



# CHARTERED INSTITUTE OF STOCKBROKERS

September 2007 Professional Examination Level 3

## PAPER 3.1: SECURITIES ANALYSIS AND PORTFOLIO MANAGEMENT

Tuesday, September 25, 2007 Morning Session

Time allowed: 3 hours (9.00 a.m. to 12.00 noon)

Additional Material: Answer Booklet

### ***Instructions to candidates***

*This paper is divided into two sections.*

#### ***Answer five questions in total:***

*In **Section A**, answer **all** parts of **Question 1**.*

*In **Section B**, answer any **four** of the six questions.*

*The number of marks is given at the end of each question or part question.*

*The question in **Section A** carries, in total, **30 marks**.*

*The questions in **Section B** carry, in total, **70 marks**.*

#### ***Follow the instructions on the front cover of the Answer Booklet.***

*Answer your questions in the Answer Booklet provided, additional sheets may be used. At the end of the examination, fasten all your work securely together.*

*All workings should be shown. Where calculations are required using formulae, calculators may be used but steps in the workings must be shown. Calculations with no evidence of this (for example, using the scientific functions of calculators) will receive no credit. Programmable calculators are not permitted in the examination room.*

*Statistical tables and graph papers are available from the invigilator, where applicable.*

*You must not start writing your answers in the booklet until instructed to do so by the supervisor.*

**SECTION A**

**Answer ALL parts of this question.  
Unless otherwise indicated, each part question carries 2 marks.  
Total marks for this question: 30 marks**

- 1** (a) Explain each of the following:
- (i) growth stocks
  - (ii) preferred stocks
  - (iii) cyclical stocks
  - (iv) short selling 4 marks
- (b) What is margin trade? 2 marks
- (c) Distinguish between a unit trust and an investment trust. 2 marks
- (d) Assuming:  $N_{40}$  = the current price of stock XYZ; 4% = the expected growth rate of dividends; 8% = the expected return on stocks similar to XYZ; and,  $N_{1.50}$  = the expected (annualized) dividend to be received in one year. Using the constant growth dividend discount model, evaluate whether XYZ is over or under priced. 3 marks
- (e) An investor purchased Eternal Cement Plc shares selling at  $N_{9.70}$ . Eternal is expected to pay dividend of 18K per share at the end of the year. Market price after payment will be  $N_{11.90}$ .
- What is the expected return to the investor? 2 marks
- (f) Explain the difference between:
- (i) cash flow from operations and free cash flow;
  - (ii) primary earnings per share and fully diluted earnings per share. 4 marks
- (g) What are some differences between a warrant and a call option on the same company's stock? 4 marks
- (h) Explain what collective investment scheme means by reference to S9 of Investment and Securities Act. 2 marks
- (i) An investor purchased  $N_{100,000}$  convertible bond issued at par with a 9% coupon that is convertible into 10,000 shares of the company's common stock. At the time of issue the company's stock is selling at  $N_{8}$  per share and pays no dividend.
- Calculate:
- (i) Conversion Value
  - (ii) Conversion Price
  - (iii) Conversion Premium 3 marks

(j) Explain briefly who an "Insider" is by the provision of S264 Investment and Securities Act. 3 marks

(k) AB Micro Finance Ltd. has obligation to repay N5,500 at the end of the next 3 years.

How much will the company need to invest at 10% compounded annually to meet its obligation?

2 marks

**Total: 30 marks**

**SECTION B**

**Answer four questions from this section.  
Total marks for this section: 70 marks**

- 2** (i) Discuss the issues which arise for an institutional investor in formulating a long term investment strategy. 12 marks
- (ii) Discuss briefly the factors that would cause an institutional investor to move away from a long term benchmark asset allocation of a large institutional investment portfolio and describe the problems in doing so. 5<sup>1</sup>/<sub>2</sub> marks

**Total: 17<sup>1</sup>/<sub>2</sub> marks**

- 3** (a) You are the adviser to a construction company which wishes to tender for a toll bridge project in the Gambia. The company which wins the contract will build the bridge, operate and maintain it until 2025, and then transfer it in good condition to the Gambian government.

**Required:**

Identify the variables which you will need to consider in order to evaluate and prepare a tender for the project, and explain the basis you would use to determine their value.

12 marks

- (b) Immediately after the company has been awarded the contract, an independent stockmarket analyst appraises the company as an investment.

**Required:**

How will his criteria differ in evaluating the worth to a prospective shareholder of the company's project?

5<sup>1</sup>/<sub>2</sub> marks

**Total: 17<sup>1</sup>/<sub>2</sub> marks**

- 4** (i) Explain the difference between an "offer for sale" and an "offer for subscription". 3<sup>1</sup>/<sub>2</sub> marks

**Question 4 continued**

- (ii) The lead underwriter of a rights issue has invited the pension fund of which you are the investment manager to participate in the sub-underwriting.

