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### NEW QUESTION: 1

How does asset-backed commercial paper (ABCP) differ from mortgage-backed securities?

- A. ABCP minimizes roll-over risk.
- B. ABCP provides high liquidity.
- C. ABCP offers maturity dates of at least three years.
- D. ABCP guarantees principle repayment if held to maturity

**Answer: B (LEAVE A REPLY)**

Asset-Backed Commercial Paper (ABCP) and Mortgage-Backed Securities (MBS) are both forms of securitized assets, but they differ in structure and purpose:

\* ABCP Features: ABCP is a short-term investment backed by a pool of assets such as receivables, loans, or leases. It is designed to provide high liquidity with shorter maturities, often less than a year.

This contrasts with MBS, which typically has longer maturities tied to underlying mortgages.

\* Key Differences:

\* Liquidity: ABCP is highly liquid and used for short-term financing needs.

\* Maturity: ABCP generally has maturities of less than a year, while MBS has longer terms.

\* Risk: MBS carries additional interest rate and prepayment risks due to its mortgage backing.

\* Why Other Options Are Incorrect:

\* A. ABCP minimizes roll-over risk: Roll-over risk exists with ABCP, as investors may need to reinvest upon maturity.

\* C. ABCP offers maturity dates of at least three years: ABCP typically has much shorter maturities.

\* D. ABCP guarantees principal repayment if held to maturity: This guarantee depends on the underlying assets and is not inherent in all ABCP.

References:

\* CSC Volume 2, Chapter 23: Securitized products including ABCP and MBS.

### NEW QUESTION: 2

Who generally executes portfolio strategy within a buy-side firm?

- A. Portfolio manager.

- B. Head of fixed income
- C. Investment advisor.
- D. Trader

**Answer: A (LEAVE A REPLY)**

Within a buy-side firm, the portfolio manager is responsible for executing the portfolio strategy. They oversee investment decisions, asset allocation, and security selection based on the investment mandate and client objectives. Other roles:

- \* Head of fixed income(B) specializes in fixed-income securities rather than overall strategy.
- \* Investment advisor(C) interacts with clients, focusing on advice rather than execution.
- \* Trader(D) carries out transactions but does not set the portfolio strategy.

References

- \* CSC Volume 2, Chapter 27: Working with the Institutional Client - The Buy-Side Portfolio Manager, p. 27-8.

### **NEW QUESTION: 3**

What market condition is typically evident during the late contraction to end of contraction phases?

- A. Stock prices fall.
- B. Inverted yield curve.
- C. Tight monetary policy
- D. Interest rates fall

**Answer: D (LEAVE A REPLY)**

During the late contraction to the end of contraction phase in the business cycle, the economy typically begins to show early signs of recovery, leading to shifts in monetary policy and interest rate trends. This period is marked by declining interest rates. Here's a breakdown of the conditions evident in this phase:

\* Economic Context:

- \* As the economy contracts, unemployment may still be relatively high, consumer and business confidence is weak, and production is below potential output. These conditions prompt monetary authorities to adopt accommodative policies.
- \* The central bank, such as the Bank of Canada, reduces interest rates to stimulate borrowing, investment, and spending, aiding in economic recovery.

\* Interest Rate Dynamics:

- \* Falling interest rates are a hallmark of the late contraction phase. These declines occur as central banks aim to provide economic support and lower the cost of capital.
- \* Lower interest rates tend to support a recovery in equity markets and encourage investment activity, setting the stage for the next phase of growth.

\* Yield Curve Observation:

- \* During this phase, the yield curve, which may have inverted during earlier contraction stages, starts to steepen. This steepening is indicative of improving economic expectations.

\* Elimination of Tight Monetary Policies:

- \* Tight monetary policies, which involve high interest rates to curb inflation, are generally not present in this phase. Instead, monetary easing is observed.

References to Study Documents:

\* Canadian Securities Course Volume 2, Chapter 13, "Fundamental and Technical Analysis," discusses the business cycle and its implications on market conditions.

\* Volume 1, Chapter 4, "Overview of Economics," explains how interest rates influence the economy and describes their behavior during different phases of the business cycle.

#### **NEW QUESTION: 4**

The principle of retraction in retractable preferred shares is identical to what other security?

- A. Callable preferred shares.
- B. Retractable common shares
- C. Redeemable preferred shares.
- D. Retractable bonds and debentures

**Answer: (SHOW ANSWER)**

The principle of retraction in retractable preferred shares allows the shareholder to force the issuing company to redeem the shares for cash at a predetermined price on or after a specified date. This feature is identical to retractable bonds and debentures, which give the bondholder the option to require the issuer to repay the principal before maturity.

\* A. Callable preferred shares: Callability benefits the issuer, not the holder, and is not similar to retraction.

\* B. Retractable common shares: Such securities are not common in the market and are not comparable to retractable preferred shares.

\* C. Redeemable preferred shares: Redemption is at the issuer's discretion, unlike retraction, which is at the holder's discretion.

#### **NEW QUESTION: 5**

An investor has earned additional income and is looking to invest in a security that guarantees returns over

the next seven years. What is the best option for purchase?

- A. Proffered shares
- B. Provincial saving bond
- C. Common shares
- D. Exchange-traded fund.

**Answer: (SHOW ANSWER)**

Provincial savings bonds are a suitable option for an investor seeking a guaranteed return over a fixed period, such as seven years. These bonds are backed by the credit of the issuing provincial government and provide a stable and secure investment, ensuring predictable returns.

They are often issued during specific sales campaigns and offer safety comparable to federal bonds but tailored to provincial residents.

Other options:

\* Preferred shares: Provide fixed dividends but do not guarantee returns.

\* Common shares: Subject to market risk and do not offer guaranteed returns.

\* Exchange-traded funds (ETFs): Can track bonds or equities but are subject to market fluctuations and do not guarantee returns.

