the arithmetic mean for stocks

161. Which statement is true with regard to risk free rate?

- A. The risk-free rate is the maximum return an investor expects from any investment.
- B. The risk-free rate is the return an investor expects to earn from investment in t-bills.
- C. The risk-free rate is the rate one earns on the investment in equities.
- D. None of the above

162. The total return for a 12% semi annual coupon bond purchased at 1005, held for six months and sold for 1050 is

- A. 3.3%
- B. 16.42%
- C. 10.45%
- D. None of the above

163. The total return on a bond purchased for Rs.1000 that pays interest of Rs.90 during the year and is sold for Rs.910 at the end of one year is

- A. 0%
- B. 10%
- C. -10%
- D. 1%

164. A perfectly diversified portfolio will fully eliminate _____ risk.

- A. Systematic
- B. Unsystematic

165. The return relative for a stock bought at Rs.40, sold at Rs.38, and paying a Rs.1 dividend is

- A. .975
- B. -.0732
- C. .927
- D. .0789

166. For a U.S investor purchasing a foreign stock, beginning price is 50, income is 2, and ending stock price is 46. The foreign currency depreciated 4 % against the dollar. The return to the U.S. investor after currency risk is accounted for is

- A. -4%
- B. -7.84%
- C. -.0016%
- D. 2%



167. Mr. Amit got a HPR of 5% from the stock of Onyx Wealth Solutions Pvt. Ltd. Using the following information calculate the dividend amount received by him on the stock of Onyx Wealth Solutions Pvt. Ltd?

Buying Price = Rs.125

Selling Price = Rs.129

- A. Rs.225.00
- B. Rs.22.50
- C. Rs.2.50
- D. Rs.2.25

194. A purely passive strategy is defined as

- A. One that uses only index funds
- B. One that allocates assets in fixed proportions that do not vary with market conditions.
- C. One that is mean-variance efficient.
- D. Both A and B

195. Treynor ratio uses _____ as the divisor.

- A. Beta
- B. Standard Deviation
- C. Variance
- D. Either b. or c.

196. Jensen's ratio helps in determining _____

- A. Alpha
- B. Beta
- C. Gamma
- D. Vega

197. Standard deviation of an asset 2.5%

Market standard deviation 2.0%

Risk-free rate of return 13.0%

Expected return on market portfolio 15.0%

Correlation co-efficient of portfolio with market 0.8

1. Expected rate of return on the portfolio will be

- A. 13%
- B. 15%
- C. 14.6%
- D. 16%

2. If the portfolio beta is 0.5 and risk free return 10%, expected return on the portfolio will be

- A. 10%
- B. 15%



- C. 12.5%
- D. 11.25%

198. In respect of fixed income securities, which of the following statement is not true?

- A. Current yield includes only the coupon if the security is sold immediately
- B. Current yield includes both coupon and capital gain/loss if the security is sold immediately
- C. YTM is the return an investor would receive if the security were held to maturity
- D. All are true

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Answer Sheet Unit 1

1	D	41	D	81	C	121	B	161	B	192	A
2	A	42	D	82	B	122	C	162	C	193	D
3	C	43	D	83	B	123	A	163	A	194	D
4	A	44	C	84	A	124	C	164	B	195	A
5	B	45	A	85	B	125	D	165	A	196	A
6	D	46	A	86	A	126	A	166	B	197	C
7	D	47	B	87	C	127	C	167	C	198	C
8	A	48	C	88	C	128	C	168		199	
9	D	49	A	89	C	129	B	1	D	1	C
10	B	50	D	90	D	130	A	2	B	2	D
11	D	51	D	91	C	131	D	3	D	200	A
12	D	52	B	92	C	132	B	4	B	201	C
13	A	53	D	93	B	133	A	5	D		
14	D	54	D	94	B	134	B	169	A		
15	A	55	C	95	A	135	A	170	C		
16	A	56	A	96	B	136	D	171	A		
17	C	57	A	97	B	137	A	172	A		
18	B	58	D	98	C	138	A	173	D		
19	C	59	A	99	A	139	D	174	A		
20	D	60	B	100	A	140	D	175	A		
21	D	61	B	101	D	141	A	176			
22	A	62	A	102	D	142	D	1	C		
23	B	63	A	103	C	143	B	2	A		
24	B	64	A	104	C	144	D	177			
25	A	65	B	105	A	145	B	1	D		
26	C	66	A	106	C	146	A	2	D		
27	C	67	B	107	A	147	C	178	D		
28	D	68	B	108	C	148	A	179	A		
29	B	69	C	109	B	149	B	180	B		
30	A	70	B	110	D	150	C	181	A		
31	B	71	B	111	B	151	D	182	C		
32	B	72	A	112	C	152	B	183	C		
33	D	73	C	113	C	153	B	184	D		
34	B	74	A	114	B	154	C	185	C		
35	B	75	A	115	A	155	A	186	A		
36	A	76	A	116	B	156	B	187	C		
37	D	77	D	117	A	157	D	188	A		
38	B	78	C	118	C	158	A	189	C		
39	D	79	B	119	B	159	A	190	C		
40	B	80	B	120	D	160	B	191	A		



