Chapter 3 assessment

Teacher note

Teachers have the choice to use these questions as formative or summative assessment. They can choose to distribute each set of questions at the end of each lesson, and/or combine specific questions from each lesson for the final chapter review.

Two versions of a 60-minute test geared towards grades 9 (simplified) and 12 (more difficult) have been created, with a combination of multiple choice, true or false, short answer and matching. The assessment process may vary, using total marks, or a holistic review of the learning expectations in a met/not met chart. Weightings, duration, difficulty and assessment process may be altered to the teacher's desire.

Lesson 1 quiz/review

Multiple choice (MCQ)

1. What is the most important first step in investing?
   - Opening a brokerage account
   - Understanding what type of investor you are
   - Choosing a financial advisor
   - Deciding on a budget

2. Which of the following is a benefit of DIY investing?
   - Guaranteed returns
   - Full control over your investments
   - No need to research
   - Professional financial advice

3. What is a likely reason someone would choose to work with a financial advisor?
   - They want expert guidance and to save time
   - They want complete control
   - They enjoy researching financial markets
   - They want to avoid paying fees

4. What is a key factor in making good financial decisions, regardless of investment approach?
   - Following others' advice
   - Avoiding all risks
   - Learning about investing early
   - Starting with a large investment

True/False (T/F)

5. DIY investing is recommended for people who want expert financial guidance.

6. A financial advisor can help investors save time.

7. Your personal preferences and goals do not matter when choosing how to invest.

Short answer

8. What are two qualities or situations that might make someone a good candidate for DIY investing?

9. Why might someone choose to work with a financial advisor instead of investing on their own?

10. What is the benefit of learning about investing early?

ANSWER KEY

Multiple choice

1. What is the most important first step in investing?
   Answer: B. Understanding what type of investor you are
   Explanation: Knowing your investor type helps you make the best decisions about how to invest your money.

2. Which of the following is a benefit of DIY investing?
   Answer: B. Full control over your investments
   Explanation: DIY investors manage their own portfolios and make all the decisions themselves.

3. What is a likely reason someone would choose to work with a financial advisor?
   Answer: A. They want expert guidance and to save time
   Explanation: Advisors provide professional advice and help save the investor time on research and decision-making.

4. What is a key factor in making good financial decisions, regardless of investment approach?
   Answer: C. Learning about investing early
   Explanation: Early education helps build knowledge, leading to better choices.

True/False

5. DIY investing is recommended for people who want expert financial guidance.
   Answer: False
   Explanation: DIY investing suits people who enjoy researching and managing their own investments, not necessarily those seeking expert advice.

6. A financial advisor can help investors save time.
   Answer: True
   Explanation: Advisors handle the research and planning, freeing up your time.

7. Your personal preferences and goals do not matter when choosing how to invest.
   Answer: False
   Explanation: Your preferences and goals are crucial in deciding between DIY or advisor-led investing.

Short answer

8. What are two qualities or situations that might make someone a good candidate for DIY investing?
   Answer: Enjoys learning about finance and has time to research.

9. Why might someone choose to work with a financial advisor instead of investing on their own?
   Answer: To get expert guidance, save time and align investments with their financial goals.

10. What is the benefit of learning about investing early?
    Answer: It helps you make better financial decisions in the future.

MONEY GAINS MAKING IT COUNT

Lesson 2 quiz/review

Multiple choice (MCQ)

1. Which of the following is a fee commonly paid by DIY investors when making a trade?
   - Trailer fee
   - Commission fee
   - Backend load
   - Portfolio management fee
2. What is a frontend load?
   - A fee charged when you purchase units of a fund
   - A fee charged when you sell your investments
   - A subscription fee paid monthly
   - A tax on investment gains
3. Which fee decreases over time and is meant to encourage long-term investing?
   - Backend load
   - Commission fee
   - Maintenance fee
   - Trailer fee
4. What does the management expense ratio (MER) typically cover?
   - Interest paid to investors
   - Government taxes
   - Administrative, operating and marketing costs of a fund
   - Commission for your broker
5. If a fund's MER is 2.5%, how much would an investor with $10,000 in the fund pay annually?
   - $2,500
   - $100
   - $25
   - $250

True/False (T/F)

6. You only pay investment fees if you work with a financial advisor, not with DIY platforms.
7. Trailer fees are included as part of the MER and are paid to your investment dealer.
8. Tax on capital gains in Canada only applies to 50% of the gain amount.

Short answer questions

9. What are two examples of fees a DIY investor might encounter besides commission fees?
10. Why is understanding when to buy and hold important for managing investment costs?

ANSWER KEY

Multiple choice

1. Which of the following is a fee commonly paid by DIY investors when making a trade?

   Answer: B. Commission fee

   Explanation: DIY investors often pay commission fees when they buy or sell investments through brokerage platforms. Other fees like backend loads or trailer fees usually relate to managed funds or advisors.

2. What is a frontend load?

   Answer: A. A fee charged when you purchase units of a fund

   Explanation: A frontend load is a sales charge applied at the time of buying mutual fund units.

3. Which fee decreases over time and is meant to encourage long-term investing?

   Answer: A. Backend load

   Explanation: Backend loads (or deferred sales charges) reduce if you hold the investment longer, encouraging investors to keep their money invested.

4. What does the management expense ratio (MER) typically cover?

   Answer: C. Administrative, operating and marketing costs of a fund

   Explanation: MERs are annual fees covering the fund's operational expenses, not taxes or commissions.

