

Investment Funds in Canada (IFIC) Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

This is a sample study guide. To access the full version with hundreds of questions,

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Don't worry about getting everything right, your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations, and take breaks to retain information better.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning.

7. Use Other Tools

Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly — adapt the tips above to fit your pace and learning style. You've got this!

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Questions

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- 1. What are the four phases of the business cycle?**
 - A. Expansion, Trough, Recover, Boom**
 - B. Expansion, Peak, Trough, Recovery**
 - C. Peak, Boom, Recession, Depression**
 - D. Contraction, Expansion, Recovery, Peak**

- 2. Which of the following characteristics defines a secured bond?**
 - A. It is backed by the issuer's general creditworthiness**
 - B. It is protected by specific assets of the issuer**
 - C. It has lower interest rates compared to unsecured bonds**
 - D. It does not pay interest until maturity**

- 3. What type of management style is often used in actively managed funds?**
 - A. Buy-and-hold strategy**
 - B. Quantitative analysis**
 - C. Blended management**
 - D. Frequent trading based on market conditions**

- 4. What type of pension plan provides benefits based on a formula involving years of service and income levels?**
 - A. Defined contribution plan**
 - B. Flat benefit plan**
 - C. Defined benefit plan**
 - D. Career average plan**

- 5. What economic theory states that low unemployment can lead to high inflation?**
 - A. Keynesian Theory**
 - B. Supply-Side Economics**
 - C. Phillips Curve**
 - D. Demand Theory**

6. At what point can employees access funds in a locked-in RRSP?

- A. At any age after termination**
- B. Only after reaching retirement age**
- C. When the account balance exceeds a certain amount**
- D. Only upon permanent disability**

7. What is a characteristic of a flat benefit plan?

- A. The benefits are based on career earnings**
- B. It provides a specified dollar amount for each year of service**
- C. It is based on average earnings over a career**
- D. Benefits are determined by the investment performance**

8. Callable preferred shares typically get redeemed when which financial condition occurs?

- A. Market rates rise significantly**
- B. Dividend payments are unprofitable**
- C. Interest rates fall below market rates**
- D. Investment fund capital is depleted**

9. What is the goal of a portfolio manager who practices market timing?

- A. Beats the market through passive investment**
- B. Shift from one class of security to another anticipating economic changes**
- C. Maintain a fixed asset allocation**
- D. Minimize risk through diversification**

10. Which type of fund requires investors to hold investments for a specific period to qualify for guarantees?

- A. Exchange-Traded Funds (ETFs)**
- B. Segregated fund**
- C. Open end mutual fund**
- D. Money market fund**

Answers

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

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Explanations

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1. What are the four phases of the business cycle?

- A. Expansion, Trough, Recover, Boom
- B. Expansion, Peak, Trough, Recovery**
- C. Peak, Boom, Recession, Depression
- D. Contraction, Expansion, Recovery, Peak

The four phases of the business cycle are widely recognized as Expansion, Peak, Trough, and Recovery. In the expansion phase, economic activity increases, leading to growth in production, employment, and consumption. This often drives confidence and investment within the economy. As the economy continues to grow, it reaches the peak phase, where economic activity is at its highest. However, this peak is often followed by a downturn, marking the transition to the trough phase, where economic activity hits its lowest point. This period is characterized by declining activity and rising unemployment. Finally, the cycle moves into the recovery phase, where the economy begins to rebound from the trough, leading back into expansion. The other options contain elements or terms that partially represent stages of the business cycle, but they do not accurately capture the widely accepted terminology and sequence of the business cycle's phases. For example, terms like "Boom" and "Depression" may represent significant periods of economic activity but do not fit within the established framework of the four key phases. This understanding of the phases aids investors and analysts in making informed decisions regarding economic conditions.

2. Which of the following characteristics defines a secured bond?

- A. It is backed by the issuer's general creditworthiness
- B. It is protected by specific assets of the issuer**
- C. It has lower interest rates compared to unsecured bonds
- D. It does not pay interest until maturity

A secured bond is defined by its protection through specific assets of the issuer, which means that in the event of default, bondholders have a claim on those specific assets. This linked asset backing enhances the security of the bond, making it less risky for investors compared to unsecured bonds, which rely solely on the issuer's promise to pay. The presence of these specific assets not only adds a layer of protection for investors but also typically results in a lower yield compared to unsecured debt since the perceived risk is lower. However, this characteristic of asset backing stands out as the definitive trait of secured bonds, distinguishing them in the investment landscape.

