CANNON CERTIFIED TRUST AND FIDUCIARY ADVISOR (CTFA) PRACTICE TEST (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

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How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

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Questions

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1. Which clause would MOST LIKELY be considered a general power of appointment?

A. Pay my children for their health, education, support or maintenance.

B. Pay my children for their comfort, welfare and happiness.

C. Pay for support, education and medical expenses in whatever amounts needed at the trustee's discretion.

D. Pay my children for their support in their accustomed manner of living.

2. In the early stages of a business recession investment managers usually buy:

A. Growth stocks

B. Treasury bonds

C. Limited partnerships

D. Low-grade corporate bonds

3. Which of the following generally may NOT hold real property?

A. Revocable Living Trusts trusteed by a corporate fiduciary.

B. Uniform Gifts to Minors Account

C. 2503(c) Minors Trust

D. Uniform Transfer to Minors Account

4. Which of the following assets is ERISA NOT required to be held by the trustee in a qualified retirement plan?

A. Medical plans

B. Mutual funds

C. Unit Investment Trust

D. Company stock

5. For the following condition indicate the Equity Management Style that the following characteristic would tend to represent on a relative basis. Price to Book ratio higher than relative to market averages

A. Growth

B. Value

C. Both

D. Growth

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6. An example of a defensive stock is a:

A. Soft drink company

B. Home builder

C. Steel producer

D. Bank

7. Regarding distributable net income (DNI), which statement is correct?

A. DNI is the amount of the estate's income that can be distributed to beneficiaries without tax at the estate level; distributions beyond DNI are taxed to the beneficiaries.

B. DNI equals the estate's total taxable income.

C. DNI is the portion of income always taxed to the estate, regardless of distributions.

D. DNI has no impact on how income is taxed.

8. In an irrevocable trust holding rental property, when is it permissible to rent to an employee of the trust department?

A. Never

B. When the employee pays fair rent.

C. When the employee has been with you at least 5 years and can be trusted.

D. When the employee has no connection with the account or beneficiaries.

9. Diversification primarily aims to reduce which type of risk?

A. Market risk

B. Unsystematic risk (idiosyncratic)

C. Inflation risk

D. Credit risk

10. Which of the following is NOT an element of total return to the participant in a profit sharing retirement plan?

A. Mortality

B. Forfeitures from non-vested employees

C. Earnings on investments

D. Company contributions

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Answers

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1. B
2. B
3. B
4. A
5. A
6. A
7. A
8. A
9. B
10. A

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Explanations

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1. Which clause would MOST LIKELY be considered a general power of appointment?

A. Pay my children for their health, education, support or maintenance.

B. Pay my children for their comfort, welfare and happiness.

C. Pay for support, education and medical expenses in whatever amounts needed at the trustee's discretion.

D. Pay my children for their support in their accustomed manner of living.

A general power of appointment is a broad authority to apply trust property for the beneficiary without being tied to a specific purpose or restricted class. The clause about paying my children for their comfort, welfare and happiness is the broadest and least constrained of the options, making it the best example of a general power. It allows funds to be used for the children's overall well-being in a wide, open-ended way, not limited to defined categories like health, education, support, or medical expenses, nor tied to a specific standard of living. The other phrases set particular purposes or limits (health/education/support, medical expenses, or accustomed living) or describe discretion for defined needs, which are more restricted and do not reflect the broad freedom characteristic of a general power.

2. In the early stages of a business recession investment managers usually buy:

A. Growth stocks

B. Treasury bonds

C. Limited partnerships

D. Low-grade corporate bonds

During the early stages of a recession, investors prioritize safety and liquidity over potential high returns. Treasury bonds fit that need because they're backed by the U.S. government, carry virtually no credit risk, and trade in highly liquid markets. They provide predictable income and can be held to maturity, helping stabilize portfolios when uncertainty is high. Growth stocks tend to decline as earnings outlooks deteriorate, while the other options involve higher liquidity or credit risk—limited partnerships are often illiquid, and low-grade corporate bonds carry a greater chance of default in a weakening economy. So, Treasury bonds are the most defensive, safest choice in this scenario.

3. Which of the following generally may NOT hold real property?

A. Revocable Living Trusts trusteed by a corporate fiduciary.

B. Uniform Gifts to Minors Account

C. 2503(c) Minors Trust

D. Uniform Transfer to Minors Account

The key idea is how property is titled and managed for a minor. Uniform Gifts to Minors Act (UGMA) custodial accounts are typically restricted to financial assets like cash and securities and are not well suited to holding real property, due to how title and management are structured for minors' ownership. In practice, real estate needs a vehicle that can hold title and provide ongoing management through a fiduciary, which UGMA accounts don't readily offer. A revocable living trust with a corporate trustee can own real property; the trust holds title and a professional trustee manages it for the benefit of the minor or beneficiaries, flexible and well-suited to real estate. A 2503(c) Minor's Trust is a true trust designed for a minor and can own real property, with distributions and eventual transfer aligned with the minor's age or other terms. Uniform Transfers to Minors Act accounts extend the custodial concept and, in many jurisdictions, can hold real estate as well, under the custodian's management for the minor. So, the option that generally may not hold real property is the UGMA custodial account, while the other structures are compatible with owning real estate.

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4. Which of the following assets is ERISA NOT required to be held by the trustee in a qualified retirement plan?

