

**Certified Private Wealth Professional
(CPWP)
Module 1 Examination
Sample Practice Test**

Paper 2: Wealth Management

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Room 510, 5/F, Wing On Centre, 111 Connaught Road Central, Hong Kong

General enquiry hotline: (852) 3120-6100

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Question 1

Which **ONE** of the following actions would the family patriarch of an ultra high net worth family **MOST LIKELY** employ for building and perpetuating the family's legacy in future generations?

- A Designing a trust to allow their next generations access to income but not outright ownership of capital assets.
- B Embarking on philanthropic giving.
- C Minimising exposure to inheritance tax in relevant jurisdictions.
- D Optimising the family office's organisational structure.

Question 2

The key to success of the private bank/trust company model is:

- A maintaining organisational silos.
- B working with the firm's specialist to devise derivative overlays that seek to minimise the risk of a concentrated position of its customers.
- C a good relationship management together with the support of the institution's other corporate/investment banking business.
- D providing fee-based services and completely independent advice.

Question 3

Which of the following actions would **LEAST LIKELY** cause a beneficiary to bring allegations against the trustee that a trust is regarded as a sham?

- I The settlor makes decisions regarding the trust's investments under a discretionary trust.
 - II The settlor makes decisions regarding the trust's investments under a reserved power trust.
 - III The trustee makes investment decisions in the interest of the beneficiaries.
 - IV The settlor frequently withdraws money from the trust's bank account for his own personal use.
-
- A I and IV only
 - B II and III only
 - C I, III and IV only
 - D II, III and IV only

Question 4

Which **ONE** of the following statements **CORRECTLY** identifies the reason of using a trust in connection to the probate process?

- A In some countries, trusts are preferred to other wealth planning vehicles and therefore less delay.
- B It will allow assets in more than one country to go through the probate process in tandem.
- C It will provide family members with liquidity and assets which are not frozen under the probate process.
- D Distributions to beneficiaries take precedence over repayments of debts.

Question 5

Which **ONE** of the following statements regarding portfolio rebalancing is **INCORRECT**?

- A Rebalancing manages the unsystematic risk exposure of the portfolio and brings it back to the desired level.
- B Rebalancing resembles a contrarian strategy of selling overvalued and buying undervalued assets.
- C Rebalancing involves transaction costs and in particular illiquid assets tend to have higher transaction costs.
- D Rebalancing prevents actual asset class weights from drifting away from policy weights.

Question 6

An investor decides to form a portfolio comprising the risk-free and risky assets lying on the efficient frontier with the following information.

| Asset | Expected return | Standard deviation |
|-----------------|-----------------|--------------------|
| Risk-free asset | 3% | 0% |
| Risky asset | 12% | 20% |

Now he can only bear a standard deviation of returns of 9%. Based on the concept of capital allocation line, what should the portfolio weights be?

- A Risk-free asset 60%, risky asset 40%
- B Risk-free asset 55%, risky asset 45%
- C Risk-free asset 45%, risky asset 55%
- D Risk-free asset 40%, risky asset 60%

Question 7

Which of the following phenomena represent market anomalies produced by behavioural biases among market participants?

- I Small stocks deliver high returns during the month of January.
 - II Stocks with low price-earnings ratio tend to outperform stocks with high price-earnings ratio.
 - III Support and resistance levels exist for securities prices.
 - IV All information is fully reflected in security prices.
-
- A I and III only
 - B II and IV only
 - C I, II and III only
 - D I, II, III and IV

Question 8

Customer A has annual income of \$7 million to meet expenses of \$2 million. He has an investment portfolio of \$50 million of 20% bonds and 80% stocks. He has behavioural bias of illusion of control so he has always overtraded his stocks portfolio. On the other hand, Customer B has annual income of \$2 million. His annual expenditure is about \$1.5 million. He has a \$3 million portfolio of 20% bonds and 80% stocks. Customer B has the same behavioural bias and trading pattern as Customer A. According to the Pompian and Longo model, which of the following combinations of decisions are **APPROPRIATE** to deal with the two customers' behavioural biases?

