Question #1 of 36

Question ID: 1708857

Assume a married couple is funding their retirement with defined contribution (DC) assets. Which of the following *best* describes the future liabilities and income projections for a couple in the peak accumulation stage?

A) Future liabilities are known, and future income is unknown.

B) Both future liabilities and future income are unknown.

C) Both future liabilities and future income are known.

Explanation

At this stage of a family's career, they may be 10–15 years from retirement. They can only guess what their income needs (liabilities) will be like in retirement. Assuming the couple only has access to DC plans, they will not know their potential income projections with much certainty because it will be highly dependent on future contributions and asset class returns.

(Module W3.4, LOS W3.d)

Question #2 of 36

Question ID: 1708851

Using legal tax reduction strategies with the intention of avoiding paying taxes altogether is:

A) anticipated by government taxing authorities, which prosecute such individuals for not paying taxes.

B) expected of any tax-paying entity or individual and is legal.

C) considered tax evasion, which is illegal.

Explanation

Tax avoidance is legal. Any tax-paying entity or individual would be expected to minimize the amount of taxes paid through various legal tax-reduction strategies. *Tax evasion*, on the other hand, is hiding, misrepresenting, or otherwise not recognizing income so as to *illegally* avoid taxation.

(Module W3.3, LOS W3.c)

Question #3 of 36

Question ID: 1708836

During the current year, Dinusha Singh's tax-deferred account (TDA) had $22,000 realized gains from its domestic equity investments and incurred $12,000 unrealized losses from its foreign equity investments. If Singh makes a $22,000 withdrawal from her TDA at the end of the year, she would be subject to:

A) capital gains taxes on the entire $22,000.

B) income taxes at her marginal tax rate on $10,000 because the losses would offset a portion of the gains.

C) income taxes at her marginal tax rate on the entire $22,000.

Explanation

Singh would be subject to taxes at her marginal tax rate on the full withdrawal of $22,000 in a TDA. Investments within a TDA accumulate on a tax-deferred basis, and withdrawals are taxed in full as ordinary income.

(Module W3.3, LOS W3.c)

Question #4 of 36

Question ID: 1708825

Oscar DeLaNueva is a wealthy fashion designer based in Colombia. He is very conservative about investing in that he prefers to invest in safe securities, and he does not have a need for current income. DeLaNueva also has a very favorable view of global markets as he is undeterred by recent political turmoil in his region.

DeLaNueva's wealth manager has proposed three potential asset allocations. Allocation 1 was generated by using mean-variance optimization (MVO), while the other two asset allocations are currently used by other clients of the wealth manager.

	MVO Allocation 1	**Asset Allocation 2**	**Asset Allocation 3**
Investment-grade corporate bonds	15%	30%	10%
High-yield bonds	20%	20%	10%
Large-cap global equity	40%	5%	40%
Small-cap global equity	5%	15%	15%
Commodity index fund	5%	20%	20%
Real estate	15%	10%	5%
Total	**100%**	**100%**	**100%**
Expected return	9.0%	7.5%	8.5%
Annual volatility (standard deviation)	9.0%	7.5%	8.5%

Given this information, which asset allocation would be *most appropriate* for DeLaNueva?

A) Allocation 2.

B) Allocation 3.

C) Allocation 1.

Explanation

DeLaNueva has expressed a desire to invest in safe securities, has low income needs, and has an optimistic view of global markets. Allocation 3 is most likely to meet his objectives because it has a minimal allocation to high-yield bonds (which are less safe). While Allocation 3 also has the highest exposure to large-cap equity and commodities, those two asset classes tend to perform better in strong global growth scenarios.

(Module W3.1, LOS W3.a)

Question #5 of 36

Question ID: 1708845

Assume that €125,000 is invested in a tax-exempt account. What is the after-tax balance in the account after 15 years if the tax rate is 28% and the pretax return is 11%?

A) €392,138.

B) €465,613.

C) €598,074.

Explanation

The balance in the account in 15 years uses the future value interest factor for a tax-exempt account ($FVIF_{TEA}$).

No taxes are due on the future accumulation.

$FVIF_{TEA} = (1 + R)^N$

$FV = 125{,}000[FVIF_{TEA}]$

$FV = 125{,}000[(1.11)^{15}]$

FV = 598,074

The response of €392,138 is the future accumulation for an account taxed annually. The response of €465,613 is the future accumulation for an account with tax-deferred capital gains and a basis of €125,000.

(Module W3.3, LOS W3.c)

Question #6 of 36

Question ID: 1708840

A South African citizen with investments in the Cayman Islands would *most likely* be subject to:

A) the Foreign Account Tax Compliance Act (FATCA).

B) both the FATCA and CRS.

C) the Common Reporting Standard (CRS).

Explanation