

SS 12 Portfolio Management

Question #1 of 200

Question ID: 415002

Which of the following statements *best* describes an investment that is not on the efficient frontier?

- A) The portfolio has a very high return.
 - B) There is a portfolio that has a lower return for the same risk.
 - C) There is a portfolio that has a lower risk for the same return.
-

Question #2 of 200

Question ID: 415075

The following information is available for the stock of Park Street Holdings:

- The price today (P_0) equals \$45.00.
- The expected price in one year (P_1) is \$55.00.
- The stock's beta is 2.31.
- The firm typically pays no dividend.
- The 3-month Treasury bill is yielding 4.25%.
- The historical average S&P 500 return is 12.5%.

Park Street Holdings stock is:

- A) undervalued by 1.1%.
 - B) undervalued by 3.7%.
 - C) overvalued by 1.1%.
-

Question #3 of 200

Question ID: 598981

An objective of the risk management process is to:

- A) eliminate the risks faced by an organization.
 - B) identify the risks faced by an organization.
 - C) minimize the risks faced by an organization.
-

Question #4 of 200

Question ID: 414966

An analyst gathered the following data for Stock A and Stock B:

<i>Time Period</i>	<i>Stock A Returns</i>	<i>Stock B Returns</i>
1	10%	15%
2	6%	9%
3	8%	12%

What is the covariance for this portfolio?

- A) 12.
 - B) 6.
 - C) 3.
-

Question #5 of 200

Question ID: 598992

A portfolio manager uses a computer model to estimate the effect on a portfolio's value from both a 3% increase in interest rates and a 5% depreciation in the euro relative to the yen. The manager is *most accurately* described as engaging in:

- A) stress testing.
 - B) risk shifting.
 - C) scenario analysis.
-

Question #6 of 200

Question ID: 414950

Which of the following actions is *best* described as taking place in the execution step of the portfolio management process?

- A) Choosing a target asset allocation.
 - B) Developing an investment policy statement.
 - C) Rebalancing the portfolio.
-

Question #7 of 200

Question ID: 414975

If the standard deviation of stock A is 7.2%, the standard deviation of stock B is 5.4%, and the covariance between the two is -0.0031, what is the correlation coefficient?

- A) -0.19.
- B) -0.80.
- C) -0.64.

Question #8 of 200

Question ID: 598984

Which of the following is *least likely* to contribute to effective risk governance?

- A) An organization should identify its overall risk tolerance and establish a framework for oversight of risk management.
 - B) Decision-makers throughout an organization should consider risk governance a responsibility.
 - C) The risks an organization chooses to pursue, limit, or avoid should reflect the overall goals of the organization.
-

Question #9 of 200

Question ID: 414974

If the standard deviation of stock A is 13.2 percent, the standard deviation of stock B is 17.6 percent, and the covariance between the two is 0, what is the correlation coefficient?

- A) 0.31.
 - B) 0.
 - C) +1.
-

Question #10 of 200

Question ID: 414973

If the standard deviation of stock A is 10.6%, the standard deviation of stock B is 14.6%, and the covariance between the two is 0.015476, what is the correlation coefficient?

- A) 0.
 - B) +1.
 - C) 0.0002.
-

Question #11 of 200

Question ID: 415026

An equally weighted portfolio of a risky asset and a risk-free asset will exhibit:

- A) half the returns standard deviation of the risky asset.
 - B) less than half the returns standard deviation of the risky asset.
 - C) more than half the returns standard deviation of the risky asset.
-

Question #12 of 200

Question ID: 414985

Assets A (with a variance of 0.25) and B (with a variance of 0.40) are perfectly positively correlated. If an investor creates a portfolio using only these two assets with 40% invested in A, the portfolio standard deviation is *closest* to:

- A) 0.3742.
 - B) 0.5795.
 - C) 0.3400.
-

Question #13 of 200

Question ID: 598987

Risk management within an organization should *most appropriately* consider:

- A) financial risks independently of non-financial risks.
 - B) interactions among different risks.
 - C) internal risks independently of external risks.
-

Question #14 of 200

Question ID: 415086

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

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

Question #15 of 200

Question ID: 415084

An investor believes Stock M will rise from a current price of \$20 per share to a price of \$26 per share over the next year. The company is not expected to pay a dividend. The following information pertains:

- $R_F = 8\%$
- $ER_M = 16\%$
- Beta = 1.7

Should the investor purchase the stock?

- A) Yes, because it is undervalued.
 - B) No, because it is overvalued.
 - C) No, because it is undervalued.
-

Question #16 of 200

Question ID: 467275

A bond analyst is looking at historical returns for two bonds, Bond 1 and Bond 2. Bond 2's returns are much more volatile than Bond 1. The variance of returns for Bond 1 is 0.012 and the variance of returns of Bond 2 is 0.308. The correlation between the returns of the two bonds is 0.79, and the covariance is 0.048. If the variance of Bond 1 increases to 0.026 while the variance of Bond 2 decreases to 0.188 and the covariance remains the same, the correlation between the two bonds will:

- A) remain the same.
 - B) decrease.
 - C) increase.
-

Question #17 of 200

Question ID: 415019

The particular portfolio on the efficient frontier that best suits an individual investor is determined by:

- A) the individual's utility curve.
 - B) the current market risk-free rate as compared to the current market return rate.
 - C) the individual's asset allocation plan.
-

Question #18 of 200

Question ID: 415057

Given the following data, what is the correlation coefficient between the two stocks and the Beta of stock A?

- standard deviation of returns of Stock A is 10.04%
- standard deviation of returns of Stock B is 2.05%
- standard deviation of the market is 3.01%
- covariance between the two stocks is 0.00109
- covariance between the market and stock A is 0.002

Correlation Coefficient Beta (stock A)

- A) 0.5296 2.20
 - B) 0.6556 2.20
 - C) 0.5296 0.06
-

Question #19 of 200

Question ID: 710153

Which of the following statements regarding the covariance of rates of return is *least* accurate?

- A) Covariance is not a very useful measure of the strength of the relationship between rates of return.
 - B) Covariance is positive if two variables tend to both be above their mean values in the same time periods.
 - C) If the covariance is negative, the rates of return on two investments will always move in different directions relative to their means.
-

Question #20 of 200

Question ID: 710160

For a stock with a beta of 1.25, what is its expected return according to the CAPM when the risk-free rate is 6% and the expected rate of return on the market is 12%?

- A) 10%.
 - B) 13.5%.
 - C) 31%.
-

Question #21 of 200

Question ID: 415070

What is the expected rate of return on a stock that has a beta of 1.4 if the market risk premium is 9% and the risk-free rate is 4%?

