

Canadian Securities Course (CSC) Level 2 Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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SAMPLE

Questions

- 1. What do consumers focus on during the "family commitment years" stage according to the life-cycle hypothesis?**
 - A. Retirement savings and minimizing taxes**
 - B. Children leaving home**
 - C. Marriage**
 - D. Save for post-secondary education**
- 2. What risk is associated with active Exchange Traded Funds (ETFs) due to their valuation frequency?**
 - A. Lower transparency**
 - B. High market exposure**
 - C. Discrepancy risk**
 - D. Increased tax liabilities**
- 3. Which investment type typically has the least expected return according to the provided text?**
 - A. Preferred shares**
 - B. Common shares**
 - C. Debentures**
 - D. T-Bills**
- 4. What is a feature regarding alternative mutual funds?**
 - A. Offered with a prospectus and no restrictions.**
 - B. Minimum investment of \$1 million (NIBT >200,000 or >300,000 if with spouse).**
 - C. Exclusive access for investors exceeding \$5 million.**
 - D. Composed of traditional mutual fund strategies only.**
- 5. What term describes a pattern in technical analysis formed by a trend reversal consisting of a left shoulder, head, and right shoulder?**
 - A. Continuation Pattern**
 - B. Reversal Pattern**
 - C. Support Level**
 - D. Resistance Level**

- 6. Which risk category is associated with fixed income investments of medium duration?**
- A. Decreased risk and volatility**
 - B. Average risk and volatility**
 - C. Increased risk and volatility**
 - D. Stable risk and low volatility**
- 7. How should investors adjust their fixed income strategy if there is an anticipated increase in interest rates?**
- A. Extend the term**
 - B. Move into equities**
 - C. Shorten the term**
 - D. Stay invested in current bonds**
- 8. What is a characteristic of Leverage Exchange Traded Funds (ETFs) that sets them apart from other types?**
- A. Low market sensitivity**
 - B. High tracking accuracy**
 - C. Use of actual index assets**
 - D. Utilization of derivatives for leverage**
- 9. What is the primary function of Asset-Backed Securities (ABS)?**
- A. Represent a claim to a pool of assets with different levels of risk and return.**
 - B. Provides a guarantee of principal regardless of performance.**
 - C. Include assets reacting to interest rates and offer stable potential gains.**
 - D. Structures that divide attributes of shares with specific risk and return profiles.**
- 10. How is the Net Assets per Shares (NAVPS) calculated in a mutual fund?**
- A. $\text{NAVPS} = \text{assets} - \text{liabilities} / \text{outstanding shares}$**
 - B. $\text{NAVPS} = \text{liabilities} - \text{assets} / \text{outstanding shares}$**
 - C. $\text{NAVPS} = \text{assets} + \text{liabilities} / \text{outstanding shares}$**
 - D. $\text{NAVPS} = \text{liabilities} + \text{assets} / \text{outstanding shares}$**

Answers

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1. D
2. C
3. D
4. A
5. B
6. B
7. C
8. D
9. A
10. A

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Explanations

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1. What do consumers focus on during the "family commitment years" stage according to the life-cycle hypothesis?

- A. Retirement savings and minimizing taxes**
- B. Children leaving home**
- C. Marriage**
- D. Save for post-secondary education**

During the "family commitment years" stage, consumers are primarily focused on saving for significant future expenses related to their children, which includes post-secondary education costs. This stage typically coincides with crucial financial planning for family needs, where parents prioritize educational savings to ensure their children can pursue further education without excessive financial strain. The life-cycle hypothesis suggests that individuals make consumption and saving decisions based on anticipated lifetime income and needs at different stages of life. During these years, parents often allocate financial resources to prepare for the costs associated with their children's education, minimizing the burden of debt or the need for financial aid later on. While considerations such as retirement savings and tax minimization are indeed important in other life stages, they are not the primary focus during the family commitment years. Similarly, events like children leaving home or marriage are vital life events but do not directly address the immediate financial priorities associated with raising children and preparing for their future education expenses.

