Question #1 of 25

Question ID: 1581494

An analyst receives a research report from a colleague. The colleague's report has an elaborate table with performance data on publicly traded stocks. The colleague says the data in the table consists of measures provided by Standard & Poor's. The analyst finds the table a useful reference for a report she is writing. She uses several pieces of data from the table. The analyst is potentially in violation of:

A) no particular standard because this is appropriate activity.

B) Standard V(A), Diligence and Reasonable Basis, if she does not first verify the data in the table is accurate.

C) Standard I(C), Misrepresentation, concerning the use of the work of others.

Question #2 of 25

Question ID: 1581492

The following scenarios refer to recommendations made by two analysts.

- Jean King, CFA, is a quantitative analyst at Quantlogic, Inc. King uses computer-generated screens to differentiate value and growth stocks based on accounting numbers such as sales, cash flow, earnings, and book value. Based on her analysis of all domestically traded stocks in the U.S. over the past year, King concludes that value stocks as a class have underperformed growth stocks over that period. Using only this analysis, she recommends that account executives at Quantlogic sell all value stocks from the portfolios for which they have discretionary authority to trade and replace these stocks with growth stocks.
- James Capelli, CFA, is a fundamental analyst at Wheaton Capital Management, which focuses on regional stocks. His analysis of Branson Wireless includes the investment's basic characteristics such as information about historical earnings, ownership of assets, outstanding contracts, and other business factors. In addition to conducting both a general industry analysis and a company financial analysis, Capelli interviews key executives at Branson. Based on his analysis, he concludes that the company's future prospects are strong and issues a "buy" recommendation.

According to CFA Institute Standards of Professional Conduct, did King and Capelli have a reasonable and adequate basis for making their recommendations?

A) Both King and Capelli have a reasonable basis for their recommendations.

B) Capelli has a reasonable basis for his recommendation, but King does not.

C) King has a reasonable basis for his recommendation, but Capelli does not.

Question #3 of 25

Question ID: 1574953

Ethyl Redd recently joined Bloomington Investments as a research analyst. After spending an afternoon looking through the research team's archives, Redd is not sure Bloomington maintains the records that support the team's analysis and recommendations for the minimum 7-year period called for by Standard V(C), Record Retention. What is Redd's *most appropriate* course of action?

A) Decline to participate in any new research until she can verify that the firm is in compliance with the Standard.

B) Keep her own copies of the relevant records and maintain them at home for a minimum 7-year holding period.

C) Review the firm’s record retention procedures with her supervisor or compliance officer to ensure that they comply with the Standard, or suggest ways to bring them into compliance.

Question #4 of 25

Question ID: 1581505

Bob Hatfield, CFA, has his own money management firm with two clients. The accounts of the two clients are equal in value. It is Hatfield's opinion that interest rates will fall in the near future. Based upon this, Hatfield begins increasing the bond allocation of each portfolio. In order to comply with Standard V(B), Communication with Clients and Prospective Clients, the analyst needs to:

A) inform the clients of the change and tell them it is based upon an opinion and not a fact.

B) make sure that the change is identical for both clients.

C) perform both of these functions.

Question #5 of 25

Question ID: 1581502

Rhonda Meyer, CFA, is preparing a research report on Moon Ventures, Inc. In the course of her research she learns the following:

- Moon had its credit rating downgraded by a prominent rating agency 3 years ago due to sales pressure in the industry. The rating was restored 3 months later when the pressure resolved.
- Moon's insider trading has been substantial over the last 3 months. Holdings of Moon shares by officers, directors, and key employees were reduced by 50% during that period.

In Meyer's detailed report making a buy recommendation for Moon, both the credit rating downgrade and the insider trading were omitted from the report.

Meyer has:

A) not violated the Code and Standards in her report.

B) violated the Code and Standards by not including the insider trading information and by not including the credit rating downgrade in her report.

C) violated the Code and Standards by not including the insider trading information in her report.

Question #6 of 25

Question ID: 1574947

In preparing research reports, which of the following is *least likely* required or recommended by the Code and Standards?

A) Attribute paraphrases and summaries of material prepared by others.

B) Maintain copies of materials that were relied on in preparing the research report.

C) Send all reports to the firm's legal counsel to ensure compliance with securities laws.

Question #7 of 25

Question ID: 1581501

Janet Coleman, CFA, is preparing a research report on Union Utilities. During the past year, three of the five utility companies in her region have cut their dividends by 50%, on average, to provide more internal funds for capital investment. Coleman reasons that the management of Union will be under pressure to cut its dividends within the next year to remain competitive. Coleman issues a research report in which she states:

"Union will decrease its dividend from $2 to $1 a share by the second quarter to finance its investment opportunities. If investors buy the stock now at around $50 a share, their total return could exceed 20%."

With regard to the Standard on communication with clients and prospective clients, Coleman:

A) did not violate the Standard.

B) violated the Standard because she promised a specific return on an investment.

C) violated the Standard because she failed to distinguish opinion from fact.