References:

\* Volume 1, Chapter 6: Fixed-Income Securities, section on "Provincial and Municipal Bonds" explains the features and security of provincial savings bonds.

#### **NEW QUESTION: 6**

An advisor to explain the benefits of labour sponsored funds (LSVCC) to some of his clients.

With which client should the advisor have this discussion?

Client 1	The client is in their prime earning years. They are looking to add risk in their portfolio and is comfortable with investments with prolonged lockup periods. Tax benefits in the form of federal tax credits would certainly be a plus.
Client 2	The client is in their early earning years. While there's an appetite for more risk, the client cares a great deal about liquidity.
Client 3	The client is seeking investments that can provide offsetting tax credits for their income. The client is generally willing to take on risk and is willing to tolerate lower liquidity. The client is insistent that the tax credits can be carried forward.
Client 4	The client has a fairly stable income, but has indicated a willingness to add risk to their portfolio. With a tolerance of lower liquidity, the client is particularly sensitive to high fees.

- A. Client 2
- B. Client 4
- C. Client 1
- D. Client 3

**Answer: C (LEAVE A REPLY)**

Labour Sponsored Venture Capital Corporations (LSVCCs), or labour-sponsored funds, are high-risk investments designed to stimulate job creation and economic growth. They provide tax benefits in the form of federal and, in some cases, provincial tax credits, making them attractive to investors in higher income brackets who are comfortable with the following:

- \* Increased portfolio risk
- \* Reduced liquidity due to long lockup periods
- \* High potential tax incentives

Analysis of Clients:

- \* Client 1:
  - \* In their prime earning years and comfortable with higher risk and long lockup periods.
  - \* Interested in tax benefits in the form of federal tax credits.
  - \* Matches the profile of an ideal candidate for LSVCCs.
- \* Correct answer: C
- \* Client 2:
  - \* In early earning years and prioritizes liquidity over other factors.
  - \* LSVCCs are unsuitable due to their lack of liquidity (e.g., lockup periods).
- \* Incorrect
- \* Client 3:
  - \* Focused on investments with offsetting tax credits but insists on tax credits being carried forward.
  - \* LSVCC tax credits cannot typically be carried forward, making them unsuitable.
- \* Incorrect
- \* Client 4:
  - \* Stable income but sensitive to high fees.
  - \* LSVCCs generally have high management fees, making them unsuitable.
- \* Incorrect

References to Canadian Securities Course Exam 2 Study Materials:

- \* Volume 2, Chapter 22 - Labour Sponsored Venture Capital Corporations
- \* Discusses LSVCCs, their tax advantages, high-risk nature, and reduced liquidity.
- \* Volume 2, Chapter 24 - Canadian Taxation
- \* Explains federal and provincial tax credits applicable to LSVCCs and their suitability for higher- income clients.

### **NEW QUESTION: 7**

What bond should an advisor recommend to someone who wants to hold bonds and maximize potential capital gains when interest rates are expected to fall?

- A.** A short-term bond with a low coupon.
- B.** A long-term bond with a high coupon.
- C.** A short-term bond with a high coupon.
- D.** A long-term bond with a low coupon.

**Answer: D (LEAVE A REPLY)**

Long-term bond with a low coupon will maximize capital gains when interest rates fall. Here's why:

- \* Long-term bonds are more sensitive to interest rate changes due to their longer duration, which amplifies the price movement.
- \* Low coupon bonds are more affected by changes in interest rates compared to high coupon bonds because more of their value comes from the principal repayment rather than periodic interest payments.

Other options:

- \* Short-term bonds: Have lower duration and less sensitivity to interest rate changes, so they do not maximize capital gains.
- \* High coupon bonds: Are less sensitive to interest rate changes because of their higher periodic cash flows.

References:

- \* Volume 1, Chapter 7: Fixed-Income Securities: Pricing and Trading, section on "Impact of Maturity and Coupon on Bond Prices" explains the relationship between interest rate changes, bond duration, and price sensitivity.

### **NEW QUESTION: 8**

What is a characteristic of the FTSE Canada Universe Bond Index?

- A.** It measures the total price return on bonds including realized and unrealized gains
- B.** It represents a full cross-section of government and corporate bonds.
- C.** It includes Canadian investment-grade bonds with a term to maturity of one year or less.
- D.** It is an equal-weighted bond index with each bond representing the same weight within the index.

**Answer: B (LEAVE A REPLY)**

The FTSE Canada Universe Bond Index represents a comprehensive cross-section of investment-grade government and corporate bonds denominated in Canadian dollars. It includes bonds with a term to maturity of one year or more and excludes high-yield (non-investment-grade) bonds.

- \* A. It measures the total price return on bonds including realized and unrealized gains: The index does not account for realized gains; it tracks price movements and interest income.
- \* C. It includes Canadian investment-grade bonds with a term to maturity of one year or less: Bonds in this index must have a term to maturity of at least one year, not less.
- \* D. It is an equal-weighted bond index with each bond representing the same weight within the index:

The FTSE Canada Universe Bond Index is capitalization-weighted, not equal-weighted.

### NEW QUESTION: 9

What is typically a key tax attribute of dividends?

- A. Dividend income is taxed more preferentially than interest income.
- B. Dividends from preferred shares are ineligible for dividend tax credit.
- C. Stock dividends are treated differently than regular cash dividends for tax purposes.
- D. Reinvested dividends are non-taxable to the shareholders.

**Answer: (SHOW ANSWER)**

Dividends are taxed at a preferential rate in Canada due to the dividend tax credit, which reduces the effective tax rate on dividend income. This is intended to prevent double taxation because corporations have already paid taxes on their profits before distributing dividends to shareholders.

\* B. Dividends from preferred shares are ineligible for the dividend tax credit: This is incorrect; dividends from both common and preferred shares are eligible for the dividend tax credit.

