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CFA Level II Chartered Financial Analyst

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DEMO VERSION (LIMITED CONTENT)

Questions & Answers

Section 1: Sec One (1 to 6)
Details:
relate to Glenda Garvey. Glenda Garvey is interning at Samson Securities in the summer to earn money for her last semester of studies for her MBA. She took the Level 3 CFA® exam in June but has not yet received her score. Garvey's work involves preparing research reports on small companies. Garvey is at lunch with a group of co-workers. She listens to their conversation about various stocks and takes note of a comment from Tony Topel, a veteran analyst. Topel is talking about Vallo Engineering, a small stock he has tried repeatedly to convince the investment director to add to the monitored list. While the investment director does not like Vallo, Topel has faith in the company and has gradually accumulated 5,000 shares for his own account. Another analyst, Mary Kennedy, tells the group about Koral Koatings, a paint and sealant manufacturer. Kennedy has spent most of the last week at the office doing research on Koral. She has concluded that the stock is undervalued and consensus earnings estimates are conservative. However, she has not filed a report for Samson, nor does she intend to. She said she has purchased the stock for herself and advises her colleagues to do the same. After she gets back to the office, Garvey purchases 25 shares of Vallo and 50 shares of Koral for herself. Samson pays its interns very little, and Garvey works as a waitress at a diner in the financial district to supplement her income. The dinner crowd includes many analysts and brokers who work at nearby businesses. While waiting tables that night, Garvey hears two employees of a major brokerage house discussing Metrona, a nanotechnology company. The restaurant patrons say that the broker's star analyst has issued a report with a buy rating on Metrona that morning. The diners plans to buy the stock the next morning. After Garvey finishes her shift, restaurant manager Mandy Jones, a longtime Samson client, asks to speak with her. Jones commends Garvey for her hard work at the restaurant, praising her punctuality and positive attitude, and offers her two tickets to a Yankees game as a bonus. The next morning, Garvey buys 40 shares of Metrona for her own account at the market open. Soon afterward, she receives a call from Harold Koons, one of Samson's largest money-management clients. Koons says he got Garvey's name from Bertha Witt, who manages the Koons' account. Koons wanted to reward the analyst who discovered Anvil Hammers, a machine-tool company whose stock soared soon after it was added to his portfolio. Garvey prepared the original report on Anvil Hammers. Koons offers Garvey two free round- trip tickets to the city of her choice. Garvey thanks Koons, then asks her immediate supervisor, Karl May, about the gift from Koons but does not mention the gift from Jones. May approves the Koons' gift. After talking with May, Garvey starts a research project on Zenith Enterprises, a frozen-juice maker. Garvey's gathers quarterly data on the company's sales and profits over the past two years. Garvey uses a simple linear regression to estimate the relationship between GDP growth and Zenith's sales growth. Next she uses a consensus GDP estimate from a well-known economic data reporting service and her regression model to extrapolate growth rates for the next three years. Later that afternoon, Garvey attends a company meeting on the ethics of money management. She listens to a lecture in which John Bloomquist, a veteran portfolio manager, talks about his job responsibilities. Garvey takes notes that include the following three statements made by Bloomquist: Statement 1: I'm not a bond expert, and I've turned to a colleague for advice on how to manage the fixed-income portion of client portfolios. Statement 2: I strive not to favor either the remaindermen or the current-income beneficiaries, instead I work to serve both of their interests. Statement 3: All of my portfolios have target growth rates sufficient to keep ahead of inflation. Garvey is not working at the diner that night, so she goes home to work on her biography for an online placement service. In it she makes the following two statements: Statement 1: I'm a CFA Level 3 candidate, and I expect to receive my charter this fall. The CFA program is a grueling, 3-part, graduate-level course, and passage requires an expertise in a variety of

financial instruments as well as knowledge of the forces that drive our economy and financial markets. Statement 2: I expect to graduate with my MBA from Braxton College at the end of the fall semester. As both an MBA and a CFA, I'll be in high demand. Hire me now while you still have the chance.

Question: 1

During the lunch conversation, which CFA Institute Standard of Professional Conduct was most likely violated?

A. 111(B) Fair Dealing.
B. IV(A) Loyalty.
C. V(A) Reasonable Basis.

Answer: B

Question: 2

Does Garvey's acceptance of the gifts from Koons and Jones violate Standard 1(B) Independence and Objectivity?

A. Accepting Koons' gift was a violation.
B. Accepting Jones' gift was a violation.
C. Neither gift would result in a violation.

Answer: C

Question: 3

Did Garvey violate Standard 11(A) Material Nonpublic Infonnation when she purchased Vallo and Metrona?

A. Buying Vallo was a violation.
B. Buying Metrona was a violation.
C. Neither purchase was a violation.

Answer: C

Question: 4

In her estimation of Zenith's future growth rate, what standard did Garvey violate?

A. Standard 1(C) Misrepresentation regarding plagiarism.
B. Standard V(A) Diligence and Reasonable Basis.
C. Both 1(C) and V(A).