**Required:**

- (a) Discuss the issues you would consider in deciding whether or not to act as a sub-underwriter of the issue.
- (b) A sub-underwriting commission of 0.5% of the value underwritten has been offered. Discuss the factors you would consider to determine whether this is an acceptable level of commission.

10 marks

- (iii) A company has announced a one-for-two rights issue at a price of 180k per share. The new shares do not rank for the next dividend of 6k (gross) per share and the current shares will be ex-dividend when the issue closes. Before the announcement, the market price of the shares was 200k cum dividend. After the announcement it dropped to 184.5 cum dividend.

**Required:**

Calculate the theoretical ex rights price currently anticipated and comment briefly on the likelihood of the shares being left with the sub-underwriters.

4 marks

**Total: 17<sup>1</sup>/<sub>2</sub> marks**

- 5** (i) Discuss the advantages and disadvantages of collective investment vehicles from the perspective of the following investors in equities:

- (a) an individual making a personal investment,
- (b) a large institutional investor.

4 marks

- (ii) A unitised fund holds the following portfolio:

Stock	Nominal Holding	Mid Price (k)
A	50	400
B	100	800
C	70	500
D	90	300
E	50	600
F	40	1000
G	80	700
H	20	600

**Question 5 continued**

The trust is expanding and there are 1000 units in existence at present. Assume that each security in the portfolio has a bid to offer spread of 1.5%, that stamp duty on purchases is 0.5%, and that there is an initial charge on the fund of 5% which is equivalent to its bid/offer spread.

- (a) Calculate the bid and offer prices of the unitised fund. 3 marks
- (b) Calculate the changed prices if one of the main unitholders asked to redeem most of his units. 2 marks
- (c) Explain the circumstances in which the redeeming unitholder might receive a better price.  $3\frac{1}{2}$  marks

The unitholder decides not to leave. Instead, a substantial new investor appears who is anxious to invest in the unitised vehicle but wishes to purchase units in the fund using a portfolio of stocks which he will transfer into the fund instead of cash.

- (d) Discuss the considerations involved in determining whether or not to accept his stocks. 5 marks

**Total:  $17\frac{1}{2}$  marks**

- 6** (a) What are the fundamental assumptions of the Capital Asset Pricing Model?  $3\frac{1}{2}$  marks
- (b) The dealers in the capital market have been criticized of recent for moving share prices without any scientific justification. It has been said that prices are also being manipulated. Some even say that the market is far from being efficient.
- (i) Explain what is meant by market efficiency. Suggest ways that can reduce the manipulation of the share prices.
  - (ii) What are the basic assumptions underlying an efficient market? 14 marks

**Total:  $17\frac{1}{2}$  marks**

- 7** (a) Net Present Value and Internal Rate of Return are two generally acceptable Discounted Cash Flow techniques used in evaluating projects. All things being equal, both should give the same "accept" or "reject" decision for mutually exclusive projects.
- Give 3 instances when this may not be so. 3 marks

**Question 7 continued**

- (b) What are the demerits of using Accounting Rate of Return and Payback Period as capital budgeting techniques? 2<sup>1</sup>/<sub>2</sub> marks

- (c) Eva Plc is considering 2 alternative projects Y and K whose cash flow are given below:

Year	0	1	2
Project Y Nm	(8,500)	5,720	6,130
Project K Nm	(5,200)	2,220	4,870

The cash flow estimate excludes residual values of N1,500,000 and N750,000 for Project Y and Project K respectively. The company's cost of capital is 20%.

**Required:**

Calculate the NPV and IRR of both projects. 3 marks

- (d) State and explain the assumptions in Modigliani and Miller's Theory of the effect of leverage on the cost of capital. 3 marks

- (e) The capital structure of Kolac Ltd is given below:

Source of finance	N'm	% After tax cost
Ordinary Shares	820	20
Retained Earnings	620	20
Preference Shares	320	16
Debt	450	10

**Required:**

Calculate the weighted cost of capital of the company. 3 marks

- (f) Mantu Ltd's expected net operating income is N150, 000 with a cost of equity of 17%. The company currently has a 15% N650, 000 debt.

**Required:**

Calculate the value of the company and the overall cost of capital according to the net income approach. 3 marks

**Total: 17<sup>1</sup>/<sub>2</sub> marks**



# CHARTERED INSTITUTE OF STOCKBROKERS

September 2007 Professional Examination Level 3

## PAPER 3.2: FINANCIAL FUTURES AND OPTIONS

Tuesday, September 25, 2007 Afternoon Session

Time allowed: 3 hours (2.00 p.m. to 5.00 p.m.)