\* C. Stock dividends are treated differently than regular cash dividends for tax purposes: Stock dividends are generally taxed similarly to cash dividends.

\* D. Reinvested dividends are non-taxable to the shareholders: Reinvested dividends are taxable in the year they are earned, even if reinvested.

### NEW QUESTION: 10

Which is a typical feature of investing in a listed private equity company?

- A. Average levels of liquidity.
- B. Access to a wide range of skills and large number of personnel.
- C. Controls and limits on private equity management to protect existing investors.
- D. Ability to act on legitimate insider information.

**Answer: B (LEAVE A REPLY)**

Investing in a listed private equity company offers the benefit of access to a broad array of skills and a large talent pool. Unlike traditional private equity investments, these entities are publicly traded and often operate with extensive resources and expertise to evaluate and manage investment opportunities.

\* Key Features of Listed Private Equity Companies

\* They provide liquidity compared to traditional private equity, as shares can be traded on public exchanges.

\* They leverage a diverse team of analysts, strategists, and operational experts to identify and optimize investment opportunities.

\* Evaluating Other Options:

\* Average levels of liquidity (A): Listed private equity companies are considered to have higher liquidity relative to traditional private equity funds.

\* Controls and Limits (C): These companies may not necessarily impose stricter controls than traditional private equity.

\* Ability to act on legitimate insider information (D): Insider trading is strictly regulated and prohibited by law.

\* Risk and Return Trade-Off: While providing advantages like transparency and liquidity, listed private equity investments may be subject to market volatility akin to other publicly traded equities.

\* Volume 2, Chapter 22: Alternative Investments - Section on Listed Private Equity.

\* Volume 2, Chapter 20: Investment Structures and Risks - Private Equity Analysis.

Detailed Explanation: References:

**NEW QUESTION: 11**

What is a characteristic of provincial savings bonds that distinguishes them from other provincial bonds?

- A. They are backed by provincial assets pledged as security.
- B. They can be purchased only by residents of the province.
- C. They can be purchased at any time of the year.
- D. They do not have redemption rules.

**Answer: (SHOW ANSWER)**

A key characteristic of provincial savings bonds is that they can only be purchased by residents of the issuing province. This restriction differentiates them from other provincial bonds, which may be available to investors nationwide or internationally.

Other options:

- \* Backed by provincial assets pledged as security: All provincial bonds are backed by the credit of the issuing government, not specifically by pledged assets.
- \* Purchased at any time of the year: Provincial savings bonds are available only during specific sales campaigns.
- \* Do not have redemption rules: Savings bonds often have specific redemption rules, unlike this statement.

References:

- \* Volume 1, Chapter 6: Fixed-Income Securities, section on "Provincial and Municipal Bonds" explains the restrictions and features of provincial savings bonds.

**NEW QUESTION: 12**

Which statutory right allows a purchaser to cancel their order if a prospectus has a misrepresentation?

- A. Right of rescission.
- B. Right of action for damages
- C. Right of amended prospectus delivery
- D. Right of withdrawal.

**Answer: (SHOW ANSWER)**

The right of rescission allows a purchaser to cancel their purchase if the prospectus contains a misrepresentation. This statutory right protects investors by ensuring that they are not bound by transactions based on incorrect or misleading information. Under Canadian securities law, the right of rescission is an important safeguard to maintain market integrity and investor confidence.

This right is distinct from the right of action for damages, which allows investors to sue for compensation, and the right of withdrawal, which permits cancellation within a limited time after agreeing to the purchase, typically two business days.

References:

- \* Volume 1, Chapter 3: The Canadian Regulatory Environment, section on "Rights of Purchasers" describes the statutory rights related to prospectuses and their misrepresentations.

**NEW QUESTION: 13**

For institutional trading, when does the investor need to provide trade-matching elements?

- A. After the dealer issues a trade execution notice.
- B. Once the custodian confirms the trade.
- C. With the initial order.
- D. Once the trade clears.

**Answer: A (LEAVE A REPLY)**

Trade-matching is a critical process in institutional trading, ensuring that details of a trade (e.g., price, quantity, and settlement terms) align among the involved parties, including the investor, dealer, and custodian.

In Canada, institutional trade matching must occur within a specific timeline, and the investor is responsible for providing trade-matching elements after the trade execution notice is issued by the dealer.

Step-by-Step Explanation:

\* What is Trade Matching? Trade matching involves the comparison of trade details between the buyer and seller (and their intermediaries) to confirm accuracy and reduce settlement risks.

\* When Does the Investor Provide Trade-Matching Elements?

\* After the dealer executes the trade, the dealer issues a trade execution notice to the investor.

\* The investor must then provide the necessary trade-matching details, such as account information, settlement instructions, and any other required confirmations.

\* This process ensures that the trade can move seamlessly through to settlement.

\* Why Not Other Options?

\* Option B (Once the custodian confirms the trade): Incorrect. The custodian's role is typically involved in the final settlement process and not in providing trade-matching details.

\* Option C (With the initial order): Incorrect. Trade-matching details are provided after the trade is executed, not at the time the order is placed.

\* Option D (Once the trade clears): Incorrect. Trade matching occurs before the trade clears to ensure settlement.

References to Canadian Securities Course Exam 2 Study Materials:

\* Volume 2, Chapter 27 - Institutional Clearing and Settlement

\* Highlights the process of institutional trade matching, the roles of the investor, dealer, and custodian, and the required timelines.

\* Volume 2, Chapter 27 - The Sell Side and the Buy Side of the Market

\* Explains trade execution and the responsibilities of institutional clients and their intermediaries in completing trades.

Final answer:

\* Option A (After the dealer issues a trade execution notice): Correct.

\* Other options are incorrect based on the standard processes for institutional trade matching in Canada.

