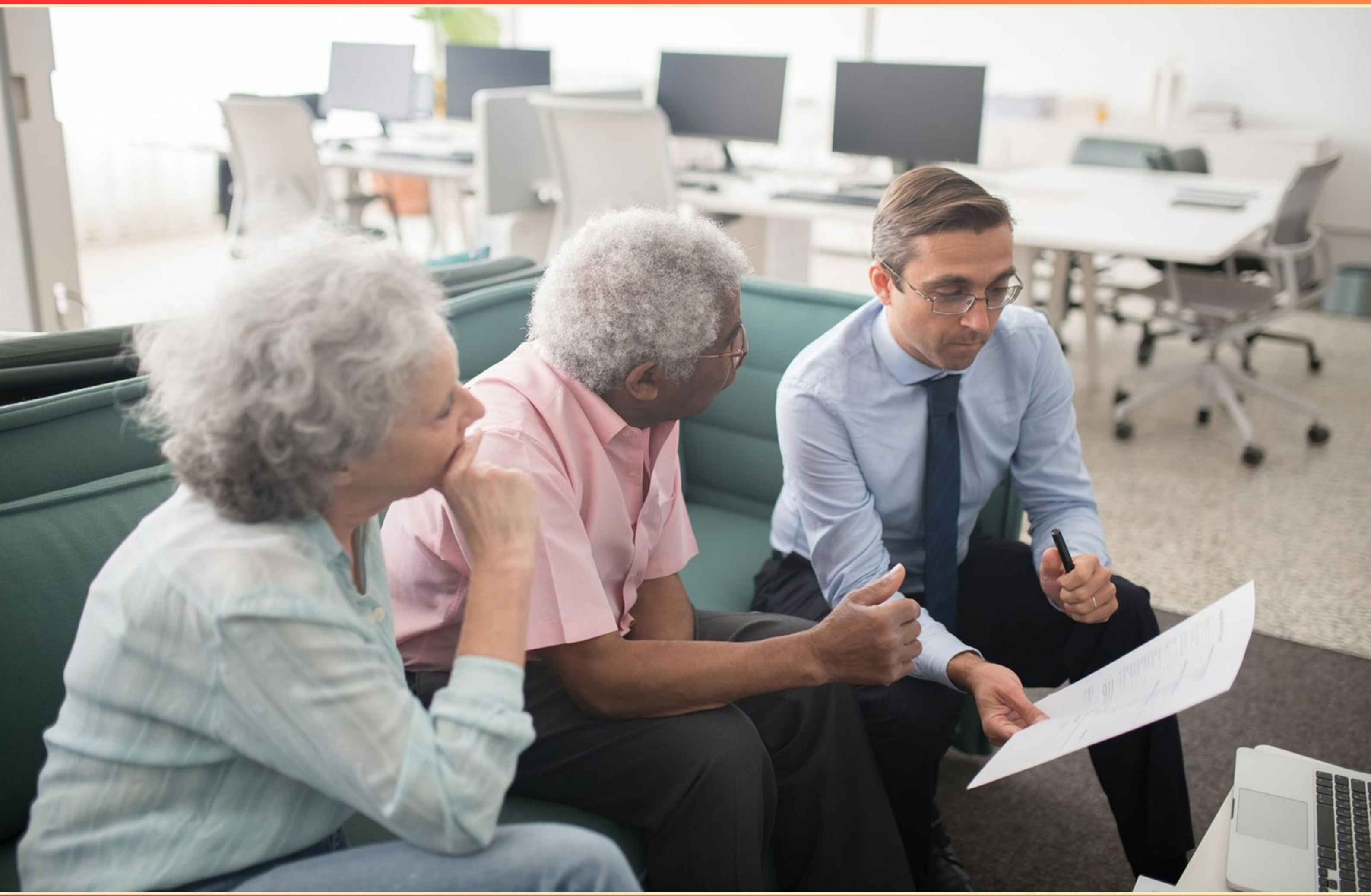
QUALIFIED FINANCIAL ADVISER (QFA) INVESTMENTS EXAM 1 PRACTICE TEST (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED 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. 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

1. **Define 'suitability' in financial advice.**

   A. Suitability means investments are chosen solely based on lowest fees.

   B. Suitability means investments must always be high risk for growth.

   C. Suitability means investments match the client's financial situation, goals, time horizon, and risk tolerance, with consideration of tax and liquidity needs.

   D. Suitability means the adviser can ignore liquidity needs.

2. **If a fund aims to outperform a stock market index, which investment management style is it adopting?**

   A. Open-ended.

   B. Passive.

   C. Active.

   D. Closed.

3. **Unit prices of a UCITS fund must be valued on which basis?**

   A. Smoothed average asset value.

   B. Gross asset value.

   C. Net asset value.

   D. Cost plus mark up.

4. **What is time value in options pricing?**

   A. The intrinsic value of the option.

   B. The premium beyond intrinsic value that reflects the probability of further favorable price movement before expiration.