Answer: B

Question: 5

Which of Bloomquist's statements most likely applies to both the Prudent Man Rule and the Prudent Investor Rule?

A. Statement 1.
B. Statement 2.
C. Statement 3.

Answer: B

Question: 6

Did the two statements in Garvey's biography violate Standard VII(B) Reference to CFA Institute, the CFA designation, and the CFA program?

A. Statement 1 is a violation.
B. Statement 2 is a violation.
C. Both statements are violations.

Answer: C

Section 2: Sec Two (7 to 12)
Details:
relate to Maria Harris. Maria Harris is a CFA® Level 3 candidate and portfolio manager for Islandwide Hedge Fund. Harris is commonly involved in complex trading strategies on behalf oflslandwide and maintains a significant relationship with Quadrangle Brokers, which provides portfolio analysis tools to Harris. Recent market volatility has led Islandwide to incur record-high trading volume and commissions with Quadrangle for the quarter. In appreciation of Islandwide's business, Quadrangle offers Harris an all-expenses-paid week of golf at Pebble Beach for her and her husband. Harris discloses the offer to her supervisor and compliance officer and, based on their approval, accepts the trip. Harris has lunch that day with C. K. Swarny, CFA, her old college roommate and future sister-in-law. While Harris is sitting in the restaurant waiting for Swamy to arrive, Harris overhears a conversation between the president and chief financial officer (CFO) of Progressive Industries. The president informs the CFO that Progressive's board of directors has just approved dropping the company's cash dividend, despite its record of paying dividends for the past 46 quarters. The company plans to announce this information in about a week. Harris owns Progressive's common stock and immediately calls her broker to sell her shares in anticipation of a price decline. Swamy recently joined Dillon Associates, an investment advisory firm. Swamy plans to continue serving on the board of directors of Landmark Enterprises, a private company owned by her brother-in-law, for which she receives $2,000 annually. Swamy also serves as an unpaid advisor to the local symphony on investing their large endowment and receives four season tickets to the symphony performances. After lunch, Alice Adams, a client, offers Harris a 1- week cruise as a reward for the great performance of her account over the previous quarter. Bert Baker, also a client, has offered Harris two airplane tickets to Hawaii if his account beats its benchmark by more than 2% over the following

year. Juliann Clark, a CFA candidate, is an analyst at Dillon Associates and a colleague of Swamy's. Clark participates in a conference call for several analysts in which the chief executive officer at Dcx says his company's board of directors has just accepted a tender offer from Monolith Chemicals to buy Dex at a 40% premium over the market price. Clark contacts a friend and relates the information about Dcx and Monolith. The friend promptly contacts her broker and buys 2,000 shares of Dex's stock. Ed Miehaels, CFA, is director of trading at Quadrangle Brokers. Michaels has recently implemented a buy program for a client. This buy program has driven up the price of a small-cap stock, in which Islandwide owns shares, by approximately 5% because the orders were large in relation to the average daily trading volume of the stock. Michaels' firm is about to bring shares of an OTC firm to market in an IPO. Michaels has publicly announced that, as a market maker in the shares, his trading desk will create additional liquidity in the stock over its first 90 days of trading by committing to minimum bids and offers of 5,000 shares and to a maximum spread of one-eighth. Carl Park, CFA, is a retail broker with Quadrangle and has been allocated 5,000 shares of an oversubscribed IPO. One of his clients has been complaining about the execution price of a trade Park made for her last month, but Park knows from researching it that the trade received the best possible execution. In order to calm the client down, Park increases her allocation of shares in the TPO above what it would be if he allocated them to all suitable client accounts based on account size. He allocates a pro rata portion of the remaining shares to a trust account held at his firm for which his brother-in-law is the primary beneficiary.

Question: 7

By accepting the trip from Quadrangle, has Harris complied with the CFA Institute Code and Standards?

A. Harris may accept the trip since she maintains a significant relationship with Quadrangle that contributes to the performance of client accounts.
B. Harris may accept the trip since she disclosed the trip to her supervisor and compliance officer and accepted based on their approval.
C. Harris may not accept the trip since the offer from Quadrangle could impede her ability to make objective investment decisions on behalf of the client.

Answer: C

Question: 8

Has either Harris or Clark violated Standard 11(A) Integrity of Capital Markets: Material Nonpublic Information?

A. Harris is in violation.
B. Clark is in violation.
C. Both are in violation.

Answer: C

Question: 9

According to the Standards of Practice, with respect to the two offers from Adams and Baker, Harris:

A. may accept both offers if she discloses them to her employer.
B. may accept both gifts only if she discloses them to her employer and receives permission.
C. must disclose the offer from Adams to her employer if she accepts it but must receive her employer's permission to accept the offer from Baker.

Answer: C

Question: 10

Has Michaels violated Standard 11(B) Integrity of Capital Markets: Market Manipulation with respect to any of the following?

A. The buy program is a violation.
B. The liquidity activity is a violation.
C. There is no violation.

Answer: C

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