- I Moderate bias for Customer A and adapt to bias for Customer B
 - II Adapt to bias for Customer A and moderate bias for Customer B
 - III Moderate bias for both Customer A and Customer B
 - IV Adapt to bias for both Customer A and Customer B
-
- A I and III only
 - B I and IV only
 - C II and III only
 - D II and IV only

Question 9

High net worth individuals (“HNWIs”) in mainland China showed greater interest in investing overseas through a variety of regions, product types and currencies. The following statements **APPROPRIATELY** explain this tendency **EXCEPT**:

- I Chinese HNWIs' interest in investing in domestic trust financings has declined because of their unfavourable returns.
 - II Increased information exchanges between overseas and domestic markets improve Chinese HNWIs' understanding of overseas markets.
 - III Global markets offered risk diversification and hedging strategies against domestic market risk.
 - IV Issues Related to Regulating Investment Activities of the Wealth Management Segment of Commercial Banks (“Circular No.8”) issued by the China Banking Regulatory Commission effectively lifts the ceilings on overseas investments.
-
- A I and IV only
 - B II and III only
 - C I, II and III only
 - D II, III and IV only

Question 10

Which **ONE** of the following statements regarding RMB Qualified Foreign Institutional Investors (“RQFII”) funds is **CORRECT**?

- A Open-ended RQFII funds can make cross-border remittances on a weekly basis.
- B RQFII asset allocation is under China Banking Regulatory Commission’s guidance.
- C RQFII investors can repatriate in either RMB or foreign currencies.
- D RQFII funds do not invest in unrated issues.

Question 11

XYZ Private Bank is evaluating whether to pursue account relationship with Mr Lee using two parameters, “attractiveness of the customers” and “positioning of the private wealth manager”. The information collected is presented below:

| Parameter | Evaluation Factor | Factor Score |
|---|----------------------------------|--------------|
| Attractiveness of the customer | Asset structure | 3 |
| | Value and performance | 3.5 |
| | Sector performance | 3 |
| | Profile and reputation | 3 |
| Positioning of the private wealth manager | Competences | 4.5 |
| | Perception of the wealth manager | 4 |
| | Perception of the brand | 4.5 |

Given the above scorecard, what is the **APPROPRIATE** resource allocation strategy based on the attractiveness-positioning matrix? (Note that parameter score below 3 is classified as low, between 3 and 4 as medium, above 4 as high.)

- A To proceed as first choice.
- B To proceed as second choice.
- C To collect more information.
- D To abandon the business opportunity.

Question 12

Which of the following basic emotional needs of human beings do persuasion techniques for negotiation rely on?

- I Security
 - II Belonging
 - III Admiration
 - IV Self-esteem
-
- A I and III only
 - B I, II and IV only
 - C II, III and IV only
 - D I, II, III and IV

Question 13

An ultra high net worth family wishes to provide a mechanism for the children not involved in the family business to be able to monetise their notional share without diluting the family's control of the business. Which **ONE** of the following strategies is **MOST APPROPRIATE** for this aim?

- A Establish governance structures which reject all types of matrimonial claims.
- B Build family business holding structures that allow children access to income only but not ownership of capital assets.
- C Introduce different classes of shares/units and sinking fund strategies.
- D Institutionalise the family's "gatekeeper" functions for better control and risk management.

Question 14

The business of Mr Chan, a successful entrepreneur, has emerged from the mature stage to the wealth/business transfer stage. In particular, he is currently thinking about his retirement life and considering the capability and willingness of his son to take over his business. As his private wealth manager, which of the following initiatives would you **MOST APPROPRIATELY** employ?

- I Introduce wealth planners for discussing the succession plan with Mr Chan.
 - II Introduce investment bankers to seek merger and acquisition opportunities for Mr Chan to exit his business.
 - III Introduce corporate finance experts to advise on restructuring Mr Chan's business.
 - IV Introduce investment counsellor to provide asset allocation recommendations and investment advice.
-
- A I and II only
 - B I and IV only
 - C II and III only
 - D III and IV only

Question 15

Which **ONE** of the following statements does **NOT** appropriately explain the challenges for a corporate bank, with solid entrepreneur segments of high net worth individuals, wanting to start out in the private banking business?

