## Question #1 of 28

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)** Both of these items.

**C)** Neither of these items.

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## Question #2 of 28

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

**A)** compared to a specific numerical outcome.

**B)** stated in terms of probability.

**C)** based on a benchmark index or portfolio.

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## Question #3 of 28

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

**A)** Return objectives may be stated in absolute terms.

**B)** Risk and return may be considered on a mutually exclusive basis.

**C)** Specifying investment objectives only in terms of return may expose an investor to inappropriately high levels of risk.



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## Question #4 of 28

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)** helps investors understand the risks and costs of investing.

**C)** identifies specific stocks the investor may wish to purchase.

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## Question #5 of 28

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

**A)** limits the risks taken by the investor.

**B)** outlines the best investments.

**C)** states the standards by which the portfolio's performance will be judged.

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## Question #6 of 28

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)** legal and regulatory.

**B)** unique circumstances.

**C)** liquidity.

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## Question #7 of 28

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

**A)** Tax concerns.

**B)** Risk tolerance.

**C)** Liquidity needs.

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## Question #8 of 28

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

**A)** The investor's risk tolerance is likely to determine what level of return will be feasible.

**B)** Expressing investment goals in terms of risk is more appropriate than expressing goals in terms of return.

**C)** The return objective may be stated in dollar amounts even if the risk objective is stated in percentages.

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## Question #9 of 28

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

**A)** duties and responsibilities of investment manager, custodian, and client.

**B)** investment objectives, constraints, and guidelines.

**C)** investment manager’s compensation.

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## Question #10 of 28

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 should be considered in conjunction with risk preferences.

**C)** Return objectives may be stated in dollar amounts.

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## Question #11 of 28

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

**A)** existing wealth allows for greater risk.

**B)** spending needs allows for greater risk.

**C)** insurance coverage allows for greater risk.

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## Question #12 of 28

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

**A)** Unwillingness to invest in gambling stocks is a constraint.

**B)** Investors concerned about time horizon are not likely to worry about liquidity.

**C)** Diversification efforts can increase tax liability.

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## Question #13 of 28

All of the following are investment constraints EXCEPT:

**A)** tax concerns.

**B)** liquidity needs.

**C)** pension plan contributions of the employer.

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## Question #14 of 28

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)** strategic asset allocation.

**B)** risk budgeting.

**C)** a core-satellite approach.

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## Question #15 of 28

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 low correlation between asset classes.

**B)** Low correlation within asset classes and high correlation between asset classes.

**C)** High correlation within asset classes and low correlation between asset classes.

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## Question #16 of 28



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 #17 of 28

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

**A)** “How much insurance coverage do you have?”

**B)** “What rate of investment return do you expect?”

**C)** “Is your home life stable?”

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## Question #18 of 28

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

**A)** Constraints put on investment activities by regulatory agencies.

**B)** How funds are spent after being withdrawn from the portfolio.

**C)** Any unique needs or preferences an investor may have.

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## Question #19 of 28

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 #20 of 28

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 #21 of 28

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

**A)** benchmark portfolio.

**B)** target return figure.

**C)** investment strategy based on client circumstances and constraints.

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## Question #22 of 28

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)** legal and regulatory.

**B)** liquidity.

**C)** unique circumstances.

## Question #23 of 28

Which of the following is *not* necessarily included in an investment policy statement?

**A)** A benchmark against which to judge performance.

**B)** Procedures to update the IPS when circumstances change.

**C)** An investment strategy based on the investor's objectives and constraints.

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## Question #24 of 28

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)** Many individuals purchase lottery tickets.

**C)** There is a positive relationship between expected returns and expected risk.

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## Question #25 of 28

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

**A)** Emerging markets.

**B)** Domestic bonds.

**C)** Consumer discretionary.



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## Question #26 of 28

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

**A)** among asset classes should be relatively high.

**B)** within an asset class should be relatively low.

**C)** within an asset class should be relatively high.

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## Question #27 of 28

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)** a risk budgeting process.

**B)** the relative valuations of the investable asset classes.

**C)** the client's investment objectives and constraints.

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## Question #28 of 28

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

**A)** tax bracket.

**B)** family situation.

**C)** years of experience with investing in the markets.