

Account are  
investments indirect  
investing assignment

Business



Chapter 3 INDIRECT INVESTING Multiple Choice Questions Investing Indirectly

1. Which of the following is not a characteristic of investments companies? a. pooled investing b. diversification c. managed portfolios d. reduced expenses

2. In order to avoid paying income taxes, an investment company must: a. be classified as a non-profit organization b. invest only in municipal bonds. c. pass on interest, dividends, and capital gains to the stockholders. d. be registered as a closed-end investment company.

3. Investment companies must register with the SEC under the provisions of the: . Securities Act of 1933 b. Securities Exchange Act of 1934 c. Maloney Act of 1938 d. Investment Company Act of 1940

Types of Investment Companies

4. The most popular type of investment company is a: a. unit investment trust. b. mutual fund. c. closed-end investment company d. real estate investment trust.

5. An unmanaged fixed income security portfolio handled by an independent trustee is known as a: a. junk bond fund b. closed-end investment company. c. unit investment trust. d. hedge fund.

6. Which of the following is a major objective of unit investment trusts? . capital preservation b. capital gains c. current income d. tax deferment

7. A major difference between a closed-end investment company and an open-end investment company is that: a. closed-end investment companies are generally much riskier. b. their security portfolios are substantially different. c. closed-end investment companies are passive investments and open-ends are not. d. closed-end companies have a more fixed capitalization.

8.. Which of the following generally trade on stock exchanges? a. unit investment trusts b. closed-end investment companies c. pen-end investment companies d. All trade on stock exchanges.

9. Which of the following statements concerning

the trend in investment company growth is true? a. The recent trend shows more growth in closed-end investment companies. b. The recent trend shows more growth in unit investment trusts. c. The recent trend shows more growth in open-end investment companies. d. All investment companies have been growing at an equal rate. 10. Which of the following is not one of the characteristics of exchange traded funds (ETFs)? a. They are passive portfolios. b. They are managed investments. c.

They often track a particular sector of the market. d. All of the above are characteristics of ETFs. 11. It is not important to have a secondary market for mutual funds because: a. investors hold the securities till maturity. b. investors trade between themselves. c. investors sell their shares back to the company. d. banks will cash their shares as long as they have accounts at the bank. 12. Which of the following is not an ETF (exchange traded fund)? a. Spider b. Clubs c. Cubes d. Diamonds 13. Which of the following is true regarding ETFs? a. They trade on exchanges like individual stocks. b.

They can be bought on margin or sold short. c. They have management fees higher than other mutual funds. d. All of the above are true regarding ETFs.

Types of Mutual Funds 14. A group of mutual funds with a common management are known as: a. fund syndicates. b. fund conglomerates. c. fund families. d. fund complexes. 15. Which of the following is not true regarding money market funds? a. They charge no sales charge, redemption fee or management fee. b. Their maximum average maturity is 90 days. c. Normally, there are no capital gains or losses on their shares. d. All of the above are true. 16.

If a mutual fund holds a substantial amount of Treasury bills, this is probably a(an): a. tax-exempt fund. b. conservative bond fund. c. income fund d. money market mutual fund. 17. Which of the following is true regarding value funds and growth funds? a. Value funds seek stocks that are cheap by fundamental standards while growth funds seek stocks with high current earnings. b. Growth funds typically outperform value funds. c. Value funds and growth funds tend to perform well at different times. d. All of the above are true. 18. In general, index funds: a. are higher risk than other funds. b. re traded on the exchanges. c. have lower expenses than other funds. d. all of the above. The Mechanics of Investing Indirectly 19. Net asset value takes into account: a. both realized and unrealized capital gains. b. only realized capital gains. c. only unrealized capital gains. d. neither realized or unrealized capital gains. 20. If NAV > market price of a fund, then the fund: a. is selling at a discount. b. is selling at a premium. c. is an index fund. d. is an ETF. 21. Mutual funds may be affiliated with an underwriter. This means: a. the underwriter has an exclusive right to distribute shares. . the underwriter selects the securities in the portfolio. c. there is no risk to the issuer of the mutual fund. d. there is no risk to the investor of the mutual fund. 22. A loading fee is a: a. type of income tax. b. management fee. c. origination fee. d. sales charge. 23. A 12b-1 fee is a: a. redemption fee. b. sales charge c. distribution fee. d. loading fee. 24. No-load funds sell: a. at net asset value. b. below net asset value. c. above net asset value. d. at a discount. 25. No-loads charge no sales fee because: a. they are legally prohibited from doing so. b. hey charge a redemption fee instead. c. they have no sales force. d. they charge a 12b-1 fee instead. 26. Which of the

following types of mutual fund shares typically does not charge a front-end sales charge but does impose a redemption fee that declines over time? a. Class A shares b. Class B shares c. Class C shares d. Class D shares 27.