- A Dismantling the existing organisational silos of small-or-medium-enterprises ("SME")/corporate banking unit against private banking unit.
- B Developing and retaining the talent pool of experienced, high-calibre SME/corporate banking relationship managers and private banking relationship managers.
- C Maintaining the separation and isolation among business units.
- D Focusing on solutions to meet the entrepreneurs' needs at various life stage of their businesses.

Question 16

After a strategic assessment of the business and regulatory environments, Private Bank ABC reconfigures its business by disposing of unprofitable business and focusing on businesses with higher margins. Which **ONE** of the following strategic options is **MOST LIKELY** employed by Private Bank ABC?

- A Tweak strategy
- B Fragmentation strategy
- C Pivot strategy
- D Satellite strategy

Question 17

The following statements present the benefits to a private wealth management (“PWM”) institution for providing lending solutions to its customers **EXCEPT**:

- A Lending establishes a trust and a sense of partnership, a significant addition to customer satisfaction.
- B Lending allows the PWM institution to understand its customers better in the course of the credit due diligence process.
- C PWM managers deepen their relationships with the customers as a result of using leverage to ensure the investment performance.
- D Providing lending solutions increases additional revenues from interest income.

Question 18

Which **ONE** of the following statements does **NOT APPROPRIATELY** explain the trend of developing digital solutions by private wealth management (“PWM”) institutions for their customers?

- A The cost of implementing infrastructure, expertise and skills in developing digital solutions to match customers’ needs and comply with regulation is low.
- B A majority of younger high net worth individuals (“HNWIs”) expects their PWM experience to be integrated across all delivery channels with consistent and high quality service.
- C Digital solutions help improve the stability of customer relationships.
- D PWM institutions can effectively deliver their brand and value propositions.

Question 19

Which **ONE** of the following factors is **IRRELEVANT** to the success of the credit business of private wealth management (“PWM”) institutions?

- A The PWM institutions have to have a prudent set of lending policies, processes and procedures.
- B The PWM institutions should have a manual credit managing system that enables the institutions to operate their lending process flexibly.
- C A sound monitoring and risk mitigation approach exists for non-traditional credit products to complement the more standard credit risk methodologies currently used.
- D The PWM institutions must be prepared to provide adequate training for relationship managers.

Question 20

Which **ONE** of the following statements regarding the concept of portfolio optimisation is **CORRECT**?

- A Identifying portfolio of assets that are projected to outperform the market based on the market portfolio risk.
- B Identifying portfolio of assets that are projected to carry the lowest possible risk for a given level of return.
- C Identifying portfolio of assets that are projected to generate the lowest Jensen’s alpha.
- D Identifying portfolio of assets that are projected to participate in a significant, sustained price advance in one or more of the major asset classes.

Question 21

Which **ONE** of the following roles sets up a trust?

- A Settlers
- B Trustees
- C Appointors
- D Beneficiaries

Question 22

Which **ONE** of the following is **NOT** a duty of a trustee?

- A Duty to act in a fair and honest manner.
- B Duty to act in the best interest of the settlor.
- C Duty to monitor and increase the trust assets.
- D Duty to keep custody of the trust assets.

Question 23

Which **ONE** of the following factors **MOST LIKELY** discourages people from using trusts as wealth planning tools?

- I Loss of control.
- II Trustee is immune from claims.
- III Limitation of investment options.
- IV Costly setup and annual fees.

- A I and II only
- B III and IV only
- C I, III and IV only
- D I, II, III and IV

Question 24

Mr Leung set up a discretionary trust and named his son as the unique beneficiary. After Mr Leung had passed away, the beneficiary's ex-wife brought legal action against the trust for a division of the assets. Which **ONE** of the following types of dispute **MOST LIKELY** relates to such legal action?

- A Third-party dispute
- B Beneficiaries' dispute
- C Restorative dispute
- D Trust dispute

Question 25

Mr Cheung, who owns a food manufacturing business, has approached Bank XYZ for advice on business succession planning. He would like to maintain the control of his business and is keen on probate savings. However, the policy of Bank XYZ does not allow it to take legal ownership of any food manufacturing businesses. Which **ONE** of the following business holding structures would the wealth planner of Bank ABC **MOST APPROPRIATELY** recommend?