- A) 16.6%.
 - B) 11.0%.
 - C) 13.0%.
-

Question #22 of 200

Question ID: 414980

A stock has an expected return of 4% with a standard deviation of returns of 6%. A bond has an expected return of 4% with a standard deviation of 7%. An investor who prefers to invest in the stock rather than the bond is *best* described as:

- A) risk neutral.
 - B) risk seeking.
 - C) risk averse.
-

Question #23 of 200

Question ID: 414955

The *most appropriate* measure of the increase in the purchasing power of a portfolio's value over a given span of time is a(n):

- A) after-tax return.
 - B) real return.
 - C) holding period return.
-

Question #24 of 200

Question ID: 414993

As the correlation between the returns of two assets becomes lower, the risk reduction potential becomes:

- A) smaller.
 - B) greater.
 - C) decreased by the same level.
-

Question #25 of 200

Question ID: 414953

A mutual fund that invests in short-term debt securities and maintains a net asset value of \$1.00 per share is *best* described as a:

- A) money market fund.
 - B) balanced fund.
 - C) bond mutual fund.
-

Question #26 of 200

Question ID: 415029

Which of the following is the vertical axis *intercept* for the Capital Market Line (CML)?

- A) Expected return on the portfolio.
- B) Expected return on the market.
- C) Risk-free rate.

Question #27 of 200

Question ID: 710165

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

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

Question #28 of 200

Question ID: 415005

Which one of the following portfolios *cannot* lie on the efficient frontier?

<i>Portfolio</i>	<i>Expected Return</i>	<i>Standard Deviation</i>
A	20%	35%
B	11%	13%
C	8%	10%
D	8%	9%

- A) Portfolio C.
- B) Portfolio D.
- C) Portfolio A.

Question #29 of 200

Question ID: 415025

Which of the following statements about the efficient frontier is *least* accurate?

- A) Investors will want to invest in the portfolio on the efficient frontier that offers the highest rate of return.
- B) Portfolios falling on the efficient frontier are fully diversified.
- C) The efficient frontier shows the relationship that exists between expected return and total risk in the absence of a risk-free asset.

Question #30 of 200

Question ID: 415044

Which of the following is *least likely* considered a source of systematic risk for bonds?

- A) Market risk.
- B) Default risk.
- C) Purchasing power risk.

Question #31 of 200

Question ID: 434366

An analyst collected the following data for three possible investments.

<i>Stock</i>	<i>Price Today</i>	<i>Forecast Price*</i>	<i>Dividend</i>	<i>Beta</i>
Alpha	25	31	2	1.6
Omega	105	110	1	1.2
Lambda	10	10.80	0	0.5
*Expected price one year from today.				

The expected return on the market is 12% and the risk-free rate is 4%. According to the security market line (SML), which of the three securities is correctly priced?

- A) Alpha.
- B) Omega.
- C) Lambda.

Question #32 of 200

Question ID: 415051

Beta is a measure of:

- A) total risk.
- B) systematic risk.
- C) company-specific risk.

Question #33 of 200

Question ID: 415060

Which of the following is NOT an assumption of capital market theory?

- A) The capital markets are in equilibrium.
- B) Investors can lend at the risk-free rate, but borrow at a higher rate.
- C) Interest rates never change from period to period.

Question #34 of 200

Question ID: 414978

Risk aversion means that if two assets have identical expected returns, an individual will choose the asset with the:

- A) lower risk level.
- B) higher standard deviation.
- C) shorter payback period.

Question #35 of 200

Question ID: 434369

A portfolio's excess return per unit of systematic risk is known as its:

- A) Jensen's alpha.
- B) Treynor measure.
- C) Sharpe ratio.

Question #36 of 200

Question ID: 485793

Which of the following pooled investments is *least likely* to employ large amounts of leverage?

- A) Venture capital fund.
- B) Global macro hedge fund.
- C) Private equity buyout fund.

Question #37 of 200

Question ID: 414989

Two assets are perfectly positively correlated. If 30% of an investor's funds were put in the asset with a standard deviation of 0.3 and 70% were invested in an asset with a standard deviation of 0.4, what is the standard deviation of the portfolio?

- A) 0.426.
- B) 0.370.
- C) 0.151.

Question #38 of 200

Question ID: 415049

The market model of the expected return on a risky security is *best* described as a(n):

- A) arbitrage-based model.
 - B) two-factor model.
 - C) single-factor model.
-

Question #39 of 200

Question ID: 414949

In the top-down approach to asset allocation, industry analysis should be conducted before company analysis because:

- A) an industry's prospects within the global business environment are a major determinant of how well individual firms in the industry perform.
 - B) most valuation models recommend the use of industry-wide average required returns, rather than individual returns.
 - C) the goal of the top-down approach is to identify those companies in non-cyclical industries with the lowest P/E ratios.
-

Question #40 of 200

Question ID: 598985

Which of the following statements about an organization's risk tolerance is *most accurate*?

- A) An organization with low risk tolerance should take steps to reduce each of the risks it identifies.
 - B) The financial strength of an organization is one of the factors it should consider when determining its risk tolerance.
 - C) Risk tolerance is the degree to which an organization is able to bear the various risks that may arise from outside the organization.
-

Question #41 of 200

Question ID: 415094

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

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

Question #42 of 200

Question ID: 415035

Portfolios that represent combinations of the risk-free asset and the market portfolio are plotted on the:

- A) capital market line.
 - B) capital asset pricing line.
 - C) utility curve.
-

Question #43 of 200

Question ID: 415096

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

- A) insurance coverage allows for greater risk.
 - B) existing wealth allows for greater risk.
 - C) spending needs allows for greater risk.
-

Question #44 of 200

Question ID: 414976

If the standard deviation of returns for stock A is 0.60 and for stock B is 0.40 and the covariance between the returns of the two stocks is 0.009 what is the correlation between stocks A and B?

- A) 0.0375.
 - B) 0.0020.
 - C) 26.6670.
-

Question #45 of 200

Question ID: 434362

Identifying a benchmark for a client portfolio is *most likely* to be part of the:

- A) feedback step.
 - B) planning step.
 - C) execution step.
-

Question #46 of 200

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) unique circumstances.

- B) legal and regulatory.
 - C) liquidity.
-

Question #47 of 200

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) unique circumstances.
 - C) legal and regulatory.
-

Question #48 of 200

Question ID: 710162

Mason Snow, CFA, is considering two stocks: Bahre (with an expected return of 10% and a beta of 1.4) and Cubb (with an expected return of 15% and a beta of 2.0). Snow uses a risk-free of 7% and estimates that the market risk premium is 4%. Based on capital market theory, Snow should conclude that:

- A) only Bahre is underpriced.
 - B) only Cubb is underpriced.
 - C) neither security is underpriced.
-

Question #49 of 200

Question ID: 415037

In the context of the CML, the market portfolio includes:

- A) all existing risky assets.
 - B) 12-18 stocks needed to provide maximum diversification.
 - C) the risk-free asset.
-

Question #50 of 200

Question ID: 710152

The ratio of an equally weighted portfolio's standard deviation of return to the average standard deviation of the securities in the portfolio is known as the:

- A) diversification ratio.
- B) Sharpe ratio.

C) relative risk ratio.

