Question #1 of 29

Question ID: 1451366

Greg Stiles, CFA, may withhold from CFA Institute information about a client acquired in the regular performance of his duties:

A) only if Stiles is a relative of the client.

B) for neither of the reasons listed.

C) only if Stiles has a special confidentiality agreement with the client.

Question #2 of 29

Question ID: 1459332

Millie Walker, CFA, established an aggressive growth portfolio for her client, Jesse Wilmer, over three years ago. Wilmer was placed on Walker's employer's client mailing list, and received monthly account statements and the firm's newsletter, which regularly informed clients that they should contact their account representative with any change in their personal circumstances or investment objectives. As of January, of this year, Walker had not spoken to Wilmer nor received any correspondence from Wilmer since the account was established. Walker has:

A) violated the Code and Standards because the manager has not performed an update of Wilmer's financial situation and investment objectives.

B) not violated the Code and Standards because Wilmer has been reminded regularly about the opportunity to inform Walker about any changes.

C) not violated the Code and Standards because there has been regular correspondence from Walker's firm to Wilmer.

Question #3 of 29

Question ID: 1459345

A money manager, who is a member of CFA Institute, states that, "Our aggressive growth fund produced a 12% annualized return last quarter. This illustrates the superior results our firm produces." The fund return stated by the manager is accurate. Is this a violation of Standard III(D) Performance Presentation?

A) No, because a brief summary of results is acceptable as long as more complete information is made available.

B) No, because the manager has stated a fact.

C) Yes.

Question #4 of 29

Question ID: 1469277

A money manager is meeting with a prospect. She gives the client a list of stocks and says, "These are the winners I picked this past year for my clients. Their double-digit returns indicate the type of returns I can earn for you." The list includes stocks the manager had picked for her clients, and each stock has listed with it an accurately measured return that exceeds 10%. Is this a violation of Standard III(D), Performance Presentation?

A) No, because the manager had the historical information in writing.

B) Yes, because the manager cannot reveal historical returns of recent stock picks.

C) Yes, unless the positions listed constitute a complete presentation (i.e., there were no stocks omitted that did not perform in the double digits).

Question #5 of 29

Question ID: 1451365

While servicing his clients' accounts, an analyst who is a CFA charterholder, determines that one client is probably involved in illegal activities. According to Standard III(E), Preservation of Confidentiality, the analyst may NOT do which of the following?

A) Contact CFA Institute about the determination.

B) Contact the appropriate governmental authorities about the determination.

C) There are no exceptions in this list.

Question #6 of 29

Question ID: 1459339

Compliance with the Standard concerning suitability *least likely* includes determining a client's:

A) social habits and interests.

B) return objectives.

C) liquidity needs.

Question #7 of 29

Question ID: 1451361

Albert Long, CFA, manages portfolios of high net worth individuals for HKB Corp. Alice Thurmont, one of his close friends, heads a local charity for homeless children that depends on donations to operate. Because donations have declined during the past year, the charity is experiencing financial difficulty. Thurmont asks Long to give her a partial list of his clients so that she can contact them to make tax-deductible donations. Because Long knows that the charity provides much benefit to the community, he provides Thurmont with the requested list.

Betty Short, CFA, also works for HKB Corp. She receives a letter from CFA Institute's Professional Conduct Program (PCP) requesting that she provide information about one of HKB's clients who is being investigated. Short complies with the request despite the confidential nature of the information requested by the PCP.

Based on Standard III(E), Preservation of Confidentiality, which of the following statements about Long and Short's actions is CORRECT?

A) Both Long and Short violated Standard III(E).

B) Short violated Standard III(E) but Long did not violate Standard III(E).

C) Long violated Standard III(E) but Short did not violate Standard III(E).

Question #8 of 29

Question ID: 1459349

A candidate or member is *least likely* violating the Standard regarding the confidentiality of client information if he shares confidential client information, when not required by law, with:

A) the CFA Institute Professional Conduct Program.

B) the client’s attorney.