Question #8 of 25

Question ID: 1581493

An analyst has found an investment with what appears to be a great return-to-risk ratio. The analyst double-checks the data for accuracy, keeps careful records, and is careful to not make any misrepresentations as he simultaneously sends an e-mail to all his clients with a "buy" recommendation. According to Standard V(A), Diligence and Reasonable Basis, the analyst has:

A) fulfilled all obligations.

B) violated the Standard by communicating the recommendation via e-mail.

C) violated the Standard if he does not verify whether the investment is appropriate for all the clients.

Question #9 of 25

Question ID: 1581509

Todd Gable, CFA, was attending a noon luncheon when he overheard two software executives talking about a common vendor, Datagen, about how wonderful they thought the company was, and about a rumor that a major brokerage firm was preparing to issue a strong buy recommendation on the stock. Gable returned to the office, checked a couple of online sources, and then placed an order to purchase Datagen in all of his discretionary portfolios. The orders were filled within an hour. Three days later, a brokerage house issued a strong buy recommendation and Datagen's share price went up 20%. Gable then obtained the brokerage house's research report on Datagen and quoted parts of it in a report to his clients. Gable has *most likely* violated the Standards by:

Gable has:

A) not having a reasonable basis for an investment action.

B) using material nonpublic information.

C) using the recommendation of another brokerage firm in his report.

Question #10 of 25

Question ID: 1574937

Peggy Green, CFA, is a research analyst following Brown Co. All the information she has gathered suggests the stock should be rated a weak "hold." During a recent lunch, Green overheard another analyst say that the stock should be rated a "buy." Green returns to her office and issues a "buy" recommendation. Green has *most likely* violated the Code and Standards by:

A) failing to distinguish between fact and opinion.

B) recommending an investment action without a reasonable basis.

C) acting or causing others to act on material nonpublic information.

Question #11 of 25

Question ID: 1574931

Don Wilson and Nadine Chavis, both CFA charterholders, are investment advisors at Uptown Securities. Wilson recommends that one of his clients buy Alpha Company based on research conducted by Uptown. Chavis recommends that one of her clients sell Alpha Company based on research conducted by another brokerage firm for general distribution. Both recommendations are consistent with each client's investment objectives and within the context of their entire portfolios. Neither Wilson nor Chavis has reason to suspect that any information contained in the research reports from these two sources is inaccurate or inadequately supported. According to Standard V(A) Diligence and Reasonable Basis, do Wilson and Chavis have a reasonable basis for making their investment recommendations?

A) Both of these advisors have a reasonable basis for their recommendations.

B) Neither of these advisors has a reasonable basis for their recommendations.

C) Only one of these advisors has a reasonable basis for his or her recommendation.

Question #12 of 25

Question ID: 1581504

An analyst has several groups of clients who are categorized according to their specific needs. Compared to research reports distributed to all of the clients, reports for a specific group:

A) are required to include more basic facts.

B) are not permitted by the Code and Standards.

C) may generally exclude more basic facts.

Question #13 of 25

Question ID: 1574943

Bertrand Greene, CFA, is preparing a report on Blanding, Inc. Blanding's earnings have increased in each of the last six years by an average of 11.8%. Based on his analysis, Greene projects that Blanding's earnings will increase by 12.5% in each of the next two years. When he refers to this projection in his report, Greene will violate the Code and Standards if he states:

A) "We expect Blanding's earnings growth to increase to 12.5% annually in the next two years."

B) "Blanding's earnings will grow at 12.5% annually in each of the next two years."

C) "Blanding's earnings have been compounding at approximately 11.8% annually."

Question #14 of 25

Question ID: 1581497

Several years ago, Hilton and Ross, a full service investment firm, managed the initial public offering of eCom, Inc. Now, eCom wants Hilton and Ross to underwrite its secondary public offering. A senior manager at Hilton and Ross asks Brent Whitman, CFA, one of its equity analysts, to write a favorable research report on eCom to help make the underwriting a success. Whitman conducts a thorough analysis of eCom and concludes that the company has serious problems that do not suggest a favorable financial outlook. Nevertheless, Whitman writes a favorable report because he is fearful of losing his job. Hilton and Ross publicly distribute a report that only contains a buy recommendation and a brief description of the basic characteristics of eCom. Whitman has violated:

A) Both Standard I(B) Independence and Objectivity and Standard V(A) Diligence and Reasonable Basis.

B) Standard I(B) Independence and Objectivity, only.

C) Standard V(A) Diligence and Reasonable Basis only.

Question #15 of 25

Question ID: 1581499

Standard V(B), Communication with Clients and Prospective Clients, *least likely* requires members to:

A) disclose the general principles of investment processes used to analyze and select securities, and construct portfolios.

B) make clear buy or sell recommendations on the securities covered in research reports.

C) use reasonable judgment regarding the inclusion or exclusion of relevant factors in research reports.

