Ethical and Professional Standards

Mid-term Take-Home Exam

1. Kavil Poven recently left his job as a research analyst for a large investment adviser. While looking for a new position, he was hired by an investor-relations firm to write a research report on one of its clients, a small educational software company. The investor-relations firm hopes to generate investor interest in the technology company. The firm will pay Poven a flat fee plus a bonus if any new investors buy stock in the company as a result of Poven’s report. Poven accepts this payment arrangement.

2. While at a bar in the financial district after work, Ellen Miffitt, CFA, overheard several employees at one of her competitors discussing how they would manipulate down the price of a thinly traded micro-cap stock over the next days. Miffitt’s clients had large positions of this stock and when she arrived at work the next day, she immediately sold all of these holdings. As she had determined that the micro-cap stock was suitable for all of her accounts, even at its previously higher price, Miffitt bought back her clients’ original exposure at the end of week at the new, lower price.

3.Sheila Schleif, CFA, is an equity analyst at an investment bank. Schleif uses a data-driven computer model in making her stock recommendations. Schleif discovers the model contains a coding error. If the coding error were corrected, her most recent buy recommendation would change to a sell. Schleif corrects the coding error, issues a bank-wide revision of her recommendation chaning the buy to a sell, and then forwards the revision to all bank clients who received the initial recommendation.

4.Elis is a portfolio manager of high net worth clients. One day, she received a material from her brokerage introducing an investment product that claimed to provide an insured income. She quickly reviewed the product and sent out the emails to all her clients. The email heading was “New fixed income product! Hot opportunity!”, And she also in-closed the products prospectus in her email.

5. James Simone, CFA, the CFO of a publicly listed company, seeks to improve the quality of his company’s communication with institutional fund managers. He holds an investor briefing with this group the evening before the company earnings are announced. The company’s quarterly earnings are broadcast in a press release the next day before the market opens. The earnings information in the investor briefing is identical to that in the press release.