Which brokerage firm was charged in 2004 with allowing late trading of mutual funds for some of its clients? a. Merrill Lynch b. E. F. Hutton c.

Charles Schwab d. Edward D. Jones 28. Which of the following statements regarding fund expenses and performance is true? . The higher-performing funds generally have the highest expenses. b. The stock funds generally have higher expenses than bond funds. c. The index funds generally have higher expenses than non-index funds. d. The lower performing funds generally have the highest expenses. Investment Company Performance 29.

In the mutual fund industry, the most common performance measure is a hypothetical rate of return which assumes performance is constant over the entire period and is known as the: a. cumulative total return. b. average annual total return. c. total indexed return. d. ompounded geometric return.

30. On average, which type of mutual fund is expected to have the highest performance? a. money market funds b. bond funds c. equity funds d.

municipal bond funds Investing Internationally Through Investment

Companies 31. Global funds tend to keep ——— percent of their assets in ———. a. 50; foreign securities. b. 50; single-country securities. c. 25;

foreign securities. d. 25; United States. 32. Single-country funds have traditionally: a. outperformed international funds. b. underperformed

international funds. c. been open-end. d. een; closed-end. The Future of

Indirect Investing 33. The 2 largest fund supermarkets are: a. Merrill Lynch and Charles Schwab b. Edward D. Jones and Vanguard c. Vanguard and

Fidelity d. Charles Schwab and Fidelity 34. A portfolio of directly-owned individual securities guided by an investment manager is known as a: a. IRA. b. IMA. c. SMA. d. DCA. 35. Unregulated companies that seek to exploit various market opportunities and require a substantial investment from investors are known as: a. derivatives. b. options. c. hedge funds. d. SMAs. True-False Questions Investing Indirectly 1.

Each investment company investor shares in the returns of the fund's portfolio and also shares in the cost of running the fund. 2. Buying shares of a mutual fund is an example of indirect investing. 3. To qualify as a regulated investment company, a fund must distribute at least 50 percent of its taxable income to the shareholders. 4. Under the Securities Act of 1933, investment companies are required to register with the SEC. Types of Investment Companies 5. Most unit investment trusts are considered active investments. 6. ETFs are managed investment portfolios that offer investors targeted diversification. . Many ETFs report little or no capital gains over the years giving them greater tax efficiency than many mutual funds. 8. Closed-end investment companies typically sell additional shares of its own stock every few years. Types of Mutual Funds 9. Almost 70 percent of all U. S. households owned mutual funds as of 2005. 10. Investment company managers seek to increase the size of the funds being managed as the cost of oversee additional amounts of money rises less than the revenue rate. 11. Approximately 85 percent of money market assets are in non-taxable funds. 12.

You would expect a value fund to buy stock based on a sound earnings record while growth funds might invest in companies with no earnings record at all. 13. Loaded funds generally outperform the no-load funds. 14. Both open-end and closed-end investment company shares may sell at a discount from NAV. 15. A 12b-1 fee is used to cover a fund's cost of distribution. 16. Investors desiring no-load funds must generally seek them out since there is no sales force. 17. No-load funds charge a one-time expense fee to cover all operating expenses. Mechanics of Investing Indirectly 18.

The net asset value of a mutual fund does not consider unrealized capital gains. 19. Index funds tend to have lower expenses than other funds because they are larger in size. Investment Company Performance 20. Total return for a mutual fund includes capital gains less any reinvested dividends. 21. Under its new system, Morningstar ranks funds against comparable funds in approximately 50 categories. 22. It is possible under the new Morningstar ratings that one class of shares of a mutual fund can have a different rating than another class of shares of the same mutual fund. 23.

Survivorship bias occurs when mutual funds are merged or liquidated and only surviving funds' performance is reported. Investing Internationally Through Investment Companies 24. Global funds tend to hold a higher percentage of their portfolio in U. S. securities than do international funds. Future of Indirect Investing 25. The major advantage of Separately Managed Accounts (SMA) is control and the direct owner may be able to specify investment restrictions. 26. Hedge funds typically require a large initial

investment and may have restrictions on how quickly investors can withdraw their funds.