Additional Material: Answer Booklet

### ***Instructions to candidates***

*This paper is divided into two sections.*

#### ***Answer five questions in total:***

*In **Section A**, answer **all** parts of **Question 1**.*

*In **Section B**, answer any **four** of the six questions.*

*The number of marks is given at the end of each question or part question.*

*The question in **Section A** carries, in total, **30 marks**.*

*The questions in **Section B** carry, in total, **70 marks**.*

#### ***Follow the instructions on the front cover of the Answer Booklet.***

*Answer your questions in the Answer Booklet provided, additional sheets may be used. At the end of the examination, fasten all your work securely together.*

*All workings should be shown. Where calculations are required using formulae, calculators may be used but steps in the workings must be shown. Calculations with no evidence of this (for example, using the scientific functions of calculators) will receive no credit. Programmable calculators are not permitted in the examination room.*

*Statistical tables and graph papers are available from the invigilator, where applicable.*

*You must not start writing your answers in the booklet until instructed to do so by the supervisor.*

**SECTION A**

**Answer all parts of this question.  
Each part question carries 2 marks.  
Total marks for this question: 30 marks**

- 1** (a) The portion of an option contract's value, represented by the value that would be realized if exercised, is called? 2 marks
- (b) What is portfolio insurance? What is the main goal? 2 marks
- (c) Suppose that the Greeks of a call option are as follows:  
Delta = 0.5  
Gamma = 0.03  
What will the value of the call option be if the value of the underlying increases by 10 units? 2 marks
- (d) Explain the concept of program trading 2 marks
- (e) What is the other name for a receiver's swaption? 2 marks
- (f) Ayayo Plc is currently trading at ₦87 per share. What is the time value of a November N90 put trading at ₦3.27 2 marks
- (g) In an interest swap what is meant by the swap rate? 2 marks
- (h) The current stock price is N60 and the risk-free interest rate is 5%.  
A 6-month European put option with exercise price of ₦55 is priced at ₦2.25. What is the price for the corresponding 6 month, ₦55 exercise price call option? 2 marks
- (i) Explain the term quasi-arbitrage 2 marks
- (j) Copper futures contract requires the long trader to buy 25,000 lbs of copper. A trader buys one November price of ₦97.50/lb.  
Theoretically, what is the maximum loss this trader could have? 2 marks
- (k) With regard to futures market, explain the term "price discovery". 2 marks
- (l) Consider T-bill with a face value of ₦1. A 30-day T-bill has a price  $B_0(T_1)$  of ₦0.9955, another T-bill with 120-day maturity has a price  $B_0(T_1)$  of ₦0.9833. Determine the no-arbitrage price of a futures on the T-bill that expires in 30 days. 2 marks
- (m) The current price of a futures contract is ₦212. The initial margin requirement is N10, and the maintenance margin requirement is ₦8. For the long position, when could there be a margin call? 2 marks

- (n) What is risk-minimization hedging? 2 marks
- (o) Why is the fixed-rate payer in an interest rate swap said to be "short the bond market"? 2 marks

**Total: 30 marks**

**SECTION B**

**Answer four questions from this section.  
Total marks for this section: 70 marks**

- 2** (i) Distinguish between the credit risk faced by:
- (a) the writer and the purchaser of an over-the-counter option; and
  - (b) the two counterparties to an over-the-counter forward contract
- 5<sup>1</sup>/<sub>2</sub> marks
- (ii) Discuss how the credit risks in (b) could be reduced by:
- (a) reducing the probability of default; and
  - (b) reducing the underlying exposure
- 6 marks
- (iii) A mutual fund has entered into an agreement with an investment bank whereby the mutual fund will transfer ownership of a zero coupon bond to the investment bank in return for cash. In three days time the investment bank will return the zero-coupon bond to the mutual fund in return for the initial cash payment plus interest at the repo rate.
- Discuss the credit risks faced by the investment bank and suggest ways in which they could be reduced.
- 6 marks
- Total: 17<sup>1</sup>/<sub>2</sub> marks**

- 3** (a) Briefly discuss the meaning and importance of the terms in option pricing:
- (i) Delta
  - (ii) Theta
  - (iii) Vega (Kappa or Lambda)
- 6 marks
- (b) Assume that your company has invested in 100,000 shares of Ojudun Plc, a manufacturer of light bulbs. You are concerned about the recent volatility in Ojudun's share price due to the unpredictable weather in the country.
- You wish to protect your company's investment from a possible fall in Ojudun's share price until the end of the raining season in three months' time, but do not wish to sell the shares at present. No dividends are due to be paid by Ojudun during the next three months.

**Question 3(b) continued**

Market data:

Ojudun's current share price	200 kobo
Call option exercise price	220 kobo
Time to expiry	3 months
Interest rates (annual)	6%
Volatility of Ojudun's shares	225% (variance per year)

Assume that option contracts are for the purchase or sale of units of 1,000 shares.

**Required:**

- (i) Devise a delta hedge that is expected to protect the investment against changes in the share price until three month's time. 6 marks

- (ii) Comment upon whether or not such a hedge is likely to be totally successful. 5<sup>1</sup>/<sub>2</sub> marks

**Total: 17<sup>1</sup>/<sub>2</sub> marks**

**4** The recent upsurge in the all Nigeria Stock Index (ASI) and the increase in the capitalisation have resulted in enormous capital gains to the investors. To optimise their position, investors have resulted to borrowing on margin from their stockbrokers and in some cases from the banks. One of your valuable investors came to your office for explanation of the difference between margin requirement for investment in stocks and trading in futures.