- A Corporate structure
- B Virgin Islands Special Trust Act (“VISTA”) trust structure
- C Special trust alternative regime (“STAR”) trust structure
- D Private trust company

Question 26

A customer wants to retire and immigrate to Thailand. Which **ONE** of the following is an **APPROPRIATE** action taken by a wealth planner, who has solid legal and tax experience in Thailand?

- A Give legal advice to the customer regarding Thailand citizenship.
- B Give tax advice to the customer.
- C Ask a tax lawyer to structure a tax evasion strategy for the customer.
- D Connect the customer with an immigration lawyer/specialist.

Question 27

Which **ONE** of the following items is a potential problem when using personal names to hold private business with succession planning purpose?

- A It is possibly challenged as a “sham” by dependants of the customer.
- B It suffers probate delays.
- C It needs to appoint a protector to protect the assets.
- D It attracts estate tax in Hong Kong.

Question 28

Which **ONE** of the following statements regarding the comparison between a foundation and a trust is **CORRECT**?

- A A trust can serve the purpose of succession planning while a foundation cannot.
- B Both foundation and trust have limited duration.
- C The founder and the settlor can name the beneficiaries in a foundation and a trust respectively.
- D A protector can be appointed to monitor the activities of a trust, but not a foundation.

Question 29

Which **ONE** of the following statements regarding systematic risk and/or unsystematic risk is **CORRECT**?

- A Systematic risk decreases as more individual assets of different categories are combined.
- B Unsystematic risk decreases as more individual assets of different categories are combined.
- C Unsystematic risk is also known as market risk.
- D Systematic risk is specific to a particular asset, company or industry.

Question 30

A portfolio has lagged behind its benchmark performance by about 2%. An analysis has shown that the underperformance was due to overweighing the agriculture sector. Which step of the portfolio management process should this analysis belong to?

- A Portfolio attribution.
- B Portfolio execution.
- C Portfolio immunisation.
- D Portfolio selection.

Question 31

Which of the following items could be included in an investment policy statement?

- I Duties and responsibilities of the relevant parties.
 - II Statement of the customer's investment objectives and constraints.
 - III Schedule for reviewing the performance of the relevant portfolio.
 - IV Guidelines for rebalancing the portfolio.
-
- A I and II only
 - B II and III only
 - C I, III and IV only
 - D I, II, III and IV

Question 32

Assuming Mr Chan is interested to use the strategic asset allocation to guide his investments and has a risk aversion coefficient of 3. Among the four possible portfolios below, choose the optimal portfolio for him, based on the theory of expected utility.

| Portfolio | Asset Mix (%) | | Expected return | Variance of returns |
|-----------|---------------|--------|-----------------|---------------------|
| | Bonds | Stocks | | |
| 1 | 20 | 80 | 12.82% | 0.074 |
| 2 | 30 | 70 | 11.63% | 0.0412 |
| 3 | 60 | 40 | 8.07% | 0.0213 |
| 4 | 90 | 10 | 4.50% | 0.018 |

- A Portfolio 1
- B Portfolio 2
- C Portfolio 3
- D Portfolio 4

Question 33

Which **ONE** of the following statements regarding systematic risk is **INCORRECT**?

- A It refers to risk that affects the whole capital market or economy.
- B It can be reduced or even eliminated by forming a diversified portfolio.
- C It includes systematic risk factors, such as economic growth rate, interest rates, political uncertainty, widespread natural disasters.
- D It is also known as market risk.

Question 34

A publicly traded fund has a beta of 1.2. The expected return on the market portfolio is 9% and the risk-free rate is 3%. It is expected that the fund will generate an annual income of \$1.5 and \$1.8 respectively in the coming two years. The fund's offering document states that it will be redeemed at \$100 two years later. The fund is now traded at \$84. Based on the capital asset pricing model, which **ONE** of the following evaluations is **CORRECT**?

- A The fund is undervalued by an amount of \$3.26.
- B The fund is undervalued by an amount of \$1.19.
- C The fund is overvalued by an amount of \$3.26.
- D The fund is overvalued by an amount of \$1.19.