5. If a fund's MER is 2.5%, how much would an investor with $10,000 in the fund pay annually?

   Answer: D. $250

   Explanation: 2.5% of $10,000 = $250 annually

True/False

6. You only pay investment fees if you work with a financial advisor, not with DIY platforms.

   Answer: False

   Explanation: DIY investors can also pay fees like commissions, MERs or transaction fees, even without an advisor.

7. Trailer fees are included as part of the MER and are paid to your investment dealer.

   Answer: True

   Explanation: Trailer fees are ongoing payments included in the MER, paid to advisors or dealers as compensation.

8. Tax on capital gains in Canada only applies to 50% of the gain amount.

   Answer: True

   Explanation: In Canada, only 50% of capital gains are taxable.

Short Answer

9. What are two examples of fees a DIY investor might encounter besides commission fees?

   Answer: Management expense ratios (MERs) and backend loads.

10. Why is understanding when to buy and hold important for managing investment costs?

    Answer: Because holding investments longer can reduce fees like backend loads and limit trading commissions, helping to manage overall costs and encourage long-term growth.

MONEY GAINS MAKING IT COUNT

Lesson 3 quiz/review

Multiple choice questions (MCQ)

1. Which of the following investment accounts allows you to grow your money tax-free and withdraw funds at any time without paying taxes?
   - FHSA
   - TFSA
   - Non-registered account
   - RRSP
2. What is one key benefit of contributing to a Registered Retirement Savings Plan (RRSP)?
   - Contributions are tax-deductible
   - Contributions are tax-free
   - Withdrawals are always tax-free
   - There is no age limit for contributions
3. What is the maximum annual contribution limit to a First Home Savings Account (FHSA)?
   - $8,000
   - $6,500
   - $7,000
   - $40,000
4. Which investment account is specifically designed for saving for a child's post-secondary education and includes government grants?
   - RESP
   - FHSA
   - TFSA
   - RRSP
5. Which type of account has no contribution limits but does not offer tax-sheltered growth?
   - Non-registered account
   - RRSP
   - FHSA
   - TFSA

True/False (T/F)

6. RRSP contributions can be made until age 71.
7. Any unused TFSA contribution room is lost at the end of each year.
8. You must pay taxes when you withdraw money from a TFSA.

Short answer questions

9. List two key benefits of a First Home Savings Account (FHSA).
10. What happens to an RRSP at age 71?

MONEY GAINS MAKING IT COUNT

ANSWER KEY

Multiple choice

1. Answer: B. TFSA

   Explanation: A Tax-Free Savings Account (TFSA) allows your investments to grow tax-free, and you can withdraw funds anytime without paying taxes.

2. Answer: A. Contributions are tax-deductible

   Explanation: RRSP contributions reduce your taxable income, so they are tax-deductible. However, withdrawals are taxed.

3. Answer: B. $8,000

   Explanation: The annual contribution limit to a First Home Savings Account (FHSA) is $8,000.

4. Answer: A. RESP

   Explanation: A Registered Education Savings Plan (RESP) is designed for saving for post-secondary education and includes government grants.

5. Answer: A. Non-registered account

   Explanation: Non-registered accounts have no contribution limits, but do not offer tax-sheltered growth.

True/False (T/F)

6. True

   Explanation: You can contribute to an RRSP until the end of the year you turn 71.

7. False

   Explanation: Unused TFSA contribution room carries forward indefinitely and is not lost.

8. False

   Explanation: Withdrawals from a TFSA are tax-free.

Short answer questions

9. Answer: Contributions to an FHSA are tax-deductible, and withdrawals for purchasing a first home are tax-free.
   Explanation: This makes the FHSA a powerful tool for first-time homebuyers.

10. Answer: At age 71, an RRSP must be closed and converted into a Registered Retirement Income Fund (RRIF), from which minimum withdrawals are required.

    Explanation: This transition ensures RRSP funds are eventually used for retirement income and taxed accordingly.

Lesson 4 quiz/review

Multiple choice questions (MCQ)

1. Which investing style involves a manager actively buying and selling securities to outperform the market?
   - Systematic investing
   - Passive investing
   - Index investing
   - Active investing
2. In active investing, what does a top-down manager primarily analyze first?
   - Macroeconomic indicators like GDP and inflation
   - Customer reviews
   - Company balance sheets
   - Stock price trends
3. Passive investors typically invest through which of the following vehicles?
   - Hedge funds
   - Index mutual funds and ETFs
   - GICs
   - Private equity
4. Which of the following is a characteristic commonly used in systematic investing?
   - News headlines
   - Momentum
   - Investor emotions
   - Product reviews
5. Which investing style is most likely to use machine learning and AI in its decision-making process?
   - Systematic
   - Active
   - Passive
   - None of the above

True/False (T/F)

6. Passive investing aims to outperform the market through expert stock picking.
7. Systematic investing can be implemented in either an active or passive way.
8. Rebalancing a portfolio is necessary in passive investing to stay aligned with the chosen index.

Short answer questions

9. Why do active investing strategies generally have higher fees than passive ones?
10. Name two common factors used in systematic investing.

ANSWER KEY

Multiple choice questions (MCQ)

1. Answer: D. Active investing

   Explanation: Active investing involves managers making frequent buy and sell decisions to try to beat the market.

2. Answer: A. Macroeconomic indicators like GDP and inflation

   Explanation: Top-down active managers analyze broad economic factors first before looking at individual companies.

3. Answer: B. Index mutual funds and ETFs

   Explanation: Passive investors typically use index funds or ETFs to replicate market performance.