Question #51 of 200

Question ID: 414981

Three portfolios have the following expected returns and risk:

<u>Portfolio</u>	<u>Expected return</u>	<u>Standard deviation</u>
Jones	4%	2%
Kelly	6%	5%
Lewis	7%	8%

A risk-averse investor choosing from these portfolios could rationally select:

- A) any of these portfolios.
 - B) Jones or Kelly, but not Lewis.
 - C) Jones, but not Kelly or Lewis.
-

Question #52 of 200

Question ID: 604669

The risk of losses caused by human error or faulty processes within an organization is *most accurately* described as:

- A) model risk.
 - B) solvency risk.
 - C) operational risk.
-

Question #53 of 200

Question ID: 414999

Which of the following statements about portfolio theory is *least* accurate?

- A) When the return on an asset added to a portfolio has a correlation coefficient of less than one with the other portfolio asset returns but has the same risk, adding the asset will not decrease the overall portfolio standard deviation.
 - B) Assuming that the correlation coefficient is less than one, the risk of the portfolio will always be less than the simple weighted average of individual stock risks.
 - C) For a two-stock portfolio, the lowest risk occurs when the correlation coefficient is close to negative one.
-

Question #54 of 200

Question ID: 710163

The stock of Mia Shoes is currently trading at \$15 per share, and the stock of Video Systems is currently trading at \$18 per share. An analyst expects the prices of both stocks to increase by \$2 over the next year and neither company pays dividends. Mia Shoes has a beta of 0.9 and Video Systems has a beta of (-0.3). If the expected market return is 15% and the risk-free rate is 8%, which trading strategy does the CAPM indicate for these two stocks?

<u>Mia Shoes</u>	<u>Video Systems</u>
------------------	----------------------

- | | |
|---------|------|
| A) Buy | Sell |
| B) Buy | Buy |
| C) Sell | Buy |

Question #55 of 200

Question ID: 485796

Portfolios that plot on the security market line in equilibrium:

- A) have only systematic (beta) risk.
- B) must be well diversified.
- C) may be concentrated in only a few stocks.

Question #56 of 200

Question ID: 415062

Which is NOT an assumption of capital market theory?

- A) There is no inflation.
- B) Investments are not divisible.
- C) There are no taxes or transaction costs.

Question #57 of 200

Question ID: 415048

A model that estimates expected excess return on a security based on the ratio of the firm's book value to its market value is *best* described as a:

- A) market model.
 - B) multifactor model.
 - C) single-factor model.
-

Question #58 of 200

Question ID: 415010

Which of the following statements about the efficient frontier is NOT correct?

- A) A portfolio to the left of the efficient frontier is not attainable, while a portfolio to the right of the efficient frontier is inefficient.
 - B) The efficient frontier line bends backwards due to less than perfect correlation between assets.
 - C) The slope of the efficient frontier increases steadily as one moves up the curve.
-

Question #59 of 200

Question ID: 415103

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

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

Question #60 of 200

Question ID: 415009

Which of the following portfolios falls below the Markowitz efficient frontier?

Portfolio	Expected Return	Expected Standard Deviation
A	12.1%	8.5%
B	14.2%	8.7%
C	15.1%	8.7%

- A) Portfolio A.
 - B) Portfolio B.
 - C) Portfolio C.
-

Question #61 of 200

Question ID: 414958

Based on historical data for the United States, compared to long-term bonds, equities have tended to exhibit:

- A) higher average annual returns and higher standard deviation of returns.
 - B) higher average annual returns and lower standard deviation of returns.
 - C) lower average annual returns and higher standard deviation of returns.
-

Question #62 of 200

Question ID: 415059

The expected rate of return is 1.5 times the 16% expected rate of return from the market. What is the beta if the risk free rate is 8%?

- A) 3.
 - B) 2.
 - C) 4.
-

Question #63 of 200

Question ID: 415000

Kendra Jackson, CFA, is given the following information on two stocks, Rockaway and Bridgeport.

- Covariance between the two stocks = 0.0325
- Standard Deviation of Rockaway's returns = 0.25
- Standard Deviation of Bridgeport's returns = 0.13

Assuming that Jackson must construct a portfolio using only these two stocks, which of the following combinations will result in the *minimum* variance portfolio?

- A) 80% in Bridgeport, 20% in Rockaway.
 - B) 50% in Bridgeport, 50% in Rockaway.
 - C) 100% in Bridgeport.
-

Question #64 of 200

Question ID: 415018

A line that represents the possible portfolios that combine a risky asset and a risk free asset is *most accurately* described as a:

- A) capital allocation line.
 - B) characteristic line.
 - C) capital market line.
-

Question #65 of 200

Question ID: 414941

High risk tolerance, a long investment horizon, and low liquidity needs are *most likely* to characterize the investment needs of a(n):

- A) defined benefit pension plan.
 - B) insurance company.
 - C) bank.
-

Question #66 of 200

Question ID: 415034

A portfolio to the right of the market portfolio on the capital market line (CML) is created by:

- A) holding more than 100% of the risky asset.
 - B) fully diversifying.
 - C) holding both the risk-free asset and the market portfolio.
-

Question #67 of 200

Question ID: 415058

The expected rate of return is 2.5 times the 12% expected rate of return from the market. What is the beta if the risk-free rate is 6%?

- A) 5.
 - B) 4.
 - C) 3.
-

Question #68 of 200

Question ID: 415102

All of the following are investment constraints EXCEPT:

- A) tax concerns.
- B) liquidity needs.

C) pension plan contributions of the employer.

Question #69 of 200

Question ID: 710159

If the risk-free rate of return is 3.5%, the expected market return is 9.5%, and the beta of a stock is 1.3, what is the required return on the stock according to the capital asset pricing model?

- A) 7.8%.
 - B) 12.4%.
 - C) 11.3%.
-

Question #70 of 200

Question ID: 414957

Over the long term, the annual returns and standard deviations of returns for major asset classes have shown:

- A) a negative relationship.
 - B) no clear relationship.
 - C) a positive relationship.
-

Question #71 of 200

Question ID: 415066

The expected market premium is 8%, with the risk-free rate at 7%. What is the expected rate of return on a stock with a beta of 1.3?

- A) 16.3%.
 - B) 17.4%.
 - C) 10.4%.
-

Question #72 of 200

Question ID: 414991

A portfolio currently holds Randy Co. and the portfolio manager is thinking of adding either XYZ Co. or Branton Co. to the portfolio. All three stocks offer the same expected return and total risk. The covariance of returns between Randy Co. and XYZ is +0.5 and the covariance between Randy Co. and Branton Co. is -0.5. The portfolio's risk would decrease:

- A) most if she put half your money in XYZ Co. and half in Branton Co.
- B) more if she bought Branton Co.

C) more if she bought XYZ Co.

Question #73 of 200

Question ID: 598994

Measures of interest rate sensitivity *least likely* include:

- A) rho.
 - B) duration.
 - C) beta.
-

Question #74 of 200

Question ID: 415088

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

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

Question #75 of 200

Question ID: 414988

An investor calculates the following statistics on her two-stock (A and B) portfolio.

