

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

Study Guide



Everything you need from our exam experts!

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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. 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.

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. 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!

Questions

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- 1. What is the primary goal when buying futures contracts?**
 - A. To keep prices steady**
 - B. To maximize liquidity**
 - C. To ensure dividends are paid first**
 - D. To bet that a commodity's price will rise**

- 2. What concept is associated with the potential for risk and reward in trading strategies?**
 - A. Liquidity**
 - B. Drawdown**
 - C. Leverage**
 - D. Risk-return profile**

- 3. Which withdrawal plan involves a request for a fixed dollar amount regardless of the fund's performance?**
 - A. Withdrawal strategy**
 - B. Fixed dollar withdrawal plan**
 - C. Ratio Withdrawal Plan**
 - D. Minimum distribution plan**

- 4. What feature distinguishes Canada Savings Bonds from Canada Premium Bonds?**
 - A. Canada Savings Bonds have a fixed term only.**
 - B. Canada Savings Bonds can only be purchased through payroll savings.**
 - C. Canada Savings Bonds do not have a fixed coupon.**
 - D. Canada Savings Bonds can be redeemed at any time.**

- 5. In a defined contribution plan, how are the benefits at retirement determined?**
 - A. Based on a fixed dollar amount for each year of service**
 - B. By an employer's years of service**
 - C. By how contributions were invested**
 - D. Using a formula involving average earnings**

6. Which of the following statements is true about Canada Education Savings Grants?

- A. Participants are required to pay the grants back after a year.**
- B. Grants are available only to lower-income families.**
- C. They are contingent on the beneficiary attending a post-secondary institution.**
- D. They can be used for any educational purpose.**

7. Which of the following best describes an investment in mutual funds?

- A. Direct investment**
- B. Indirect investment**
- C. Government investment**
- D. Private equity investment**

8. Which concept best describes the benefit of maximizing returns while managing risk in a portfolio?

- A. Market timing**
- B. Efficient frontier**
- C. Asset allocation**
- D. Portfolio diversification**

9. What feature allows a corporation to redeem bonds at any time, often requiring a premium?

- A. Call feature**
- B. Redemption feature**
- C. Callable feature**
- D. Payoff feature**

10. What term describes a network of dealers who trade with each other, often referred to as OTC markets?

- A. Exchange Markets**
- B. Dealer Markets**
- C. Secondary Markets**
- D. Spot Markets**

Answers

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

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Explanations

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1. What is the primary goal when buying futures contracts?

- A. To keep prices steady
- B. To maximize liquidity
- C. To ensure dividends are paid first
- D. To bet that a commodity's price will rise**

The primary goal when buying futures contracts is to speculate on the price movements of a commodity or financial instrument. Investors purchase these contracts with the expectation that the price of the underlying asset will increase in the future. If the price does rise, the investor can then sell the contract at a profit. Futures contracts serve as a method for participants to hedge against potential price fluctuations, but when it comes to the objective of buying contracts, the focus is typically on the speculative aspect. This allows investors to leverage their positions and potentially achieve significant returns if their predictions about future price movements are accurate. In contrast, maintaining steady prices or maximizing liquidity are more related to market stability and efficiency, rather than the specific goal of individual investors entering the futures market. Ensuring dividends are paid first pertains more to equity investments and does not apply to the context of futures contracts, as these instruments do not offer dividends.

2. What concept is associated with the potential for risk and reward in trading strategies?

- A. Liquidity
- B. Drawdown
- C. Leverage
- D. Risk-return profile**

The concept that illustrates the potential for risk and reward in trading strategies is the risk-return profile. This term describes the relationship between the amount of risk taken on an investment and the potential return that can be expected. In investing, typically, higher returns are associated with taking on greater risks, while lower risks generally correlate with lower returns. Understanding the risk-return profile is crucial for investors as it enables them to assess how much risk they are willing to tolerate in pursuit of potential rewards. Different investments may offer different risk-return profiles, and knowing these profiles helps investors make informed decisions that align with their financial goals, investment horizon, and risk tolerance. Liquidity refers to how easily an asset can be converted into cash, which can impact the ability to realize gains but does not directly express the relationship between risk and reward. Drawdown refers to the reduction of one's capital after a series of losing trades but does not capture the broader spectrum of potential returns related to risk. Leverage involves using borrowed funds to increase investment potential, which can amplify both returns and risks, but does not capture the entire context of risk-reward dynamics in the same way that the risk-return profile does.

