CFA-LEVEL-1 Q&As

CFA Level I Chartered Financial Analyst

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QUESTION 1

The following data are available for a firm for a given year:

Net Sales 21,896 Sales and marketing expenses 4,346 Administrative expenses 2,143 COGS 10,084 Depreciation 967 Interest expense 573 Tax rate 35% Dividends paid 3,445 Preferred Dividends 897 Average total equity 37,432 Average common equity 26,782 Average total liabilities 18,583

The firm\\'s gross profit margin equals ________.

A. 0.45

B. 0.39

C. 0.24

D. 0.54

Correct Answer: D

Gross Profit = 21,896 - 10,084 = 11,812 and

Gross Profit margin = 11,812/21,896 = 0.54 = 54%.

QUESTION 2

Jack Saunders is analyzing Barco Incorporated, an industrial conglomerate company. Saunders is estimating the intrinsic value for Barco Incorporated by forecasting the company\\'s earnings per share and earnings multiplier. Which of the following attributes of Barco is least likely to increase the company\\'s earnings multiplier?

A. Barco Incorporated has never had a restructuring charge in its history.

B. Barco Incorporated^ earnings move in tandem with overall economic growth.

C. Barco Incorporated\\'s dividend has been increasing for the last 30 years.

Correct Answer: B

QUESTION 3

Which of the following statements about portfolio theory is FALSE?

A. For a two-stock portfolio, the lowest risk occurs when the correlation coefficient is close to negative one.

B. Assuming that the correlation coefficient is less than one, the risk of the portfolio will always be less than the simple weighted average of individual stock risks.

C. Risk aversion results in an upward sloping security market line (SML).

D. When the return on an asset added to a portfolio has a correlation coefficient of less than one with the other portfolio asset returns but has the same risk, adding the asset will not decrease the overall portfolio standard deviation.

Correct Answer: D

This statement misstates the principle of diversification and should read, "When the return on an asset added to a portfolio has a correlation coefficient of less than one with the other portfolio asset returns but has the same risk, adding the asset will decrease the overall portfolio standard deviation." Anytime the correlation coefficient is less than one, there are benefits from diversification. The other choices are true.

QUESTION 4

According to the Prudent Investor Rule, the trustee must: - adhere to loyalty, impartiality and prudence maintain overall portfolio risk at a reasonable level - provide for reasonable ________ of trust investments act with prudence in deciding whether and how to delegate authority to experts and in selecting and supervising agents - be cost conscious when investing

A. supervision

B. commitment

C. diversification

D. none of these answers

Correct Answer: C

Modern Portfolio Theory dictates that trustees consider a portfolio in its entirety and not just on an investment-by-investment basis. As a fiduciary, therefore, the trustee must: - adhere to fundamental fiduciary duties of loyalty, impartiality and prudence. - maintain overall portfolio risk at a reasonable level the trade-off between risk and return is the fiduciary\\'s central concern. - provide for reasonable diversification of trust investments. - act with prudence in deciding whether and how to delegate authority to experts and in selecting and supervising agents. - be cost conscious when investing.

QUESTION 5

Performance is the record of the ________.

A. individual

B. firm

C. investment manager

D. child

E. person

Correct Answer: B

To be in compliance with the PPS, a firm\\'s presentation of performance must comply on a firmwide basis and must consist of 10 years of performance (or records since the date of inception if the firm is younger than 10 years).

Dumps