A. Medical plans

B. Mutual funds

C. Unit Investment Trust

D. Company stock

In ERISA-qualified retirement plans, the trustee is responsible for holding and managing plan assets in a trust for the exclusive benefit of participants and beneficiaries. Plan assets are the investments chosen for funding retirement benefits, such as mutual funds, unit investment trusts, or employer stock—the things the plan uses to grow and pay benefits. Medical plans, by contrast, are health-benefit arrangements and not assets of the retirement plan. They're part of a separate welfare-benefit program funded outside the retirement plan's trust, so they aren't required to be held by the retirement plan's trustee. That's why medical plans are the asset type not required to be in the plan's trustee holdings.

5. For the following condition indicate the Equity Management Style that the following characteristic would tend to represent on a relative basis. Price to Book ratio higher than relative to market averages

A. Growth

B. Value

C. Both

D. Growth

The key idea is how valuation metrics reflect investment styles. A price-to-book ratio compares what the market pays for a company to its accounting book value. When this ratio sits above market averages, investors are pricing in more than just the assets on the balance sheet—they're recognizing stronger growth potential, higher returns on equity, or value from intangibles not captured on the books. That pattern aligns with Growth stocks, which command higher multiples due to expected above-average earnings growth. In contrast, Value stocks typically trade at lower P/B ratios because they're valued more conservatively relative to their book value, often reflecting slower growth or perceived undervaluation. So, a higher-than-average P/B suggests a Growth equity management style.

6. An example of a defensive stock is a:

A. Soft drink company

B. Home builder

C. Steel producer

D. Bank

Defensive stocks are those that hold up better in a downturn because the goods or services they provide are in steady demand regardless of the economy. A soft drink company fits this idea because beverages are consumer staples—people keep buying them even when incomes are tighter—leading to more predictable cash flows and typically reliable dividends. In contrast, a home builder is highly cyclical, tied to the housing market; a steel producer's results depend on overall industrial activity; and a bank's performance moves with loan demand, credit quality, and interest-rate conditions. So among these options, the soft drink company is the best example of a defensive stock.

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7. Regarding distributable net income (DNI), which statement is correct?

A. DNI is the amount of the estate's income that can be distributed to beneficiaries without tax at the estate level; distributions beyond DNI are taxed to the beneficiaries.

B. DNI equals the estate's total taxable income.

C. DNI is the portion of income always taxed to the estate, regardless of distributions.

D. DNI has no impact on how income is taxed.

Distributable Net Income represents the portion of a trust's or estate's current income that can be distributed to beneficiaries in a way that the tax is borne by the beneficiaries, not by the estate, up to that limit. It defines the amount that can flow through to beneficiaries with taxes paid at their level and provides the estate with a deduction for distributions up to that limit. In other words, income paid out to beneficiaries within the DNI limit avoids estate-level tax, and the beneficiaries report that income on their own returns. If distributions exceed the DNI amount, the excess is treated as non-income—often a return of principal—and does not carry estate tax, though the exact treatment can depend on the trust's terms and applicable rules. So the statement is correct because DNI is specifically the limit that allows pass-through taxation to beneficiaries without the estate paying tax on that income, while distributions beyond that limit are handled separately for tax purposes. The other options misstate what DNI represents (not the estate's total taxable income), how it interacts with taxation (it's not a portion that's always taxed to the estate), and whether it affects tax treatment at all (it directly governs where the tax is paid).

8. In an irrevocable trust holding rental property, when is it permissible to rent to an employee of the trust department?

A. Never

B. When the employee pays fair rent.

C. When the employee has been with you at least 5 years and can be trusted.

D. When the employee has no connection with the account or beneficiaries.

Related-party transactions and self-dealing in fiduciary practice are the key ideas here. When managing an irrevocable trust, the trustee must act in the beneficiaries' best interests and keep dealings with trust assets at arm's length. Renting trust property to someone who works for the trust department creates an inherent conflict of interest: the employee is in a position of trust and may influence terms or benefit from the arrangement, even if the rent is fair. This compromises objective decision-making and the perception of fairness to the beneficiaries, which fiduciaries must avoid. Even if the employee pays fair rent, the related-party nature of the arrangement undermines fiduciary duties, so such a transaction is not appropriate. Length of service or trustworthiness does not eliminate the conflict. Similarly, having no apparent connection to the account or beneficiaries might reduce some risk, but the employee's role within the trust organization itself still creates a related-party issue. Therefore, the prudent rule is to refrain from renting to an employee of the trust department.

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9. Diversification primarily aims to reduce which type of risk?

A. Market risk

B. Unsystematic risk (idiosyncratic)

C. Inflation risk

D. Credit risk

Diversification aims to reduce unsystematic risk, the risk tied to individual investments or sectors. This type of risk comes from factors unique to a company or industry—things like a poor earnings report, a failed product, management changes, or regulatory issues. By spreading investments across many different securities and sectors, the impact of any one company's troubles is softened, so the overall portfolio variability declines. In contrast, market risk (systematic risk) arises from macro factors that affect nearly all assets, such as broad economic changes or interest-rate moves, and cannot be eliminated just by holding more securities. Inflation risk and credit risk are influenced by broader conditions or issuer-specific concerns, respectively, and while diversification can help mitigate some of these effects, the primary purpose of diversification is to lessen unsystematic risk.

10. Which of the following is NOT an element of total return to the participant in a profit sharing retirement plan?

A. Mortality

B. Forfeitures from non-vested employees

C. Earnings on investments

D. Company contributions

In a profit-sharing retirement plan, total return to the participant comes from three sources: the employer's contributions to the participant's account, the earnings on those investments, and any forfeitures from non-vested employees that are reallocated to other participants' accounts. Mortality does not affect this calculation because it relates to life expectancy and potential benefits in defined-benefit or annuity contexts, not to the growth or funding of a defined-contribution account. So the element not part of total return is mortality.

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Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

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We wish you the very best on your exam journey. You've got this!

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