4. Answer: B. Momentum

   Explanation: Systematic investing uses data-driven factors like momentum to make investment decisions.

5. Answer: A. Systematic

   Explanation: Systematic investing often uses machine learning and AI to analyze data and automate trades.

True/False (T/F)

6. False

   Explanation: Passive investing aims to match market returns, not outperform through stock picking.

7. True

   Explanation: Systematic strategies can be either active (frequent trades) or passive (following rules without emotion).

8. True

   Explanation: Passive portfolios need rebalancing to maintain the target asset allocation aligned with the index.

Short answer questions

9. Answer: Because they require hands-on decision-making by managers who conduct research and make frequent trades to try to outperform the market.

   Explanation: Active management demands more time and resources, which increases fees.

10. Answer: Size and value (other acceptable answers: momentum, quality)

    Explanation: These are common quantitative factors used to systematically select investments.

MONEY GAINS MAKING IT COUNT

Lesson 5 quiz/review

Multiple choice questions (MCQ)

1. Which of the following is a direct investment vehicle?
   - Exchange-traded fund (ETF)
   - Stock
   - Mutual fund
   - Segregated fund

2. Why might some investors prefer indirect investment vehicles?
   - They want to manage every investment themselves
   - They want to avoid diversification
   - They want to avoid any investment altogether
   - They prefer professionals to manage the portfolio

3. Which type of indirect investment vehicle is typically available only to accredited or high-net-worth investors?
   - Segregated funds
   - Mutual funds
   - Hedge funds
   - ETFs

4. What is a key feature of segregated funds that makes them appealing to conservative investors?
   - Insurance guarantees on invested capital
   - High returns from aggressive strategies
   - Daily trading flexibility
   - Minimal regulation

5. ETFs differ from mutual funds in that ETFs:
   - Can only be bought once per year
   - Are traded on stock exchanges throughout the day
   - Are only available to institutional investors Are typically more expensive to manage

True/False (T/F)

6. Stocks and bonds are considered indirect investment vehicles.

7. ETFs are typically passively managed and aim to track a market index.

8. Mutual funds are always cheaper to invest in than ETFs.

Short answer questions

9. Name two examples of public indirect investment vehicles.

10. What are the three key considerations you should keep in mind when choosing an investment vehicle?

MONEY GAINS MAKING IT COUNT

ANSWER KEY

Multiple choice questions (MCQ)

1. Answer: B. Stock

   Explanation: Stocks are direct investments where you own shares of a company directly.

2. Answer: D. They prefer professionals to manage the portfolio

   Explanation: Indirect investments like mutual funds allow professionals to manage the portfolio on behalf of investors.

3. Answer: C. Hedge funds

   Explanation: Hedge funds are usually available only to accredited or high-net-worth investors due to their complexity and risk.

4. Answer: A. Insurance guarantees on invested capital

   Explanation: Segregated funds offer insurance guarantees, appealing to conservative investors who want capital protection.

5. Answer: B. Are traded on stock exchanges throughout the day

   Explanation: ETFs can be bought and sold like stocks throughout the trading day, unlike mutual funds which trade at end-of-day prices.

True/False (T/F)

6. False

   Explanation: Stocks and bonds are direct investment vehicles because you own the assets directly.

7. True

   Explanation: ETFs generally track an index and are passively managed.

8. False

   Explanation: ETFs often have lower fees compared to mutual funds, but this can vary.

Short answer questions

9. Answer: Mutual funds and ETFs (segregated funds also acceptable)

   Explanation: These are common public indirect investment options.

10. Answer:

    - Know your goals
    - Consider your risk tolerance
    - Stay diversified

    Explanation: These considerations help you choose the right investment vehicle aligned with your personal needs and risk comfort.

Lesson 6 quiz/review

Multiple choice questions (MCQ)

1. Which order type is executed immediately at the current market price?
   - Stop-limit order
   - Limit order
   - Market order
   - Trailing stop order

2. If you set a buy limit order at $45, and the stock is currently $50, what happens?
   - Your order is cancelled
   - You buy at $50
   - The order waits until the price hits $45 or below
   - You sell the stock immediately

3. A stop order becomes what kind of order once the stop price is hit?
   - Market order
   - Cancelled order
   - Limit order
   - Trailing order

4. Which type of order combines both a stop price and a limit price?
   - Stop-limit order
   - Limit order
   - Market order
   - Trailing stop order

5. What is the key feature of a trailing stop order?
   - It only works with ETFs
   - The stop price adjusts as the stock price moves
   - It locks in losses automatically
   - It never changes its stop price

True/False (T/F)

6. Market orders guarantee the price at which a stock is bought or sold.

7. Limit orders are only executed if the market hits your specified price.

8. Trailing stop orders move in both directions as the stock price changes.

Short answer questions

9. Why might an investor use a stop order?

10. In a stop-limit order with a stop price of $45 and a limit price of $44, what happens if the stock drops to $45 but no one is willing to buy at $44?

ANSWER KEY

Multiple choice questions (MCQ)

1. Answer: C. Market order

   Explanation: Market orders execute immediately at the current market price without waiting.

2. Answer: C. The order waits until the price hits $45 or below

   Explanation: A buy limit order will only execute at the limit price or lower, so it waits until the stock price drops to $45 or below.

3. Answer: A. Market order

   Explanation: Once the stop price is triggered, a stop order turns into a market order, executing at the next available price.

