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Exam : CFA Level 2

Title : CFA Level 2 Exam

Version : DEMO

1.Glenda Garvey is interning at Samson Securities in the summer to earn money for her last semester of studies for her MBA. She took the Level 3 CFA® exam in June but has not yet received her score. Garvey's work involves preparing research reports on small companies.

Garvey is at lunch with a group of co-workers. She listens to their conversation about various stocks and takes note of a comment from Tony Topel, a veteran analyst. Topel is talking about Vallo Engineering, a small stock he has tried repeatedly to convince the investment director to add to the monitored list. While the investment director does not like Vallo, Topel has faith in the company and has gradually accumulated 5,000 shares for his own account. Another analyst, Mary Kennedy, tells the group about Koral Koatings, a paint and sealant manufacturer. Kennedy has spent most of the last week at the office doing research on Koral. She has concluded that the stock is undervalued and consensus earnings estimates are conservative. However, she has not filed a report for Samson, nor does she intend to. She said she has purchased the stock for herself and advises her colleagues to do the same. After she gets back to the office, Garvey purchases 25 shares of Vallo and 50 shares of Koral for herself.

Samson pays its interns very little, and Garvey works as a waitress at a diner in the financial district to supplement her income. The dinner crowd includes many analysts and brokers who work at nearby businesses. While waiting tables that night, Garvey hears two employees of a major brokerage house discussing Metrona, a nanotechnology company. The restaurant patrons say that the broker's star analyst has issued a report with a buy rating on Metrona that morning. The diners plans to buy the stock the next morning. After Garvey finishes her shift, restaurant manager Mandy Jones, a longtime Samson client, asks to speak with her. Jones commends Garvey for her hard work at the restaurant, praising her punctuality and positive attitude, and offers her two tickets to a Yankees game as a bonus.

The next morning, Garvey buys 40 shares of Metrona for her own account at the market open. Soon afterward, she receives a call from Harold Koons, one of Samson's largest money-management clients. Koons says he got Garvey's name from Bertha Witt, who manages the Koons' account. Koons wanted to reward the analyst who discovered Anvil Hammers, a machine-tool company whose stock soared soon after it was added to his portfolio. Garvey prepared the original report on Anvil Hammers. Koons offers Garvey two free round-trip tickets to the city of her choice. Garvey thanks Koons, then asks her immediate supervisor, Karl May, about the gift from Koons but does not mention the gift from Jones. May approves the Koons' gift.

After talking with May, Garvey starts a research project on Zenith Enterprises, a frozen-juice maker. Garvey's gathers quarterly data on the company's sales and profits over the past two years. Garvey uses a simple linear regression to estimate the relationship between GDP growth and Zenith's sales growth. Next she uses a consensus GDP estimate from a well-known economic data reporting service and her regression model to extrapolate growth rates for the next three years.

Later that afternoon, Garvey attends a company meeting on the ethics of money management. She listens to a lecture in which John Bloomquist, a veteran portfolio manager, talks about his job responsibilities. Garvey takes notes that include the following three statements made by Bloomquist:

Statement 1: I'm not a bond expert, and I've turned to a colleague for advice on how to manage the fixed-income portion of client portfolios.

Statement 2: I strive not to favor either the remaindermen or the current-income beneficiaries, instead I work to serve both of their interests.

Statement 3: All of my portfolios have target growth rates sufficient to keep ahead of inflation.

Garvey is not working at the diner that night, so she goes home to work on her biography for an online placement service.
In it she makes the following two statements:

Statement 1: I'm a CFA Level 3 candidate, and I expect to receive my charter this fall. The CFA program is a grueling, 3-part, graduate-level course, and passage requires an expertise in a variety of financial instruments as well as knowledge of the forces that drive our economy and financial markets.
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During the lunch conversation, which CFA Institute Standard of Professional Conduct was most likely violated?
A. III(B) Fair Dealing.
B. IV(A) Loyalty.
C. V(A) Reasonable Basis.
Answer: B
Explanation:
Topel recommended the stock to his superiors, but they chose not to buy it. While Topcl should not buy the stock in advance of his recommendation, he is not prohibited from purchasing it for himself should the company choose not to act. Kennedys research may have been thorough, and there is no evidence that she violated the reasonable-basis Standard.
However, the loyalty Standard requires that Kennedy put Samson Securities' interest before her own and not deprive her employer of her skills and abilities. Since Kennedy spent five days of company time researching Koral Koatings, the company has a right to benefit from her research. (Study Session 1, LOS 2.a)

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Does Garvey's acceptance of the gifts from Koons and Jones violate Standard 1(B) Independence and Objectivity?
A. Accepting Koons' gift was a violation.
B. Accepting Jones* gift was a violation.
C. Neither gift would result in a violation.
Answer: C
Explanation:
The Koons' gift does not violate Standard 1(B). According to the standard, gifts from clients are different from gifts from other parties because the potential for obtaining influence to the detriment of other clients is not as great. Therefore, according to the standard, Garvey may accept the Koons' gift as long as she discloses it to her employer, which she did. See Example 7 on pages 22 and 23 of the Standards of Practice Handbook, 9th edition^ for an example of how the standard was applied in a similar situation.

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Did Garvey violate Standard 11(A) Material Nonpublic Information when she purchased Vallo and Metrona?

A. Buying Vallo was a violation.
B. Buying Metrona was a violation.
C. Neither purchase was a violation.
Answer: C
Explanation:

Topels purchases of Vallo do not violate Standard 11(A) because ii was not based on material nonpublic information, and he has no duty to keep the information to himself Therefore, Garvey's purchase of Vallo for her own account is also consistent with Standard 11(A).

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In her estimation of Zenith's future growth rate, what standard did Garvey violate?
A. Standard 1(C) Misrepresentation regarding plagiarism.
B. Standard V(A) Diligence and Reasonable Basis.
C. Both 1(C) and V(A).
Answer: B
Explanation:
Garveys idea for a growth estimate is interesting, but a number of factors affect the growth rate of a beverage company, many arguably more so than GDP growth. In addition, it is not sufficient to use two years worth of quarterly data (eight observations) to estimate a regression model and forecast growth over the following three years. The research was not thorough enough to satisfy Standard V(A).

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Which of Bloomquist's statements most likely applies to both the Prudent Man Rule and the Prudent Investor Rule?
A. Statement 1.
B. Statement 2.
C. Statement 3.
Answer: B
Explanation:
The impartiality standard requires prudent handling of different interests, such as those of different beneficiaries. This standard changed very little with the adoption of the Prudent Investor Rule. All of the other statements reflect provisions of the Prudent Investor Rule rhat would not have been permitted under rhe old Prudent Man Rule. Under the old Prudent Man Rule:
- The trustee was not allowed to delegate any duties to others.
- The preservation of the principal and purchasing power by earning a return sufficient to offset inflation was required. Under the new Prudent Investor Rule, growth in the real value of the principal (returns in excess of inflation) is permissible. (Study Session 2, LOS lO.c)