**NEW QUESTION: 14**

The Bank of Canada uses an operating band to help manage the overnight rate. How wide is the operating Band?

A. 25 basis points

B. 75 basis points

C. 50 basis points

D. 100 basis points.

**Answer: C (LEAVE A REPLY)**

The Bank of Canada uses an operating band of 50 basis points to manage the overnight rate. The top of the band is the Bank Rate, and the bottom is the rate the Bank pays on settlement balances. The overnight rate typically operates within this band.

\* A. 25 basis points: This is too narrow to accommodate monetary operations.

\* B. 75 basis points: This is wider than the standard operating band.

\* D. 100 basis points: This is incorrect; the operating band is 50 basis points.

**NEW QUESTION: 15**

A shareholder receive rights from a company through direct ownership in shares. Not expecting to exercise them, she sells the right on the relevant exchange. What is her capital gain?

- A. The sale price of the rights.
- B. The sales price less the exercise price of the rights.
- C. The current price of the shares less the sale price of the rights.
- D. The current share price less the exercise price of the rights.

**Answer: (SHOW ANSWER)**

When a shareholder sells rights on the exchange, the proceeds of the sale represent the capital gain. Rights provide shareholders with the opportunity to purchase additional shares of a company at a discounted price. If a shareholder chooses not to exercise these rights and instead sells them on the secondary market, the value they receive from the sale constitutes their capital gain.

\* Rights Offering:

\* A rights offering allows existing shareholders to purchase additional shares at a set price (exercise price) within a specific period.

\* Shareholders can either exercise these rights or sell them on the market.

\* Capital Gain Calculation:

\* The capital gain from selling the rights equals the sale price. This is because the rights themselves were issued at no cost to the shareholder.

\* The exercise price is irrelevant to the calculation as the rights were not exercised.

\* Tax Implications:

\* The gain from the sale of rights is treated as a capital gain for tax purposes. Only 50% of the capital gain is taxable under Canadian taxation rules.

\* Since the shareholder did not exercise the rights but sold them, the capital gain is the sale price of the rights. Subtracting the exercise price or using the share price is unnecessary and incorrect for this scenario.

Key Concepts: Why Option A Is Correct: References from CSC Study Materials:

\* Volume 2, Chapter 24: "Canadian Taxation," Section on Capital Gains and Losses.

### **NEW QUESTION: 16**

All things being equal and assuming a stable economy, which factor most likely limits the effectiveness of fiscal policy?

- A. Level of tax rates.
- B. Level of inflation.
- C. Level of short-term interest rates.
- D. Time required to approve tax legislation.

**Answer: (SHOW ANSWER)**

One of the most significant factors limiting the effectiveness of fiscal policy is the time lag involved in implementing tax changes or expenditure adjustments. This lag exists because fiscal policy measures typically require parliamentary approval and detailed legislative processes, delaying their impact on the economy.

\* Types of Fiscal Policy Lags

\* Recognition Lag: Time taken to recognize the need for intervention.

\* Decision Lag: Time taken by policymakers to design and approve a fiscal response.

\* Implementation Lag: Time taken for the effects of the fiscal measures to manifest in the economy.

\* Other Options Considered:

\* Level of Tax Rates (A): While high tax rates may reduce economic activity, they do not inherently limit fiscal policy effectiveness.

- \* Level of Inflation (B): Inflation primarily impacts monetary policy rather than fiscal policy directly.
- \* Short-Term Interest Rates (C): These are more relevant to monetary policy, which is managed separately by the central bank.
- \* Illustrative Case: In scenarios requiring rapid economic intervention (e.g., recessions), these lags often mean fiscal responses are delayed, sometimes reducing their relevance or efficiency by the time they are implemented.
- \* Volume 2, Chapter 13: Fundamental Macroeconomic Analysis - Fiscal Policy Impact.
- \* Volume 1, Chapter 5: Economic Policy - Challenges of Government Policy Implementation.

Detailed Explanation:References:

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#### NEW QUESTION: 17

What type of risk were mortgage-backed securities designed to address?

- A. Liquidity
- B. Interest rate
- C. Rollover
- D. Prepayment

**Answer: D (LEAVE A REPLY)**

Mortgage-Backed Securities (MBS) are designed to address prepayment risk, which arises when borrowers pay off their mortgages earlier than expected. Prepayments reduce the interest income investors receive and can affect the expected return on the security.

\* Why Prepayment Risk is Addressed:

\* Prepayment often occurs when interest rates decline, as borrowers refinance their mortgages. This leaves MBS investors reinvesting at lower yields, which impacts returns.

\* Structuring MBS helps mitigate prepayment risk through mechanisms like tranches in Collateralized Mortgage Obligations (CMOs).

\* Explanation of Options:

- \* A. Liquidity: Incorrect. MBS provides liquidity to lenders but is not designed to address liquidity risk directly.
- \* B. Interest Rate: Incorrect. MBS investors are still exposed to interest rate risk as rates impact prepayment behavior.
- \* C. Rollover: Incorrect. Rollover risk applies to short-term debt securities, not MBS.
- \* D. Prepayment: Correct. MBS structures are specifically designed to mitigate the impact of prepayments on investors.

References:

\* CSC Volume 2, Chapter 23: Risks of structured products, particularly prepayment risks in MBS.

#### NEW QUESTION: 18

Which ratio gauges a company's ability to repay its debts using funds generated from operating activities?

- A. Cash flow-to-total debt
- B. Interest coverage.
- C. Asset coverage.

#### D. Debt-to-equity

**Answer: (SHOW ANSWER)**

The cash flow-to-total debt ratio assesses a company's ability to repay its debts using cash generated from its operating activities. It is calculated by dividing operating cash flow by total debt. A higher ratio indicates better capacity to cover debts. This metric is crucial for evaluating financial health and understanding a firm's liquidity position. Other ratios listed have different focuses:

- \* Interest coverage (B) measures a company's ability to pay interest with operating income.
- \* Asset coverage (C) measures the protection provided to creditors.
- \* Debt-to-equity (D) evaluates capital structure but not immediate debt repayment ability.