3. What type of management style is often used in actively managed funds?

- A. Buy-and-hold strategy
- B. Quantitative analysis
- C. Blended management
- D. Frequent trading based on market conditions**

In actively managed funds, the primary goal is to outperform the benchmark index or achieve a specific investment objective through strategic decision-making. Frequent trading based on market conditions is a hallmark of active management, as it allows fund managers to react to market trends, economic signals, and individual security performance in real-time. By adjusting the portfolio more dynamically, they aim to capitalize on short-term price movements and generate higher returns. Unlike passive management styles, which typically involve a buy-and-hold strategy or a long-term investment approach, active management is characterized by continuous analysis and trading. This responsiveness is crucial in an actively managed fund, as it seeks to leverage the fund manager's expertise, research, and insights to take advantage of potential market inefficiencies. In contrast, other management styles, such as the buy-and-hold strategy, do not involve frequent trading but rather a commitment to holding investments over the long term, regardless of market fluctuations. Quantitative analysis focuses on using mathematical models and data to inform investment decisions, which might not involve as much active trading. Blended management may combine elements of both active and passive strategies, but frequent trading explicitly aligns with the objectives of actively managed funds.

4. What type of pension plan provides benefits based on a formula involving years of service and income levels?

- A. Defined contribution plan
- B. Flat benefit plan
- C. Defined benefit plan**
- D. Career average plan

A defined benefit plan is a type of pension plan that guarantees a specific benefit amount to employees upon retirement, based on a predetermined formula. This formula typically takes into account the employee's years of service and their salary, often their highest or average salary over a specific period. This structure ensures that employees have a clear expectation of their retirement income, allowing them to plan their finances accordingly. The plan is funded by contributions from both the employer and the employees, but the investment risk lies primarily with the employer, who is responsible for ensuring there are enough funds to pay the promised benefits. In contrast, a defined contribution plan focuses on contributions made during an employee's working life rather than a guaranteed benefit at retirement, meaning the final benefits will fluctuate based on investment performance. A flat benefit plan provides the same benefit to all employees, regardless of their salary or years of service, which does not align with the criteria of calculating benefits based on income levels and service years. A career average plan calculates benefits based on average earnings over the entire career instead of the final salary, lacking the specific tie to service and income levels as seen in defined benefit plans.

5. What economic theory states that low unemployment can lead to high inflation?

- A. Keynesian Theory**
- B. Supply-Side Economics**
- C. Phillips Curve**
- D. Demand Theory**

The Phillips Curve is an economic theory that describes an inverse relationship between the rate of unemployment and the rate of inflation within an economy. According to this theory, when unemployment is low, inflation tends to be high, and conversely, when unemployment is high, inflation tends to be low. This relationship arises because a low unemployment rate suggests that resources—particularly labor—are being utilized effectively, which can push wages up. As wages increase, businesses may raise prices in response to higher labor costs, leading to inflation. The Phillips Curve is significant in the context of macroeconomic policy, as it suggests that governments and central banks face a trade-off between unemployment and inflation. Policymakers must consider this trade-off when formulating economic policies aimed at fostering growth and stability. Understanding the Phillips Curve can help in assessing the potential impact of labor market conditions on overall price levels in the economy.

6. At what point can employees access funds in a locked-in RRSP?

- A. At any age after termination**
- B. Only after reaching retirement age**
- C. When the account balance exceeds a certain amount**
- D. Only upon permanent disability**

The correct understanding of a locked-in RRSP involves recognizing that it is specifically designed to ensure that funds are preserved for retirement. Employees are generally unable to access these funds until they reach retirement age, as the primary purpose of a locked-in RRSP is to prevent premature withdrawal and to secure the funds for retirement income. Locked-in RRSPs arise from pension plans and are subject to strict regulations which dictate when and how the funds can be accessed. Typically, individuals can begin to withdraw from their locked-in RRSPs once they reach the specified retirement age, usually 55 or older, depending on the applicable legislation. This ensures that the savings are utilized for their intended purpose, providing financial security in retirement. In contrast, accessing the funds at any age after termination or upon permanent disability may have different stipulations or exceptions but does not align with the primary rule regarding locked-in RRSPs. The same applies to account balances exceeding a certain amount; while larger balances may provide more options for investment or management, they do not alter the fundamental restrictions placed on withdrawals from locked-in accounts.

