

## Chapter 4

1. A \_\_\_\_\_ is a private investment pool open only to wealthy or institutional investors that is exempt from SEC regulation and can therefore pursue more speculative policies than mutual funds.
  - A. commingled pool
  - B. unit trust
  - C. hedge fund
  - D. money market fund
  
2. Which of the following typically employ significant amounts of leverage?
  - I. Hedge funds
  - II. REITs
  - III. Money market funds
  - IV. Equity mutual funds
  - A. I and II only
  - B. II and III only
  - C. III and IV only
  - D. I, II, and III only
  
3. Rank the following fund categories from most risky to least risky:
  - I. Equity growth fund
  - II. Balanced fund
  - III. Sector fund
  - IV. Money market fund
  - A. IV, I, III, II
  - B. III, II, IV, I
  - C. I, II, III, IV
  - D. III, I, II, IV
  
4. The type of mutual fund that primarily engages in market timing is called \_\_\_\_\_.
  - A. a sector fund
  - B. an index fund
  - C. an ETF
  - D. an asset allocation fund

5. Assume that you have just purchased some shares in an investment company reporting \$500 million in assets, \$50 million in liabilities, and 50 million shares outstanding. What is the net asset value (NAV) of these shares?
- A. \$12
  - B. \$9
  - C. \$10
  - D. \$1
6. Which of the following is not a type of managed investment company?
- A. unit investment trusts
  - B. closed-end funds
  - C. open-end funds
  - D. hedge funds
7. Investors who want to liquidate their holdings in a closed-end fund may \_\_\_\_\_.
- A. sell their shares back to the fund at a discount if they wish
  - B. sell their shares back to the fund at net asset value
  - C. sell their shares on the open market
  - D. sell their shares at a premium to net asset value if they wish
8. Which of the following is a false statement regarding open-end mutual funds?
- A. They offer investors a guaranteed rate of return.
  - B. They offer investors a well-diversified portfolio.
  - C. They redeem shares at their net asset value.
  - D. They offer low-cost diversification.
9. Higher portfolio turnover:
- I. Results in greater tax liability for investors
  - II. Results in greater trading costs for the fund, which investors have to pay for
  - III. Is a characteristic of asset allocation funds
- A. I only
  - B. II only
  - C. I and II only
  - D. I, II, and III

10. Mutual funds that hold both equities and fixed-income securities in relatively stable proportions are called \_\_\_\_\_.
- A. income funds
  - B. balanced funds
  - C. asset allocation funds
  - D. index funds
11. \_\_\_\_\_ are mutual funds that vary the proportions of funds invested in particular market sectors according to the fund manager's forecast of the performance of that market sector.
- A. Asset allocation funds
  - B. Balanced funds
  - C. Index funds
  - D. Income funds
12. You are considering investing in one of several mutual funds. All the funds under consideration have various combinations of front-end and back-end loads and/or 12b-1 fees. The longer you plan on remaining in the fund you choose, the more likely you will prefer a fund with a \_\_\_\_\_ rather than a \_\_\_\_\_, everything else equal.
- A. 12b-1 fee; front-end load
  - B. front-end load; 12b-1 fee
  - C. back-end load; front-end load
  - D. 12b-1 fee; back-end load
13. Mutual fund returns may be granted pass-through status if \_\_\_\_\_.
- A. virtually all income is distributed to shareholders
  - B. the fund qualifies for pass-through status according to the U.S. tax code
  - C. the fund is sufficiently diversified
  - D. All of these options (All of the answers must be true for pass-through status to be granted.)
14. The ratio of trading activity of a portfolio to the assets of the portfolio is called the \_\_\_\_\_.
- A. reinvestment ratio
  - B. trading rate
  - C. portfolio turnover
  - D. tax yield