#### References

- \* CSC Volume 2, Chapter 14: Company Analysis - Risk Analysis Ratios, p. 14-12 to 14-16.

#### NEW QUESTION: 19

A bond with a duration of five is currently priced at \$103. If interest rates rise by 2%, approximately what will be the bond's price?

- A. \$108.15
- B. \$113.30
- C. \$97.85
- D. \$92.70

**Answer: C (LEAVE A REPLY)**

The approximate price change of a bond due to a change in interest rates can be estimated using the formula:

$$\text{Price Change (\%)} = -\text{Duration} \times \Delta \text{Interest Rate}$$

Given:

- \* Duration = 5
- \* Current Price = \$103
- \* Change in Interest Rate ( $\Delta$ ) = 2% or 0.02

$$\text{Price Change (\%)} = -5 \times 0.02 = -0.10 \text{ (-10\%)}$$

The new price is calculated as:

$$\text{New Price} = \text{Current Price} \times (1 + \text{Price Change}) = 103 \times (1 - 0.10) = 103 \times 0.90 = 97.85$$

- \* A. \$108.15 and B. \$113.30: These represent price increases, which are incorrect for rising interest rates.

- \* D. \$92.70: This reflects a greater-than-actual price drop, which is inconsistent with the duration-based calculation.

#### NEW QUESTION: 20

What is the key objective for investors in alternative strategy funds?

- A. To match the performance of a reference index.
- B. To maximize risk-adjusted returns.
- C. To achieve absolute returns
- D. To exceed the current rate of inflation.

**Answer: (SHOW ANSWER)**

Alternative strategy funds aim to achieve absolute returns, focusing on positive returns under various market conditions rather than comparing performance to a benchmark index. These strategies often include hedge funds and alternative mutual funds, using techniques like leverage, short selling, and derivatives to manage risk and enhance returns. The goal is not necessarily to outperform an index (as in option A) or match inflation rates (option D) but to deliver consistent positive returns.

References

\* CSC Volume 2, Chapter 21: Alternative Investments: Strategies and Performance, p. 21-3 to 21-24.

### NEW QUESTION: 21

What is one of the most important factors to determine how much of a product people buy or sell in a given marketplace?

- A. Consumer satisfaction
- B. Government spending
- C. Price level
- D. Maximized profits

**Answer: C (LEAVE A REPLY)**

The price level is one of the most critical factors influencing how much of a product people buy or sell in a marketplace. According to the laws of supply and demand, changes in the price of a product directly affect consumer behavior, where higher prices typically reduce demand, and lower prices increase it.

References:

\* Volume 1, Chapter 4: Overview of Economics, section on "The Market" discusses supply, demand, and how price levels determine market activity.

### NEW QUESTION: 22

A fixed-rate bond was originally priced at \$100 and paid \$5 per year in interest. Currently, the bond is trading at \$102.75. What is the impact on the current yield of coupon of the bond as a result of the change in price?

- A. The coupon is higher than 5%.
- B. The current yield is higher than 5%.
- C. The current yield is lower than 5%.
- D. The coupon is lower than 5%.

**Answer: C (LEAVE A REPLY)**

The coupon rate of the bond remains fixed at 5%, as it is based on the bond's original par value of \$100.

The current yield, however, decreases because the bond's price has increased to \$102.75. Current yield is calculated as:

$$\text{Current Yield} = \frac{\text{Coupon Payment}}{\text{Current Price}}$$
$$\text{Current Yield} = \frac{5}{102.75} \approx 4.87\%$$

Given:

\* Coupon Payment = \$5

\* Current Price = \$102.75

$$\text{Current Yield} = \frac{5}{102.75} \approx 4.87\%$$

\* A. The coupon is higher than 5%: The coupon remains fixed at 5%.

\* B. The current yield is higher than 5%: The current yield is lower than 5% due to the increased price.

\* D. The coupon is lower than 5%: The coupon does not change with the bond's price.

**NEW QUESTION: 23**

Tom sold some bonds in his RRSP and used the total \$100,000 in proceeds to buy a 75% guaranteed segregated fund. Three years later, Tom died. At the time of his death, the market value of the segregated fund was \$70,000. Assuming no interim withdrawal on market value reset, what is the death benefit payable from this investment?

- A. \$0,
- B. \$70,000
- C. \$30,000
- D. \$5, 000

**Answer: C (LEAVE A REPLY)**

Key Concepts:

A segregated fund with a guaranteed death benefit ensures that the investor (or their estate) receives at least a certain percentage of the initial investment in case of death. This percentage is applied to the original investment amount, and if the market value of the segregated fund at the time of death is lower than this guaranteed amount, the insurance company pays the shortfall.

Step-by-step Explanation:

- \* Initial Investment in the Segregated Fund: Tom invested \$100,000 into a segregated fund with a 75% death benefit guarantee.
- \* Guaranteed amount =  $75\% \times \$100,000 = \$75,000$ .
- \* Market Value at the Time of Death: The market value of the segregated fund is \$70,000 at the time of Tom's death.
- \* Shortfall Calculation: The guaranteed amount (\$75,000) is greater than the market value (\$70,000).
- \* Shortfall =  $\$75,000 - \$70,000 = \$5,000$ .
- \* Death Benefit Payable: Since the segregated fund guarantees at least \$75,000, the insurance company will pay the shortfall of \$5,000 to the estate.
- \* Option A (\$0): Incorrect; there is a shortfall between the guaranteed amount and the market value, so a payout will occur.
- \* Option B (\$70,000): Incorrect; this is the market value, not the shortfall amount.
- \* Option C (\$30,000): Incorrect; this value does not align with the 75% guarantee calculation.
- \* Option D (\$5,000): Correct; this is the shortfall amount payable as the death benefit.