Question 35

Given the following information of a portfolio that comprises Stock A and Stock B, calculate the standard deviation of returns of the portfolio.

| | Weight | Expected return | Standard deviation of returns | Correlation |
|---------|--------|-----------------|-------------------------------|-------------|
| Stock A | 70% | 9% | 9.5% | 0.75 |
| Stock B | 30% | 5% | 4.5% | |

- A 7.714%
- B 8.120%
- C 8.452%
- D 9.105%

Question 36

Which **ONE** of the following is an assumption of the capital market theory?

- A All investors want to normalise the expected utility of portfolios.
- B All investors have homogeneous expectations about the expected return and risk of individual assets as well as the correlation among individual assets.
- C There is an unanticipated inflation.
- D The capital market is not in equilibrium.

Question 37

Which **ONE** of the following statements regarding the prospect theory is **CORRECT**?

- A It assumes the higher an individual's aversion to loss, the higher the required compensation.
- B It predicts risk aversion independent of reference point.
- C It suggests that individuals weigh negative returns equally with positive returns.
- D It believes that investors are more willing to take risks when they are making profit.

Question 38

Behavioural finance can contribute to successful adviser-customer relationship through fine-tuning the following factors **EXCEPT**:

- A teaching customers to make decisions rationally under the efficient market.
- B applying appropriate solutions to deal with behavioural biases that have been identified.
- C making appropriate adjustments to a customer's financial goals and expectations after identifying obvious and potential behavioural biases.
- D considering the customer's behavioural biases, which are the blind spots not fully realised by him but affecting his investment decisions, minimises the surprise he eventually faces.

Question 39

Which **ONE** of the following solutions should be **MOST APPROPRIATELY** chosen by a private wealth manager to deal with customer's behavioural bias of over-confidence?

- A Present the problem from a different perspective.
- B Redirect the customer to focus on potential risks and unfavourable scenarios.
- C Help the customer to avoid spontaneous trades.
- D Show the benefits of international diversification to the customer.

Question 40

Which **ONE** of the following behaviours **BEST** defines home bias?

- A People prefer familiar situations to unfamiliar ones.
- B People value an asset more when they hold the property rights to it than when they don't.
- C People ignore their own preferences and imitate the choice of others.
- D People assign a higher value to an inferior outcome when it results from an act, rather than from an omission.

Question 41

An investor refuses his private wealth manager's recommendation to sell Stock A for its poor performance. He prefers to hold the stock since he fears a greater regret from making a wrong decision. Which **ONE** of the following statements **BEST** restates his decision?

- A He would assign the same value to an inferior outcome when it results from an omission, rather than from an act.
- B He would feel more regret from an inferior outcome when it results from an act, rather than from an omission.
- C He would feel more regret from an inferior outcome when it results from an omission, rather than from an act.
- D He would assign a same value to an inferior outcome and a superior outcome.

Question 42

Which **ONE** of the following statements regarding a behavioural investor on a random walk assumption is **INCORRECT**?

- A If the investor plans his investment period by period, how his optimal asset allocation changes will depend on the realised gains and losses.
- B Whether the house money effect or disposition effect will dominate depends on the investor's loss and risk aversion and also on the expected asset returns.
- C The investor evaluates uncertain situations with respect to a reference point, which can be fixed at his initial wealth or adjusted to the wealth achieved in each period.
- D The investor's asset allocation does not depend on his time horizon, but only on his risk aversion.

Question 43

The following steps are appropriate for a systematic approach in decision making under conditions of uncertainty, **EXCEPT**:

- A Choosing the most convenient option for gathering information, experimentation and action.
- B Listing the possible events that may occur.
- C Arranging pertinent information, assumptions and available choices.
- D Ranking the consequences resulting from various courses of actions.

Question 44

A shareholder of Stock ABC would feel comfortable if the analyst announces a prediction of 70% chance that the stock price can maintain. However, he would be shocked if he knows that there is a 30% chance for the stock price to fall. This demonstrates the cognitive bias of:

- A Conservatism
- B Hindsight bias
- C Framing bias
- D Confirmation bias

Question 45

Which **ONE** of the following factors undermines a healthy development of the private banking/wealth management industry in Mainland China?

- A Advisory services and customised financial solutions have higher priority than product sales.
- B Investors generally take a buy-and-hold strategy so less transactional fees for the banks.
- C Regulations mandate that fund products charge either front-end or redemption fees but not both, which reduce incentives for offering investment counselling.
- D There exists new product bias among both investors and major sales channel. Many of the redemptions of existing products are just recycled into the purchase of the new products.