- $\sigma_A = 20\%$
- $\sigma_B = 15\%$
- $r_{A,B} = 0.32$
- $W_A = 70\%$
- $W_B = 30\%$

The portfolio's standard deviation is *closest* to:

- A) 0.1600.
 - B) 0.0256.
 - C) 0.1832.
-

Question #76 of 200

Question ID: 415032

The market portfolio in Capital Market Theory is determined by:

- A) a line tangent to the efficient frontier, drawn from any point on the expected return axis.
 - B) a line tangent to the efficient frontier, drawn from the risk-free rate of return.
 - C) the intersection of the efficient frontier and the investor's highest utility curve.
-

Question #77 of 200

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?"
-

Question #78 of 200

Question ID: 434368

Which of the following measures produces the same portfolio rankings as the Sharpe ratio but is stated in percentage terms?

- A) Jensen's alpha.
 - B) Treynor measure.
 - C) M-squared.
-

Question #79 of 200

Question ID: 414986

An investor has a two-stock portfolio (Stocks A and B) with the following characteristics:

- $\sigma_A = 55\%$
- $\sigma_B = 85\%$
- $\text{Covariance}_{A,B} = 0.09$
- $W_A = 70\%$
- $W_B = 30\%$

The variance of the portfolio is *closest* to:

- A) 0.25
 - B) 0.54
 - C) 0.39
-

Question #80 of 200

Question ID: 414972

Gregg Goebel and Mason Erikson are studying for the Level I CFA examination. They have just started the section on Portfolio Management and Erikson is having difficulty with the equations for the covariance ($\text{cov}_{1,2}$) and the correlation coefficient ($r_{1,2}$) for two-stock portfolios. Goebel is confident with the material and creates the following quiz for Erikson. Using the information in the table below, he asks Erikson to fill in the question marks.

	Portfolio J	Portfolio K	Portfolio L
Number of Stocks	2	2	2
Covariance	?	$\text{cov}_{1,2} = 0.020$	$\text{cov}_{1,2} = 0.003$
Correlation coefficient	$r_{1,2} = 0.750$?	?
Risk measure Stock 1	Std. Deviation ₁ = 0.08	Std. Deviation ₁ = 0.20	Std. Deviation ₁ = 0.18
Risk measure Stock 2	Std. Deviation ₂ = 0.18	Std. Deviation ₂ = 0.12	Variance ₂ = 0.09

Which of the following choices correctly gives the covariance for Portfolio J and the correlation coefficients for Portfolios K and L?

	Portfolio J	Portfolio K	Portfolio L
A)	1.680	0.002	0.076
B)	0.011	0.833	0.056
C)	0.011	0.002	0.076

Question #81 of 200

Question ID: 492022

Which of the following statements about risk is NOT correct?

- A) The market portfolio consists only of systematic risk.
- B) Total risk = systematic risk - unsystematic risk.
- C) Unsystematic risk is diversifiable risk.

Question #82 of 200

Question ID: 415095

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

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

Question #83 of 200

Question ID: 415038

What is the risk measure associated with the CML?

- A) Beta.
- B) Standard deviation.
- C) Market risk.

Question #84 of 200

Question ID: 415013

An investor has identified the following possible portfolios. Which portfolio *cannot* be on the efficient frontier?

<i>Portfolio</i>	<i>Expected Return</i>	<i>Standard Deviation</i>
V	18%	35%
W	12%	16%
X	10%	10%
Y	14%	20%
Z	13%	24%

- A) Y.
- B) Z.
- C) X.

Question #85 of 200

Question ID: 414977

Stock A has a standard deviation of 10%. Stock B has a standard deviation of 15%. The covariance between A and B is 0.0105. The correlation between A and B is:

- A) 0.25.
- B) 0.55.
- C) 0.70.

Question #86 of 200

Question ID: 415054

If the standard deviation of the market's returns is 5.8%, the standard deviation of a stock's returns is 8.2%, and the covariance of the

market's returns with the stock's returns is 0.003, what is the beta of the stock?

- A) 1.07.
 - B) 0.05.
 - C) 0.89.
-

Question #87 of 200

Question ID: 414951

A pooled investment with a share price significantly different from its net asset value (NAV) per share is *most likely* a(n):

- A) open-end fund.
 - B) closed-end fund.
 - C) exchange-traded fund.
-

Question #88 of 200

Question ID: 415083

Charlie Smith holds two portfolios, Portfolio X and Portfolio Y. They are both liquid, well-diversified portfolios with approximately equal market values. He expects Portfolio X to return 13% and Portfolio Y to return 14% over the upcoming year. Because of an unexpected need for cash, Smith is forced to sell at least one of the portfolios. He uses the security market line to determine whether his portfolios are undervalued or overvalued. Portfolio X's beta is 0.9 and Portfolio Y's beta is 1.1. The expected return on the market is 12% and the risk-free rate is 5%. Smith should sell:

- A) both portfolios X and Y because they are both overvalued.
 - B) either portfolio X or Y because they are both properly valued.
 - C) portfolio Y only.
-

Question #89 of 200

Question ID: 415056

The expected rate of return is twice the 12% expected rate of return from the market. What is the beta if the risk-free rate is 6%?

- A) 2.
 - B) 4.
 - C) 3.
-

Question #90 of 200

Question ID: 498769

Promised payments to pension beneficiaries are a responsibility of the plan sponsor in:

- A) a defined benefit plan only.
 - B) a defined contribution plan only.
 - C) both a defined benefit plan and a defined contribution plan.
-

Question #91 of 200

Question ID: 710158

What is the required rate of return for a stock with a beta of 1.2, when the risk-free rate is 6% and the market risk premium is 12%?

- A) 13.2%.
 - B) 15.4%.
 - C) 20.4%.
-

Question #92 of 200

Question ID: 414946

Which of the following statements about the steps in the portfolio management process is NOT correct?

- A) Developing an investment strategy is based on an analysis of historical performance in financial markets and economic conditions.
 - B) Rebalancing the investor's portfolio is done on an as-needed basis, and should be reviewed on a regular schedule.
 - C) Implementing the plan is based on an analysis of the current and future forecast of financial and economic conditions.
-

Question #93 of 200

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.
-

Question #94 of 200

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) Both of these items.
 - B) Neither of these items.
 - C) Only one of these items.
-

Question #95 of 200

Question ID: 415041

Which of the following is the risk that disappears in the portfolio construction process?

- A) Interest rate risk.
 - B) Unsystematic risk.
 - C) Systematic risk.
-

Question #96 of 200

Question ID: 415047

In equilibrium, investors should only expect to be compensated for bearing systematic risk because:

- A) individual securities in equilibrium only have systematic risk.
 - B) systematic risk is specific to the securities the investor selects.
 - C) nonsystematic risk can be eliminated by diversification.
-

Question #97 of 200

Question ID: 710154

All portfolios on the capital market line:

- A) contain different risky assets.
 - B) are perfectly positively correlated.
 - C) are unrelated except that they all contain the risk-free asset.
-

Question #98 of 200

Question ID: 415068

The beta of Stock A is 1.3. If the expected return of the market is 12%, and the risk-free rate of return is 6%, what is the expected return of Stock A?

- A) 15.6%.
- B) 13.8%.

C) 14.2%.