2. What risk is associated with active Exchange Traded Funds (ETFs) due to their valuation frequency?

- A. Lower transparency**
- B. High market exposure**
- C. Discrepancy risk**
- D. Increased tax liabilities**

The correct answer highlights the potential for discrepancy risk in active Exchange Traded Funds (ETFs) due to their valuation frequency. This risk arises because actively managed ETFs may trade securities throughout the trading day in reaction to market conditions or the manager's strategies, leading to a possibility that the price at which the ETF is traded does not accurately reflect the underlying net asset value (NAV) of the assets held within it. If the valuations of these underlying assets are updated less frequently than the trading of the ETF shares, it can create a gap or discrepancy between the market price of the ETF shares and the actual value of the securities it holds. This kind of risk is particularly significant for active ETFs that may change their holdings more frequently based on investment strategies, making it essential for investors to be aware of the timing and nature of asset valuations in these products. Understanding this risk can help investors make more informed decisions about their investments in active ETFs.

3. Which investment type typically has the least expected return according to the provided text?

- A. Preferred shares**
- B. Common shares**
- C. Debentures**
- D. T-Bills**

T-Bills, or Treasury Bills, are short-term debt instruments issued by the government typically with maturities of a few weeks to a year. They are considered one of the safest investments available because they are backed by the full faith and credit of the government, which minimizes the risk of default. This low risk is a key factor in determining their expected return. The expected returns for investments are generally correlated with their risk levels; the lower the risk, the lower the potential returns. Since T-Bills are virtually risk-free, their returns are much lower than those associated with equities like common shares or preferred shares, and even lower than debentures, which carry some credit risk. This characteristic positions T-Bills as the investment type with the least expected return compared to the other options, making them a typical choice for investors seeking capital preservation rather than growth.

4. What is a feature regarding alternative mutual funds?

- A. Offered with a prospectus and no restrictions.**
- B. Minimum investment of \$1 million (NIBT >200,000 or >300,000 if with spouse).**
- C. Exclusive access for investors exceeding \$5 million.**
- D. Composed of traditional mutual fund strategies only.**

Alternative mutual funds are indeed required to be offered with a prospectus, which provides essential information for investors regarding the fund's objectives, strategies, fees, and risks involved. However, their defining feature is that they often include investment strategies that are not typical of traditional mutual funds. The inclusion of strategies such as investing in commodities, derivatives, or leveraging makes these funds distinct, as they aim to provide diversification and potentially higher returns compared to conventional mutual funds. Regarding the other options you mentioned, they contain constraints or criteria that do not accurately describe the general offering of alternative mutual funds. For instance, the minimum investment thresholds quoted are not standard features across all alternative mutual funds, as many funds provide access to retail investors with lower investment amounts. Similarly, exclusive access for high-net-worth investors over \$5 million is too restrictive and does not reflect the broader opportunities available. Lastly, alternative mutual funds are designed to encompass a wider range of strategies beyond traditional ones, rather than being limited to them. Thus, the correct feature highlights the requirement to be offered with a prospectus, which is a fundamental aspect of all investment products to ensure investor protection and transparency.

5. What term describes a pattern in technical analysis formed by a trend reversal consisting of a left shoulder, head, and right shoulder?

A. Continuation Pattern

B. Reversal Pattern

C. Support Level

D. Resistance Level

The correct answer is indeed a reversal pattern. In technical analysis, this specific formation is known as the "head and shoulders" pattern. It is characterized by three distinct peaks: the left shoulder, the head (the highest peak), and the right shoulder, which is similar in height to the left shoulder. The pattern signifies a potential reversal in the trend direction, where a prevailing bullish trend may be shifting to a bearish trend as the market sentiment changes. Recognizing this pattern allows traders to anticipate possible market movements and make informed decisions about entering or exiting trades. In contrast, a continuation pattern represents formations suggesting that the established trend will persist after a brief pause. Support and resistance levels refer to specific price levels where buying or selling pressure significantly affects price movements but do not imply a trend reversal by themselves.

6. Which risk category is associated with fixed income investments of medium duration?

A. Decreased risk and volatility

B. Average risk and volatility

C. Increased risk and volatility

D. Stable risk and low volatility

The correct choice recognizes that fixed income investments of medium duration typically experience an average level of risk and volatility. Medium duration fixed income investments tend to have characteristics that balance the fluctuations typically associated with shorter-term and longer-term bonds. They are not as affected by interest rate changes as long-term bonds, which can see significant price movements. Similarly, they offer more yield compared to shorter-duration instruments while not carrying the same level of interest rate risk. Investors can reasonably expect that these investments will provide a steady income stream with moderate price stability, encapsulating the idea of average risk and volatility. This understanding aligns well with how medium-duration fixed income can serve as a cornerstone for many portfolios looking for some degree of safety while still seeking to achieve reasonable returns.

