

**MODULE 4
INVESTMENT PLANNING**

SAMPLE QUESTIONS

1. Of the four pairs of portfolios, which pair provides the highest level of diversification?
 - a) Portfolio 1 & 2: with a correlation coefficient of +0.92
 - b) Portfolio 3 & 4: with a correlation coefficient of +0.37
 - c) Portfolio 5 & 6: with a correlation coefficient of 0
 - d) Portfolio 7 & 8: with a correlation coefficient of -0.78

2. Which of the following assumptions support the use of technical analysis?
 - a) Future performance should be reflective of past performance
 - b) The values of market indices and stock prices are determined based on supply and demand
 - c) Stock prices move in trends that would persist over long periods
 - d) All the above

3. Given the following information about securities A and B:

Historical Returns for Securities

	A	B
Year 1	10%	18%
Year 2	6%	12%
Year 3	0%	2%

Which of the following are true about Securities A and B?

- 1) A is more risky because it has a higher standard deviation.
 - 2) B is more risky because it has a higher standard deviation.
 - 3) A has a higher risk-adjusted return.
 - 4) B has a higher risk-adjusted return.
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- a) 1 and 3
 - b) 1 and 4
 - c) 2 and 3
 - d) 2 and 4

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4. What is the duration of a zero coupon bond with yield to maturity of 6% maturing in 6 years time?
- a) 4.35
 - b) 5.34
 - c) 6.00
 - d) 6.35
5. In industry life cycle, revenue, margin and profit are expected to peak in the following order:
- a) Revenue, margin, profit
 - b) Margin, profit, revenue
 - c) Margin, revenue, profit
 - d) Profit, margin, revenue
6. The broadest measure of inflation is:
- a) Consumer Price Index
 - b) Wholesale Price Index
 - c) Price deflator
 - d) Both a and b
7. If a bond is selling at a premium _____
- a) It is an attractive investment
 - b) Its realised compound yield will be less than the yield to maturity
 - c) Its coupon rate is below market rate
 - d) Its current yield is lower than the coupon rate
8. The trust deed lays down the terms and conditions under which the unit holders money is to be invested. Specifically, it details:
- a) The unit trust scheme
 - b) The types of authorized investments
 - c) All fees and charges
 - d) All of the above

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9. Which of the following is NOT a characteristic of a balance fund?
- a) It provides both growth and income objectives
 - b) It is less risky than growth funds
 - c) It is more risky than income funds
 - d) It must invest in both equity and bonds in equal amount
10. Disclosure statements to prospective clients include all of the following except:
- a) Performance record of other clients
 - b) The method of remuneration, fees and commissions
 - c) Access to internal and external complaint handling mechanism
 - d) Disclosure of any conflict of interest

Answers:

1(d) 2(d) 3(d) 4(c) 5(b) 6(c) 7(d) 8(d) 9(d) 10(a)

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