- (a) What will be your explanation to your valuable client? 4 marks
- (b) What is the relationship between marking to market and margin account? 4 marks
- (c) Explain the function of clearing house to option trading. 5 marks
- (d) What is open interest in relation to option trading? 4<sup>1</sup>/<sub>2</sub> marks

**Total: 17<sup>1</sup>/<sub>2</sub> marks**

**5** Study the following Options quotation and answer the questions that follow:

Company	Stock Price	Strike Price	CALL PRICES		
			January	February	March
NBC	52 <sup>1</sup> / <sub>2</sub>	42 <sup>1</sup> / <sub>2</sub>	8 <sup>1</sup> / <sub>2</sub>	7	9 <sup>1</sup> / <sub>4</sub>
	52 <sup>1</sup> / <sub>2</sub>	47 <sup>1</sup> / <sub>2</sub>	6 <sup>1</sup> / <sub>2</sub>	5	7
	52 <sup>1</sup> / <sub>2</sub>	52 <sup>1</sup> / <sub>2</sub>	2 <sup>1</sup> / <sub>2</sub>	3	6
	52 <sup>1</sup> / <sub>2</sub>	57 <sup>1</sup> / <sub>2</sub>	2/5	2	3
	52 <sup>1</sup> / <sub>2</sub>	62 <sup>1</sup> / <sub>2</sub>	2/3	2/5	1 <sup>2</sup> / <sub>5</sub>

- (a) i. Which option is in the money 1 Mark  
 ii. Which option is out of the money 1 Mark  
 iii. Which option is at the money or near the money 1 Mark  
 iv. What is the intrinsic value of February 2 call 2<sup>1</sup>/<sub>2</sub> Mark

(b) Find the Profit/Loss on the following:

1. January 8<sup>1</sup>/<sub>2</sub> contract
2. January 2/5 contract
3. February 5 contract
4. February 2/5 contract
5. March 7 contract
6. March 1<sup>2</sup>/<sub>5</sub> contract

12 Marks

**Total: 17<sup>1</sup>/<sub>2</sub> marks**

- 6** (i) (a) List the problems that arise for a large unit-linked life fund in moving monies between the major equity markets by buying and selling the underlying stocks. Your answer should address both short-term switches which are intended to be reversed and long-term strategic asset allocation switches. 4<sup>1</sup>/<sub>2</sub> marks

- (b) Describe how the problems in (a) can be overcome using equity index futures contracts. 4 marks

- (ii) You are the head of derivatives trading at a Nigerian fund management firm. You are approached by a single-A rated counterparty with which neither you nor any member of the firm are familiar. This counterparty is willing to enter into a one-year swap in which it will pay the fund the total return on a suitable basket of Nigerian gilts in return for the fund paying it the total return on a suitable basket of Nigerian equities, plus (or possibly minus) an adjustment to reflect the "market rate" for such a swap in the market.

Discuss how in theory you would estimate the appropriate size of the adjustment. 9 marks

**Total: 17<sup>1</sup>/<sub>2</sub> marks**

**7** A pension fund wishes to use futures to hedge (against interest-rate movements) a N10,000,000 nominal holding of a Nigerian corporate bond with a dirty price of N107.50, a duration of 4.41 years and a gross redemption yield of 5.84% semi-annual. The cheapest-to-deliver gilt for the current active NIFFE Gilt future has a dirty price of N119.30, a duration of 6.88 years and a gross redemption yield of 4.62% semi-annual. The price of this NIFFE Gilt future is N117.40, and the conversion factor for the cheapest-to-deliver is given as 1.0164.

(i) Calculate the number of Gilt futures that the pension fund should sell in order to hedge the corporate holding. Clearly identify any assumptions you make.

10 marks

(ii) Describe the possible risks to the pension fund if it proceeds with the hedge in the amounts you calculate for (i).

7<sup>1</sup>/<sub>2</sub> marks

**Total: 17<sup>1</sup>/<sub>2</sub> marks**



# CHARTERED INSTITUTE OF STOCKBROKERS

September 2007 Professional Examination Level 3

## PAPER 3.3: MARKETING OF FINANCIAL SERVICES

Wednesday, September 26, 2007 Morning Session

Time allowed: 3 hours (9.00 a.m. to 12.00 noon)

Additional Material: Answer Booklet

### ***Instructions to candidates***

*This paper is divided into three sections.*

#### ***Answer five questions in total:***

*In **Section A**, answer **all** parts of **Question 1**.*

*In **Section B**, **Question 2** must be answered.*

*In **Section C**, answer any **three** of the five questions.*

*The number of marks is given at the end of each question or part question.*

*The question in **Section A** carries, in total, **30 marks**.*

*The question in **Section B** carries, in total, **25 marks**.*

*The questions in **Section C** carry, in total, **45 marks**.*

### ***Follow the instructions on the front cover of the Answer Booklet.***

*Answer your questions in the Answer Booklet provided, additional sheets may be used. At the end of the examination, fasten all your work securely together.*