Question #99 of 200

Question ID: 415090

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

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

Question #100 of 200

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 low correlation between asset classes.
 - B) High correlation within asset classes and low correlation between asset classes.
 - C) Low correlation within asset classes and high correlation between asset classes.
-

Question #101 of 200

Question ID: 414961

If the standard deviation of returns for stock A is 0.40 and for stock B is 0.30 and the covariance between the returns of the two stocks is 0.007 what is the correlation between stocks A and B?

- A) 17.14300.
 - B) 0.00084.
 - C) 0.05830.
-

Question #102 of 200

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) The investor's risk tolerance is likely to determine what level of return will be feasible.
 - C) Expressing investment goals in terms of risk is more appropriate than expressing goals in terms of return.
-

Question #103 of 200

Question ID: 414945

In a defined benefit pension plan:

- A) the employee is promised a periodic payment upon retirement.
 - B) the employee is responsible for making investment decisions.
 - C) the employer's pension expense is equal to its contributions to the plan.
-

Question #104 of 200

Question ID: 414983

Using the following correlation matrix, which two stocks would combine to make the lowest-risk portfolio? (Assume the stocks have equal risk and returns.)

Stock	A	B	C
A	+ 1	--	--
B	- 0.2	+ 1	--
C	+ 0.6	- 0.1	+ 1

- A) C and B.
 - B) A and C.
 - C) A and B.
-

Question #105 of 200

Question ID: 414967

A measure of how well the returns of two risky assets move together is the:

- A) range.
 - B) covariance.
 - C) standard deviation.
-

Question #106 of 200

Question ID: 414970

An analyst observes the following return behavior between stocks X and Y.

<i>Time Period</i>	<i>X's Return</i>	<i>Y's Return</i>
1	7	5
2	9	8
3	10	11
4	10	8

What is the covariance of returns between stocks X and Y?

the risk-free rate is 4%, the expected return on the market is 8.5%, and the stock's beta is 1.9, what is the current valuation of the stock? The stock:

- A) is overvalued.
 - B) is undervalued.
 - C) is correctly valued.
-

Question #113 of 200

Question ID: 414964

The correlation coefficient between stocks A and B is 0.75. The standard deviation of stock A's returns is 16% and the standard deviation of stock B's returns is 22%. What is the covariance between stock A and B?

- A) 0.3750.
 - B) 0.0264.
 - C) 0.0352.
-

Question #114 of 200

Question ID: 415016

Which of the following statements about portfolio diversification is CORRECT?

- A) As the correlation coefficient moves from +1 to zero, the potential for diversification diminishes.
 - B) When a risk-averse investor is confronted with two investment opportunities having the same expected return, the investor will take the opportunity with the lower risk.
 - C) The efficient frontier represents individual securities.
-

Question #115 of 200

Question ID: 415023

The optimal portfolio in the Markowitz framework occurs when an investor achieves the diversified portfolio with the:

- A) lowest risk.
- B) highest return.
- C) highest utility.

Question #116 of 200

Question ID: 415012

Which of the following portfolios falls below the Markowitz efficient frontier?

<i>Portfolio</i>	<i>Expected Return</i>	<i>Expected Standard Deviation</i>
A	7%	14%
B	9%	26%
C	15%	30%
D	12%	22%

- A) B.
- B) D.
- C) C.

Question #117 of 200

Question ID: 498770

A plot of the expected returns and standard deviations of each possible portfolio that combines a risky asset and a risk-free asset will be:

- A) a straight line.
- B) convex to the origin.
- C) a curve that approaches an upper limit.

Question #118 of 200

Question ID: 434361

The top-down analysis approach is *most likely* to be employed in which step of the portfolio management process?

- A) The planning step.
- B) The feedback step.
- C) The execution step.

Question #119 of 200

Question ID: 415039

Based on Capital Market Theory, an investor should choose the:

- A) market portfolio on the Capital Market Line.
 - B) portfolio with the highest return on the Capital Market Line.
 - C) portfolio that maximizes his utility on the Capital Market Line.
-

Question #120 of 200

Question ID: 414996

Which one of the following statements about correlation is NOT correct?

- A) If the correlation coefficient were 0, a zero variance portfolio could be constructed.
 - B) If the correlation coefficient were -1, a zero variance portfolio could be constructed.
 - C) Potential benefits from diversification arise when correlation is less than +1.
-

Question #121 of 200

Question ID: 415073

Given the following information, what is the required rate of return on Bin Co?

- inflation premium = 3%
- real risk-free rate = 2%
- Bin Co. beta = 1.3
- market risk premium = 4%

- A) 10.2%.
 - B) 7.6%.
 - C) 16.7%.
-

Question #122 of 200

Question ID: 415040

Which of the following statements about the capital market line (CML) is *least* accurate?

- A) Investors choose a portfolio on the CML by varying their weightings of the risk-free asset and the market portfolio.
 - B) The CML will not be a linear relationship if investors' borrowing and lending rates are not equal.
 - C) The market portfolio lies on the CML and has only unsystematic risk.
-

Question #123 of 200

Question ID: 414948

Which of the following would be assessed first in a top-down valuation approach?

- A) Industry risks.
 - B) Fiscal policy.
 - C) Industry return on equity (ROE).
-

Question #124 of 200

Question ID: 415092

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

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

Question #125 of 200

Question ID: 472417

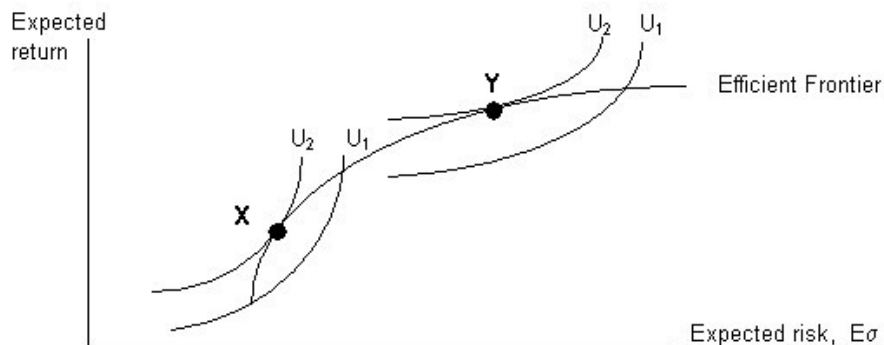
The slope of the characteristic line is used to estimate:

- A) risk aversion.
 - B) beta.
 - C) a risk premium.
-

Question #126 of 200

Question ID: 434364

The graph below combines the efficient frontier with the indifference curves for two different investors, X and Y.



Which of the following statements about the above graph is *least* accurate?

- A) Investor X is less risk-averse than Investor Y.
- B) Investor X's expected return will always be less than that of Investor Y.
- C) The efficient frontier line represents the portfolios that provide the highest return at each risk level.

Question #127 of 200

Question ID: 415085

A stock's abnormal rate of return is defined as the:

- A) rate of return during abnormal price movements.
- B) actual rate of return less the expected risk-adjusted rate of return.
- C) expected risk-adjusted rate of return minus the market rate of return.