4. Answer: A. Stop-limit order

   Explanation: A stop-limit order sets both a stop price to trigger the order and a limit price to define the worst acceptable execution price.

5. Answer: B. The stop price adjusts as the stock price moves

   Explanation: Trailing stop orders move the stop price in the direction of favourable price movement to protect gains.

True/False (T/F)

6. False

   Explanation: Market orders don't guarantee the exact price; they execute at the best available price, which can vary quickly.

7. True

   Explanation: Limit orders only execute when the market price matches or improves on the specified limit price.

8. False

   Explanation: Trailing stop orders move in one direction only ¬– upward for buy orders and downward for sell orders ¬– to protect profits.

Short answer questions

9. Answer: To limit potential losses or protect profits by automatically selling if a stock drops to a specified price.

   Explanation: Stop orders help manage risk by triggering a sale if the price falls to a certain level.

10. Answer: The order is not executed because the stock couldn't be sold at or above the limit price of $44.

    Explanation: A stop-limit order only executes within the limit price range; if buyers aren't willing to pay that price, the order remains unfilled.

Lesson 7 quiz/review

Multiple choice questions (MCQ)

1. What is a benchmark used for investing?
   - To compare portfolio performance to a standard
   - To determine the best time to sell
   - To set interest rates
   - To calculate tax obligations

2. Which of the following is a commonly used benchmark for a tech-heavy portfolio?
   - TSX Composite
   - NASDAQ Composite
   - Dow Jones Industrial Average
   - Global Aggregate Bond Index

3. In the apple tree example, what does the increase in value of the trees represent?
   - Price appreciation
   - Dividends
   - Benchmark growth
   - Volatility

4. What does a higher standard deviation indicate?
   - Greater variation in returns
   - More stable returns
   - Higher risk and more return consistency
   - Lower risk than average

5. What does the Sharpe ratio measure?
   - The volatility of an investment
   - The number of stocks in a portfolio
   - How much tax you pay on gains
   - The reward received per unit of risk taken

True/False (T/F)

6. Mutual funds and ETFs typically come with a benchmark to help evaluate their performance.

7. Beta compares a portfolio's return to the risk-free rate.

8. If your portfolio drifts from its original asset allocation, rebalancing can help reduce risk.

Short answer questions

9. Why is rebalancing a portfolio important?

10. List the three basic steps for rebalancing a portfolio.

ANSWER KEY

Multiple choice questions (MCQ)

1. Answer: A. To compare portfolio performance to a standard

   Explanation: Benchmarks serve as reference points to see how well your portfolio performs relative to the market or a specific sector.

2. Answer: B. NASDAQ Composite

   Explanation: The NASDAQ Composite is heavily weighted toward technology companies, making it a common benchmark for tech-focused portfolios.

3. Answer: A. Price appreciation

   Explanation: In the apple tree example, the trees increasing in value represent the rise in the price of investments over time.

4. Answer: A. Greater variation in returns

   Explanation: A higher standard deviation indicates that returns are more spread out, reflecting higher volatility or risk.

5. Answer: D. The reward received per unit of risk taken

   Explanation: The Sharpe ratio measures how much excess return you receive for the additional volatility or risk in an investment.

True/False (T/F)

6. True

   Explanation: Mutual funds and ETFs usually have benchmarks so investors can assess how their investments perform compared to the market or a sector.

7. False

   Explanation: Beta measures volatility compared to a benchmark, not the risk-free rate. The Sharpe ratio compares returns to the risk-free rate adjusting for volatility.

8. True

   Explanation: Rebalancing realigns your portfolio to your target asset allocation, managing risk that might have shifted due to market movements.

Short answer questions

9. Answer: To maintain the desired level of risk and ensure the portfolio stays aligned with the investor's financial goals.

   Explanation: Without rebalancing, your portfolio may become riskier or more conservative than intended.

10. Answer:

    - Review the current asset allocation
    - Sell assets that have grown beyond target allocation
    - Buy assets that have fallen below target allocation

    Explanation: These steps restore your portfolio to its intended risk and return profile.

MONEY GAINS MAKING IT COUNT

TEST: Simplified version

Multiple choice questions (choose the best option – 10 marks)

1. What is the main goal of active investing?
   - To avoid any loss
   - To beat the market and earn more
   - To match the market returns
   - To follow market indexes

2. What is a direct investment vehicle?
   - A product where you own the asset yourself
   - A stock market app
   - A mutual fund
   - A financial advisor

3. Which is a benefit of doing your own investing (DIY)?
   - You have full control over your money
   - You get expert advice every time
   - You always make money
   - You never have to do any research

4. What is a market order?
   - An order to cancel all trades
   - An order to buy at a set price or better
   - An order to buy or sell right away at the best price
   - An order to buy only when the market opens

5. Why do active investment managers charge higher fees?
   - Because they do more research and trading
   - Because they only buy bonds
   - Because they never trade stocks
   - Because they use no research

6. Who usually invests in hedge funds?
   - Very wealthy investors with special access
   - Only retirees
   - People just starting to invest
   - Anyone with a bank account

7. What does systematic investing mean?
   - Investing randomly
   - Investing only in bonds
   - Investing based on research and facts
   - Not investing at all

8. How do passive investors usually invest?
   - By picking individual stocks every day
   - By buying index funds or ETFs
   - By betting on the stock market
   - By investing only in real estate

9. How are mutual funds and ETFs priced differently?
   - Mutual funds have one price at day's end; ETFs trade all day
   - Both trade all day
   - ETFs only price once per day
   - Neither has a price