3. Which withdrawal plan involves a request for a fixed dollar amount regardless of the fund's performance?

- A. Withdrawal strategy**
- B. Fixed dollar withdrawal plan**
- C. Ratio Withdrawal Plan**
- D. Minimum distribution plan**

The fixed dollar withdrawal plan is a strategy where investors specify a predetermined dollar amount to be withdrawn from their investment funds at regular intervals, such as monthly or annually. This type of withdrawal plan is beneficial for individuals who desire a consistent cash flow, regardless of fluctuations in the market or the performance of the investments. By using this plan, investors can create reliable income streams to meet their financial needs, such as living expenses or other obligations. The approach does not take into account the performance of the underlying fund; instead, it focuses solely on the amount the investor wishes to receive. This might lead to different outcomes in the long run, such as depleting the investment more rapidly in a downturn, but for planning purposes, the predictability of fixed withdrawals can be appealing. In contrast, other withdrawal options typically hinge on performance metrics or ratios, making them variable and potentially less predictable. This is what distinguishes the fixed dollar withdrawal plan as a straightforward and predictable approach for those seeking to manage their funds with certainty.

4. What feature distinguishes Canada Savings Bonds from Canada Premium Bonds?

- A. Canada Savings Bonds have a fixed term only.**
- B. Canada Savings Bonds can only be purchased through payroll savings.**
- C. Canada Savings Bonds do not have a fixed coupon.**
- D. Canada Savings Bonds can be redeemed at any time.**

The distinguishing feature between Canada Savings Bonds (CSBs) and Canada Premium Bonds (CPBs) is that Canada Savings Bonds can be purchased through various channels, including payroll savings. This means that individuals can have funds automatically deducted from their paychecks to purchase these bonds, making it a convenient savings method. While the option mentioning that Canada Savings Bonds can be redeemed at any time is related to their flexibility, this feature does not set them apart from Canada Premium Bonds in this context, as both types of bonds have differing terms regarding redemption. The assertion that Canada Savings Bonds have a fixed term only is inaccurate, as CSBs can have varying terms, and they also typically have a fixed coupon, which is different from the characteristics of CPBs. Therefore, the unique purchasing method available for CSBs serves as the key differentiator between them and Canada Premium Bonds.

5. In a defined contribution plan, how are the benefits at retirement determined?

- A. Based on a fixed dollar amount for each year of service**
- B. By an employer's years of service**
- C. By how contributions were invested**
- D. Using a formula involving average earnings**

In a defined contribution plan, the benefits at retirement are determined by how contributions were invested. This means that the amount the employee receives upon retirement is directly tied to the total contributions made into the account throughout their working years and the investment performance of those contributions.

Contributions to the account typically come from both the employee and the employer. These contributions are invested in various asset classes, and the growth or decline in value of these investments directly affects the eventual retirement benefits. Unlike defined benefit plans that guarantee a specified payout at retirement based on a formula, defined contribution plans do not promise a predetermined benefit, making investment choices and their performance critical to determining the final value of the retirement account. The other options do not apply to defined contribution plans. They generally describe characteristics of defined benefit plans. For instance, benefits calculated as a fixed dollar amount for each year of service or using a formula involving average earnings are specific to defined benefit plans, where the employer assumes the investment risk and guarantees a particular payout. Similarly, benefits based solely on the employer's years of service do not reflect the nature of defined contribution plans, where the emphasis is on individual account performance rather than tenure.

6. Which of the following statements is true about Canada Education Savings Grants?

- A. Participants are required to pay the grants back after a year.**
- B. Grants are available only to lower-income families.**
- C. They are contingent on the beneficiary attending a post-secondary institution.**
- D. They can be used for any educational purpose.**

The statement regarding Canada Education Savings Grants being contingent on the beneficiary attending a post-secondary institution is accurate. This means that the grants are designed to encourage saving for a child's future education, providing additional funds that are accessible when the child enrolls in a recognized post-secondary program. The purpose of the grants is to support educational aspirations, aligning with the intention that they will facilitate access to higher education opportunities. The other options do not reflect the structure or intent of the grants. For instance, while the grants assist families in building savings for education, there is no requirement for participants to repay the grants after a year, which is incorrectly stated in the first option. The grants are also not exclusively available to lower-income families; they are accessible to a wider demographic, thus ruling out the second option. Lastly, the grants are intended specifically for post-secondary education expenses and are not applicable for unrelated educational purposes, negating the fourth option.