Unit-2

Investment Vehicles

221. A security will not earn the yield-to-maturity that was promised when the security was purchased if which of the following conditions occurs?

- A. The issuer defaults on either the interest or principal payments.
- B. The investor sells the security prior to its maturity date.
- C. Cash flows from the security paid to the investor prior to its maturity date are held in cash or spent on consumption goods rather than reinvested.
- D. All of the above are true.

222. Which one of the following products is designed to provide both growth and income?

- A. Fixed premium annuity.
- B. Non-participating mortgage real estate investment trust (REIT).
- C. Aggressive growth mutual fund.
- D. Convertible bond.

223. Assuming that the current market yield for similar risk bonds is 8%, determine the discounted present value of a Rs.1,000 bond with a 7.5% coupon rate, which pays interest semiannually and matures in 17.5 years.

- A. Rs.504.68
- B. Rs.539.78
- C. Rs.953.34
- D. Rs.968.96

224. Ruchi invested Rs.10, 000 in a fixed deposit. If the interest is compounded monthly at an annual rate of 4%, what would be the amount that Rani would receive in five years time? (use 2 decimal places)

- A. 12,158.65
- B. 12,209.97
- C. 12,188.65
- D. 12,187.65

225. Studies show that the Indian middle class has an excess of _____ as investments.

- A. Fixed Deposits
- B. Mutual Funds
- C. Equity Shares
- D. Real Estate

226. Mr Amit places his fixed deposit for one year with interest payable at maturity. Mr Sumit places his fixed deposit with another bank with interest payable quarterly. Assuming that the deposit amount is Rs.100,000, and using the same annual rate of 6%, what is the difference in future value after one year?

- A. Rs.130.43
- B. Rs.132.54



- C. Rs.134.22
- D. Rs.136.36

227. The most appropriate investment for a highly risk averse investor aged 57 is _____

- A. An index fund based on the Nifty.
- B. A diversified equity fund
- C. A Maharashtra State Government Bond
- D. A SBI Fixed Deposit

228. What is the main difference between the personal Financial Planning needs of the employed and the self-employed?

- A. Attitude to risk/Risk appetite
- B. Need to fund children's education
- C. Need to fund retirement
- D. The extent of any employer-provided pension benefits

229. A-One Ltd. is willing to prepay your Cumulative Fixed Deposit with them, without any penalty and with all the accumulated interest (compounded half yearly). You had invested Rs. 4000 with them 3.5 years back. If they are giving you back Rs. 4985, what is the annualized rate of interest you have earned?

- A. 6.40%
- B. 3.2%.
- C. 6.5%.
- D. 7.2%.

230. The new Senior Citizen.s Savings Bond Scheme offers _____ % Interest.

- A. 8.5
- B. 9
- C. 9.25
- D. 8.75

231. The maximum amount that can be invested in Public Provident Fund is Rs._____.

- A. 70000
- B. 60000
- C. 80000
- D. 90000

232. _____ is regulated by the Reserve bank of India.