C) the co-owner of the client’s account.

Question #9 of 29

Question ID: 1469275

Ned Brenan manages two dozen pension accounts, one of which earned over 25% during the past two years. Brenan tells prospective clients that based on past experience they can expect a 25% return on their funds. Which of the following statements is CORRECT?

A) Brenan has not violated Standard of Professional Conduct III(D), Performance Presentation, but Brenan has violated Standard I(C), Misrepresentation.

B) Brenan has violated both Standard of Professional Conduct III(D), Performance Presentation, and Standard I(C), Misrepresentation.

C) Brenan has violated Standard of Professional Conduct III(D), Performance Presentation, but Brenan has not violated Standard I(C), Misrepresentation.

Question #10 of 29

Question ID: 1469278

Greg Stiles, CFA, keeps a list of his clients' birthdays and has personally sent them a birthday card each year at the appropriate time. With respect to this action, which of the following may be a violation of Standard III(E), Preservation of Confidentiality?

A) Hiring a company outside the firm to perform the task.

B) Sending a gift along with the card.

C) The mere act of sending a birthday card each year.

Question #11 of 29

Question ID: 1451363

A money management firm has created a new junk-bond fund. When the firm advertised the new fund at its issuance, they used care to accurately compute the returns from the past 10 years for all assets in the fund. The firm used the current portfolio weights to determine an average annual historical return equal to 18% and claim an 18% annual historical return in their advertising literature. With respect to Standard III(D), Performance Presentation, this is:

A) a violation because the Standard prohibits computing historical returns on risky assets like junk bonds.

B) in compliance.

C) a violation because the advertisement implies the firm generated this return.

Question #12 of 29

Question ID: 1469276

Janet Reilly has just approached Betty Miller, CFA, about purchasing 10,000 shares of Brookshire Co., a newly incorporated real estate development firm. Reilly is a retired schoolteacher living off the income from her late husband's life insurance policy. This investment will represent a significant shift in her investment portfolio. Miller believes this trade is unsuitable with respect to Reilly's investment policy statement. Consistent with the Standards, Miller should *most appropriately*:

A) discuss with Reilly whether she wishes to update her investment policy statement.

B) follow her firm's procedures for obtaining Reilly's approval to carry out the unsolicited trade request.

C) not accept the order, because it is not a suitable investment for Reilly.

Question #13 of 29

Question ID: 1451362

Paul Salyer, a portfolio manager, is making a presentation to a prospective client. Paul says that as a new portfolio manager, he made an average annual rate of return of 50% in the last two years at his previous firm and that based on this, he can guarantee a 50% return to the client. Which of the following statements is in accordance with Standard III(D), Performance Presentation?

A) Imputing his past performance to future performance.

B) Stating his past performance as long as it is fact.

C) Implying that he can guarantee a return.

Question #14 of 29

Question ID: 1459352

Andrew Mader, CFA, is an analyst with Metro Investment Services. During lunch with some of Metro's managers, Mader is told, "There are going to be major problems at Gebco (a firm that Metro had brought public last year). I was just over there and the place is just crawling with government inspectors." Mader had just issued a report with a "buy" recommendation on Gebco last week. Mader should:

A) not do anything to avoid a violation of fair dealing.

B) immediately issue a new report, but only after stopping by Gebco himself to corroborate the story.

C) not do anything because to do so would violate his obligation to preserve confidentiality.

Question #15 of 29

Question ID: 1115877

Nancy Korthauer, CFA, has launched a new hedge fund called the Korthauer Tautology Fund and is actively soliciting clients from competitor's firms. Client presentations are necessarily brief and often take place with the prospective client's current investment advisor in the room. The Code and Standards require that:

A) a prospective client’s current investment advisor not participate in meetings.

B) all client presentations provide a thorough review of all elements of the investment management process. Abbreviated presentations are forbidden.

C) member or candidate provide (on request) additional detail information which supports the abbreviated presentation.