References to Canadian Securities Course Exam 2 Study Materials:

- \* Volume 2, Chapter 22 - Segregated Funds
- \* Explains death benefit guarantees in segregated funds and how the shortfall is calculated.
- \* Volume 2, Chapter 24 - Canadian Taxation
- \* Highlights how RRSP investments, such as segregated funds, are treated upon the investor's death.
- \* Volume 2, Chapter 26 - Working with the Retail Client
- \* Discusses estate planning considerations, including the role of segregated funds in ensuring financial protection.

**NEW QUESTION: 24**

What is the measure of risk commonly applied to portfolio and to individual securities within that portfolio?

- A. Beta
- B. Standard Deviation.
- C. Correlation.
- D. Alpha

**Answer: B (LEAVE A REPLY)**

Standard deviation measures the dispersion or variability of returns around the mean of a portfolio or security's historical performance. It is a widely used statistical metric in finance to assess risk, as it captures the degree to which returns can deviate from their expected value. A high standard deviation indicates higher risk, reflecting greater volatility in returns, while a low standard deviation suggests more stable performance.

Beta measures market risk relative to a benchmark, correlation measures the relationship between securities, and alpha represents excess return above a benchmark. However, standard deviation is the most common measure of total risk applicable to portfolios and individual securities.

\* References:

\* CSC Volume 2, Chapter 15: Introduction to the Portfolio Approach - Measuring Risk.

\* CSC Volume 2, Chapter 16: The Portfolio Management Process - Risk Metrics.

### **NEW QUESTION: 25**

Which type of trader specializes in managing block trades on behalf of institution clients?

**A.** Responsible designated trader.

**B.** Agency trader

**C.** Liability trader

**D.** Market maker

**Answer: B (LEAVE A REPLY)**

An agency trader specializes in executing large block trades for institutional clients without taking ownership of the securities. Their role is critical in facilitating liquidity and minimizing market impact during the execution of trades.

\* Managing Block Trades:

\* Agency traders handle large transactions on behalf of institutions like pension funds or mutual funds, ensuring the trades are completed efficiently.

\* They do not use the firm's capital; instead, they act as intermediaries between the buyer and seller.

\* Minimizing Market Impact:

\* Large trades can significantly impact stock prices if not executed strategically. Agency traders use methods like algorithmic trading or dark pools to mitigate this impact.

\* Role vs. Other Traders:

\* Liability Trader: Trades using the firm's capital, assuming the risk of the position.

\* Market Maker: Provides liquidity by quoting buy and sell prices.

\* Responsible Designated Trader: Oversees order flow for specific securities on the exchange.

\* The question specifies managing block trades for institutional clients. This matches the role of agency traders, as they focus on executing trades on behalf of clients without taking positions themselves.

Key Responsibilities of Agency Traders: Why Option B Is Correct: References from CSC Study Materials:

\* Volume 2, Chapter 27: "Working with the Institutional Client," Section on Roles and Responsibilities in the Institutional Market.

### **NEW QUESTION: 26**

What do technical analysis and fundamental analysis have in common?

**A.** They compare the intrinsic value against a security's current price.

**B.** They are nullified according to the random walk theory.

**C.** They are used to predict changes in security prices.

D. They study the causes of security's price movements.

**Answer: C (LEAVE A REPLY)**

Both technical analysis and fundamental analysis are tools used to predict changes in security prices, but they differ significantly in their approaches.

\* Fundamental Analysis evaluates the intrinsic value of a security by analyzing factors such as a company's financial statements, industry conditions, and macroeconomic trends. It assumes that market prices will eventually reflect a security's true value.

\* Technical Analysis examines historical price and volume data to predict future price movements. It focuses on identifying patterns, trends, and market sentiment without regard to the underlying fundamentals.

Option A is incorrect because it only describes fundamental analysis. Option B erroneously connects both methodologies to the random walk theory, which discounts their effectiveness. Option D misstates their purpose, as technical analysis focuses on price trends, not the causes of price movements.

References:

\* Volume 2, Chapter 13: Fundamental and Technical Analysis, Overview of Fundamental and Technical Analysis, Canadian Securities Course.

### **NEW QUESTION: 27**

For what type of company is the dividend discount model least applicable?

- A. One with changing dividend payments and a stable dividend growth rate.
- B. One with stable dividend payments and a stable dividend growth rate.
- C. One with stable dividend payments and a fluctuating dividend growth rate.
- D. One with changing dividend payments and a fluctuating dividend growth rate.

**Answer: D (LEAVE A REPLY)**

The dividend discount model (DDM) is based on the premise that a company's intrinsic value is the present value of all future dividends. This model works best when:

\* Dividends are stable or follow a predictable growth rate.

\* The company has an established dividend payout history.

\* Inapplicability to Fluctuating Dividend Patterns: A company with changing dividend payments and fluctuating growth rates lacks the consistency required for the DDM. The fluctuating nature introduces uncertainty, making it difficult to estimate future dividends accurately. This diminishes the model's reliability in valuing such companies.

\* Comparison with Other Options:

\* Option A: Changing dividend payments but a stable growth rate could still provide a predictable valuation framework using DDM.

\* Option B: Stable dividends and a stable growth rate align perfectly with DDM assumptions.

\* Option C: Stable dividends and fluctuating growth rates are more predictable than Option D.

Supporting Study Material References:

\* Volume 2, Chapter 13 (Fundamental Analysis): Explains the relevance of consistent dividend patterns in equity valuation, emphasizing

### **NEW QUESTION: 28**

What is a structured product?