- I. Bank Deposit Rates
 - II. Bank Lending Rates
 - III. Certificate of Deposit Rates
- A. I
 - B. II



- C. III
- D. None

302. Select the INCORRECT statement concerning bonds

- A. Bond prices are quoted as a percentage of par value.
- B. Bonds trade on an accrued interest basis.
- C. Bonds sell at discounts when the stated coupons are less than the prevailing interest rate on a comparable new issue.
- D. The most common type of secured bond is the debenture.

303. Which of the following is CORRECT regarding zero-coupon securities?

- A. They eliminate re-investment rate risk.
- B. The yield to be earned on them cannot be determined until these securities are held to maturity
- C. They are only issued by corporations.
- D. They offer minimum price volatility.

304. The yield to maturity on a bond

- A. Is a promised yield
- B. Is calculated by assuming that investors reinvest all coupons received from a bond at a rate equal to the computed YTM on that bond
- C. Is a measure of the true yield that a bond investor is assured of receiving barring
- D. Is almost always equal to the realized compound yield

305. When calculated for a period of, say, two years, the Realized Compound Yield consists of

- A. The coupon income
- B. The price change
- C. The coupon income+ the price change
- D. The coupon income+ the price change the interest-on-interest

306. Choose the INCORRECT statement in the following set of statements about bond measures.

- A. The yield to call is a promised yield
- B. The current yield is equal to coupon divided by current marker price.
- C. The horizon return is an expected return
- D. The YTM is both a promised return and a realized return.

307. An increase in reinvestment rate risk

- A. Is caused by an increase in interest rates.
- B. Leads to a decline in coupon rates.
- C. Results from a decline in interest rates.
- D. Results from an increase in inflation.

308. If bond investors do not reinvest the coupons received during the life of the bond, then the

- A. Promised yield will be less than the realized yield.



- B. Promised yield will exceed the realized yield.
- C. Nominal yield will be greater than the promised yield.
- D. Current yield will equal the promised yield.

309. With regard to the various yield measures on bonds.

- A. The yield to call is often a better measure than YTM for bonds selling at a premium
- B. The realized compound yield takes into account all intermediate cash flows and reinvestment rates
- C. The yield to maturity is the compound rate of return an investor will receive if the bond is held to maturity
- D. A and B are correct

310. A bond of face value of Rs. 1000 has a coupon of 7.5% and is compounded quarterly duration 4 yrs. similar bond in market yield 8% what is pv of the bond?

- A. 982.03
- B. 983.03
- C. 984.03
- D. 985.03

311. A bond of face value of Rs. 1000 has a coupon of 7.5% and is compounded semi annually duration 4.5 yrs. similar bond in market yield 8% what is PV of the bond?

- A. 981.41
- B. b) 982.42
- C. c) 983.25
- D. 980.25

312. A bond of face value of Rs. 1000 has a coupon of 8.5% and is compounded annually, duration 12 yrs., similar bond in market yield 9% what is PV of the bond?

- A. 963.20
- B. 964.20
- C. 964.80
- D. 965.80

313. Mr.Amit buys 200 convertible debentures of TISCO at Rs. 200 each. 50% of the value of these debentures is converted into one share of Rs. 80 each after 4 years. Mr. Amit exercises his options after 4 yrs and receives 100 shares. Compute cost of acquisition of each share?

- A. 200
- B. 250
- C. 275
- D. 300

467. Under fundamental analysis, a security is considered attractive for purchase if its computed intrinsic value is



- A. Less than its current price
- B. Greater than its current price
- C. Less than its book value
- D. Greater than its book value

468. Namit buys Wealth Enterprises for Rs.40. He expects the firm's earnings and dividends to grow at an annual rate of 7%. The firm expects to pay a dividend of Rs.2.00 next year. The market risk premium is 8%. Namit's expected rate of return is

- A. 10%
- B. 12%
- C. 12.35%
- D. 15%

469. Onyx wealth solutions Ltd. currently earns Rs.3.00 per share and currently pays Rs.1.20 per share in dividends. It is expected to have a constant growth rate of 7% per year. The risk free rate of return is 6%, the market risk premium is 8%, and the beta for this company is 1.0. The stock price is