Question 46

Which **ONE** of the following factors is **LEAST RELEVANT** to explain the increased tendency of Chinese high net worth individuals to invest overseas?

- A Overseas markets usually perform better than local market.
- B They expect to benefit from opportunities offered by the diversity of overseas investment products and markets.
- C Global markets offer risk diversification and hedging strategies against domestic risk.
- D Overseas investments naturally match their personal plans.

Question 47

Which **ONE** of the following does not constitute the Chinese government's RMB internationalisation policy?

- A Use of RMB through cross-border financing and investment.
- B Use of RMB through cross-border trade settlement.
- C Use of RMB as a global reserve currency.
- D Setting up the standing lending facility.

Question 48

Which **ONE** of the following statements regarding the complex structured product market in Mainland China is **INCORRECT**?

- A More than one asset management institution may cooperate in developing an asset management product with multi-layered structures.
- B Only the state-owned banks guarantee the complex products which they sell.
- C High net worth customers look to the brand name of the distributing channel for a way out in case of defaults.
- D There has been a higher level of management supervision over risk management control in the product development process.

Question 49

Which of the following statements **CORRECTLY** explain the unsatisfactory outcome of building high-end outlets to cater to wealthy customers in Mainland China?

- I High-end outlets have a limited scope of offerings.
 - II There is lack of funding capability to support the building of a wealth management platform.
 - III Many wealthy customers still prefer to be serviced in retail branches closer to their workplace.
 - IV Many customers believe that value-added services offered by the high-end outlets implied a higher servicing fee.
-
- A I and III only
 - B II and IV only
 - C I, II and III only
 - D II, III and IV only

Question 50

Which **ONE** of the following statements regarding a foreign bank incorporating as a wholly foreign-owned enterprise (“WFOE”) in China is **CORRECT**?

- A A WFOE can only provide market research service to the foreign entity that establishes it.
- B A WFOE can offer a full range of banking services, including renminbi retail business.
- C For a global player, evidence of continuous profit-making ability is not required as criteria for WFOE application.
- D There is no registered capital requirement for a WFOE.

Question 51

Which **ONE** of the following statements is **NOT** an explanation to the likelihood of rapidly growing family offices in Mainland China within the next decade?

- A The second generation of ultra high net worth individuals (“UHNWIs”) are likely to be Western educated and to be more attuned to financial management practices.
- B The second generation of UHNWIs will increasingly take charge of their families’ financial affairs.
- C The first generation of UHNWIs prefers professional family office service to help manage their investment.
- D Family offices cater to the UHNWIs’ needs for wealth preservation and philanthropic planning.

Question 52

In order to ensure that a private wealth manager is not deemed as doing business in Mainland China, which of the following practices are **APPROPRIATE**?

- I No legal or account documentation including transaction/confirmation documents can be brought into Mainland China but they can be faxed or emailed to the customer.
- II For a customer with assets outside Mainland China, the Hong Kong private wealth manager can only discuss business or investment propositions while the customer is in Hong Kong.
- III Advising on Chinese securities in Mainland China is allowed, but not on foreign securities.
- IV Policies, procedures and controls for various activities in Mainland China should be properly established and communicated to relevant staff.

- A I and III only
- B II and IV only
- C I, III and IV only
- D II, III and IV only

Question 53

Mr Wong, a private wealth manager, recently observed that his customer Mr Lam who was known to trade actively in the Japanese stock market only and had placed several large buy orders for a particular Hong Kong stock in two occasions just prior to an unexpected and major corporate announcement. As a result, huge trading profits were realised. Which **ONE** of the following actions is **MOST APPROPRIATE** for Mr Wong?

- A Do nothing.
- B Recommend Mr Lam to invest his earned profit in another potential stock.
- C Report his observations to the Bank's Compliance Department.
- D Report his observations to the Securities and Futures Commission.

Question 54

Mr Chan who holds a USD50 million portfolio mostly in Hong Kong stocks. His active trading brought significant income to Bank ABC. However, after the financial crisis of 2008, Mr Chan's trading activities diminished and therefore income dropped drastically. As the private wealth manager of Mr Chan in Bank ABC, which of the following actions should you choose in order to improve the quality of revenue from Mr Chan's account?

