PORTFOLIO MANAGEMENT

MOCK TEST

WITH KAMESH BHATT

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Time: 45 Mins

1. Which of the following pooled investment shares is least likely to trade at a price different from its NAV?
   (A) Exchange-traded fund shares.
   (B) Closed-end mutual fund shares.
   (C) Open-end mutual fund shares.

2. Promised payments to pension beneficiaries are a responsibility of the plan sponsor in:
   (A) a defined benefit plan only.
   (B) both a defined benefit plan and a defined contribution plan.
   (C) a defined contribution plan only.

3. Which of the following statements about active and passive asset management is most accurate?
   (A) Active management has been gaining market share over time versus passive management.
   (B) Passive management's share of industry revenues is smaller than its share of assets under management.
   (C) Active management may use fundamental analysis, technical analysis, or a "smart beta" approach to outperform a chosen benchmark.

4. The execution step in the portfolio management process is most likely to include:
   (A) asset allocation and security analysis.
   (B) performance measurement and portfolio rebalancing.
   (C) preparation of an investment policy statement.

5. Which of the following types of investors is likely to have the shortest investment horizon?
   (A) Foundation.
   (B) Life insurance company.
   (C) Property and casualty insurance company.

6. 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) rebalancing.
   (B) strategic asset allocation.
   (C) tactical asset allocation.

7. Which of the following is not necessarily included in 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.

8. All of the following affect an investor's risk tolerance EXCEPT:
   (A) family situation.
   (B) tax bracket.
   (C) years of experience with investing in the markets.

9. Which of the following statements is most accurate about integrating ESG considerations into portfolio planning and construction?
   (A) Integrating ESG considerations into portfolio planning and construction is likely to decrease portfolio returns.
   (B) Investors who engage in active ownership to pursue their ESG considerations should vote their shares themselves rather than delegating share voting to an investment manager.
   (C) A broad market index is an inappropriate benchmark for a portfolio that uses negative screening to address the investor's ESG concerns.

10. 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.

11. Rex Newman treats wages differently from bonuses when determining his savings and investment goals. As a result, he invests any available after-tax wages in low-risk investments while investing his bonuses in high-risk alternatives. Newman is most likely exhibiting:
    (A) Availability bias.
    (B) Mental accounting bias.
    (C) Framing bias.

12. Which of the following most accurately describes cognitive errors?
    (A) They stem from feelings, impulses, or intuition.
    (B) They are due primarily to faulty reasoning.
    (C) They are not related to conscious thought.

13. Emotional biases are most likely to:
    (A) Be mitigated rather than accommodated.
    (B) Stem from feelings or intuition.
    (C) Be related to faulty reasoning.

14. Which of the following behavioral biases is most likely related to information processing?
    (A) Loss aversion.
    (B) Status quo.
    (C) Anchoring and adjustment.

15. Evidence that investors hold portfolios that are less diversified than traditional finance would suggest may be best explained by:
    (A) fear of regret.
    (B) anchoring.
    (C) overconfidence.

16. Greg Brown receives new information regarding one of his stocks. This information appears to be reliable and conflicts with Brown's earlier forecast of what the stock should be trading for at this time. However, Brown does not revise his estimate of the stock's value. Brown is most likely exhibiting:
   (A) conservatism bias.
   (B) confirmation bias.
   (C) hindsight bias.

17. Compared to emotional biases, cognitive errors are more likely to be:
   (A) difficult to overcome.
   (B) mitigated by information.
   (C) related to intuition or impulses.

18. Which of the following risks is most accurately classified as a non-financial risk?
   (A) Liquidity risk.
   (B) Model risk.
   (C) Credit risk.

19. 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) scenario analysis.
   (B) stress testing.
   (C) risk shifting.

20. 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) Risk tolerance is the degree to which an organization is able to bear the various risks that may arise from outside the organization.
   (C) The financial strength of an organization is one of the factors it should consider when determining its risk tolerance.

21. 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.

22. 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.

23. According to the CAPM, a rational investor would be least likely to choose as his optimal portfolio:
    (A) a 100% allocation to the risk-free asset.
    (B) the global minimum variance portfolio.
    (C) a 130% allocation to the market portfolio.

24. If the standard deviation of returns for stock X is 0.60 and for stock Y is 0.40 and the covariance between the returns of the two stocks is 0.009, the correlation between stocks X and Y is closest to:
    (A) 26.6670.
    (B) 0.0375.
    (C) 0.0020.

25. As the correlation between the returns of two assets becomes lower, the risk reduction potential becomes:
    (A) decreased by the same level.
    (B) greater.
    (C) smaller.

26. 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) 0.0007.
    (B) 0.0020.
    (C) 0.0026.

27. Becky Scott and Sid Fiona have the same expectations about the risk and return of the market portfolio; however, Scott selects a portfolio with 30% T-bills and 70% invested in the market portfolio, while Fiona holds a leveraged portfolio, having borrowed to invest 130% of his portfolio equity value in the market portfolio. Regarding their preferences between risk and return and their indifference curves, it is most likely that:
(A) Scott is willing to take on more risk to increase her expected portfolio return than Fiona is.
(B) Scott is risk averse but Fiona is not.
(C) Fiona's indifference curves are flatter than Scott's.

28. Stock 1 has a standard deviation of 10. Stock 2 also has a standard deviation of 10. If the correlation coefficient between these stocks is –1, what is the covariance between these two stocks?
(A) 0.00.
(B) –100.00.
(C) 1.00.

29. Portfolios on the capital market line:
(A) include some positive allocation to the risk-free asset.
(B) each contain different risky assets.
(C) are perfectly positively correlated with each other.

30. The slope of the characteristic line is used to estimate:
(A) risk aversion.
(B) a risk premium.
(C) beta.