- A. Rs.42.86
- B. Rs.18.34
- C. Rs.17.14
- D. Rs.40.05

470. Choose the INCORRECT statement concerning the DDM:

- A. It is based on the position that the price of a stock is the discounted value of all future dividends
- B. Not all of its three growth rate cases involve a present value process
- C. The no growth rate case is the least likely case to be encountered
- D. The multiple growth rate case involves at least two different growth rates

471. Using the constant growth version of the DDM to determine the intrinsic value of a stock

- A. The formula calls for the dividend to be paid this period
- B. The required rate of return is expected to be larger than the growth rate in dividends
- C. There is no present value process involved in the simple equation used in this case
- D. The answer obtained from this equation is the definitive value for the stock for all investors

472. Which of the following statements is INCORRECT about dividends?

- A. Dividends are the foundation of valuation for common stocks
- B. The DDM states that the value of a stock is the discounted value of all future earnings
- C. The DDM is operationalized by estimating the expected future dividends to be paid by a company and estimating the required rate of return
- D. The answer obtained from this equation is the definitive value for the stock for all investors

473. With regard to markets, choose the CORRECT statement:

- A. Secondary markets exist for the trading of new securities
- B. Investment bankers often underwrite new issues by purchasing the securities



- C. If the issuer is selling securities for the first time, these are referred to as seasoned issues
- D. All secondary equity markets are auction markets

474. You instruct your broker to sell your existing shares at a price that will assure you of receiving at least Rs.9. This is which type of order?

- A. A market order
- B. A limit order to sell
- C. A stop order to buy
- D. A stop order to sell

475. An investor buys 100 shares of a stock at Rs.200 per share on 60% margin. The stock goes to Rs.220. Ignoring all costs of transacting, the percentage return on investment is

- A. 16.67%
- B. 45.45%
- C. 10%
- D. None of the above

476. If the initial margin requirement is 60 percent, and a stock sells for Rs.50, an investor with Rs.3000 of his own who wants to use the full Rs.3000 in a margin transaction

- A. Can purchase 125 shares
- B. Can purchase a maximum of 100 shares by borrowing Rs.2000 from the broker.
- C. Can purchase 80 shares
- D. Can purchase 200 shares by borrowing Rs.3000 from the broker

477. You sell short 100 shares of stock at Rs.150 per share. If the stock moves to Rs.180, you have

- A. A loss of Rs.2000
- B. A gain of Rs.3000
- C. A loss of Rs.3000
- D. None of the above

478. A client with a large, well-diversified common stock portfolio expresses concern about a possible market decline. However, he/she does not want to incur the cost of selling a portion of their holdings nor the risk of mistiming the market. A possible strategy for him/her would be

- A. Buy an index call option.
- B. Sell an index call option.
- C. Buy an index put option.
- D. Sell an index put option

479. With the same Rupee investment, which of the following strategies can cause the investor to experience the greatest loss?

- A. Selling a naked put option.
- B. Selling a naked call option.
- C. Writing a covered call.
- D. Buying a call option.



480. Which combination of the following statements about bond swaps is true?
- I. A substitution swap is designed to take advantage of a perceived yield differential between bonds that are similar with respect to coupons, ratings, maturities, and industry.
 - II. Rate anticipation swaps are based on forecasts of general interest rate changes.
 - III. The yield pickup swap is designed to change the cash flow of the portfolio by exchanging similar bonds that have different coupon rates.
 - IV. The tax swap is made in order to substitute capital gains for current yield.
 - A. 1, 2, and 3 only.
 - B. 1 and 3 only.
 - C. 2 and 4 only.
 - D. 4 only.
481. Isha is optimistic about the long-term growth of her Widget stock. However, the stock, currently priced at Rs.58, has made a sharp advance in the last week and she wants to lock in a minimum price in case the shares drop. What might Isha do?
- A. Buy Rs.55 call options.
 - B. Sell Rs.55 call options.
 - C. Buy Rs.55 put options.
 - D. Sell Rs.55 put options.
571. What is the measure of the ratio between the net income produced by an asset and its capital cost.
- A. Yield
 - B. Capitalization Rate
 - C. Discounted Cash Flows
 - D. All of the above
572. What is the sum of a series of future cash transactions on a present value basis?
- A. Discounted Cash Flow
 - B. Time Value of Money
 - C. Adjusted Present Value
 - D. Annuity
573. Suppose you invested an equal amount of money in Gold and Real Estate at the same point of time and soon the economy enters into depression. Which investment will pay you better?
- A. Real Estate
 - B. Gold
 - C. Both will give the same returns
 - D. All the options are incorrect
574. Physical settlement in a commodity futures market involves the delivery of:
- A. Profit
 - B. Future Contract
 - C. Underlying Commodity
 - D. None of the above



