

Reading 43: Basics of Portfolio Planning and Construction

Question #1 of 28

Question ID: 415092

Which of the following statements about risk and return is NOT correct?

- A) Return-only objectives provide a more concise and efficient way to measure performance for investment managers.
 - B) Return objectives may be stated in dollar amounts.
 - C) Return objectives should be considered in conjunction with risk preferences.
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Question #2 of 28

Question ID: 472419

When developing the strategic asset allocation in an IPS, the correlations of returns:

- A) within an asset class should be relatively low.
 - B) among asset classes should be relatively high.
 - C) within an asset class should be relatively high.
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Question #3 of 28

Question ID: 415097

Which of the following statements is NOT consistent with the assumption that individuals are risk averse with their investment portfolios?

- A) Higher betas are associated with higher expected returns.
 - B) There is a positive relationship between expected returns and expected risk.
 - C) Many individuals purchase lottery tickets.
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Question #4 of 28

Question ID: 415106

When preparing a strategic asset allocation, how should asset classes be defined with respect to the correlations of returns among the securities in each asset class?

- A) Low correlation within asset classes and high correlation between asset classes.
 - B) High correlation within asset classes and low correlation between asset classes.
 - C) Low correlation within asset classes and low correlation between asset classes.
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Question #5 of 28

Question ID: 415095

Which of the following factors is *least likely* to affect an investor's risk tolerance?

- A) Number of dependent family members.
 - B) Level of inflation in the economy.
 - C) Level of insurance coverage.
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Question #6 of 28

Question ID: 415107

Which of the following asset class specifications is *most appropriate* for asset allocation purposes?

- A) Domestic bonds.
 - B) Emerging markets.
 - C) Consumer discretionary.
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Question #7 of 28

Question ID: 500870

Which of the following would *least likely* be considered a minimum requirement of an IPS? A(n):

- A) benchmark portfolio.
 - B) investment strategy based on client circumstances and constraints.
 - C) target return figure.
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Question #8 of 28

Question ID: 415086

Which of the following is NOT a rationale for the importance of the policy statement in investing? It:

- A) forces investors to understand their needs and constraints.
 - B) identifies specific stocks the investor may wish to purchase.
 - C) helps investors understand the risks and costs of investing.
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Question #9 of 28

Question ID: 415105

An endowment is required by statute to pay out a minimum percentage of its asset value each period to its beneficiaries. This investment constraint is *best* classified as:

- A) liquidity.
- B) legal and regulatory.
- C) unique circumstances.

Question #10 of 28

Question ID: 696230

An investment manager has constructed an efficient frontier based on a client's investable asset classes. The strategic asset allocation for the client should be the asset allocation of one of these efficient portfolios, selected based on:

- A) the relative valuations of the investable asset classes.
 - B) the client's investment objectives and constraints.
 - C) a risk budgeting process.
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Question #11 of 28

Question ID: 415098

While assessing an investor's risk tolerance, a financial adviser is *least likely* to ask which of the following questions?

- A) "Is your home life stable?"
 - B) "What rate of investment return do you expect?"
 - C) "How much insurance coverage do you have?"
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Question #12 of 28

Question ID: 415111

A firm that invests the majority of a portfolio to track a benchmark index, and uses active investment strategies for the remaining portion, is said to be using:

- A) a core-satellite approach.
 - B) strategic asset allocation.
 - C) risk budgeting.
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Question #13 of 28

Question ID: 415104

An individual investor specifies to her investment advisor that her portfolio must produce a minimum amount of cash each period. This investment constraint is *best* classified as:

- A) liquidity.
 - B) legal and regulatory.
 - C) unique circumstances.
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Question #14 of 28

Question ID: 415108

The manager of the Fullen Balanced Fund is putting together a report that breaks out the percentage of the variation in portfolio return that is explained by the target asset allocation, security selection, and tactical variations from the target, respectively.

Which of the following sets of numbers was the *most likely* conclusion for the report?