10. What is important to do early if you want to be good with money?
    - Learn about investing and saving early
    - Spend all your money now
    - Follow your friends' advice
    - Avoid all risk

True or false (write T or F – 10 marks)

11. DIY investing is best for people who want expert advice every time. ________
12. Financial advisors can help you save time managing your money. ________
13. Your goals don't matter when deciding how to invest. ________
14. Spreading money across different investments lowers risk. ________
15. A stop order becomes a market order when a price is reached. ________
16. ETFs usually have lower fees than active mutual funds. ________
17. Younger people can usually take more investment risk than older people. ________
18. Asset allocation means dividing your money among types of investments. ________
19. Market orders guarantee you get the price you want. ________
20. Passive investors adjust their investments as indexes change. ________

Short answer (answer briefly in full sentences – 2 marks per question – 10 marks total)

21. Name two common factors investors use in systematic investing.

22. What is the main goal of passive investing?

23. Why might someone choose to work with a financial advisor?

24. What does diversification mean in investing?

25. Why is learning about investing early helpful?

Matching (match the term with the correct description – 5 marks)

Terms	Description	
A: Market order	1. Measures risk compared to a benchmark	______
B: Limit order	2. An order to buy/sell immediately at the best price	______
C: Stop order	3. An order triggered only when price reaches a set point	______
D: Beta	4. Compares return with risk taken	______
E: Sharpe ratio	5. An order to buy/sell at a specific price or better	______

MARKING SCHEME

Question type	Points	Criteria
Multiple choice (10)	10 marks	1 mark each, full mark for correct answer
True/False (5)	5 marks	1 mark each, full mark for correct answer
Short answer (5)	10 marks	2 marks each: 2 – Clear, correct and complete answer 1 – Partially correct 0 – Incorrect or blank
Matching (2 sets)	5 marks	1 mark per correct match (5 per set).

PERFORMANCE LEVELS

Level	Score range	Descriptor
4 – Excellent	27–30 marks	Demonstrates a strong and thorough understanding of investing concepts; accurate use of financial terminology and reasoning
3 – Proficient	23–26 marks	Solid grasp of material with minor errors; communicates clearly and applies concepts appropriately
2 – Developing	18–22 marks	Partial understanding; some misconceptions or vague responses; lacks clarity or depth in explanations
1 – Beginning	Below 18 marks	Limited understanding; significant errors or missing responses; difficulty applying concepts

MONEY GAINS MAKING IT COUNT

LEARNING OBJECTIVES ACHEIVEMENT CHART (HOLISTIC METHOD)

Learning objective	Met	Approa-ching	Not Met
1. **Identify different types of investors and investment styles (e.g., active, passive, systematic)**			
2. **Explain the function and examples of investment vehicles (e.g., stocks, bonds, ETFs, mutual funds)**			
3. **Distinguish between order types (market, limit, stop, stop-limit, trailing stop)**			
4. **Understand the role and selection of benchmarks to evaluate investment performance**			
5. **Calculate and interpret portfolio return (including appreciation and income components)**			
6. **Evaluate risk using volatility concepts (standard deviation, beta)**			
7. **Explain risk-adjusted return using Sharpe ratio and its implications**			
8. **8. Describe and justify the process of rebalancing an investment portfolio**			
9. **Compare benefits and trade-offs of DIY investing vs. working with a financial advisor**			
10. **Use financial terminology accurately in context (e.g., NAV, equity, fixed income, diversification)**			

ANSWER KEY

1. **What is the main goal of active investing?**

   Answer: B. To beat the market and earn more

   Explanation: Active investors try to outperform market indexes by picking stocks or timing trades, aiming for higher returns than the market average.

2. **What is a direct investment vehicle?**

   Answer: A. A product where you own the asset yourself

   Explanation: Direct investments mean you personally own assets like individual stocks or bonds, unlike indirect investments (e.g., mutual funds) where you own shares of a pooled investment.

3. **Which is a benefit of doing your own investing (DIY)?**

   Answer: A. You have full control over your money

   Explanation: DIY investors manage their own portfolios, giving them full control but also requiring knowledge and time.

4. **What is a market order?**

   Answer: C. An order to buy or sell right away at the best price

   Explanation: A market order executes immediately at the current market price, unlike limit orders which wait for a specified price.

5. **Why do active investment managers charge higher fees?**

   Answer: A. Because they do more research and trading

   Explanation: Active management requires more effort and resources like research and frequent trading, leading to higher fees.

6. **Who usually invests in hedge funds?**

   Answer: A. Very wealthy investors with special access

   Explanation: Hedge funds often require high minimum investments and are restricted to accredited investors with significant assets.

7. **What does systematic investing mean?**

   Answer: C. Investing based on research and facts

   Explanation: Systematic investing uses rules, algorithms or data-driven strategies to make investment decisions.

8. **How do passive investors usually invest?**

   Answer: B. By buying index funds or ETFs

   Explanation: Passive investing involves tracking a market index through low-cost funds or ETFs without frequent trading.

9. **How are mutual funds and ETFs priced differently?**

   Answer: A. Mutual funds have one price at day's end; ETFs trade all day

   Explanation: Mutual funds' price (NAV) is calculated once after market close; ETFs trade like stocks throughout the day.

10. **What is important to do early if you want to be good with money?**

    Answer: A. Learn about investing and saving early

    Explanation: Early financial education helps build better habits and grow wealth over time.

True or false (Write T or F)

11. DIY investing is best for people who want expert advice every time.

    F – DIY means you do your own research, not getting expert advice every time.