Question #16 of 29

Question ID: 1459335

Karen Jackson is a portfolio manager. Jackson is friendly with David James, president of Acme Medical, a rapidly growing biotech company. James has provided Jackson with recommendations in the biotech industry, which she buys for her own portfolio before buying them for her clients. For three years, Jackson has also served on Acme Medical's board of directors. She has received options and fees as compensation.

Recently, the board of Acme Medical decided to raise capital by voting to issue shares to the public. This was attractive to board members (including Jackson) who wanted to exercise their stock options and sell their shares to get cash. When the demand for initial public offerings (IPO) diminished, just before Acme Medical's public offering, James asked Jackson to commit to a large purchase of the offering for her portfolios. Jackson had previously determined that Acme Medical was a questionable investment but agreed to reconsider at James' request. Her reevaluation confirmed the stock to be overpriced, but she nevertheless decided to purchase Acme Medical for her clients' portfolios.

Did Jackson violate Standard III(C) Suitability concerning portfolio recommendations and actions?

A) Yes, because she did not deal fairly with all clients.

B) Yes, because she did not consider the appropriateness and suitability of investment recommendations or actions for each portfolio or client.

C) No.

Question #17 of 29

Question ID: 1459334

Carol Hull, CFA, is an investment advisor whose prospective client, Frank Peters, presents special requirements. To construct an investment policy statement for Peters, Hull inquires about Peters' investment experience, risk and return objectives, and financial constraints. Peters states that he has a great deal of investment experience in the capital markets and does not wish to answer questions about his tolerance for risk or his other holdings. Under Standard III(C), Suitability, Hull:

A) may accept Peters’ account but may only manage his portfolio to a benchmark or index.

B) must decline to enter into an advisory relationship with Peters.

C) is permitted to manage Peters’ account without any knowledge of his risk preferences.

Question #18 of 29

Question ID: 1459327

Dan Jeffries is a portfolio manager who is being sued by one of his clients for inappropriate investment advice. The Professional Conduct Program of CFA Institute is investigating Jeffries for the same offense. Jeffries settles the lawsuit with the client while the Professional Conduct Program investigation is ongoing. When the Professional Conduct Program staff questions Jeffries about the problematic investment advice, Jeffries claims he cannot talk about it because doing so would violate the confidentiality of his client. Jeffries has:

A) not violated the Standards by executing the settlement agreement or by refusing to talk about the case with the Professional Conduct Program.

B) violated the Standards by refusing to talk about the case with the Professional Conduct Program, but not by executing the settlement agreement.

C) violated the Standards by executing the settlement agreement, but not by refusing to talk about the case with the Professional Conduct Program.

Question #19 of 29

Question ID: 1459353

Greg Stiles, CFA, CAIA, is liquidating a large portion of a client's portfolio because the client is planning to buy a vacation home. Stiles informs one of his colleagues at the firm that the client is looking for a vacation home, because the colleague's wife is a licensed real estate broker. With respect to Standard III(E) Preservation of Confidentiality, this action:

A) does not violate the standards because he did not share the information outside the firm.

B) violates the Standard unless the client has given explicit permission to disclose his plans.

C) Does not violate the standards because he did not disclose any details about the client’s portfolio or other financial resources.

Question #20 of 29

Question ID: 1451369

A CFA charterholder may disclose confidential information about a client when:

A) the information is nonmaterial.

B) the CFA Institute Professional Conduct Program requests it.

C) it is a necessary step in proceeding with research on client preferences.

Question #21 of 29

Question ID: 1459355

David Martin, CFA, recently joined Arc Financial as a portfolio manager of an emerging markets mutual fund. For the past three years, he managed an emerging markets mutual fund for Landmark Investments. Upon Martin's arrival, Arc Financial announces to existing and prospective clients, "While at Landmark Investments, Martin was the senior portfolio manager of Alpha Emerging Markets Fund. In Martin's three years as manager, this fund outperformed its benchmark each year, as documented in recent reports by Landmark." Does this statement violate the CFA Institute Standard of Professional Conduct related to performance presentation?