- A. A mortgage loan.
- B. A principle-protected note.
- C. An equity index.
- D. A credit card receivable

**Answer: B (LEAVE A REPLY)**

A structured product is a pre-packaged investment strategy often involving derivatives and fixed-income securities to offer a combination of protection and growth potential.

\* Principal-Protected Note (PPN): A PPN is a common type of structured product that guarantees the return of the original investment (principal) at maturity while offering potential upside linked to the performance of an underlying asset or index.

\* Why Other Options Are Incorrect:

\* A. A mortgage loan: This is a form of debt, not a structured product.

\* C. An equity index: An index tracks the performance of a market but is not a structured product itself.

\* D. A credit card receivable: This is a financial asset used in securitization, not a structured product.

References:

\* CSC Volume 2, Chapter 23: Structured products and their features.

**NEW QUESTION: 29**

Which investor right must be disclosed in a Fund Facts document?

**A.** Investors have the right to rescind the purchase if there is misrepresentation in the document.

**B.** Investors have a right to withdrawal from their purchase within 24 hours after confirmation of the purchase is received.

**C.** Investors can request a paper copy of the simplified prospectus for a small charge.

**D.** Investors have the right to act or claim damages without any limitation.

**Answer: (SHOW ANSWER)**

The Fund Facts document is a regulatory disclosure document provided to mutual fund investors in Canada.

It aims to provide clear, concise, and relevant information about the fund. One critical investor right disclosed in this document is the right to rescind their purchase if there is any misrepresentation in the document. This ensures transparency and legal protection for investors.

\* Explanation of Options:

\* A. Rescission Due to Misrepresentation: Correct. If the document contains false or misleading statements, investors can rescind the purchase under securities laws.

\* B. 24-Hour Withdrawal Right: Incorrect. This is not a standard right for mutual fund purchases; the withdrawal right period is generally within two business days after receiving the trade confirmation.

\* C. Requesting a Simplified Prospectus: While investors can request this document, the Fund Facts specifically focuses on investor rights related to rescission and misrepresentation.

\* D. Claiming Damages Without Limitation: Incorrect. Claims for damages are subject to limitations under securities law and are not unrestricted.

References:

\* CSC Volume 2, Chapter 17: Fund Facts and regulatory disclosures.

**NEW QUESTION: 30**

What type of investment typically involves massive amounts of capital provided by a small number of investors?

**A.** Derivatives

**B.** Infrastructure

**C.** Bonds

**D.** Commodities

**Answer: B (LEAVE A REPLY)**

Infrastructure investments often require massive capital commitments for projects such as airports, highways, and utilities. These investments are typically made by institutional investors or private equity funds, involving relatively few but large-scale investors due to the high entry cost and the long-term nature of these investments.

References:

\* CSC Volume 2, Chapter 20: "Alternative Investments: Benefits, Risks, and Structure," explains the characteristics of infrastructure as an asset class and its association with significant capital requirements.

### NEW QUESTION: 31

What financial instrument is derived from the value of an underlying asset?

- A. Real estate investment trust
- B. Forward contract
- C. Preferred share.
- D. Inflation linked bond

**Answer: B (LEAVE A REPLY)**

A forward contract is a derivative instrument whose value is derived from the value of an underlying asset, such as commodities, currencies, or financial instruments. It is a customized agreement between two parties to buy or sell an asset at a future date at a specified price.

\* A. Real estate investment trust: A REIT is an equity instrument tied to real estate assets, not a derivative.

\* C. Preferred share: A preferred share is an equity security with fixed dividends, not a derivative.

\* D. Inflation-linked bond: These are fixed-income securities linked to inflation rates but are not considered derivatives.

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### NEW QUESTION: 32

What are examples of primary investment objectives?

- A. Growth and preservation of capital
- B. Tax minimization and safety of principal.
- C. Marketability and growth of capital.
- D. Marketability and tax minimization.

**Answer: (SHOW ANSWER)**

Investment objectives are critical components of a financial plan, guiding both the client and the advisor in creating strategies to achieve desired financial outcomes. These objectives generally fall into primary categories that reflect the investor's goals, risk tolerance, and time horizon.

\* Growth of Capital: This objective focuses on increasing the principal value of the investment over time.

It is particularly important for investors with long-term goals, such as retirement or funding a child's education. Growth-oriented investments typically include equities, equity mutual funds, and growth-oriented ETFs.

\* **Preservation of Capital:** This objective ensures that the invested principal remains safe from loss, emphasizing lower-risk investments like government bonds, GICs (Guaranteed Investment Certificates), or money market instruments. Investors prioritizing this objective often have a low tolerance for risk and a shorter time horizon.

**Growth and Preservation of Capital** Relevance to Financial Planning By combining growth with preservation, the portfolio aims to strike a balance between generating returns and maintaining the invested capital. This dual objective is well-suited for individuals in different life stages:

\* **Young Investors:** Tend to emphasize growth more, leveraging their long time horizons.

\* **Older Investors:** Place greater emphasis on preservation as they near or enter retirement, prioritizing capital safety to fund living expenses.

**Why A is Correct** Option A explicitly combines both these objectives, aligning with a widely recognized approach to investing that balances risk and reward depending on the investor's profile and needs.

References:

\* Volume 2, Section 15: Portfolio Management Process-Investment Objectives and Constraints.

\* Volume 1, Section 4: Overview of Economics-Principles of Risk and Return.

### **NEW QUESTION: 33**

When considering the overall investment objectives of liquid alternatives, what time horizon is the most appropriate for retail investors when investing in these funds?

**A.** Short-to medium-term

**B.** Short-term

**C.** Long-term

**D.** Medium-term

**Answer: (SHOW ANSWER)**

Liquid alternatives, also known as alternative mutual funds, combine features of traditional mutual funds with hedge fund-like strategies. They provide access to alternative investments such as derivatives, short-selling, and leverage while adhering to stricter regulations for retail investors. These funds are designed to achieve diversification and risk-adjusted returns that are less correlated with traditional stock and bond markets.