*All workings should be shown. Where calculations are required using formulae, calculators may be used but steps in the workings must be shown. Calculations with no evidence of this (for example, using the scientific functions of calculators) will receive no credit. Programmable calculators are not permitted in the examination room.*

*Statistical tables and graph papers are available from the invigilator, where applicable.*

*You must not start writing your answers in the booklet until instructed to do so by the supervisor.*

**SECTION A**

**Answer all parts of this question.  
Unless otherwise indicated, each part question carries 1 mark.  
Total marks for this question: 30 marks**

- 1** For each question below, there are four possible answers, choose the one you consider correct and record your choice on the answer booklet.
- i. A schoolboy receives ₦ 100 every year from his uncle and deposits it in his savings account with a bank, which pays interest at the rate of 9% per annum. If the schoolboy had received similar sums from his uncle in the last three years, what is the future value of his deposits?
    - a. ₦339.52
    - b. ₦129.50
    - c. ₦327.81
    - d. ₦311.20
  - ii. The proper recruitment, and selection of service personnel, training and motivating them so as to be able to provide or produce customer satisfaction is
    - a. Integrated marketing
    - b. Interactive marketing
    - c. Internal marketing
    - d. Itinerant marketing
  - iii. A marketing philosophy which holds that an organisation's short and long run goals will be best met if it determines the needs and wants of its target markets or customers and makes conscientious efforts to produce services whose characteristics would effectively and efficiently satisfy these target markets more than competitors is...
    - a. Marketing Planning
    - b. Marketing Eye
    - c. Marketing Concept
    - d. Marketing Myopia.
  - iv. As a financial marketer, you have just discovered that one of the important market segments for your financial products has no desire or demand for your product. Which among the following tasks is relevant to change the segment's orientation?
    - a. Revive Demand
    - b. Develop Demand
    - c. Create Demand
    - d. Make Demand
  - v. If 45% of the Nigerian Naira (₦) is equal to 35% of a foreign currency \$, the conversion rate of \$ to ₦ is \$ 1 =
    - a. ₦<sup>7</sup>/9
    - b. ₦ 2<sup>2</sup>/9
    - c. ₦ 1<sup>2</sup>/7
    - d. ₦ 2<sup>6</sup>/7

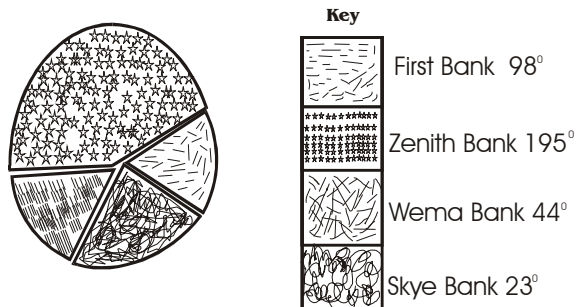
- vi. A bank customer deposited N1500.00 in her bank account at the end of five years, the simple interest on the account amounted to N550. The rate per annum of interest was
- $7\frac{1}{3}\%$
  - 7%
  - 5%
  - $4\frac{1}{2}\%$
- vii. A businessman invested a total amount of ₦200,000 in two companies, which paid dividends of 5% and 7% respectively. If he received a total of ₦11,600, how much did he invest at 7%?
- ₦80,000
  - ₦140,000
  - ₦160,000
  - ₦100,000
- viii. Which of the following is pertinent to financial product portfolio?
- The growth potential
  - The relative market share
  - The cash-flow potential
  - All of the above
- ix. A certain product retails for ₦100. How much does this product cost the retailer if his mark-up is  $33\frac{1}{3}\%$ ?
- ₦66.67
  - ₦125.00
  - ₦75.00
  - ₦50.00
- x. A sum of money invested at a simple interest rate R% increases to  $1\frac{2}{3}$  times the original sum after 5 years. The value of R is
- 6%
  - 9%
  - 13.3%
  - 10.5%
- xi. All the following factors contributed to the reason for adopting marketing in the Nigerian Banking Industry except...
- Rapid increase in the number of banks
  - Keen competition
  - Changed consumer orientation
  - Competitive Disadvantage
- xii. One of the following is Not among the gaps that cause unsuccessful delivery of financial services.
- Gap between consumer expectation and management expectation
  - Gap between management perception and service-quality specification
  - Gap between service delivery and external communication
  - Gap between perceived service and expected service.

