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QUESTION 1

Which of the following events would a technical analyst interpret as bullish?

- A. a decline in the ratio of specialist's short sales to total short sales
- B. all of these answers
- C. an increase in debit balances in brokerage accounts
- D. when the proportion of bullish speculators declines to 30 percent

Correct Answer: B

(1)

Decline of specialist's short sale ratio to below 30%;

(2)

Increase in debit balance means that investors have to post increasing margin to for more investments;

(3)

Percentage of bullish stock futures speculators decline (because if market is bullish then speculation is irrelevant) - are all signs that the market may be turning bullish.

QUESTION 2

An analyst is using the following information to value AGF Company's common shares. AGF paid a dividend of \$1.90 per share last year. Dividends are expected to grow at 6% forever. The risk-free rate is 5%, the market risk premium is 7%, and the beta of the common shares is 1.3. The value of the AGF Company's common shares is closest to:

- A. \$23.46
- B. \$24.86
- C. \$33.57

Correct Answer: B

QUESTION 3

Danielle Paftee, age 55, has an investment account designed to fund her granddaughter's college education. Paftee's granddaughter is two years old. Paftee also will use the account for intermittent health care expenses for her elderly parents, whose health plans and retirement plans do not adequately cover their expenses. Which of the following statements regarding Paftee's investment objectives and constraints is least likely correct?

- A. Paftee has a long-term time horizon.
- B. Paftee has a significant liquidity requirement.



C. Paftee should focus on total return with very low current income requirements.

Correct Answer: C

QUESTION 4

Arvantis works for Quick-time Brokerage. He has not been happy with his employment for some time and recently decided to start his own hedge fund. He started making administrative preparations for setting up the fund while still working for Quick-time Brokerage. He also made contact with a few of his oldest clients and gave them details about his hedge fund. The clients promised to switch accounts once the fund was initiated. Arvantis has:

I. violated Standard III (B) - Duty to Employer by making preparations to enter a competitive business while still being employed with Quick-time Brokerage.

II. violated Standard III (B) - Duty to Employer by soliciting Quick-time Brokerage's clients while still being employed with Quick-time Brokerage.

III.

not violated Standard III (B) - Duty to Employer.

A.

I only

B.

II only

C.

I and II

D.

III only

Correct Answer: B

Standard III (B) - Duty to Employer - does not preclude a departing employee from making arrangements to enter independent practice prior to leaving current employment, as long as such preparations do not constitute a breach of loyalty toward the employer. However, undertaking any activity that harms the current employer is a violation of III (B).

QUESTION 5

A mature firm, in the face of a new product introduced by its competition, has suddenly seen its profit margins fall by 50%. The market expects the management to streamline its sales force in a very short time and increase the sales-to-assets ratio by 30%. The dividend growth rate due to these changes will:

A. decrease by 50%.

B. decrease by 15%.



C. increase by 30%.

D. decrease by 35%.

Correct Answer: D

Use $g = \text{ROE} \times \text{retention ratio}$ and

$\text{ROE} = \text{profit margin} \times \text{asset turnover} \times \text{financial leverage}$.

If profit margin falls by 50% and asset turnover increases by 30%, the change in ROE is $(1-0.5) \times (1+0.3) - 1 = -0.35$. With retention ratio constant, a 35% fall in ROE translates into a 35% fall in dividend growth rate.

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