- A) 33%, 33%, 33%.
 - B) 50%, 25%, 25%.
 - C) 90%, 6%, 4%.
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Question #15 of 28

Question ID: 415101

Which of the following should *least likely* be included as a constraint in an investment policy statement (IPS)?

- A) Any unique needs or preferences an investor may have.
 - B) How funds are spent after being withdrawn from the portfolio.
 - C) Constraints put on investment activities by regulatory agencies.
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Question #16 of 28

Question ID: 415110

A portfolio manager who believes equity securities are overvalued in the short term reduces the weight of equities in her portfolio to 35% from its longer-term target weight of 40%. This decision is *best* described as an example of:

- A) strategic asset allocation.
 - B) tactical asset allocation.
 - C) rebalancing.
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Question #17 of 28

Question ID: 415088

Which of the following *best* describes the importance of the policy statement? It:

- A) outlines the best investments.
 - B) states the standards by which the portfolio's performance will be judged.
 - C) limits the risks taken by the investor.
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Question #18 of 28

Question ID: 415094

A return objective is said to be relative if the objective is:

- A) stated in terms of probability.
 - B) based on a benchmark index or portfolio.
 - C) compared to a specific numerical outcome.
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Question #19 of 28

Question ID: 415099

All of the following affect an investor's risk tolerance EXCEPT:

- A) years of experience with investing in the markets.
 - B) tax bracket.
 - C) family situation.
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Question #20 of 28

Question ID: 415090

The major components of a typical investment policy statement (IPS) *least likely* include:

- A) investment manager's compensation.
 - B) investment objectives, constraints, and guidelines.
 - C) duties and responsibilities of investment manager, custodian, and client.
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Question #21 of 28

Question ID: 415102

All of the following are investment constraints EXCEPT:

- A) liquidity needs.
 - B) pension plan contributions of the employer.
 - C) tax concerns.
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Question #22 of 28

Question ID: 710165

Which of the following is *least likely* one of the minimum requirements of an investment policy statement?

- A) An investment strategy based on the investor's objectives and constraints.
 - B) Procedures to update the IPS when circumstances change.
 - C) A benchmark against which to judge performance.
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Question #23 of 28

Question ID: 415091

Which of the following statements about the importance of risk and return in the investment objective is *least* accurate?

- A) The return objective may be stated in dollar amounts even if the risk objective is stated in percentages.
- B) Expressing investment goals in terms of risk is more appropriate than expressing goals in terms of return.

- C) The investor's risk tolerance is likely to determine what level of return will be feasible.
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Question #24 of 28

Question ID: 415093

Which of the following statements about risk and return is *least accurate*?

- A) Risk and return may be considered on a mutually exclusive basis.
 - B) Specifying investment objectives only in terms of return may expose an investor to inappropriately high levels of risk.
 - C) Return objectives may be stated in absolute terms.
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Question #25 of 28

Question ID: 415089

Brian Nebrik, CFA, meets with a new investment management client. They compose a statement that defines each of their responsibilities concerning this account and choose a benchmark index with which to evaluate the account's performance. Which of these items should be included in the client's Investment Policy Statement (IPS)?

- A) Only one of these items.
 - B) Neither of these items.
 - C) Both of these items.
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Question #26 of 28

Question ID: 415096

Which of the following statements about risk is NOT correct? Generally, greater:

- A) existing wealth allows for greater risk.
 - B) insurance coverage allows for greater risk.
 - C) spending needs allows for greater risk.
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Question #27 of 28

Question ID: 415100

Which of the following statements about investment constraints is *least accurate*?

- A) Investors concerned about time horizon are not likely to worry about liquidity.
 - B) Unwillingness to invest in gambling stocks is a constraint.
 - C) Diversification efforts can increase tax liability.
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Question #28 of 28

Question ID: 415103

Which of the following is *least likely* to be considered a constraint when preparing an investment policy statement?

- A)** Risk tolerance.
- B)** Liquidity needs.
- C)** Tax concerns.