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- xiii. The following are the elements with which the intangibility nature of financial service can be made tangible except...
- People
  - Symbol
  - Differential Pricing
  - Communication Materials
- xiv. Successful organization's marketing strategy is premised on the following pillars except
- Character of the Economy
  - Competitive size and strength
  - Bargaining Power of Suppliers
  - Competitor's Strategies
- xv. In order to solve the problem posed by the inseparability nature of financial services, then one of the following Ps is considered relevant.
- Physical Evidence
  - Physical Appearance
  - Physical Attention
  - People
- xvi. Which of the following is not one of the Lauterborn's 4Cs
- Customer Compensation
  - Customer Cost
  - Communication
  - Customer Solution
- xvii. The only distinguishing fact between service products and product services is
- The later is intangible while the former is tangible
  - The later is tangible while the former is intangible
  - They are both intangible but sold to different customers.
  - The later is an intangible product itself while the former is a more service which is tied to the sale of tangibles.
- xviii. The market where the interplay of the forces of demand and supply determines the monetary value of products and services is known as
- Price Mechanism
  - Sellers Market
  - Buyer's Market
  - None of the above
- xix. For an exchange to take place, the following conditions must be ascertained except.
- At least three parties must be present
  - Each party must be major where necessary
  - Each party must consider it appropriate to deal with one another
  - Each party must be ready to pay a price as consideration

- xx. The five-stage model of the consumer buying process is
- Prepurchase Behaviour → Evaluation of Alternatives → Information Search → Problem Analysis → Purchase Decision.
  - Problem Identification → Prepurchase Decision → Information Search → Evaluation of Alternatives → Final Purchase Action.
  - Definition of Need → Problem Analysis → Evaluation of Alternatives → Prepurchase Actions → Purchase Action.
  - Problem Recognition → Information Search → Evaluation of Alternative → Purchase Decision → Post purchase Behaviour
- xxi. To transform marketing strategy into marketing programmes, marketing managers must...
- Carry out market research and development
  - Make basic decision on marketing expenditures, marketing mix and marketing allocation.
  - Make or set a feasible marketing standard
  - Establish marketing departments to undertake marketing activities.
- xxii. The branch of Marketing Information System through which Financial Marketers watch for trends in the marketing environment of banks is?
- Marketing Intelligence System
  - Marketing Internal System
  - Marketing Internal Subsystem
  - Marketing Intelligence Subsystem
- xxiii. The Market participant whose strategies should include efforts to have a wider access to customer base, lower interests on loans to customers, etc is?
- The Market Challenger
  - The Market Combatant
  - The Market Warrior
  - The Market Leader
- xxiv. The following are examples of Non-price competitive strategy except..
- Product differentiation
  - Changes in product quality
  - Trading stamps
  - None of the above
- xxv. That strategy that calls for a company developing a new financial product to be sold in its present markets is?
- Diversification strategy
  - Market development strategy
  - Product market strategy
  - Product development strategy

- xxvi. One of the following factors if properly managed, would not cause new financial product failure is?
- a. Poor market analysis
  - b. Wrong perception of buying motives and habit
  - c. Strengthened research and development efforts
  - d. High cost than anticipated.
- xxvii. An investment opportunity promises the cash flow in future five years as thus, ₦200, ₦100, ₦150, ₦300 and ₦700. What is the sum of the present value in year zero minus the present value of the fifth year if the company's discount rate is 10%
- a. ₦1210.34
  - b. ₦946.71
  - c. ₦581.95
  - d. ₦496.10
- xxviii. All the following statements are true about Marketing Audit except
- a. Less time consuming
  - b. Revelation of detailed knowledge of a company's marketing activities
  - c. Provision of basis for setting workable objectives
  - d. None of the above

Use the diagram below to answer questions xxix and xxx.



- xxix. From the above diagram, the total sales volume of the four banks for a specific financial product in the Nigerian financial market over a specific period of time is their.....?
- a. Market Demand
  - b. Market Sales
  - c. Market Potential
  - d. Sales potential
- xxx. The Zenith Bank's 195° coverage of the market represents its .....?
- a. Sales Forecast
  - b. Sales Quota
  - c. Sales Potential
  - d. Sales Budget

**Total: 30 marks**

**SECTION B**

**This question MUST be attempted.  
Total marks for this section: 25 marks**

**2** Read the following case and answer the questions below:

Apex Trust Bank (ATB) was established as a building society dealing in mortgage business. In 1990, it became the first building society to convert to a bank and float on the Stock Exchange. Mortgage lending was its core business, but this has plunged in recent years. In the first quarter of 1989, net new loans hit zero. There are several reasons for this:

1. New entrants into the mortgage market undercut the establishment providers who are tied into a network of expensive high street branches.
2. The remaining mutual building societies such as Nationwide have embarked on a discounting campaign.
3. The great national mortgage has become a commodity item. Traditionally, borrowers stayed with the same lender for 25 years. Now the average life of a mortgage is 7 years.

Analysts see the mortgage market polarizing, one group of customers chooses the lender solely on the headline interest rate. These customers tend to move around, as more attractive deals become available. The second group is prepared to pay higher rates for more flexible products and better service.