Answers Unit 2

221	D	256	B	294	C	332	A
222	D	257	C	295	D	333	A
223	C	258	D	296	D	334	A
224	B	259	B	297	D	335	C
225	A	260	C	298	D	336	B
226	D	261	D	299	A	337	B
227	C	262	C	300	D	338	A
228	D	263	A	301	B	339	A
229	A	264	D	302	A	340	C
230	B	265	C	303	A	341	B
231	A	266	B	304	B	342	D
232	D	267	C	305	D	343	A
233	C	268	B	306	C	344	B
234	C	269	D	307	C	345	B
235	B	270	D	308	A	346	B
236	C	271	D	309	B	347	B
237	D	272	A	310	B	348	D
238	A	273	C	311	A	349	B
239	A	274	C	312	B	350	C
240	B	275	D	313	A	351	D
241	B	276	B	314	C	352	A
242	D	277	A	315	B	353	D
243	A	278	B	316	D	354	B
244	C	279	A	317	C	355	B
245/1	C	280	B	318	D	356	B
245/2	D	281	A	319	C	357	C
245/3	C	282	A	320	B	358	D
245/4	D	283	B	321	D	359	C
246	B	284	C	322	B	360	D
247	C	285	A	323	A	361	B
248	A	286	A	324	C	362	B
249	A	287	A	325	B	363	A
250	B	288	C	326	B	364	B
251	A	289	D	327	D	365	A
252	C	290	D	328	A	366	D
253	C	291	D	329	C	367	D
254	C	292	B	330	C	368	A
255	C	293	C	331	D	369	B



Answers Unit 2

370	C	401/8	C	439	C	477	C
371	C	402	D	440	D	478	C
372	C	403	C	441	B	479	B
373	B	404	C	442	A	480	A
374	A	405	B	443	A	481	C
375	C	406	B	444	D	482	B
376	A	407	A	445	C	483	D
377	C	408	D	446	C	484	C
378	A	409	D	447	C	485	B
379	B	410	A	448	C	486	A
380	C	411	D	449	C	487	A
381	B	412	C	450	D	488	C
382	D	413	A	451	A	489	A
383	C	414	B	452	A	490	A
384	A	415	B	453	D	491	D
385	B	416	D	454	D	492	A
386	C	417	C	455	B	493	D
387	B	418	B	456	D	494	C
388	A	419	D	457	B	495	C
389	B	420	A	458	D	496	D
390	A	421	D	459	A	497	A
391	D	422	D	460	C	498	A
392	C	423	A	461	D	499	C
393	A	424	B	462	C	500	A
394	D	425	C	463	C	501	B
395	B	426	C	464	C	502	A
396	A	427	C	465	A	503	B
397	B	428	B	466	C	504	D
398	B	429	C	467	A	505	B
399	D	430	C	468	B	506	D
400	D	431	D	469	B	507	D
401/1	B	432	A	470	B	508	D
401/2	A	433	B	471	B	509	A
401/3	C	434	C	472	B	510	C
401/4	A	435	C	473	B	511	D
401/5	B	436	B	474	B	512	A
401/6	D	437	B	475	A	513	D
401/7	A	438	B	476	B	514	A