Question #16 of 25

Question ID: 1581498

Wes Smith, CFA, works for Advisors, Inc. In order to remain in compliance with Standard V(A), Diligence and Reasonable Basis, Smith may recommend a security in which of the following situations?

A) Advisors' research department recommends a stock.

B) For either of the reasons listed here.

C) Smith reads a favorable review of the security in a widely read periodical.

Question #17 of 25

Question ID: 1581508

According to CFA Institute Standards of Professional Conduct, members are *least likely* required to:

A) analyze the investment's basic characteristics before recommending a specific investment to a broad client group.

B) distribute a detailed research report to clients with any recommendation.

C) make diligent efforts to determine whether third party research relied on is sound.

Question #18 of 25

Question ID: 1581503

In the preparation of a research report, a CFA Institute member may emphasize certain matters, touch briefly on others, and omit some altogether:

A) provided that the analyst both has a reasonable basis and is unconstrained by the Mosaic theory.

B) provided that the analyst has a reasonable basis for his or her actions.

C) under no circumstances.

Question #19 of 25

Question ID: 1581500

An analyst finds a stock with historical returns that are not correlated with interest rate changes. The analyst writes a report for his clients that have large allocations in fixed-income instruments and emphasizes the observed lack of correlation. He feels the stock would be of little value to investors whose portfolios are composed primarily of equities. The clients with allocations of fixed income instruments are the only clients to see the report. According to Standard V(B), Communication with Clients and Prospective Clients, the analyst has:

A) violated the Standard concerning fair dealings with all clients.

B) violated the article in the Standard concerning facts and opinions.

C) not violated the Standard.

Question #20 of 25

Question ID: 1581495

An analyst writes a report and includes the forecasts of an econometric model developed by the firm's research department. The analyst identifies the source of the forecast and includes all the relevant statistics concerning the model. With respect to diligence and reasonable basis, the analyst has:

A) complied with the Standards.

B) violated the Standards by relying on model forecasts.

C) violated the Standards by not evaluating the model independently.

Question #21 of 25

Question ID: 1581496

Bill Fox, CFA, has been preparing a research report on New London Wire and Cable, one of his major investment clients. He had completed much of his analysis and had planned on having his report typed and bound today. Unfortunately, his briefcase was stolen while he ate breakfast, and he lost all his notes and working papers. The lost materials included his notes from management interviews, conversations with suppliers and competitors, dates of company visits, and his computer diskette containing much of his quantitative analysis. Fox's client needs this report tomorrow. In a panic, Fox called New London's vice president of finance and was faxed a copy of the company's most recent financial projections. Fox remembered that his own analysis showed that management's estimates were too high. He did not remember the exact amount, so he revised New London's figures downward 10%. Fox incorporated some charts and graphs on New London from a research report he received last week from a small regional research firm and some information from a Standard & Poor's reference work in his report, without reference to their sources. Fox has:

A) violated the requirement to have a reasonable basis for a recommendation and the prohibition against plagiarism.

B) violated none of the Standards.

C) violated the requirement to have a reasonable basis for a recommendation, the prohibition against plagiarism, and the requirement to maintain appropriate records.

Question #22 of 25

Question ID: 1581506

Nicole Wise, CFA, is an analyst at Chicago Securities. She attends a meeting with management of one of the companies that she covers. During the meeting, management expresses great optimism about the company's recent acquisition of a new business. Wise is excited about these prospects and issues a research report that states that the company is about to achieve significant success with the new acquisition. Wise has:

A) not violated CFA Institute Standards of Professional Conduct because she had reasonable reason to believe that the statements in her report were true.

B) violated CFA Institute Standards of Professional Conduct because she did not check the accuracy of the statements that management made.

C) violated CFA Institute Standards of Professional Conduct because she misrepresented the optimism by turning it to certainty.

Question #23 of 25

Question ID: 1574941

Ted Riczek, CFA, is an independent investment advisor. Riczek often makes investment recommendations to clients based on research from several third-party sources. The Code and Standards *most likely* require Riczek to:

A) disclose to his clients the sources of any third-party research that supports his recommendations.

B) make a reasonable effort to verify that the third-party research is sound.

C) perform his own research rather than relying on third-party research.

Question #24 of 25

Question ID: 1581507

Lee Hurst, CFA, is an equity research analyst who has recently left a large firm to start independent practice. He is able to re-create several of his previous research reports, based on his clear recollection of supporting documentation he compiled at his previous employer. He publishes the reports and obtains several new clients. Hurst is *most likely*:

A) not in violation of any Standard.

B) in violation of the Standard concerning diligence and reasonable basis.

C) in violation of the Standard concerning record retention.

Question #25 of 25

Question ID: 1574933

A client calls his money manager and asks the manager to liquidate a large portion of his assets under management for an emergency. The manager warns the client of the risk of selling many assets quickly but says that he will try to get the client the best possible price. This is a violation of:

A) none of the Standards listed here.

B) Standard III(C), Suitability.

C) Standard V(A), Diligence and Reasonable Basis.