When considering liquid alternatives, a long-term investment horizon is most appropriate for retail investors.

The key reasons include:

\* **Volatility and Complexity:** Liquid alternatives can be more volatile than traditional funds due to their use of sophisticated strategies like leverage or derivatives. This requires a long-term outlook to weather short-term fluctuations.

\* **Objective of Absolute Returns:** Liquid alternatives are often structured to provide positive returns over a full market cycle, which typically spans several years.

\* **Diversification Benefits:** The risk mitigation offered by these funds unfolds over time as they reduce the portfolio's overall exposure to specific market conditions.

Investors seeking short-term gains may not benefit as much due to the time required for the strategies employed to materialize their intended results. Long-term objectives align better with the nature of liquid alternatives and their ability to smooth returns.

References:

\* CSC Volume 2, Chapter 20: "Alternative Investments: Strategies and Performance," discusses the structure and time horizon considerations for liquid alternatives.

### **NEW QUESTION: 34**

A young couple is looking to buy a house in the near future with a down payment. What type of investment should they consider for their portfolio?

- A. Corporate bonds
- B. Stable bank Stocks
- C. Diversified balanced portfolio.
- D. Government Treasury bills

**Answer: D (LEAVE A REPLY)**

For a young couple planning to buy a house in the near future, the primary investment consideration is safety and liquidity. Government Treasury bills (T-bills) are most suitable for the following reasons:

\* Safety:

\* T-bills are backed by the government and are considered virtually risk-free investments. For individuals seeking to preserve capital for a short-term goal like a home down payment, this feature is critical.

\* Liquidity:

\* T-bills are highly liquid instruments, allowing the couple to access their funds quickly if needed.

They trade in active secondary markets, ensuring that they can sell their holdings with minimal price impact.

\* Short-Term Nature:

\* T-bills have maturities ranging from a few days to a year, making them ideal for short-term investment horizons like a pending house purchase.

\* Avoiding Risk:

\* Investments like corporate bonds, bank stocks, or balanced portfolios carry higher risk due to potential market volatility or credit issues, which are unsuitable for a short-term goal.

References to Study Documents:

\* Volume 1, Chapter 6, "Fixed-Income Securities: Features and Types," details the safety and liquidity of Treasury bills.

\* Volume 2, Chapter 16, "The Portfolio Management Process," emphasizes aligning investment objectives with time horizons and risk tolerance.

### **NEW QUESTION: 35**

The following financial information is available for fund SKE:

Total liabilities	\$100,000
Units outstanding	1,000,000
Book value of assets	\$10,000,000
Current market value of assets	\$12,000,000

What is SKE fund's net asset value per share?

- A. \$9,90
- B. \$11, 90
- C. \$12,00
- D. \$10, 00

**Answer: B (LEAVE A REPLY)**

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To calculate the **Net Asset Value (NAV) per share** of the SKE Fund, use the following formula:

$$\text{NAV per share} = \frac{\text{Current Market Value of Assets} - \text{Liabilities}}{\text{Units Outstanding}}$$

### Step-by-step Calculation:

1. **Current Market Value of Assets:** \$12,000,000
2. **Liabilities:** \$100,000
3. **Net Asset Value (NAV)** = \$12,000,000 - \$100,000 = \$11,900,000
4. **Units Outstanding:** 1,000,000

Now calculate NAV per share:

$$\text{NAV per share} = \frac{\text{NAV}}{\text{Units Outstanding}} = \frac{11,900,000}{1,000,000} = 11.90$$

Thus, the **NAV per share** is **\$11.90**.



Explanation of Answer Options:

- \* Option A (\$9.90): Incorrect; this value does not reflect the subtraction of liabilities.
- \* Option B (\$11.90): Correct; it accounts for the subtraction of liabilities and proper division by outstanding units.
- \* Option C (\$12.00): Incorrect; it represents the market value of assets per unit without deducting liabilities.
- \* Option D (\$10.00): Incorrect; this value does not align with the given data or calculations.

References to Canadian Securities Course Exam 2 Study Materials:

- \* Volume 2, Chapter 17- Mutual Funds: Structure and Regulation, Pricing Mutual Fund Units:
  - \* Discusses the formula for calculating NAV per share, including the treatment of liabilities and market value of assets.
- \* Volume 2, Chapter 22- Other Managed Products:
  - \* Covers the concept of valuation for managed funds and its importance for accurate pricing.
- \* Volume 1, Chapter 11- Corporations and Their Financial Statements:
  - \* Provides foundational knowledge about book and market values used in calculations.

### NEW QUESTION: 36

What is the reason for an individual to use an estate freeze?

- A. Eliminate probate fees

- B. Reduces asset price volatility
- C. Transfer control of the assets.
- D. Limit the tax liability for future growth

**Answer: D (LEAVE A REPLY)**

An estate freeze is a strategy used to minimize future tax liability by freezing the value of an individual's assets at their current level and transferring future growth to others (e.g., family members). This helps lock in the current value for taxation purposes while passing on potential growth to the next generation without incurring immediate taxes.

\* Key Benefits of an Estate Freeze:

\* Ensures that future appreciation in asset value is taxed in the hands of beneficiaries rather than the original owner, typically at lower tax rates.

\* Facilitates succession planning by transferring control of assets to heirs.

\* Limits tax exposure while maintaining flexibility in estate planning.

\* Why Other Options Are Incorrect:

\* A: An estate freeze does not eliminate probate fees, though it may reduce taxable estate value.

\* B: Asset price volatility is unrelated to the purpose of an estate freeze.

\* C: While asset control may change, this is not the primary reason for an estate freeze.

References:

\* CSC Volume 2, Chapter 24: Estate Planning and Tax Strategies.

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