12. Financial advisors can help you save time managing your money.

    T – They handle research, planning and decisions to save you time.

13. Your goals don't matter when deciding how to invest.

    F – Investment choices should align with your personal goals.

14. Spreading money across different investments lowers risk.

    T – Diversification reduces risk by not putting all of your eggs in one basket.

15. A stop order becomes a market order when a price is reached.

    T – That's how stop orders work, triggering a market order at the stop price.

16. ETFs usually have lower fees than active mutual funds.

    T – ETFs are often passive and cheaper than actively managed mutual funds.

17. Younger people can usually take more investment risk than older people.

    T – Younger investors have more time to recover from losses, so they can afford more risk.

18. Asset allocation means dividing your money among types of investments.

    T – Asset allocation spreads investments among categories like stocks, bonds and cash.

19. Market orders guarantee you get the price you want.

    F – Market orders execute immediately, but the price can vary, especially in volatile markets.

20. Passive investors adjust their investments as indexes change.

    T – Passive investors track indexes, so they rebalance to match index changes.

MONEY GAINS MAKING IT COUNT

Short answer:

21. **Name one common factor investors use in systematic investing.**

    Expected answer: One common factor used in systematic investing is value, which involves selecting stocks that appear undervalued based on metrics like price-to-earnings or price-to-book ratios.

    Explanation: Systematic investing relies on quantitative rules or factors to make decisions, and "value" is a well-known factor where investors seek bargains in the market. Other common factors include size, momentum and quality.

    Sample student response: *"Investors often use the value factor to pick stocks that seem cheap compared to their earnings or assets because these stocks might increase in price later."*

22. **What is the main goal of passive investing?**

    Expected answer: The main goal of passive investing is to match the performance of a market index rather than trying to beat it.

    Explanation: Passive investors buy broad market index funds or ETFs and hold them long-term, minimizing trading costs and fees. This strategy aims to capture overall market returns instead of attempting frequent trades to outperform.

    Sample student response: *"Passive investing means investing in funds that track an index, so you get the same return as the market instead of trying to pick winning stocks."*

23. **Why might someone choose to work with a financial advisor?**

    Expected answer: Someone might choose to work with a financial advisor to get expert guidance, save time, and create a personalized investment plan aligned with their financial goals.

    Explanation: Financial advisors offer professional advice, help manage complex portfolios, and provide tailored strategies. They can also help investors navigate market volatility and stay disciplined.

    Sample student response: *"People work with financial advisors because they want advice from experts and don't have the time or knowledge to manage their investments themselves."*

24. **What does diversification mean in investing?**

    Expected answer: Diversification means spreading investments across different asset classes, sectors or geographic regions to reduce risk.

    Explanation: By holding a variety of investments that don't move in perfect sync, investors can reduce the impact of any single investment's poor performance on the overall portfolio.

    Sample student response: *"Diversification is when you invest in different types of assets, so if one investment does badly, you don't lose all your money."*

25. **Why is learning about investing early helpful?**

    Expected answer: Learning about investing early is helpful because it allows more time to benefit from compound growth and helps investors make informed decisions to build wealth over the long-term.

    Explanation: Early knowledge empowers investors to understand risks and opportunities, avoid common mistakes, and develop good habits like saving and disciplined investing, which lead to better financial outcomes.

    Sample student response: *"Starting to learn about investing early helps you make better choices and gives your money more time to grow."*

Matching:

26. A-2
27. B-5
28. C-3
29. D-1
30. E-4

TEST: Challenging version

Multiple choice questions (choose the best answer – 10 marks)

1. **What is the primary objective of active portfolio management?**
    - Maximizing tax efficiency
    - Achieving alpha by outperforming market benchmarks
    - Replicating market index performance
    - Minimizing portfolio turnover

2. **Which characteristic best differentiates bottom-up from top-down investment strategies?**
    - Bottom-up analyzes companies independently of sector or economy
    - Bottom-up focuses on macroeconomic trends before selecting industries
    - Top-down prioritizes individual company fundamentals
    - Top-down invests only in government bonds

3. **Which of the following best explains why passive funds generally have lower fees than actively managed funds?**
    - Passive funds always outperform active funds
    - Passive funds use fewer human resources and less frequent trading
    - Passive funds require higher research costs
    - Active funds invest only in niche sectors

4. **How does a stop-limit order differ from a stop-loss order?**
    - A stop-loss order converts into a market order, whereas a stop-limit order becomes a limit order with a price cap
    - Stop-limit orders are only used for buying, not selling
    - A stop-limit order guarantees execution at any price once triggered
    - Stop-loss orders specify a price range instead of a fixed price

5. **Beta is a measure of:**
    - The absolute return of a portfolio over time
    - The risk-free rate of return
    - Volatility of a portfolio relative to a benchmark index
    - The correlation between bond yields and stock prices

6. **Which of the following statements about ETFs is false?**
    - ETFs generally have higher expense ratios than mutual funds
    - ETFs trade on stock exchanges throughout the day
    - ETFs allow investors to gain exposure to broad market indices
    - ETFs can be bought and sold like individual stocks

7. **What is the rationale behind rebalancing a portfolio?**
    To increase exposure to high-performing assets only
    To avoid any losses in a volatile market
    To maintain the target asset allocation and control risk exposure
    To reduce transaction costs by avoiding trades

8. **The Sharpe ratio is best described as:**
    A metric comparing the excess return of an investment to its standard deviation
    A ratio that measures absolute return over time
    A measure of how much an asset's price fluctuates relative to a benchmark
    A measure of the total fees paid for managing a portfolio