Apex Trust's strategy to meet these challenges is to produce diverse products to attract the second group of customers and to try and keep existing customers for longer. Another of Apex Trust's strategy is to continue diversifying into more profitable areas of financial services. Currently only 20% of profits came from this area. The Chief Executive, Chief Asagidigbi, has set a target of obtaining 65% of profit from non-mortgage business within the next five years. He expects new lending to claim about 5% of the total market. He believes that Apex Trust has to continue to diversify into markets with stronger rates of growth and in which competition is weaker. As an example, he cites the life assurance, pensions and real estate markets, which Apex entered in 1993 with the acquisition of Consolidated Mutual in order to boost sales revenue. The internet method of banking was considered to appeal to more customers for convenience and fast banking transactions.

Mr. Agidiga, an acknowledged retail banker, was brought to Apex when it was at low ebb. He decided to take some measures. He introduced late night banking, Saturday banking, 24-hours-a-day banking. More branches were opened and more marketing executives were employed. The marketing executives were given targets and placed on commission basis and salaries were frozen to encourage sales. Apex handed out free checking accounts and pushing credit lines with no up-front charges. COT was reduced by 50% and N200 offered to any customer who waited in line more than ten minutes. It also decided to offer a rate of 0.5% above the base rate which its competitors do not believe is suitable.

Such changes were designed to widen the product range as well as increase the number of distribution channels available to the bank. The drive for new products meant that by 2000, 30% of its income came from products that did not exist in 1996. As part of marketing strategy to position Apex Trust Bank, the tenth anniversary of the bank was planned in grand style in 2000. A raffle draw where customers who saved specific amount for a specified period would win prizes ranging from Volkswagen Boras, freezers, televisions, air conditioners to range of cash prizes. There was extensive publicity for the tenth anniversary with slogans like "Apex Bank, your bank that takes you to the top".

On the Tenth Anniversary celebration day, many products were introduced such as Apex Venus Savings Account - a savings account in which you can pay cheque and with interest, children's education account, Xmas Account, Haji Account and a number of products.

The bank also seized the opportunity to launch its offer for public subscription of 200 million ordinary shares. Many artists and comedians like Debang, Two Face were invited to perform on the occasion. It was a memorable day as many customers carted their winning prizes home.

Commentary on the celebration was run by major radio and television houses for two weeks after the celebration. Apex Trust Bank became a household name since then and that gave the bank competitive advantage over other banks.

**Required:**

- (a) (i) Why has Apex Trust Bank decided not to compete in the mortgage market? 5 marks
- (ii) Do you consider that Apex is right to make this strategic decision? 5 marks
- (b) Analyse how the changes made to the marketing mix might have helped Apex achieve its objectives. 5 marks
- (c) How should Apex decide on the future marketing strategy for the business? 5 marks
- (d) Comment on the diversification strategy being suggested by Apex's Chief Executive. 5 marks

**Total: 25 marks**

**SECTION C**

**Answer three questions from this section.  
Total marks for this section: 45 marks**

- 3** While the product life cycle (PLC) pattern peculiar to goods is the "Traditional Curve" that peculiar to services is called "Boom or Classic Curve"

**Required:**

- (a) Using the appropriate curves describe the traditional and boom product life cycle patterns.
- (b) Explain the responsibilities of the marketer at the decline stage of the traditional PLC pattern and for the boom PLC pattern.

**Total: 15 marks**

- 4** The present scramble for customers has triggered tremendous efforts in the training and development of staff in the services industry.

**Required:**

- (a) Discuss the various types of orientation embarked upon in training staff.
- (b) Categorize the basis of knowledge passed on to staff while in training.

**Total: 15 marks**

- 5** Strategic marketing planning develops broad marketing objectives and strategy based on analysis of the current market situation and opportunities of products or business.

**Required:**

As a graduate of Chartered Institute of Stockbrokers, discuss how you would use the Boston Consulting Group (BCG) growth rate-market share matrix to formulate marketing strategies for financial services product in each of the quadrants.

**Total: 15 marks**

- 6** Eminent researchers had found that customers' expectations are true standards for judging service quality. Berry and Pavasuraman (1991) identified five determinants of service quality.

**Required:**

(a) What are these determinants in order of importance as rated by customers?  
5 marks

(b) How do you, as a marketing manager of a financial services firm, guarantee the delivery of high quality service to customers?  
10 marks

**Total: 15 marks**

- 7** (a) In the event of stiff competition in the market, the propensity to advertise services has become very high in financial service institutions. Why do most financial service firms advertise their services?

9 marks

(b) Differentiate between advertising and sales promotion.  
6 marks

**Total: 15 marks**



# CHARTERED INSTITUTE OF STOCKBROKERS

September 2007 Professional Examination Level 3

## PAPER 3.4: REGULATIONS AND PRACTICE OF STOCKBROKING

Wednesday, September 26, 2007 Afternoon Session

Time allowed: 3 hours (2.00 p.m. to 5.00 p.m.)