Question #128 of 200

Question ID: 415080

An analyst wants to determine whether Dover Holdings is overvalued or undervalued, and by how much (expressed as percentage return). The analyst gathers the following information on the stock:

- Market standard deviation = 0.70
- Covariance of Dover with the market = 0.85
- Dover's current stock price (P_0) = \$35.00
- The expected price in one year (P_1) is \$39.00
- Expected annual dividend = \$1.50
- 3-month Treasury bill yield = 4.50%.
- Historical average S&P 500 return = 12.0%.

Dover Holdings stock is:

- A) overvalued by approximately 1.8%.
- B) undervalued by approximately 2.1%.

C) undervalued by approximately 1.8%.

Question #129 of 200

Question ID: 415043

In the context of the capital market line (CML), which of the following statements is CORRECT?

- A) Market risk can be reduced through diversification.
 - B) Firm-specific risk can be reduced through diversification.
 - C) The two classes of risk are market risk and systematic risk.
-

Question #130 of 200

Question ID: 415063

Which of the following statements regarding the Capital Asset Pricing Model is *least* accurate?

- A) It is useful for determining an appropriate discount rate.
 - B) Its accuracy depends upon the accuracy of the beta estimates.
 - C) It is when the security market line (SML) and capital market line (CML) converge.
-

Question #131 of 200

Question ID: 415078

Level I CFA candidate Adeline Bass is a member of an investment club. At the next meeting, she is to recommend whether or not the club should purchase the stocks of CS Industries and MG Consolidated. The risk-free rate is at 6% and the expected return on the market is 15%. Prior to the meeting, Bass gathers the following information on the two stocks:

	<i>CS Industries</i>	<i>MG Consolidated</i>
Current Market Value	\$25	\$50
Expected Market Value in One Year	\$30	\$55
Expected Dividend	\$1	\$1
Beta	1.2	0.80

Bass should recommend that the club:

- A) purchase CS only.
- B) purchase MG only.
- C) purchase both stocks.

Question #132 of 200

Question ID: 415053

An analyst has developed the following data for two companies, PNS Manufacturing (PNS) and InCharge Travel (InCharge). PNS has an expected return of 15% and a standard deviation of 18%. InCharge has an expected return of 11% and a standard deviation of 17%. PNS's correlation with the market is 75%, while InCharge's correlation with the market is 85%. If the market standard deviation is 22%, which of the following are the betas for PNS and InCharge?

<u>Beta of PNS</u>	<u>Beta of InCharge</u>
--------------------	-----------------------------

- | | |
|---------|------|
| A) 0.92 | 1.10 |
| B) 0.61 | 0.66 |
| C) 0.66 | 0.61 |

Question #133 of 200

Question ID: 414962

If the standard deviation of asset A is 12.2%, the standard deviation of asset B is 8.9%, and the correlation coefficient is 0.20, what is the covariance between A and B?

- A) 0.0031.
- B) 0.0001.
- C) 0.0022.

Question #134 of 200

Question ID: 415052

Beta is *least* accurately described as:

- A) a measure of the sensitivity of a security's return to the market return.
- B) the covariance of a security's returns with the market return, divided by the variance of market returns.
- C) a standardized measure of the total risk of a security.

Question #135 of 200

Question ID: 598982

Features of a risk management framework *least likely* include:

- A) monitoring the organization's risk exposures.

- B) establishing risk governance policies and processes.
 - C) taking corrective actions against employees who exceed their risk budgets.
-

Question #136 of 200

Question ID: 415097

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

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

Question #137 of 200

Question ID: 415061

Which of the following is an assumption of capital market theory? All investors:

- A) select portfolios that lie above the efficient frontier to optimize the risk-return relationship.
 - B) have multiple-period time horizons.
 - C) see the same risk/return distribution for a given stock.
-

Question #138 of 200

Question ID: 414959

Historically, which of the following asset classes has exhibited the smallest standard deviation of monthly returns?

- A) Long-term corporate bonds.
 - B) Treasury bills.
 - C) Large-capitalization stocks.
-

Question #139 of 200

Question ID: 434360

Which of the following institutional investors is *most likely* to have low liquidity needs?

- A) Bank.
- B) Property insurance company.
- C) Defined benefit pension plan.

Question #140 of 200

Question ID: 414997

There are benefits to diversification as long as:

- A) there must be perfect negative correlation between the assets.
 - B) there is perfect positive correlation between the assets.
 - C) the correlation coefficient between the assets is less than 1.
-

Question #141 of 200

Question ID: 598983

The first step in managing an organization's risks should be to determine:

- A) a risk budget for the organization.
 - B) the organization's risk tolerance.
 - C) the organization's risk exposures.
-

Question #142 of 200

Question ID: 472418

One of the assumptions underlying the capital asset pricing model is that:

- A) only whole shares or whole bonds are available.
 - B) each investor has a unique time horizon.
 - C) there are no transactions costs or taxes.
-

Question #143 of 200

Question ID: 414992

A portfolio manager adds a new stock that has the same standard deviation of returns as the existing portfolio but has a correlation coefficient with the existing portfolio that is less than +1. Adding this stock will have what effect on the standard deviation of the revised portfolio's returns? The standard deviation will:

- A) increase.
 - B) decrease only if the correlation is negative.
 - C) decrease.
-

Question #144 of 200

Question ID: 485794

An investor begins with a \$100,000 portfolio. At the end of the first period, it generates \$5,000 of income, which he does not reinvest. At the end of the second period, he contributes \$25,000 to the portfolio. At the end of the third period, the portfolio is valued at \$123,000. The portfolio's money-weighted return per period is *closest to*:

- A) 0.94%.
 - B) 1.20%.
 - C) -0.50%.
-

Question #145 of 200

Question ID: 415027

The correlation of returns on the risk-free asset with returns on a portfolio of risky assets is:

- A) negative.
 - B) positive.
 - C) zero.
-

Question #146 of 200

Question ID: 710157

For a security with a beta of 1.10 when the risk-free rate is 5%, and the expected market risk premium is 5%, what is the expected rate of return on the security according to the CAPM?

- A) 5.5%.
 - B) 10.5%.
 - C) 15.5%.
-

Question #147 of 200

Question ID: 415069

The beta of stock D is -0.5. If the expected return of Stock D is 8%, and the risk-free rate of return is 5%, what is the expected return of the market?

- A) +3.0%.
 - B) +3.5%.
 - C) -1.0%.
-

Question #148 of 200

Question ID: 415036

For an investor to move further up the Capital Market Line than the market portfolio, the investor must:

- A) reduce the portfolio's risk below that of the market.
 - B) diversify the portfolio even more.
 - C) borrow and invest in the market portfolio.
-

Question #149 of 200

Question ID: 415020

Investors who are *less* risk averse will have what type of indifference curves for risk and expected return?