9. **In the context of diversification, what is the benefit of including both equity and fixed-income assets?**
    To avoid paying taxes on dividends
    To guarantee positive returns regardless of market conditions
    To reduce overall portfolio volatility by combining uncorrelated assets
    To maximize short-term gains

10. **Which of the following best describes a hedge fund investor?**
    Anyone who invests in mutual funds
    An investor who only buys government bonds
    A retail investor with a small amount of capital
    An accredited investor with access to private, less-regulated investment vehicles

True or false (write T or F – 10 marks)

11. The bid-ask spread is the difference between the highest price a buyer is willing to pay and the lowest price a seller is willing to accept. ________
12. Systematic investing uses quantitative models and rules rather than discretionary decisions. ________
13. Market orders guarantee you will receive the exact price you expect. ________
14. Rebalancing can help maintain a portfolio's risk profile over time. ________
15. ETFs are priced only once per day at net asset value (NAV). ________
16. A high beta indicates a security is less volatile than the market. ________
17. Stop orders can help protect against downside risk by triggering sales at predetermined prices. ________
18. Passive funds require active stock-picking to outperform the market. ________
19. The Sharpe ratio accounts for both return and volatility in its calculation. ________
20. Diversification eliminates all investment risk. ________

Short answer (answer briefly in full sentences – 2 marks per question – 10 marks total)

21. Explain the difference between active and passive investing strategies and the typical cost implications of each.

22. What factors should be considered when selecting an appropriate benchmark for your investment portfolio?

23. Describe the concept of bid-ask spread and how it affects market orders.

24. Why is the Sharpe ratio important when evaluating investment performance?

25. Outline the steps and purpose of portfolio rebalancing.

Matching (match the term to the best description – 5 marks)

Terms	Description	
A: Trailing stop order	1. Adjusts its trigger price based on stock price movements to protect profits	______
B: Limit order	2. An order specifying the worst acceptable price for buying or selling	______
C: Beta	3. Measures volatility relative to a benchmark index	______
D: Index fund	4. A fund designed to track a specific market index	______
E: Risk-adjusted return	5. Performance measure that accounts for return relative to risk	______

MARKING SCHEME

Question type	Points	Criteria
Multiple choice (10)	10 marks	1 mark each, full mark for correct answer
True/False (5)	5 marks	1 mark each, full mark for correct answer
Short answer (5)	10 marks	2 marks each: 2 – Clear, correct and complete answer 1 – Partially correct 0 – Incorrect or blank
Matching (2 sets)	5 marks	1 mark per correct match (5 per set)

PERFORMANCE LEVELS

Level	Score range	Descriptor
4 – Excellent	27–30 marks	Demonstrates a strong and thorough understanding of investing concepts; accurate use of financial terminology and reasoning
3 – Proficient	23–26 marks	Solid grasp of material with minor errors; communicates clearly and applies concepts appropriately
2 – Developing	18–22 marks	Partial understanding; some misconceptions or vague responses; lacks clarity or depth in explanations
1 – Beginning	Below 18 marks	Limited understanding; significant errors or missing responses; difficulty applying concepts

LEARNING OBJECTIVES ACHEIVEMENT CHART (HOLISTIC METHOD)

Learning objective	Met	Approa-ching	Not met
1. **Identify different types of investors and investment styles (e.g., active, passive, systematic)**			
2. **Explain the function and examples of investment vehicles (e.g., stocks, bonds, ETFs, mutual funds)**			
3. **Distinguish between order types (market, limit, stop, stop-limit, trailing stop)**			
4. **Understand the role and selection of benchmarks to evaluate investment performance**			
5. **Calculate and interpret portfolio return (including appreciation and income components)**			
6. **Evaluate risk using volatility concepts (standard deviation, beta)**			
7. **Explain risk-adjusted return using Sharpe ratio and its implications**			
8. **Describe and justify the process of rebalancing an investment portfolio**			
9. **Compare benefits and trade-offs of DIY investing vs. working with a financial advisor**			
10. **Use financial terminology accurately in context (e.g., NAV, equity, fixed income, diversification)**			

ANSWER KEY

Multiple choice

1. **What is the primary objective of active portfolio management?**
   Answer: B. Achieving alpha by outperforming market benchmarks
   Explanation: Active managers aim to beat the market returns (alpha) through research and trading.
2. **Which characteristic best differentiates bottom-up from top-down investment strategies?**
   Answer: A. Bottom-up analyzes companies independently of sector or economy
   Explanation: Bottom-up focuses on company fundamentals regardless of macro trends, while top-down starts with macroeconomic analysis.
3. **Which of the following best explains why passive funds generally have lower fees than actively managed funds?**
   Answer: B. Passive funds use fewer human resources and less frequent trading
   Explanation: Passive investing tracks indexes and requires less active management, lowering costs.
4. **How does a stop-limit order differ from a stop-loss order?**
   Answer: A. A stop-loss order converts into a market order, whereas a stop-limit order becomes a limit order with a price cap
   Explanation: Stop-loss triggers a market order; stop-limit triggers a limit order that only executes at the limit price or better.
5. **Beta is a measure of:**
   Answer: C. Volatility of a portfolio relative to a benchmark index
   Explanation: Beta shows how much an investment's price moves compared to the overall market.
6. **Which of the following statements about ETFs is false?**
   Answer: A. ETFs generally have higher expense ratios than mutual funds
   Explanation: ETFs usually have lower fees than actively managed mutual funds.
7. **What is the rationale behind rebalancing a portfolio?**
   Answer: C. To maintain the target asset allocation and control risk exposure
   Explanation: Rebalancing keeps your portfolio aligned with your risk tolerance and goals.
8. **The Sharpe ratio is best described as:**
   Answer: A. A metric comparing the excess return of an investment to its standard deviation
   Explanation: The Sharpe ratio measures risk-adjusted return by comparing returns to volatility.
9. **In the context of diversification, what is the benefit of including both equity and fixed-income assets?**
   Answer: C. To reduce overall portfolio volatility by combining uncorrelated assets
   Explanation: Diversifying across asset types lowers risk by smoothing returns.
10. **Which of the following best describes a hedge fund investor?**
    Answer: D. An accredited investor with access to private, less-regulated investment vehicles
    Explanation: Hedge funds usually restrict access to wealthy, accredited investors.