Answers Unit 2			
515	D	546	C
516	B	547	A
517	B	548	C
518	B	549	A
519	A	550	C
520	A	551	D
521	C	552	C
522	C	553	A
523	B	554	D
524	D	555	C
525	D	556	B
526	C	557	C
527/1	C	558	A
527/2	B	559	A
527/3	C	560	D
528/1	B	561	C
528/2	D	562	C
528/3	B	563	B
529/1	B	564	D
529/2	B	565	B
529/3	C	566	B
529/4	D	567	C
530	D	568	B
531	B	569	A
532	C	570	A
533	D	571	B
534	D	572	A
535	A	573	B
536	D	574	C
537	B		
538	B		
539	D		
540	C		
541	D		
542	C		
543	D		
544	D		
545	B		



Unit-3

Investment Strategies

575. Value investing involves purchasing stocks with _____
- A. Low P/E Ratios
 - B. Low Book Values
 - C. Low Dividend Yields
 - D. Low Margin of safety
576. Asset Allocation means _____
- A. Practice of allocating investments in different equities
 - B. Practice of dividing resources among different categories of assets for generating optimum profit with lesser risk
 - C. Practice of trading shares, bonds and other instruments
 - D. All of the above
577. What are the reasons that one should opt for an asset allocation policy?
- A. Minimize the risk
 - B. Maximize the profit
 - C. Diversify one's investment
 - D. All of the above
578. CPPI policy generates maximum return _____.
- A. When the market is volatile
 - B. When the market is bullish
 - C. When the market is bearish
 - D. All of the above
579. Which strategy will pay the maximum if the market remains bearish for a long period?
- A. Buy and hold
 - B. Balanced asset allocation
 - C. CPPI Policy
 - D. None of the above
580. Modern "asset allocation" is based upon the model developed by Harry Markowitz. Which of the following statements is/are correctly identified with this model?
- I. The risk, return and covariance of assets are important input variables in creating portfolios.
 - II. Negatively correlated assets are necessary to reduce the risk of portfolios.
 - III. In creating a portfolio, diversifying across asset types (e.g., stocks and bonds) is less effective than diversifying within an asset type.
 - IV. The efficient frontier is relatively insensitive to the input variable.
- A. 1 and 2 only.
 - B. 1, 2, and 3 only.
 - C. 1 only.



D. 2 and 4 only.

581. Which of the following statements concerning technical stock market indicators is/are correct?
- I. The stock market is considered strong when the volume of the market is increasing in a rising market.
 - II. The market's direction will change when the percent of odd-lot short sales significantly increases or decreases.
 - III. Prices crossing the moving average line would be an indication of the change in the market.
 - A. 1 only
 - B. 1 & 2 only
 - C. 2 & 3 only
 - D. 1,2 & 3
582. Which of the following is a feature of Insured Asset Allocation?
- A. One can establish a base portfolio value below which the portfolio should not be allowed to drop.
 - B. As long as the portfolio achieves a return above its base, one can exercise active
 - C. If the portfolio should ever drop to the base value, one should invest in risk-free assets so that the base value becomes fixed.
 - D. All of the above
583. Dynamic Asset Allocation policy works better when:
- A. The market is moving up only
 - B. The market is moving down only
 - C. Option A & B
 - D. The market remains constant
584. An investor desired rate of return is 8%. If it is assumed that the stock will return 10% p.a. and bond will return 6% p.a.? What should be the strategic asset allocation of the client?
- A. 45% in stock and 55% in debt
 - B. 50% in stock and 50% in debt
 - C. 55% in stock and 45% in debt
 - D. 40% in stock and 60% in debt
585. Mr. Namit's investment portfolio comprises Rs.2 lakh in equity, Rs.5 lakh in debt and Rs.1lakh in his bank current account. Over one year the returns on equity and debt are 5% and 12%. At the end of the year to maintain his current asset allocation, he needs to _____.
- A. Do nothing.
 - B. He needs to move Rs, 10000/- from equity and Rs. 60000/- from debt to cash.
 - C. He needs move Rs.7500/- to equity from debt and Rs. 8750/-to cash from debt
 - D. He needs to invest Rs. 70000/- in debt and equity.



