

Certified Private Wealth Professional (CPWP)

Module 1 Examination

Paper 2

Wealth Management

Sample Practice Test

(Multiple-choice questions only)

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17/F, Cambridge House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong

Website: www.hksi.org

Hotline: (852) 3120-6100

Email: info@hksi.org

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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 Collaborating different divisions and units to work together and build up a more effective workflow.
- 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

Customer A has annual income of USD7 million to meet expenses of USD2 million. He has an investment portfolio of USD50 million of 20% bonds and 80% stocks. He has behavioural bias of disposition effect so he has always traded his stocks portfolio at the wrong time. On the other hand, Customer B has annual income of USD200,000. His annual expenditure is about USD150,000. He has a USD300,000 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
 - II Adapt to bias for Customer A
 - III Moderate bias for Customer B
 - IV Adapt to bias for Customer B
-
- A I and IV only
 - B II and III only
 - C I, II and III only
 - D II, III and IV only

Question 6

A private wealth manager is evaluating whether to pursue account relationship with Mr Lee using attractiveness-positioning matrix. The matrix indicates that the customer's attractiveness score is 34, and the private wealth manager's positioning score is 22. Which **ONE** of the following types of customer will consider to be when developing the relationship strategy?

- A Maintain
- B Reallocate
- C Nurture
- D Develop

Question 7

An ultra-high net worth family wishes to provide a mechanism for the retired members 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.
- D Institutionalise the family's "gatekeeper" functions for better control and risk management.

Question 8

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

Question 9

Which **ONE** of the following statements does **NOT APPROPRIATELY** explain the challenges for a corporate bank, with solid entrepreneur segments of ultra-high net worth individuals, wanting to start out in the private wealth management (“PWM”) business?

- A Improving information sharing between the small or medium enterprises or corporate banking unit and the PWM unit.
- B Developing and retaining the talent pool of experienced, high calibre private wealth managers.
- C Maintaining the separation and isolation among business units.
- D Focusing on solutions to meet the entrepreneurs’ needs at various stage of their businesses.

Question 10

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 11

Which **ONE** of the following statements **MOST APPROPRIATELY** explain the trend of developing digital solutions by private wealth management institutions for their customers?

- A Digital solutions help reduce the operating costs and improve the customer experience and loyalty.
- B An increasing number of younger high net worth individuals would like to increase their contact with the private wealth manager for basic monitoring and transactional services.
- C Digital solutions help improve customer contact.
- D The regulatory requirement of using digital solutions is lower than the traditional approach.

Question 12

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

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

Question 13

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 14

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 15

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 16

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 The net business assets/liabilities will add to or deduct from the individual’s estate.
- C It needs to appoint a protector to protect the assets.
- D It attracts estate tax in Hong Kong.

Question 17

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 18

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

- I Customer objectives
- II Customer's tax status
- III Customer's risk capacity
- IV Investment timescales

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

Question 19

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

- A It assumes people feel the pain of a loss much more than the happiness they might derive from an equivalent gain.
- 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 20

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

- A Present the problem from a different perspective.
- B Emphasise the long-term nature of the investment to the customer.
- C Challenge the investor's view or preconception.
- D Take care with how investment options are presented.

Question 21

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 22

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. His behaviour is most likely influenced by:

- A Hindsight bias
- B Regret aversion
- C Outcome bias
- D Disposition effect

Question 23

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 Anchoring
- B Hindsight bias
- C Framing
- D Disposition effect

Question 24

Mr Yeung is the chief financial officer of Camelot Electronics which supplies components to major US technology firms. He 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.

According to the Pompian and Longo Model, 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.)

- I Moderate cognitive biases
 - II Moderate and Adapt to cognitive biases
 - III Adapt to emotional biases
 - IV Moderate and Adapt to emotional biases
-
- A I and III only
 - B I and IV only
 - C II and III only
 - D II and IV only

Question 25

Mr Yeung is the chief financial officer of Camelot Electronics which supplies components to major US technology firms. He 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.

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
1	B
2	C
3	B
4	C
5	C
6	C
7	C
8	A
9	C
10	C
11	A
12	A
13	B
14	C
15	D
16	B
17	C
18	D
19	A
20	B
21	A
22	B
23	C
24	B
25	D