True or false answers

11. **T** –The bid-ask spread is the difference between the highest price a buyer is willing to pay and the lowest price a seller is willing to accept.
12. **T** – Systematic investing uses quantitative models and rules rather than discretionary decisions.
13. **F** – Market orders execute immediately but the price may vary, so they do not guarantee the exact price you expect.
14. **T** – Rebalancing can help maintain a portfolio's risk profile over time by keeping the allocation aligned with goals.
15. **F** – ETFs trade throughout the day like stocks, not just once per day at NAV.
16. **F** – A high beta indicates a security is more volatile than the market, not less.
17. **T** – Stop orders can help protect against downside risk by triggering sales at predetermined prices.
18. **F** – Passive funds track indexes and do not require active stock picking to outperform the market.
19. **T** – The Sharpe ratio accounts for both return and volatility in its calculation, measuring risk-adjusted returns.
20. **F** – Diversification reduces risk but does not eliminate all investment risk.

Short answer:

21. **Explain the difference between active and passive investing strategies and the typical cost implications of each.**

    Expected answer: Active investing involves managers or investors actively selecting and trading securities to outperform the market. Passive investing, on the other hand, aims to replicate the performance of a market index by holding a broad portfolio without frequent trading. Active investing typically incurs higher fees because it requires research, analysis and frequent transactions, while passive investing usually has lower costs due to minimal trading and management.

    Explanation: Active investing tries to beat the market by selecting specific stocks or timing trades, which involves more resources and higher management fees. Passive investing tracks an index with minimal adjustments, resulting in lower fees and expenses.

    Sample student response: *"Active investing means trying to pick the best stocks to beat the market, so it costs more because of research and trading. Passive investing just follows an index and costs less because it doesn't trade as much."*

22. **What factors should be considered when selecting an appropriate benchmark for your investment portfolio?**

    Expected answer: Factors include the portfolio's asset allocation (stocks, bonds, etc.), investment style (growth, value, sector focus), geographic focus (domestic, international), and risk tolerance. The benchmark should closely reflect the portfolio's investment universe and goals so performance comparisons are meaningful.

    Explanation: Choosing the right benchmark is essential to fairly evaluate how well your investments are performing relative to similar opportunities and market conditions.

    Sample student response: *"You should pick a benchmark that matches the types of investments you have, like a stock index if you mostly own stocks or a bond index if you invest in bonds."*

23. **Describe the concept of bid-ask spread and how it affects market orders.**

Expected answer: The bid-ask spread is the difference between the highest price a buyer is willing to pay (bid) and the lowest price a seller is willing to accept (ask). When placing a market order, investors buy at the ask price or sell at the bid price, so a wider spread means higher transaction costs and less favorable prices.

Explanation: The spread represents liquidity and transaction cost; tighter spreads indicate more efficient markets, while wider spreads can increase the cost of trading.

Sample student response: *"The bid-ask spread is the gap between what buyers want to pay and sellers want to get. If you use a market order, you might pay a higher price because of this spread."*

24. **Why is the Sharpe ratio important when evaluating investment performance?**

Expected answer: The Sharpe ratio measures the amount of return an investment generates for each unit of risk taken, helping investors understand if they are being adequately compensated for the volatility of their investment.

Explanation: By considering both returns and risk, the Sharpe ratio allows for more informed comparisons between investments or portfolios, beyond just looking at returns alone.

Sample student response: "T*he Sharpe ratio shows if you are getting enough return for the risk you take. A higher ratio means better risk-adjusted performance."*

25. **Outline the steps and purpose of portfolio rebalancing.**

Expected answer:

Rebalancing involves:

1. Reviewing your current asset allocation
2. Comparing it to your target allocation
3. Selling assets that have grown beyond their target proportion
4. Buying assets that have fallen below their target proportion

The purpose is to maintain your desired risk level and investment strategy by preventing any asset class from becoming too large or too small.

Explanation: Without rebalancing, your portfolio could drift away from your goals, increasing risk or reducing potential returns.

Sample student response: *"Rebalancing means checking your investments and selling some that grew too much and buying others that shrank to keep your portfolio balanced and not too risky."*

Matching:

26. A-1

27. B-2

28. C-3

29. D-4

30. E-5

Citations

Fidelity Investments Canada ULC. (2022). *Money Gains: Making it count—Chapter 3: How to invest.* Fidelity Canada. https://www.fidelity.ca/en/investor-education/moneygains/#_content_fidca_en_CA_investor_education_moneygains_jcr_content_root_new_backgroundsconta_1345988752_inpagenavChapter_3__How_to_invest

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