   C. The option's delta.

   D. The volatility of the underlying asset.

5. **Which investment restrictions apply to an Irish REIT?**

   A. (ii) and iii) only.

   B. (i) and (ii) only.

   C. (i) and iii) only.

   D. (i), (ii) and iii.

6. Which one of the following risks is Jackie, who saves monthly in a unit-linked savings plan, less exposed to than Mark, who is going to invest a lump sum in the same unit fund?

A. Inflation

B. Timing

C. Counterparty

D. Interest rate

7. Patricia has invested in a bond issued by a company that is not listed on a stock exchange. Which of the following risks apply?

A. (i) Liquidity only.

B. (i) and (iii) only.

C. (ii) and (iii) only.

D. (i), (ii) and (iii).

8. DIRT is charged at source on deposit interest.

A. It is charged at source from the interest.

B. It is withheld at source from the interest.

C. It is a tax on capital gains.

D. It applies only to corporate bonds.

9. Under the Consumer Protection Code, the advertisements can show simulated performance that is relevant to the performance of the bond. Which of the following is true?

A. Show simulated performance that is relevant to the performance of the bond.

B. Show simulated performance only on a past period not exceeding three years.

C. Only refer to simulated performance in a footnote of smaller size than the rest of the advertisement.

D. Not refer to simulated performance in any way.

10. A life company tracker bond where the life company itself is providing the guarantee: which statement is correct?

A. Can describe or advertise the product as 'guaranteed'.

B. Can apply only if the bond has a maximum term of 2 years.

C. Cannot describe or advertise the product as 'guaranteed'.

D. Can apply only if the bond has a maximum term of 4 years.

Answers

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

Explanations

1. Define 'suitability' in financial advice.

A. Suitability means investments are chosen solely based on lowest fees.

B. Suitability means investments must always be high risk for growth.

C. Suitability means investments match the client's financial situation, goals, time horizon, and risk tolerance, with consideration of tax and liquidity needs.

D. Suitability means the adviser can ignore liquidity needs.

Suitability in financial advice means tailoring recommendations to fit the client's overall situation: their financial position, goals, time horizon, and risk tolerance, while also taking into account tax considerations and liquidity needs. This ensures the chosen investments are appropriate for achieving the desired outcomes within the client's constraints, not just driven by other factors like fees or an assumption about risk level. For example, someone with a short time horizon and low risk tolerance shouldn't be steered into aggressive investments, even if they carry low fees, because they won't meet the client's liquidity and risk comfort. Likewise, ignoring liquidity needs or tax consequences can make a recommended product unsuitable, even if it's popular or low-cost.

2. If a fund aims to outperform a stock market index, which investment management style is it adopting?

A. Open-ended.

B. Passive.

C. Active.

D. Closed.

A fund that aims to outperform a stock market index is using active management. In active management, the manager makes intentional security selections and sometimes timing decisions with the goal of delivering returns above the chosen benchmark. Passive management, by contrast, seeks to mirror the index's returns rather than beat them. Open-ended and closed-end describe fund structures (how investors buy/sell and how shares are issued or traded) and can house either active or passive strategies, so they don't define the management style.

3. Unit prices of a UCITS fund must be valued on which basis?

A. Smoothed average asset value.

B. Gross asset value.

C. Net asset value.

D. Cost plus mark up.

Unit prices are determined from the net asset value per unit. The fund values all assets at fair value, subtracts liabilities to arrive at total net assets, and then divides that amount by the number of units outstanding to get the price at which investors subscribe or redeem. This ensures each unit represents a proportional claim on the fund's net assets. Using a smoothed average would mask real-time value, and gross asset value would ignore liabilities, overstating the price. Cost plus mark up doesn't reflect the fund's actual value per unit.

4. What is time value in options pricing?

A. The intrinsic value of the option.

B. The premium beyond intrinsic value that reflects the probability of further favorable price movement before expiration.

C. The option's delta.

D. The volatility of the underlying asset.

Time value is the premium portion of an option's price that sits above its immediate exercise value, reflecting the chance that the option could become more valuable before it expires. This extra value comes from the possibility of favorable price movements in the underlying asset before expiration. The more time there is until expiration and the higher the volatility, the greater this potential for further moves, so time value is larger. As expiration gets nearer, time value decays away (time decay). This is distinct from intrinsic value, which is the amount by which the option is already in the money if exercised now. Delta measures how much the option's price changes with moves in the underlying, but it is not the time value itself; volatility influences time value, but the time value is the premium portion attributable to future movement.