Additional Material: Answer Booklet

### ***Instructions to candidates***

*This paper is divided into three sections.*

#### ***Answer five questions in total:***

*In **Section A**, answer **all** parts of **Question 1**.*

*In **Section B**, **Question 2** must be answered.*

*In **Section C**, answer any **three** of the four questions.*

*The number of marks is given at the end of each question or part question.*

*The question in **Section A** carries, in total, **30 marks**.*

*The question in **Section B** carries, in total, **25 marks**.*

*The questions in **Section C** carry, in total, **45 marks**.*

### ***Follow the instructions on the front cover of the Answer Booklet.***

*Answer your questions in the Answer Booklet provided, additional sheets may be used. At the end of the examination, fasten all your work securely together.*

*All workings should be shown. Where calculations are required using formulae, calculators may be used but steps in the workings must be shown. Calculations with no evidence of this (for example, using the scientific functions of calculators) will receive no credit. Programmable calculators are not permitted in the examination room.*

*Statistical tables and graph papers are available from the invigilator, where applicable.*

*You must not start writing your answers in the booklet until instructed to do so by the supervisor.*

**SECTION A**

**Answer ALL parts of this question.  
Unless otherwise stated, each part question carries 3 marks.  
Total marks for this question: 30 marks**

- 1** Explain the following terms:
- (a) Smurfing
  - (b) Treynor Index
  - (c) Workout Quote
  - (d) Duopsony
  - (e) Commingling
  - (f) Gogo (Fund)
  - (g) Nostro Account
  - (h) Value Paradox
  - (i) Drop – Dead fee
  - (j) Demutualization 1 mark
  - (k) In accordance with the new SEC Rule 99, to what extent are cash transactions permitted for sale and purchase of securities in the secondary market. 1 mark
  - (l) The new SEC Rule 100 is similar to Article 102 of the new NSE Rules and Regulations. What is the basic provision? 1 mark

**Total: 30 marks**

**SECTION B**

**This question MUST be attempted.  
Total marks for this section: 25 marks**

- 2** On October 20, 2006, Mr. Sani Marinho instructed his stockbroker JKM Securities Limited to purchase the following shares with an initial deposit of ₦11 million:

100,000 units First Bank Plc  
50,000 units Guaranty Trust Bank Plc  
120,000 units Japaul Oil Plc  
326,000 units Eternal Oil Plc  
72,000 units Union Bank Plc

Two days later, JKM Securities Ltd perfected the order at the following prices:

First Bank Plc	₦37.20
Guaranty Trust Bank Plc	₦28.50
Japaul Oil Plc	₦4.70
Eternal Oil Plc	₦12.00
Union Bank Plc	₦36.50

Contract notes were despatched to Mr. Marinho 48 hours after the purchase. He promised to remit the balance on his account a few days later but he never did.

On June 5, 2007, Mr. Marinho called his stockbrokers to sell all the shares purchased on his behalf to enable him liquidate his outstanding balance with JKM Securities Ltd. The stockbrokers sold immediately the order was received at the following prices:

First Bank Plc	₦40.40
Guaranty Trust Bank Plc	₦32.00
Japaul Oil Plc	₦6.02
Eternal Oil Plc	₦18.00
Union Bank Plc	₦40.00

**Required:**

- (a) Calculate:
- (i) The total cost of purchase to Mr. Marinho. 7 Marks
  - (ii) The outstanding balance due to JKM Securities on purchases. 3 Marks
  - (iii) The total amount due on sales. 7 Marks
  - (iv) The total amount of capital gains on the transactions. 3 Marks
- (b) What is the implication of not affixing contract stamps on contract notes?  
5 marks

**Total: 25 marks**

**SECTION C**

**Answer three questions from this section.  
Total marks for this section: 45 marks**

- 3** Examine both the positive and negative implications of the current practice of e-bonus as against dispatching of share certificates by the registrars of quoted companies.

**Total: 15 marks**

- 4** (a) At lunch with some stockbroker colleagues, you discussed the reason for the relationship between the economy and the stock market. One of your colleagues contends that he has heard that stock prices typically turn before the economy does.

**Required:**

How would you explain this phenomenon?

8 marks

- (b) Why would you expect a relationship between economic activity and stock price movements?

7 marks

**Total: 15 marks**

- 5** (a) Mr. Atiala Marcus, born in the UK, attended the Road Show organized by the Nigerian Stock Exchange in Atlanta. He was highly impressed on the economic reforms going on in Nigeria and on the highly rated performance of the Nigerian Stock Exchange. He wants to invest in the Nigerian Capital Market.

**Required:**

Advise him on the procedure for foreign investment through the Nigerian Stock Exchange.

8 marks

- (b) What are the factors that will guide your prudent management of the portfolio of Mr. Atiala Marcus for good return on investment if he decides to invest through your stockbroking firm?

7 marks

**Total: 15 marks**

- 6** (a) State the SEC Rule on the maintenance of margin accounts by broker/dealer for clients.
- 9 marks
- (b) Describe the procedures involved in the processing of the physical share certificates of clients for sale.

6 marks

**Total: 15 marks**