

COULD YOU PASS THE 1977 S.I.A. EXAMS?

The Securities Institute Course has now been in operation for some 15 years and in that time there have been widespread changes in subject matter, teaching approaches, marking methods and, critically, standards.

Fifteen years ago the Course was known as the Stock Exchange Institute Course and naturally there was considerable emphasis on subjects such as back-office procedures in a broker's office.

Today the Course bears little similarity to the earlier Course — students come from a much wider industry than stockbroking, with the result that subjects such as the one referred to above have been de-emphasised and many new subjects added. The Course has been split into two — Basic and Advanced, the latter requiring a much higher standard of attainment than ever sought before.

To inform those of our members not familiar with present standards we include in this article a few of the questions set for students in recent exams.

BASIC COURSE

UNIT 2 *Legal Environment (Part 1)*

1. (a) Briefly indicate the restrictions and conditions imposed on a "dealer" entering into a securities transaction on behalf of a fellow director on the board of his company *and* on behalf of a proprietary company in which he holds 30% of the issued share capital.
- (b) Can a "dealer" purchase shares in a company on his own account if his client has already instructed him to purchase another parcel of shares in that company and he has not bought the amount the subject of his client's instructions?
- (c) Is the practice of "short selling" totally prohibited under both the rules of the Stock Exchange and Securities Industry Act 1975?
- (d) What are the restrictions in the Securities Industry Act of lending money to employees of dealers or investment advisors for the purpose

of purchasing shares on the Stock Market?

2. Briefly indicate the various mechanisms and approaches adopted to achieve a more effective regulation of the Securities Markets. In your answer refer to all sources of securities law. To what extent do you consider that the present controls are effective?

UNIT 5 *Legal Environment (Part 2)*

What is the income tax position in each of the following circumstances. Briefly explain your reasons.

- (a) Profit on shares purchased by an investor on 5th January and sold on 18th December to meet a pressing debt.
- (b) Interest received on an overseas investment from which tax was deducted in the country of source.
- (c) Dividend received from a U.S.A. company from which 15% tax deducted in accordance with the double tax treaty.

UNIT 6 *Australian Money Markets*

Assume you are forced to invest in Government Securities and also assume that you expect the next movement in interest rates to move upwards. Which of the following investments would you choose?

- (a) 91 day Treasury Notes to yield 7.977% p.a.
- (b) 10.00% February 1987 Government Securities to yield 10.00% p.a.

UNIT 7 *Economic Analysis*

1. What have been the major changes in the direction and composition of Australia's post-war trade?
2. Define "rate of exchange" and "exchange control". Explain how the Australian rate of exchange is determined today. Explain how it was determined before 1929.
3. Define Balance of Trade, terms of trade, balance of payments on current account, balance of payments. Examine the validity

of the statement that exports pay for imports. Outline the factors which may cause Australia's terms of trade to alter in the long run.

4. Outline the various methods Australia could use to overcome a serious balance of payments problem. In each case discuss briefly the merits of each method.

UNIT 8 *Australian Industry*

"Much of Australian manufacturing industry is inefficient and should be closed down". Comment, with reference to the views of the Industries Assistance Commission and the Jackson Report on Manufacturing Industry.

UNIT 12 *Portfolio Management*

Describe the changes you would propose and the reasons for them if an individual sought to establish a superannuation fund for his employees volunteering his individual holding of ordinary shares with a market value of \$1.0m say for the purpose.

ADVANCED COURSE

UNIT 13 *Mining Analysis*

1. What would be the effect of world parity prices for Australian oil?
2. Describe the process of hedging on the London Metal Exchange.

UNITS 15 & 16 *Behaviour of Security Prices*

1. (a) "Whilst the stock market might be efficient for most of the time, there are periods of time when irrationality and inefficiency pervade. Witness the Poseidon — Tasminex debacle". Critically evaluate.
 - (b) A large number of studies in the U.S.A., Australia and New Zealand reveal that portfolios comprising randomly selected low P.E. ratio stocks consistently yield returns higher than portfolios comprising randomly selected high P.E. ratio stocks. Is this evidence anomalous or consistent with market efficiency? Explain.
 - (c) In a recent Australian study a group of researchers compared the results of various filter strategies with corres-

ponding buy-and-hold strategies. They found evidence similar to that produced elsewhere. The naive buy-and-hold strategies consistently outperformed the filter rules. The researchers concluded that this evidence supported the notion that capital markets are efficient.