5. Which investment restrictions apply to an Irish REIT?

A. (ii) and iii) only.

B. (i) and (ii) only.

C. (i) and iii) only.

D. (i), (ii) and iii.

Irish REITs are governed by rules that keep the portfolio centered on real estate. The asset side requires that a large portion of the total assets be invested in real estate assets (and cash) so the trust remains property-focused. Specifically, at least 75% of total assets must be in real estate assets or cash, allowing only a limited amount to be in other kinds of investments. On the income side, at least 75% of gross income needs to come from rents and other property-related income (such as mortgage interest on property or gains from the disposal of qualifying assets). These two requirements are the investment restrictions that shape what a REIT can hold and earn. There is also a distribution requirement, where a substantial portion of profits must be paid out to shareholders as property income distributions. However, this is a tax/compliance matter, not an investment restriction on how the assets are invested. So the statements that describe asset composition and income sources apply as investment restrictions, while the distribution rule does not.

6. Which one of the following risks is Jackie, who saves monthly in a unit-linked savings plan, less exposed to than Mark, who is going to invest a lump sum in the same unit fund?

A. Inflation

B. Timing

C. Counterparty

D. Interest rate

The main idea here is market timing risk. By saving monthly into a unit-linked plan, Jackie uses a form of dollar-cost averaging, buying units at different prices over time. This smooths out the impact of any single, potentially unlucky entry point and reduces the possibility that a big portion of money is invested right before a market drop. Mark, by investing a lump sum, faces the risk that he puts all his money in just before the market falls, so his initial investment could drop in value more than Jackie's would. Inflation risk, counterparty risk, and interest rate risk remain present for both investors and aren't reduced merely by spreading out contributions, especially since they're in the same unit fund.

7. Patricia has invested in a bond issued by a company that is not listed on a stock exchange. Which of the following risks apply?

A. (i) Liquidity only.

B. (i) and (iii) only.

C. (ii) and (iii) only.

D. (i), (ii) and (iii).

When a bond isn't listed on a stock exchange, you face multiple built-in risks. First, liquidity risk is higher because there's no active market with a centralized venue. It can be harder to sell quickly, and you may have to accept a lower price to find a buyer. Second, valuation or marketability risk arises because there's no transparent, easily observable market price. You rely on limited quotes or the issuer's information, which can lead to uncertain or wide bid-ask spreads. Third, credit risk remains, since the issuer could still default or miss payments regardless of whether the bond is listed. So all three risks—liquidity, valuation/marketability, and credit risk—apply.

8. DIRT is charged at source on deposit interest.

A. It is charged at source from the interest.

B. It is withheld at source from the interest.

C. It is a tax on capital gains.

D. It applies only to corporate bonds.

DIRT is a withholding tax on the interest earned from deposits. The bank deducts the tax from the interest payment and passes the net amount to you while sending the tax to Revenue. That makes the description that it is withheld at source from the interest the best fit. It isn't a tax on capital gains, and it applies to deposit interest in general, not only to corporate bonds.

9. Under the Consumer Protection Code, the advertisements can show simulated performance that is relevant to the performance of the bond. Which of the following is true?

A. Show simulated performance that is relevant to the performance of the bond.

B. Show simulated performance only on a past period not exceeding three years.

C. Only refer to simulated performance in a footnote of smaller size than the rest of the advertisement.

D. Not refer to simulated performance in any way.

Simulated performance may be shown in bond advertisements as long as it is relevant to how the bond could perform and is clearly labeled as simulated. This helps investors understand potential outcomes without promising actual results. The key point is relevance to the bond's features and transparency that the data are illustrative, not guaranteed. The other options introduce requirements that aren't the main rule here: there isn't a blanket three-year limit for simulated periods, nor is it restricted to footnotes alone, and it isn't forbidden to reference simulated performance at all.

10. A life company tracker bond where the life company itself is providing the guarantee: which statement is correct?

A. Can describe or advertise the product as 'guaranteed'.

B. Can apply only if the bond has a maximum term of 2 years.

C. Cannot describe or advertise the product as 'guaranteed'.

D. Can apply only if the bond has a maximum term of 4 years.

When a tracker bond's protection comes from the issuer (the life company) itself, there is credit risk involved—the guarantee depends on the life company remaining solvent. Marketing rules commonly require the term "guaranteed" to be reserved for protections that are unconditional and backed by a stronger or independent guarantee (for example, a government guarantee or a separate, independent guarantor). If the guarantee is provided by the life company, it isn't risk-free and can be affected by the company's financial health. To avoid implying there is no risk at all, the product should not be described or advertised as "guaranteed," even though the issuer is promising some protection. That's why the correct approach is not to label it as guaranteed. The other statements aren't the basis for the correct labeling—the issue isn't about a maximum term like two or four years, but about the nature of the guarantee and the credit risk attached to it.

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://qfainvestments1.examzify.com

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