7. How should investors adjust their fixed income strategy if there is an anticipated increase in interest rates?

- A. Extend the term**
- B. Move into equities**
- C. Shorten the term**
- D. Stay invested in current bonds**

The correct choice is to shorten the term of fixed income investments in anticipation of rising interest rates. When interest rates increase, the prices of existing bonds typically fall, especially those with longer maturities. This is due to the fact that new bonds will likely offer higher yields, making the older, lower-yielding bonds less attractive. By shortening the term, investors can reduce their exposure to interest rate risk. Shorter-term bonds are less sensitive to rate changes, meaning their prices are less likely to be adversely affected when interest rates rise. Furthermore, investors can reinvest in new bonds at higher interest rates more quickly, optimizing their portfolios in a rising rate environment. The other options may not effectively mitigate the risks associated with rising interest rates. For instance, extending the term would increase exposure to interest rate risk, moving into equities may not be suitable for all fixed income investors, and staying invested in current bonds may result in capital losses as their prices decline. Therefore, the most prudent strategy in this scenario is to shorten the term of fixed income investments.

8. What is a characteristic of Leverage Exchange Traded Funds (ETFs) that sets them apart from other types?

- A. Low market sensitivity**
- B. High tracking accuracy**
- C. Use of actual index assets**
- D. Utilization of derivatives for leverage**

The correct answer highlights a fundamental characteristic of Leverage Exchange Traded Funds (ETFs), which is their usage of derivatives to achieve leveraged exposure to the underlying index or asset. This feature allows leveraged ETFs to amplify the returns (both positive and negative) based on the daily performance of the index they track. By employing derivatives, such as futures contracts, swaps, or options, these funds can provide a multiple of the daily return of the benchmark, often aimed at 2x or 3x the performance. This distinguishes them from traditional ETFs, which typically invest directly in the securities of an index without employing leverage. In contrast, the other options do not accurately describe the unique traits of leveraged ETFs. For instance, while market sensitivity and tracking accuracy can vary across all types of ETFs, they do not serve as defining characteristics for leveraged ETFs specifically. Additionally, the mention of using actual index assets aligns more with traditional ETFs rather than leveraged ones, which primarily rely on derivatives to maintain their leverage.

9. What is the primary function of Asset-Backed Securities (ABS)?

- A. Represent a claim to a pool of assets with different levels of risk and return.**
- B. Provides a guarantee of principal regardless of performance.**
- C. Include assets reacting to interest rates and offer stable potential gains.**
- D. Structures that divide attributes of shares with specific risk and return profiles.**

The primary function of Asset-Backed Securities (ABS) is to represent a claim to a pool of assets, which typically includes loans, leases, credit card debt, or receivables. These securities are structured in such a way that they provide investors with claims to cash flows generated from those underlying assets. The performance of ABS is linked to the performance of these assets, meaning that the risk and return vary based on the quality and risk level of the asset pool. This allows investors to gain exposure to various asset types while diversifying risk. The other options address aspects that don't accurately describe ABS. The statement about guaranteeing principal regardless of performance relates more to certain types of bonds or investment vehicles that provide capital protection, rather than the inherent risk associated with ABS. Mentioning assets reacting to interest rates and offering stable gains could point to different securities, like fixed income instruments, but not specifically to the diverse nature of ABS pools. Lastly, dividing attributes of shares with different risk-return profiles refers to equity securities rather than the structured finance context of ABS.

10. How is the Net Assets per Shares (NAVPS) calculated in a mutual fund?

- A. NAVPS = assets - liabilities / outstanding shares**
- B. NAVPS = liabilities - assets / outstanding shares**
- C. NAVPS = assets + liabilities / outstanding shares**
- D. NAVPS = liabilities + assets / outstanding shares**

The calculation of Net Assets per Share (NAVPS) in a mutual fund is fundamental to understanding the fund's value on a per-share basis. NAVPS reflects the fund's total net assets allocated to each outstanding share and is expressed as: $\text{NAVPS} = (\text{Total Assets} - \text{Total Liabilities}) / \text{Outstanding Shares}$. This formula begins with the total assets of the mutual fund and subtracts total liabilities to determine the net assets. These net assets are then divided by the number of outstanding shares to find the value per share. This calculation gives investors insight into the worth of their investment in the mutual fund. The other formulations provided do not accurately reflect the relationship between assets, liabilities, and outstanding shares, leading to erroneous interpretations of a fund's value. Therefore, your answer correctly identifies the appropriate method to calculate NAVPS.