Answers Unit 3	
575	A
576	B
577	D
578	B
579	C
580	C
581	D
582	D
583	C
584	B
585	C
586	A
587	B
588	B
589	A
590	B
591	C
592	C
593	B
594	D

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Unit-4

Regulation of an investment advisor

596. SEBI is the Regulator for _____ companies

- A. Listed
- B. Unlisted
- C. Both A and B
- D. Foreign

597. As per SEBI (Stock brokers and Sub-Brokers) Rules, 1992 share broker applies for registration to SEBI through a stock exchange of which he is admitted as a member.

- A. True
- B. False

598. As per SEBI (Stock brokers and Sub-Brokers) Rules, 1992 sub-brokers are not responsible of redressal of grievances of the investors as it is the responsibility of brokers.

- A. True
- B. False

599. No stock brokers are allowed to become the member of more than one stock exchanges.

- A. True
- B. False

600. Mutual funds offering check writing facility obtains permission from

- A. The SEBI
- B. The RBI
- C. The bank with which they have an account
- D. Both a & b above

601. A mutual fund is not

- A. Owned jointly by all investors
- B. A company that manages investment portfolios of high net worth individuals
- C. A pool of funds used to purchase securities on behalf of investors
- D. A collective investment vehicle

602. An AMC cannot explain adverse variations between expense estimates for the scheme on offer and actual expenses for past schemes in

- A. Financial newspapers
- B. Business channels on TV
- C. The offer document



Answers Unit 4	
596	A
597	A
598	B
599	B
600	B
601	B
602	C
603	C
604	B
605	A
606	B
607	D
608	D
609	B
610	D
611	D
612	D
613	B
614	D
615	C
616	B
617	D
618	D
619	B
620	D
621	C



Unit-5

Application to Clients

622. Assume that you are an investment adviser and one of your clients, on your advice, invested Rs.100, 000 in Treasury bonds due to mature in 2 years. If your client becomes worried that a general increase in the level of interest rates will reduce the market value of his bond portfolio, what should you say to allay your client's fears?

- A. You could assuage your client's fears by claiming you foresee only stable interest rates ahead.
- B. You could instruct your client to liquidate their portfolio of Treasury bonds and reinvest the proceeds in a bank.
- C. Both a and b are true.
- D. You could tell your client not to worry because the market prices of short-term bonds do not fluctuate very much

623. Assume you are an financial advisor and one of your clients reads something about interest-rate risk and is worried that if market interest rates declined her coupon interest income will likewise decline. His bond investments have maturities ranging from 15 to 30 years. What advice is appropriate for this client?

- A. Tell the investor to liquidate her coupon-paying bonds and reinvest the money in zero coupon bonds.
- B. Tell your client not to worry, her coupon income will not vary until her coupon bonds mature in 15 to 30 years.
- C. Both a and b are true.
- D. The client need not worry if market interest rates are expected to rise because coupon rates vary inversely with market interest rates and therefore her coupon interest could increase.
- E. All the above are true.

624. A client has a cash need at the end of seven years. Which of the following investments might initially immunize the portfolio?

- 1. A 9-year maturity coupon bond.
 - 2. A 7-year maturity coupon Treasury note.
 - 3. A series of Treasury bills.
- A. 1, 2, and 3.
 - B. 1 only.
 - C. 2 and 3.
 - D. 2 only.
 - E. 1 and 2.



Unit-5

Application to Clients

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- C. Both a and b are true.
- D. You could tell your client not to worry because the market prices of short-term bonds do not fluctuate very much

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- C. Both a and b are true.
- D. The client need not worry if market interest rates are expected to rise because coupon rates vary inversely with market interest rates and therefore her coupon interest could increase.
- E. All the above are true.

624. A client has a cash need at the end of seven years. Which of the following investments might initially immunize the portfolio?

- 4. A 9-year maturity coupon bond.
- 5. A 7-year maturity coupon Treasury note.
- 6. A series of Treasury bills.
 - A. 1, 2, and 3.
 - B. 1 only.
 - C. 2 and 3.
 - D. 2 only.
 - E. 1 and 2.