7. What is a characteristic of a flat benefit plan?

- A. The benefits are based on career earnings
- B. It provides a specified dollar amount for each year of service**
- C. It is based on average earnings over a career
- D. Benefits are determined by the investment performance

A flat benefit plan is characterized by providing a set dollar amount for each year of service. This means that regardless of an employee's salary history or career earnings, the retirement benefits are calculated straightforwardly by multiplying a predetermined flat rate by the number of years the employee has worked. This approach is notable because it simplifies the calculation of benefits and creates a predictable retirement income based on tenure rather than salary levels. It contrasts with plans that might calculate benefits based on average earnings or performance, which introduce more complexity and variability into the retirement payout. In essence, the clarity and structure of a flat benefit plan make it easy for both employers and employees to understand how benefits are accrued, as the payout does not fluctuate based on an employee's salary or the investment returns but is solely tied to the length of service. This simplicity is particularly appealing for companies that want to offer straightforward retirement benefits.

8. Callable preferred shares typically get redeemed when which financial condition occurs?

- A. Market rates rise significantly
- B. Dividend payments are unprofitable
- C. Interest rates fall below market rates**
- D. Investment fund capital is depleted

Callable preferred shares are a type of preferred stock that allows the issuing company to redeem the shares at a predetermined price after a specified date. When interest rates fall below market rates, issuers often find it advantageous to redeem callable preferred shares. This situation occurs because the company can replace the existing preferred shares, which may have higher dividend rates, with new shares that reflect the lower current interest rates. Consequently, this helps to reduce the company's overall cost of capital, as they can issue new shares at a lower dividend expense when the prevailing interest rates are lower. In contrast, when market rates rise significantly, it becomes less likely for companies to redeem their preferred shares, as the existing shares usually offer more attractive returns compared to what new shares would provide. Similarly, dividend payments being unprofitable does not directly trigger the redemption of preferred shares, nor does a depletion of investment fund capital, which relates to financial stability rather than the conditions influencing the call of preferred shares.

9. What is the goal of a portfolio manager who practices market timing?

- A. Beats the market through passive investment
- B. Shift from one class of security to another anticipating economic changes**
- C. Maintain a fixed asset allocation
- D. Minimize risk through diversification

The goal of a portfolio manager who practices market timing is to strategically shift investments from one class of security to another in anticipation of economic changes. This approach involves actively predicting market movements and making investment decisions based on anticipated economic conditions, such as changes in interest rates, inflation, or other macroeconomic factors. By anticipating future market trends, the manager aims to optimize returns by being invested in the right asset classes at the right times. For instance, during an economic downturn, the manager might move investments from equities to fixed income securities to protect capital, while conversely, during a bullish market, they may move back into equities to take advantage of the growth potential. This active management strategy distinguishes market timing from other approaches that may focus on consistent asset allocation or risk minimization.

10. Which type of fund requires investors to hold investments for a specific period to qualify for guarantees?

- A. Exchange-Traded Funds (ETFs)
- B. Segregated fund**
- C. Open end mutual fund
- D. Money market fund

The option that requires investors to hold investments for a specific period to qualify for guarantees is the segregated fund. Segregated funds are a type of investment fund offered by insurance companies, and they come with certain guarantees, such as a minimum redemption value after a specified period, often referred to as a maturity guarantee. This means that if the investor holds the fund until the specified maturity date, they are assured that they will receive at least a certain percentage of their investment back, regardless of market conditions at that time. This unique feature encourages long-term investment and provides a level of security to investors, particularly during market volatility. Additionally, segregated funds may also offer death benefits, which allows the investor's beneficiaries to receive a guaranteed amount upon the investor's death, as long as the conditions of the fund are met. In contrast, other types of funds, such as exchange-traded funds, open-end mutual funds, and money market funds, do not come with such hold requirements or guarantees. They can be bought or sold on a more flexible basis, which does not necessitate holding investments for a predetermined time to access guarantees.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://investmentfundsifc.examzify.com>

We wish you the very best on your exam journey. You've got this!

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