A) No.

B) Yes, because the Standards prohibit showing past performance at a prior firm.

C) Yes, because Arc must present at least five years of Martin's performance history.

Question #22 of 29

Question ID: 1451368

Standard III(E), Preservation of Confidentiality, applies to the information that an analyst learns from:

A) current clients and prospects only.

B) current clients and former clients only.

C) current clients, former clients, and prospects.

Question #23 of 29

Question ID: 1459331

Janine Walker is an individual investment advisor with 200 individual clients. When she first obtains a client, Walker solicits personal data that helps her formulate an investment recommendation, including tax status, income, expenditure needs, and risk tolerance. The Standards:

A) only require to update a client's data when a material change is being made to the clients' portfolio.

B) require updating a client's data only when a material change occurs to the personal data.

C) require Walker to update the data regularly.

Question #24 of 29

Question ID: 1459333

The O'Douls (husband and wife) have decided to work with Jane Mack, CFA, to have her recommend an investment portfolio for them. The O'Douls are novice investors and Mack has determined their asset allocation model falls into the conservative category. After researching various investment options for the O'Douls, Mack has made a recommendation that they divide their account on a 25%/75% basis between shares of a computer peripherals manufacturing company her brokerage firm is underwriting and investment grade corporate bonds. The O'Douls are not aware that Mack's firm is underwriting an offering of the company in question. Which CFA Institute Standard(s) has Mack violated given her actions?

A) Standard III(B), Fair Dealing, and III(A), Loyalty, Prudence, and Care.

B) Standard V(A), Diligence and Reasonable Basis, and I(D), Misconduct.

C) Standard VI(A), Disclosure of Conflicts, and III(C), Suitability.

Question #25 of 29

Question ID: 1451356

Bob Hatfield, CFA, has his own money management firm with two clients. The accounts of the two clients are equal in value. One of the clients gets married and the assets of the new spouse and the client are combined. With the larger portfolio of the now married client, Hatfield determines that they can assume a higher level of risk and begins a change in the policy concerning that portfolio. Which of the following would violate Standard III(C), Suitability?

A) Assess the return objectives of the newly married client and his spouse.

B) Assess the time horizon of the newly married client and his spouse.

C) Implement a similar policy for the other client who did not just get married.

Question #26 of 29

Question ID: 1459350

The Standard concerning preservation of confidentiality states that members and candidates must keep information confidential about:

A) prospective and current clients, but not former clients.

B) current clients, former clients, and prospective clients.

C) current and former clients, but not prospective clients.

Question #27 of 29

Question ID: 1459328

Patricia Young is an individual investment advisor who uses a computer model to place each of her clients into an appropriate portfolio. The model analyzes a range of simulated portfolios and computes for each the probabilities of achieving various levels of return. Young then selects the portfolio that provides the highest probability of achieving the clients' minimum required return. By using this process, Young is:

A) not violating the Standards.

B) violating Standard III(C) - Suitability.

C) violating Standard I(C) - Misrepresentation.

Question #28 of 29

Question ID: 1459338

Paula Munson, CFA, manages a mutual fund with an objective to emphasize income over capital gains. Magic Technologies is a growth stock that pays no dividend, but Republic's research department believes the stock will dramatically outperform the S&P 500 over the next 12 to 18 months. Based on this strong recommendation, Munson adds Magic stock to her fund's portfolio. Munson has:

A) violated the Standards by relying on research that she did not perform herself.

B) violated the Standards by failing to comply with her portfolio's style mandate.

C) not violated the Standards and improved the diversification of the fund.

Question #29 of 29

Question ID: 1459340

According to Standard III(C) Suitability, which of the following is *least likely* to be considered a relevant factor in determining the appropriateness and suitability of investment recommendations or actions for each portfolio or client?

A) Basic characteristics of the total portfolio.

B) Needs and circumstances of the portfolio or client.

C) Best interests of the investment professional.