Answers Unit 5	
622	D
623	B
624	B
625	C
626	D
627	A
628	C
629	A
630	D
631	C

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Samper Paper-1

19. Which of the following is NOT a characteristic of a balance fund?
- It provides both growth and income objectives
 - It is less risky than growth funds
 - It is more risky than income funds
 - It must invest in both equity and bonds in equal amount
20. Disclosure statements to prospective clients include all of the following except:
- Performance record of other clients
 - The method of remuneration, fees and commissions
 - Access to internal and external complaint handling mechanism
 - Disclosure of any conflict of interest
21. In ranking portfolio performance, which measure of risk does the Treynor Index use?
- Standard deviation
 - Variance
 - Beta
 - Alpha
22. The following are the long-term credit ratings given by CRISIL, Which is the lowest investment grade category?
- AAA+
 - BBB+
 - BBB-
 - AA
23. Which of the following factors will result in an increase in the duration of corporate bond?
- An increase in the number of years to maturity .
 - A decrease in the coupon rate?
 - Change from annual to semiannual coupon payment. IV change from annual coupon to zero coupon bond
- I, II & III only
 - I, II and IV only
 - I, III & IV only
 - II, III & IV only
24. Mr A's stock market portfolio consistently outperformed the BSE Sensex based on tips he received from a friend working in a corporate finance department. Which of the following is his success a violation of?
- Weak form of market efficiency
 - Semi-strong form of market efficiency
 - Strong form of market efficiency
 - Total market efficiency
25. Which of the following assumptions support the use of technical analysis?



- A. Future performance should be reflective of past performance
- B. The values of market indices and stock prices are determined based on supply and demand
- C. Stock prices move in trends that would persist over long periods
- D. All the above

Four Mark

1. The rate at which commercial banks and other lending facilities can borrow short-term funds from the central bank is called the

- A. Discount rate
- B. Repurchase Rate
- C. Reverse Repurchase Rate
- D. Prime Lending Rate

2 Mr. Satish buys 300 convertible debentures of ABB at Rs. 300 each. 50% of the value of these debentures is converted into one share of Rs. 80 each after 5 years. Mr. Singh exercises his options after 5 yrs and receives 120 shares. Compute cost of acquisition of each share?

- A. 350
- B. 360
- C. 375
- D. 380

3. Calculate the (1) expected rate of return, $E(r)$, from the probability distribution of returns below for the A Ltd. common share.

FIVE Possibilities	RATES OF RETURN	PROBABILITY
$i=5$		$-0.5 = 50\%$ 0.1
$i = 4$	$-0.1 = -10\%$	0.25
$i = 3$	$0.2 = 20\%$	0.3
$i = 2$	$0.5 = 50\%$	0.25
$i = 1$	$0.9 = 90\%$	0.1
		Total 1.0

The expected rate of return for A Ltd. is which one of the following?

- A. The $E(r)$ is 5 percent.
- B. The $E(r)$ is 20 percent.
- C. The $E(r)$ is 5 percent
- D. The $E(r)$ is 10 percent

4. You purchase One Contract of the September Call option for Dr. Reddy's Labs at Rs 1400 strike price for a premium of Rs. 100 . The price on the date of contract expiry is Rs. 1600. The market lot is 200 shares. Your profit on the above transaction is _____ %. Ignore transaction costs.

- A. 100
- B. 50



C. 15
D. 10

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Answers Sample Paper 1

1 Marks		2 Marks		4 Marks	
1	B	1	B	1	A
2	A	2	B	2	C
3	D	3	A	3	B
4	A	4	C	4	A
5	A	5	B	5	C
6	D	6	C	6	B
7	B	7	C	7	A
8	C	8	A	8	C
9	D	9	C	9	B
10	C	10	B	10	B
11	C	11	A	11	D
12	C	12	C	12	D
13	D	13	B	13	B
14	A	14	A	14	D
15	A	15	B	15	B
16	C	16	B		
17	D	17	C		
18	D	18	D		
19	D	19	D		
20	A	20	B		
21	C				
22	C				
23	B				
24	C				
25	D				
26	B				
27	A				
28	D				
29	C				
30	D				
31	C				
32	C				
33	C				
34	C				
35	B				
36	B				
37	C				
38	A				
39	C				
40	B				



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