Required:

- (a) What do you think about the validity of comparing filters with buy-and-hold strategies; *and*
- (b) *Given* their results, what do you think about the authors' conclusions?

2. (a) Explain:

- (i) Diversifiable and non diversifiable risk.
- (ii) What risk is rewarded by the market place. Why?
- (iii) The risk/returns relationship.

- (b) "Oil is risky. Steel is not". True or false.

Explain.

- (c) Rank the following stocks in order of riskiness. Label the most risky No 1 and the least risky No 4. Briefly explain your ranking.

UNIT 17/17A *Corporate Finance*

You have been asked to advise a client about the proposed acquisition of Clyde Industries Ltd. On the basis of the information contained in the Stock Exchange Information Service, which is attached, set out your preliminary advice concerning:—

- (a) Price to be offered.
- (b) Composition of the offer (i.e. cash v. shares).
- (c) Tactics to be employed.
- (d) Sources of finance for the takeover.

State clearly the reasons for your recommendations. Clyde shares closed at (price) on (date).

UNITS 18-19 *Advanced Portfolio Management*

Assume a client has commissioned our Company as Portfolio Manager. The client has acquired real estate vacant holding with planning approvals for home units, flats and tourist resort development. Because of

their expertise in building development, the client intends to develop the vacant sites and is to be accepted as part of the proposal.

The client has indicated that a property trust or similar type of property fund will be the vehicle for the above development.

A broad report has been requested, presented in simple non-technical language, with particular reference to all types of risk which might be anticipated from expected returns. It would assist the client's Board if as part of the paper, suggested recommendations were made covering the following headings:—

1. Type of Fund;
2. The Term;

3. Concentrate on broad Risk and Return choices;
4. Diversification;
5. Use of Market Cycles;
6. As general conclusions of the above what broad strategy should be developed.

These recommendations should outline how the theory and practice of the following

Markowitz Portfolio Theory

Risk, Risk aversion and portfolio efficiency

Beta and volatility of rate of return

Diversification and risk reduction

have been related.

THE LIGHTER SIDE OF EXAMINATIONS

An Examiner's life is not always a happy one. The following "Pearls of Wisdom" collected over the past 12 years have been a valuable incentive for one Examiner to maintain his interest in the task of assessing the value of the answers to questions set in Securities Institute Examination Papers. (The added comments are not the students'.)

QUESTION: *Define an Executor.*

ANSWER: 1. A person who looks after a dead person.

2. A person appointed by a Will. His duties are to bury the dead; pay the death duties; pay the debts and to distribute the remains to those entitled.

(Who would want to be a beneficiary or an executor?)

QUESTION: *Define a Documents Register.*

ANSWER: A documents register is a register in which are detailed all the details of a document. (Perfectly clear?)

QUESTION: *Briefly describe your understanding of delivery of a "Cum-Dividend" transaction after the "Ex-dividend" date.*

ANSWER: The delivery of shares cum-dividend but ex-dividend, can be registered if delivered by a client, but if they were

delivered by a broker, the shares cannot be registered. The reason being that the delivering broker will debit his selling client, but his client will not receive the dividend from the Company because the shares have been registered out of his name. (Are you confused too? The client must have been.)

QUESTION: *Briefly describe your understanding of Courtesy Dividend Claim.*

ANSWER: Courtesy Claim is a dividend or interest claim on another broker by a broker for shares according to the original delivering broker were registered before the books closed. The broker claiming need not be the broker the original broker delivered the shares to. (Plenty of courtesy in that.)

QUESTION: *What do you understand by ex-interest date in connection with Commonwealth Loans?*

ANSWER: The ex-interest date means after one interest date has been announced. Meaning Commonwealth Loans purchased ex-interest date then the holder is not entitled to