- A Select a trading strategy that can add alpha to the portfolio.
- B Recommend Mr Chan to leverage his account so as to increase trading size and maximise trading impacts.
- C Improve the recurrent and non-recurrent income mix through marketing discretionary portfolios or funds.
- D Recommend Mr Chan to inject additional assets into the account.

Question 55

The Securities and Futures Commission ("SFC") requires inserting the following clause into the customer agreement: "If we (the intermediary) solicit the sale of or recommend any financial product to you (the customer), the financial product must be reasonably suitable for you having regard to your financial situation, investment experience and investment objectives. No other provision of this agreement or any other document we may ask you to sign and no statement we may ask you to make derogates from this clause". Which **ONE** of the following statements **BEST** describes SFC's concern?

- A To give better protection to the private wealth management institution.
- B To avoid the situation that some intermediaries include clauses in customer agreements which are designed to restrict the scope of the potential contractual liabilities to customers.
- C The clause binds the institution and the relationship manager to the General Principles of diligence.
- D The relationship manager's friendship with the customer leads to exemption from this clause in accordance with the Code of Conduct.

Question 56

A private wealth management (“PWM”) institution has put together a team of seasoned relationship managers to handle a small group of ultra high net worth individual (“UHNWI”) accounts. They receive more cross-departmental marketing support and the highest priority in having preferential pricing, non-standard credit terms, and other resources. Which **ONE** of the following is **NOT** a benefit of this strategy?

- A It allows the PWM institution to provide the right service standards to the right customers.
- B Grouping the UHNWIs together enables economy of scale through more homogeneous offerings of investment ideas and products.
- C It enhances the efficiency of the relationship managers.
- D It ensures the right allocation of managers to the customers.

Question 57

In the context of private wealth management industry, the following items are recurrent income, **EXCEPT**:

- A Interest income
- B Management fees of discretionary portfolio
- C Custodian fee
- D Upfront fee of funds

Question 58

Which **ONE** of the following factors regarding the cultural orientation model is **LEAST RELEVANT** to customer relationship management?

- A Action: how individuals consider action and interaction.
- B Verbal communication: how individuals express themselves.
- C Authority: how individuals see hierarchical relationships.
- D Thought: how individuals transform experience into concepts.

Question 59

A relationship manager has submitted to his bank's compliance department a duly signed account opening documentation of a customer using an offshore company structure. All the required documents, including the customer's risk and know-your-customer ("KYC") assessments and the signed profiling questionnaire, are provided. However, the compliance department finally rejects the application. Which **ONE** of the following reasons is **LEAST POSSIBLE** for the rejection?

- A The offshore company domiciles in a jurisdiction that is not acceptable to the private wealth management ("PWM") institution.
- B A money laundering record of the customer is found.
- C It is not possible to form a positive judgement of the identity and creditability of the customer.
- D The proposed relationship does not meet the projected revenue criteria of the PWM institution.

Question 60

Which of the following statements regarding the 80/20 rule applied in the customer relationship management of the private wealth management business are **CORRECT**?

- I 80% revenues are generated from 20% of customers.
 - II The top 20% of customers form the core relationships of the relationship manager.
 - III The key is to secure the relationship of the lower 80% of customers and the institution not missing out any new opportunities or new needs from those customers.
 - IV The top 20% of revenue-generating relationships are same as the top 20% of asset-under-management relationships.
-
- A I and II only
 - B III and IV only
 - C I, II and III only
 - D II, III and IV only

Mini Case B

Mr Yeung (aged 50) is the chief financial officer of Camelot Electronics which supplies components to major US technology firms. Camelot Electronics went initial public offering (“IPO”) last year. Mr Yeung holds a portfolio of asset of about USD10 million, including those derived from the exercise of his employee stock options after the IPO. These “restricted shares”, currently valued at USD3 million, will be “unfrozen” three years from now. Mr Yeung’s career achievement and financial successes have served to bolster his confidence in investment decisions.

