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Question: 1

Sarah would like to add another stock holding to her portfolio. She is researching the financial condition of different companies and trying to determine their potential for future growth. What type of approach is Sarah taking when reviewing these companies?

- A. Technical analysis.
- B. Fundamental analysis.
- C. Passive investment strategy.
- D. Tactical asset allocation.

Answer: B

Explanation:

Sarah is applying fundamental analysis because she is evaluating companies' financial condition and their prospective ability to grow.

Fundamental analysis examines the underlying economic characteristics of an issuer. Typical factors include revenue growth, earnings, cash flow, profitability ratios, debt levels, competitive position, management quality, industry conditions, economic outlook, and valuation measures. The purpose is to estimate the company's intrinsic value and compare it with the current market price.

Technical analysis takes a fundamentally different approach. It studies market-generated information such as historical prices, volume, chart formations, momentum, and trading patterns rather than concentrating principally on a company's underlying financial performance.

A passive investment strategy generally seeks to replicate a market index or predetermined asset class rather than select individual companies through detailed security analysis. Tactical asset allocation involves actively changing the portfolio's allocation among broad asset classes based on shorter-term market expectations. Neither describes Sarah's company-by-company investigation.

Because Sarah is explicitly researching companies' financial condition and future growth potential, her analysis concerns the economic fundamentals that support future earnings and valuation.

Question: 2

Hannah would like to replace her current vehicle and is considering leasing instead of financing. Hannah commutes a considerable distance from outside the city each day for her work. She thinks leasing would allow her to always have a newer and more reliable vehicle. What is an important factor for Hannah to consider before making her decision?

- A. The lease company covers all scheduled maintenance reducing her costs.
- B. The payments would be higher relative to financing.
- C. Mileage limits may add extra costs for her at the end of the lease.
- D. She would require a larger down payment than if financing.

Answer: C

Explanation:

Hannah's long daily commute makes the lease's kilometre allowance a critical consideration. Vehicle leases normally specify a maximum number of kilometres that may be driven during the lease term. Where actual usage exceeds the contractual allowance, the lessee can be charged an excess-kilometre fee when the vehicle is returned. Because Hannah travels a considerable distance each day, her annual driving is likely to be substantially higher than that of a typical driver, increasing the risk of a material end-of-lease charge.

Leasing may provide access to a newer vehicle and can produce lower periodic payments than financing an equivalent vehicle, but this advantage can be offset by kilometre charges, wear-and-tear charges, and the absence of vehicle ownership at the end of the term.

Option A is not generally correct because routine maintenance remains the lessee's responsibility unless a specific maintenance package is included. Option B is not inherently true; lease payments are frequently lower than financing payments because the lessee finances primarily the vehicle's depreciation during the lease term. Option D is similarly not a general leasing requirement.

For Hannah, expected annual mileage should therefore be calculated before selecting leasing over financing.

Question: 3

In order to complete the analysis and development of a financial plan, an advisor receives a client's investment statements and tax returns. From the perspective of principle six (code of ethics), what action should the advisor take in order to maintain a relationship of trust and confidence?

- A. Securing the documents to be used by authorized personnel only.
- B. Referring the client for needs to other professionals within the advisor's network.
- C. Making product suggestions that strictly benefit the client's overall financial positioning.
- D. Using the data to investigate products before making a recommendation.

Answer: A

Explanation:

Principle 6 of the FP Canada Code of Ethics is Confidentiality. It requires client information to be secured, protected, and maintained so that access is limited to authorized persons.

FP Canada's Standards state directly that client information must be handled in a manner that permits access only to those who are authorized, and that the relationship of trust and confidence depends on personal and confidential information being collected, used, and disclosed only as authorized.

Investment statements and tax returns contain highly sensitive financial and personal information. The advisor must therefore maintain appropriate physical and electronic safeguards, restrict internal access to personnel who require the information for authorized purposes, and avoid disclosure to external parties unless the client has authorized it or disclosure is otherwise legally permitted or required.

Option B involves professional referrals and raises separate considerations concerning competence, scope, and client consent. Option C is more closely related to placing the client's interests first. Option D relates to analysis and diligence but does not specifically address the ethical requirement described by Principle 6.

Accordingly, securing the documents so that only authorized personnel can access them directly satisfies the confidentiality obligation.

Question: 4

Spouse A, age 69, has been making regular contributions to a spousal Registered Retirement Savings Plan for spouse B, age 65. Assuming Spouse A has sufficient unused contribution room to carry forward, how long can they continue making contributions on behalf of Spouse B?

- A. First 60 days of the year, in which Spouse A turns 71.
- B. End of the calendar year, in which Spouse B turns 71.
- C. End of the calendar year, in which Spouse A turns 71.
- D. First 60 days of the year, in which Spouse B turns 71.

Answer: B

Explanation:

The relevant age for determining how long contributions can continue to a spousal RRSP is the age of the spouse who is the annuitant of that RRSP—Spouse B.

CRA confirms that even after a contributor has passed the age at which contributions to the contributor's own RRSP are permitted, the contributor may continue making deductible contributions to a spouse's or common-law partner's RRSP, provided the contributor has RRSP deduction room and the spouse is 71 or younger on December 31 of the contribution year.

Accordingly, Spouse A's reaching age 71 does not by itself terminate the ability to contribute to Spouse B's spousal RRSP. Since Spouse B is currently 65, contributions can continue until December 31 of the calendar year in which Spouse B turns 71, assuming Spouse A continues to have available RRSP deduction room.

The “first 60 days” concept concerns which taxation year certain RRSP contributions may be deducted against; it does not extend an RRSP's statutory contribution eligibility beyond the end of the year in which its annuitant turns 71.

Therefore, option B correctly identifies the deadline.

Question: 5

Which term describes an attempt to create a tax system that gives no preference to the form of ownership?

- A. Integration.
- B. Equalization.
- C. Equilibrium.
- D. Graduated rates.

Answer: A

Explanation:

Integration describes the Canadian tax-policy objective of producing approximately the same overall tax burden whether income is earned personally or through a corporation and subsequently distributed to an individual shareholder.

Without integration, income earned through a corporation could be subject to inappropriate double taxation or, conversely, receive a permanent tax advantage solely because of the ownership structure. Canada attempts to mitigate this through mechanisms such as the dividend gross-up and dividend tax credit.

CRA describes the principle directly: corporate and personal tax integration is intended so that income earned by a Canadian corporation and paid to an individual as a dividend bears approximately the same combined tax as income earned directly by the individual.

“Equalization” is not the relevant tax principle in this context; it is commonly associated with fiscal transfers among governments. “Equilibrium” is an economic concept rather than the Canadian corporate-personal tax mechanism. “Graduated rates” refers to progressive taxation under which marginal tax rates increase as taxable income increases.

Integration therefore seeks tax neutrality between different forms of ownership or income earning, particularly corporate versus direct individual ownership.

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