- A) Flatter.
 - B) Inverted.
 - C) Steeper.
-

Question #150 of 200

Question ID: 414940

The portfolio approach to investing is *best* described as evaluating each investment based on its:

- A) potential to generate excess return for the investor.
 - B) contribution to the portfolio's overall risk and return.
 - C) fundamentals such as the financial performance of the issuer.
-

Question #151 of 200

Question ID: 598993

Value-at-Risk (VaR) and Conditional VaR are best described as measures of:

- A) tail risk.
 - B) model risk.
 - C) liquidity risk.
-

Question #152 of 200

Question ID: 415101

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.
-

Question #153 of 200

Question ID: 415028

The *slope* of the capital market line (CML) is a measure of the level of:

- A) excess return per unit of risk.
 - B) risk over the level of excess return.
 - C) expected return over the level of inflation.
-

Question #154 of 200

Question ID: 414943

A pool of investment assets owned by a government is *best* described as a(n):

- A) state managed fund.
 - B) sovereign wealth fund.
 - C) official reserve fund.
-

Question #155 of 200

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.
-

Question #156 of 200

Question ID: 598991

Buying insurance is *best* described as a method for an organization to:

- A) prevent a risk.
- B) transfer a risk.
- C) shift a risk.

Question #157 of 200

Question ID: 414987

What is the variance of a two-stock portfolio if 15% is invested in stock A (variance of 0.0071) and 85% in stock B (variance of 0.0008) and the correlation coefficient between the stocks is -0.04?

- A) 0.0026.
 - B) 0.0020.
 - C) 0.0007.
-

Question #158 of 200

Question ID: 712732

An analyst has estimated the following:

- Correlation of Bahr Industries returns with market returns = 0.8
- Variance of the market returns = 0.0441
- Variance of Bahr returns = 0.0225

The beta of Bahr Industries stock is *closest* to:

- A) 0.77.
 - B) 0.67.
 - C) 0.57.
-

Question #159 of 200

Question ID: 598986

An organization's risk budgeting process is *least likely* to:

- A) limit the organization's exposures to the equity, fixed income, and commodity markets.
 - B) use specific metrics to ensure the organization's allocation of risks remains within its overall risk tolerance.
 - C) determine whether the organization needs to purchase additional insurance.
-

Question #160 of 200

Question ID: 500870

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

- A) investment strategy based on client circumstances and constraints.
- B) benchmark portfolio.

C) target return figure.

Question #161 of 200

Question ID: 415064

When the market is in equilibrium:

- A) all assets plot on the SML.
 - B) all assets plot on the CML.
 - C) investors own 100% of the market portfolio.
-

Question #162 of 200

Question ID: 414968

The covariance of the market's returns with the stock's returns is 0.008. The standard deviation of the market's returns is 0.1 and the standard deviation of the stock's returns is 0.2. What is the correlation coefficient between the stock and market returns?

- A) 0.00016.
 - B) 0.91.
 - C) 0.40.
-

Question #163 of 200

Question ID: 415022

According to Markowitz, an investor's optimal portfolio is determined where the:

- A) investor's lowest utility curve is tangent to the efficient frontier.
 - B) investor's utility curve meets the efficient frontier.
 - C) investor's highest utility curve is tangent to the efficient frontier.
-

Question #164 of 200

Question ID: 415007

In a two-asset portfolio, *reducing* the correlation between the two assets moves the efficient frontier in which direction?

- A) The efficient frontier is stable unless return expectations change. If expectations change, the efficient frontier will extend to the upper right with little or no change in risk.
- B) The efficient frontier is stable unless the asset's expected volatility changes. This depends on each asset's standard deviation.

- C) The frontier extends to the left, or northwest quadrant representing a reduction in risk while maintaining or enhancing portfolio returns.
-

Question #165 of 200

Question ID: 434363

An asset manager's portfolio had the following annual rates of return:

<i>Year</i>	<i>Return</i>
20X7	+6%
20X8	-37%
20X9	+27%

The manager states that the return for the period is -5.34% . The manager has reported the:

- A) geometric mean return.
 - B) holding period return.
 - C) arithmetic mean return
-

Question #166 of 200

Question ID: 414969

The standard deviation of the rates of return is 0.25 for Stock J and 0.30 for Stock K. The covariance between the returns of J and K is 0.025. The correlation of the rates of return between J and K is:

- A) 0.20.
 - B) 0.33.
 - C) 0.10.
-

Question #167 of 200

Question ID: 415008

On a graph of risk, measured by standard deviation and expected return, the *efficient frontier* represents:

- A) all portfolios plotted in the northeast quadrant that maximize return.
 - B) the group of portfolios that have extreme values and therefore are "efficient" in their allocation.
 - C) the set of portfolios that dominate all others as to risk and return.
-

Question #168 of 200

Question ID: 415014

Which of the following inputs is *least likely* required for the Markowitz efficient frontier? The:

- A) covariation between all securities.
 - B) level of risk aversion in the market.
 - C) expected return of all securities.
-

Question #169 of 200

Question ID: 415011

In a set of portfolios, the portfolio with the highest rate of return, but the same variance of the rate of return as the others, would be considered a(n):

- A) positive beta portfolio.
 - B) efficient portfolio.
 - C) positive alpha portfolio.
-

Question #170 of 200

Question ID: 485797

An active manager will *most likely* short a security with an expected Jensen's alpha that is:

- A) positive.
 - B) negative.
 - C) zero.
-

Question #171 of 200

Question ID: 414947

Which of the following is typically the *first general step* in the portfolio management process?

- A) Develop an investment strategy.
 - B) Specify capital market expectations.
 - C) Write a policy statement.
-

Question #172 of 200

Question ID: 414965

If two stocks have positive covariance, which of the following statements is CORRECT?

- A) If one stock doubles in price, the other will also double in price.

- B) The rates of return tend to move in the same direction relative to their individual means.
 - C) The two stocks must be in the same industry.
-

Question #173 of 200

Question ID: 415110

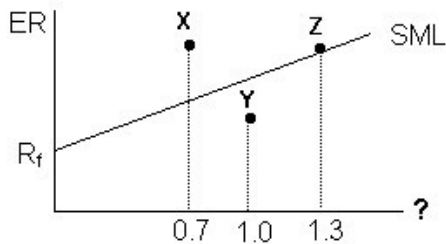
A portfolio manager who believes equity securities are overvalued in the short term reduces the weight of equities in her portfolio to 35% from its longer-term target weight of 40%. This decision is *best* described as an example of:

- A) strategic asset allocation.
 - B) rebalancing.
 - C) tactical asset allocation.
-

Question #174 of 200

Question ID: 710164

Consider the following graph of the Security Market Line (SML). The letters X, Y, and Z represent risky asset portfolios and an analyst's forecast for their returns over the next period. The SML crosses the y-axis at 0.07.



The expected market return is 13.0%.

Using the graph above and the information provided, the analyst *most likely* believes that:

- A) Portfolio X's required return is greater than its forecast return.
 - B) Portfolio Y is undervalued.
 - C) the expected return for Portfolio Z is 14.8%.
-

Question #175 of 200

Question ID: 598989

Examples of financial risks include:

- A) solvency risk, credit risk, and market risk.
 - B) credit risk, market risk, and liquidity risk.
 - C) market risk, liquidity risk, and tax risk.
-

Question #176 of 200

Question ID: 485795

An investor with a buy-and-hold strategy who makes quarterly deposits into an account should *most appropriately* evaluate portfolio performance using the portfolio's:

- A) geometric mean return.
 - B) money-weighted return.
 - C) arithmetic mean return.
-

Question #177 of 200

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) 50%, 25%, 25%.
 - B) 90%, 6%, 4%.
 - C) 33%, 33%, 33%.
-

Question #178 of 200

Question ID: 415100

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

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

Question #179 of 200

Question ID: 414984

Which of the following measures is NOT considered when calculating the risk (variance) of a two-asset portfolio?