7. Which of the following best describes an investment in mutual funds?

- A. Direct investment**
- B. Indirect investment**
- C. Government investment**
- D. Private equity investment**

An investment in mutual funds is best described as an indirect investment. When investors buy shares or units in a mutual fund, they are not directly purchasing the underlying securities (such as stocks or bonds) that the fund holds. Instead, they are pooling their money with other investors to create a larger fund, which is then managed by a professional portfolio manager. This manager makes decisions about the buying and selling of the underlying securities on behalf of all the investors in the fund. By choosing indirect investment, investors benefit from professional management, diversification, and the ability to invest in a broad range of securities that they might not be able to access independently. This structure provides a convenient way for individuals to gain exposure to a variety of asset classes without having to manage the investments themselves.

8. Which concept best describes the benefit of maximizing returns while managing risk in a portfolio?

- A. Market timing**
- B. Efficient frontier**
- C. Asset allocation**
- D. Portfolio diversification**

The efficient frontier is a key concept in modern portfolio theory that illustrates the optimal relationship between risk and return. It represents a curve on a risk-return graph, where each point on the curve reflects the best possible expected return for a given level of risk. By operating on the efficient frontier, investors can maximize their investment returns while keeping risk at a manageable level. This concept is foundational for portfolio management as it encourages a structured approach to constructing a diversified portfolio that aligns with an investor's risk tolerance. It helps in identifying the ideal mix of different asset classes to achieve the highest possible return for each level of risk, supporting the goal of enhancing overall performance while controlling exposure to risk. In contrast, options that focus on specific tactics, such as market timing, primarily engage in predicting market movements and may not consistently address the balance of risk and return. Asset allocation refers to the distribution of different asset categories, which is part of what leads to an efficient frontier but does not directly define it. Portfolio diversification, while essential in reducing risk, does not encapsulate the concept of optimizing returns alongside risk in the same way as the efficient frontier does.

9. What feature allows a corporation to redeem bonds at any time, often requiring a premium?

- A. Call feature**
- B. Redemption feature**
- C. Callable feature**
- D. Payoff feature**

The call feature allows a corporation to redeem bonds before their maturity date, essentially giving it the flexibility to refinance debt if interest rates decline or if conditions change favorably. When a bond is called, the issuer typically pays a premium over the face value of the bond to compensate the bondholders for the early redemption. This feature is significant because it provides the issuer with the ability to manage its debt more effectively in response to market conditions. For investors, while the call feature introduces some risk (as the bond may be redeemed before maturity when interest rates drop), it is important for issuers seeking to optimize their financing strategies. The terms "redemption feature," "callable feature," and "payoff feature" may seem similar but are not as precise as "call feature" in describing the specific ability to redeem bonds at the issuer's discretion with potential premiums involved. The term "callable feature" is somewhat synonymous with the call feature but is less commonly used as a defined term in bonds compared to the straightforward term "call feature." Other terms do not capture the nuances of the issuer's option to call the bonds effectively.

10. What term describes a network of dealers who trade with each other, often referred to as OTC markets?

- A. Exchange Markets**
- B. Dealer Markets**
- C. Secondary Markets**
- D. Spot Markets**

The term that describes a network of dealers who trade with each other in an over-the-counter (OTC) setting is indeed dealer markets. Dealer markets operate without a centralized exchange, allowing dealers to buy and sell securities directly among themselves. This system facilitates trading in a variety of financial instruments, including stocks and bonds, without the need for a physical trading floor. Within dealer markets, dealers act as intermediaries, holding an inventory of securities and providing liquidity to the market. This dynamic is essential for certain types of securities that may not have enough volume to be listed on formal exchanges. In contrast to exchange markets, which are centralized and involve transparent bidding, dealer markets rely on the network of participants to quote prices and execute trades, often resulting in higher privacy and less regulatory oversight. Understanding dealer markets is crucial in recognizing how certain financial instruments are bought and sold outside of regular stock exchanges, highlighting the diverse landscapes of trading environments in the financial industry.

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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