15. The difference between balanced funds and asset allocation funds is that \_\_\_\_\_.  
A. balanced funds invest in bonds while asset allocation funds do not  
B. asset allocation funds invest in bonds while balanced funds do not  
C. balanced funds have relatively stable proportions of stocks and bonds while the proportions may vary dramatically for asset allocation funds  
D. balanced funds make no capital gain distributions and asset allocation funds make both dividend and capital gain distributions
16. Advantages of ETFs over mutual funds include all but which one of the following?  
A. ETFs trade continuously, so investors can trade throughout the day.  
B. ETFs can be sold short or purchased on margin, unlike fund shares.  
C. ETF providers do not have to sell holdings to fund redemptions.  
D. ETF values can diverge from NAV.
17. Which of the following funds are usually most tax-efficient?  
A. equity funds  
B. bond Funds  
C. ETFs  
D. specialized-sector funds
18. Which type of fund generally has the lowest average expense ratio?  
A. actively managed bond funds  
B. hedge funds  
C. indexed funds  
D. actively managed international funds
19. Which type of investment fund is commonly known to invest in options and futures in large scale?  
A. commingled funds  
B. hedge funds  
C. ETFs  
D. REITs
20. Which type of fund is often priced at a significant discount to net asset value?  
A. open-end fund  
B. closed-end fund  
C. hedge fund  
D. ETF

21. A mutual fund has total assets outstanding of \$69 million. During the year the fund bought and sold assets equal to \$17.25 million. This fund's turnover rate was \_\_\_\_.
- A. 25.00%
  - B. 28.50%
  - C. 18.63%
  - D. 33.40%
22. Consider a no-load mutual fund with \$400 million in assets, 50 million in debt, and 15 million shares at the start of the year; and \$500 million in assets, 40 million in debt, and 18 million shares at the end of the year. During the year investors have received income distributions of \$0.50 per share, and capital gains distributions of \$0.30 per share. Assuming that the fund carries no debt, and that the total expense ratio is 0.75%, what is the rate of return on the fund?
- A. 12.09%
  - B. 12.99%
  - C. 8.25%
  - D. There is not sufficient information to answer this question
23. Consider a mutual fund with \$300 million in assets at the start of the year, and 12 million shares outstanding. If the gross return on assets is 18% and the total expense ratio is 2% of the year end value, what is the rate of return on the fund?
- A. 15.64%
  - B. 16.00%
  - C. 17.25%
  - D. 17.50%
24. The Stone Harbor Fund is a closed-end investment company with a portfolio currently worth \$300 million. It has liabilities of \$5 million and 9 million shares outstanding. If the fund sells for \$30 a share, what is its premium or discount as a percent of NAV?
- A. 9.26% premium
  - B. 8.47% premium
  - C. 9.26% discount
  - D. 8.47% discount

25. Which of the following typically employ significant amounts of leverage?

I. Hedge funds

II. REITs

III. Money market funds

IV. Equity mutual funds

A. I and II only

B. II and III only

C. III and IV only

D. I, II and III only

1	2	3	4	5
C	A	D	D	B
6	7	8	9	10
A	C	A	D	B
11	12	13	14	15
A	B	D	C	C
16	17	18	19	20
D	C	C	B	B
21	22	23	24	25
A	A	A	D	A

5.  $(\$500\text{m} - \$50\text{m}) \div \$50\text{m} = \$9$

21.  $\$17.25 \div \$69 = 0.25 = 25.00\%$

22. Since this is a no-load fund, all charges are already embedded in gross return. Thus, gross return and net return are the same.

$$\text{NAV}_0 = (\$400\text{m} - \$50\text{m}) / 15\text{m} = \$23.33$$

$$\text{NAV}_1 = (\$500\text{m} - \$500\text{m} \times 0.0075 - \$40\text{m}) / 18\text{m} = \$25.35$$

$$\text{Gross return} = (\$25.35 - \$23.33 + 0.80) / \$23.33 = 12.09\%$$

23.

$$\$300,000,000 \times 1.18 = \$354,000,000$$

$$\$354,000,000 \times 0.02 = \$7,080,000$$

$$(\$354,000,000 - \$7,080,000 - \$300,000,000) / \$300,000,000 = 15.64\%$$

24.

Discount as % of NAV =  $\$2.78 / \$32.78 = .0847 = 8.47\%$