Mr Yeung has a strong belief in the US technology sector mainly reinforced by his business experience in the electronic industry. This led to his several successful investments in the past. Therefore, Mr Yeung invests heavily in US stocks, mainly in the technology sector (70% of total holdings). He does not make reference to the investment information or history of the technology bubble era (during 2000s) for his current decisions as he always says “things are different now” and “now we have a new paradigm”. His current portfolio holds more than 90% in equities.

Mr Yeung has just committed a direct investment of USD3 million (subject to periodical calls) in another project as he would like to reduce the financial dependence on the prospect of Camelot Electronics and prepare for the possible changes in senior management. Besides, he has liabilities of USD3 million due to other commitments. It is more accurate to say that Mr Yeung is not as wealthy as generally thought.

Ms Chang is the private wealth manager serving Mr Yeung. She will try to give her best portfolio recommendations.

NOTE: *The above background information will be presented prior to each relevant Mini Case question in a computer-based examination environment.*

<Refer to Mini Case B to answer the question>

Mr Yeung's behavioural biases can be classified as:

- I Ambiguity aversion
 - II Loss aversion bias
 - III Over-confidence
 - IV Availability bias
-
- A I and II only
 - B III and IV only
 - C I, II and III only
 - D II, III and IV only

<Refer to Mini Case B to answer the question>

Which **ONE** of the following behaviourally-adjusted recommendations to Mr Yeung regarding his current portfolio would be **MOST APPROPRIATE**?

- A Maintain the current portfolio.
- B Allocate 100% in equities to fit his personality.
- C Allocate 80-90% in bonds to counteract his psychological biases.
- D Allocate 10-20% weighting to bonds for the purpose of risk diversification.

<Refer to Mini Case B to answer the question>

According to the Pompian and Longo Model, Ms Chang should recommend Mr Yeung which of the following principles to mitigate the effects of behavioural biases on investment decision? (Hint: Mr Yeung can be considered a less-wealthy customer because of the heavy liabilities and the risky direct investment.)

- A Moderate biases and in particular cognitive biases
- B Moderate emotional biases and adapt to cognitive biases
- C Adapt to emotional biases and moderate cognitive biases
- D Adapt to all biases

<Refer to Mini Case B to answer the question>

According to the Bailard, Biehl and Kaiser (“BB&K”) model, Mr Yeung’s personality should be identified as:

- A Celebrity
- B Straight arrow
- C Adventurer
- D Guardian

<Refer to Mini Case B to answer the question>

What would be the **APPROPRIATE** solution for Mr Yeung’s behavioural biases?

- A Help him to avoid spontaneous trades.
- B Explain to him the reasons for his investment gains or losses.
- C Suggest to him to keep a record of his predications before an event, and review their accuracy after it.
- D Present him a long-term picture and redirect him to focus on potential risks and unfavourable scenarios.

Answers

| Question No. | Answers | Question No. | Answers |
|--------------|---------|--------------|---------|
| 1 | B | 50 | B |
| 2 | C | 51 | C |
| 3 | B | 52 | B |
| 4 | C | 53 | C |
| 5 | A | 54 | C |
| 6 | B | 55 | B |
| 7 | C | 56 | B |
| 8 | C | 57 | D |
| 9 | A | 58 | C |
| 10 | C | 59 | D |
| 11 | B | 60 | A |
| 12 | B | Case B1 | B |
| 13 | C | Case B2 | D |
| 14 | A | Case B3 | A |
| 15 | C | Case B4 | C |
| 16 | C | Case B5 | D |
| 17 | C | | |
| 18 | A | | |
| 19 | B | | |
| 20 | B | | |
| 21 | A | | |
| 22 | B | | |
| 23 | C | | |
| 24 | A | | |
| 25 | D | | |
| 26 | D | | |
| 27 | B | | |
| 28 | C | | |
| 29 | B | | |
| 30 | A | | |
| 31 | D | | |
| 32 | B | | |
| 33 | B | | |
| 34 | B | | |
| 35 | A | | |
| 36 | B | | |
| 37 | A | | |
| 38 | A | | |
| 39 | B | | |
| 40 | A | | |
| 41 | B | | |
| 42 | D | | |
| 43 | A | | |
| 44 | C | | |
| 45 | D | | |
| 46 | A | | |
| 47 | D | | |
| 48 | B | | |
| 49 | A | | |