- A) The beta of each asset.

- B) Each asset's standard deviation.
 - C) Each asset weight in the portfolio.
-

Question #180 of 200

Question ID: 710155

Which of the following is the *most accurate* description of the market portfolio in Capital Market Theory? The market portfolio consists of all:

- A) risky and risk-free assets in existence.
 - B) equity securities in existence.
 - C) risky assets in existence.
-

Question #181 of 200

Question ID: 415024

Which of the following statements about the optimal portfolio is NOT correct? The optimal portfolio:

- A) lies at the point of tangency between the efficient frontier and the indifference curve with the highest possible utility.
 - B) is the portfolio that gives the investor the maximum level of return.
 - C) may be different for different investors.
-

Question #182 of 200

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

Question #183 of 200

Question ID: 414944

In a defined contribution pension plan, investment risk is borne by the:

- A) plan manager.
 - B) employer.
 - C) employee.
-

Question #184 of 200

Question ID: 415001

An investment manager is looking at ten possible stocks to include in a client's portfolio. In order to achieve the maximum efficiency of the portfolio, the manager must:

- A) include all ten stocks in the portfolio in equal amounts.
 - B) find the combination of stocks that produces a portfolio with the maximum expected rate of return at a given level of risk.
 - C) include only the stocks that have the lowest volatility at a given expected rate of return.
-

Question #185 of 200

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) Return objectives may be stated in absolute terms.
 - C) Specifying investment objectives only in terms of return may expose an investor to inappropriately high levels of risk.
-

Question #186 of 200

Question ID: 472419

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.
-

Question #187 of 200

Question ID: 414979

Which of the following statements about risk aversion is CORRECT?

- A) Given a choice between two assets with equal rates of return, the investor will always select the asset with the lowest level of risk.
- B) Risk aversion implies that the risk-return line, the CML, and the SML are downward sloping curves.
- C) Risk averse investors will not take on risk.

Question #188 of 200

Question ID: 415006

Which one of the following portfolios does not lie on the efficient frontier?

<i>Portfolio</i>	<i>Expected Return</i>	<i>Standard Deviation</i>
A	7	5
B	9	12
C	11	10
D	15	15

- A) A.
- B) B.
- C) C.

Question #189 of 200

Question ID: 414998

Stock A has a standard deviation of 0.5 and Stock B has a standard deviation of 0.3. Stock A and Stock B are perfectly positively correlated. According to Markowitz portfolio theory how much should be invested in each stock to minimize the portfolio's standard deviation?

- A) 50% in Stock A and 50% in Stock B.
- B) 100% in Stock B.
- C) 30% in Stock A and 70% in Stock B.

Question #190 of 200

Question ID: 467389

Which of the following statements about systematic and unsystematic risk is *most* accurate?

- A) As an investor increases the number of stocks in a portfolio, the systematic risk will remain constant.
- B) Total risk equals market risk plus firm-specific risk.

- C) The unsystematic risk for a specific firm is similar to the unsystematic risk for other firms in the same industry.

Question #191 of 200

Question ID: 415030

According to capital market theory, which of the following represents the risky portfolio that should be held by all investors who desire to hold risky assets?

- A) The point of tangency between the capital market line (CML) and the efficient frontier.
- B) Any point on the efficient frontier and to the right of the point of tangency between the CML and the efficient frontier.
- C) Any point on the efficient frontier and to the left of the point of tangency between the CML and the efficient frontier.

Question #192 of 200

Question ID: 415004

An investor is evaluating the following possible portfolios. Which of the following portfolios would *least likely* lie on the efficient frontier?

Portfolio	Expected Return	Standard Deviation
A	26%	28%
B	23%	34%
C	14%	23%
D	18%	14%
E	11%	8%
F	18%	16%

- A) B, C, and F.
- B) C, D, and E.
- C) A, B, and C.

Question #193 of 200

Question ID: 414982

Betsy Minor is considering the diversification benefits of a two stock portfolio. The expected return of stock A is 14 percent with a standard deviation of 18 percent and the expected return of stock B is 18 percent with a standard deviation of 24 percent. Minor intends to invest 40 percent of her money in stock A, and 60 percent in stock B. The correlation coefficient between the two stocks is 0.6. What is the variance and standard deviation of the two stock portfolio?

- A) Variance = 0.02206; Standard Deviation = 14.85%.
 - B) Variance = 0.04666; Standard Deviation = 21.60%.
 - C) Variance = 0.03836; Standard Deviation = 19.59%.
-

Question #194 of 200

Question ID: 415003

Which of the following statements concerning the efficient frontier is *most* accurate? It is the:

- A) set of portfolios that gives investors the lowest risk.
 - B) set of portfolios where there are no more diversification benefits.
 - C) set of portfolios that gives investors the highest return.
-

Question #195 of 200

Question ID: 414938

In the Markowitz framework, an investor should *most* appropriately evaluate a potential investment based on its:

- A) expected return.
 - B) effect on portfolio risk and return.
 - C) intrinsic value compared to market value.
-

Question #196 of 200

Question ID: 415050

In Fama and French's multifactor model, the expected return on a stock is explained by:

- A) firm size, book-to-market ratio, and excess return on the market portfolio.
 - B) firm size, book-to-market ratio, and price momentum.
 - C) excess return on the market portfolio, book-to-market ratio, and price momentum.
-

Question #197 of 200

Question ID: 415107

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

- A) Emerging markets.
 - B) Consumer discretionary.
 - C) Domestic bonds.
-

Question #198 of 200

Question ID: 415046

Which of the following statements about portfolio management is *most* accurate?

- A) The security market line (SML) measures systematic and unsystematic risk versus expected return; the CML measures total risk.
 - B) As an investor diversifies away the unsystematic portion of risk, the correlation between his portfolio return and that of the market approaches negative one.
 - C) Combining the capital market line (CML) (risk-free rate and efficient frontier) with an investor's indifference curve map separates out the decision to invest from the decision of what to invest in.
-

Question #199 of 200

Question ID: 415017

Which of the following statements *best* describes risk aversion?

- A) There is an indirect relationship between expected returns and expected risk.
 - B) Given a choice between two assets of equal return, the investor will choose the asset with the least risk.
 - C) The investor will always choose the asset with the least risk.
-

Question #200 of 200

Question ID: 414995

Stock A has a standard deviation of 4.1% and Stock B has a standard deviation of 5.8%. If the stocks are perfectly positively correlated, which portfolio weights minimize the portfolio's standard deviation?

<u>Stock A</u>	<u>Stock B</u>
A) 0%	100%
B) 100%	0%
C) 63%	37%