The Private Wealth Management Industry - Questions

Reading 1

Q1.1–Q1.4

Chris Thompson is the wealth manager for Howard Stein, a high-net-worth individual. Stein's assets are managed by a variety of managers, but Hamlin & Co. provides centralized safekeeping, record keeping, performance analytics, and trade processing. Legal assistance on asset structure, estate plans, and other related services are provided by Carol Dufresne, Esq.

Stein tells Thompson that he has substantially increased his liability insurance coverage and asks whether this purchase has implications for his investment portfolio.

Stein would like to generate higher returns on his fixed-income investments. Thompson suggests private placements and offers to connect Stein with a banker.

Question 1.1

Hamlin & Co is *best* described as a:

A. custodian.

B. tax adviser.

C. property manager.

Question 1.2

Dufresne is *best* categorized as a:

A. custodian.

B. support professional.

C. wealth planning professional.

Question 1.3

Does Stein's change in insurance coverage justify changes to his investment portfolio?

A. No.

B. Yes, it reduces his need to hold cash and short-term bonds.

C. Yes, it increases his need to hold cash and short-term bonds.

Question 1.4

For the desired purpose, it would be *most* appropriate to refer Stein to:

A. a private banker.

B. a commercial banker.

C. an investment banker.

Reading 2

Q2.1–Q2.4

James Beauregard is a senior wealth manager for Prudent Investments, a wealth management firm based in the Bahamas that has adopted the CFA Institute Asset Manager Code (AMC). He manages both separate client accounts and a pooled investment fund that has a mandate to hold at least 90% of its assets in the shares of technology stocks.

Beauregard has been analyzing the shares of Superfrack, a shale oil company. He believes it is well positioned in the industry, will grow its profits considerably over the next several years, and is attractively valued. He makes the shares a 5% holding in all the accounts he manages. It marks the first time he has ever placed a non-technology stock in the pooled fund.

For the pooled fund, Beauregard directs a great deal of trades through TechBroker, as they specialize in trading technology stocks and therefore usually offer tighter spreads and better access to less liquid shares. Because of the high volume of his trades, TechBroker offers to pay for his attendance at an industry conference that Beauregard believes will generate investment insights. Beauregard accepts the offer.

In a meeting of senior management, Prudent's compliance officer shares an update of the firm's policies, including:

- Portfolio information provided to clients is verified by the firm's custodian rather than its auditor.
- The risk-management process covers market-related risks firmwide.
- The business continuity plan provides contingency measures for key functions like portfolio management and trading but not for some areas such as marketing and staff recruitment.

When reporting performance, Prudent presents information that is fair, accurate, relevant, timely, and complete but does not fully comply with the GIPS Standards. Securities that do not have readily available third-party quotations are valued using models. Prudent's management believes the resulting valuations are reasonable estimates but have no way of knowing whether they are completely accurate.

Question 2.1

Are Beauregard's actions regarding Superfrack consistent with the AMC with respect to investment process and actions?

A. Yes.

B. No, it is not consistent with the objectives and constraints of the pooled fund.

C. No, he does not consider the investment objectives and constraints of each client.

Question 2.2

Is Beauregard's decision to accept TechBroker's offer consistent with the AMC with respect to trading?

A. Yes.

B. No, he is required to seek best execution.

C. No, he should not use client commission dollars to attend the conference.

Question 2.3

Prudent's policies are *least* consistent with the AMC's guidelines for risk management, compliance, and support regarding:

A. client reporting.

B. risk management.

C. business continuity.

Question 2.4

Are Prudent's performance reports consistent with the performance and valuation guidelines of the AMC?

A. Yes.

B. No, they are not fully compliant with the GIPS Standards.

C. No, they are insufficient with respect to securities without readily available quotations.