Question #1 of 87

Question ID: 1462961

An investor's portfolio currently has an expected return of 11% with a variance of 0.0081. She is considering replacing 20% of the portfolio with a security that has an expected return of 12% and a standard deviation of 0.07. If the covariance between the returns on the existing portfolio and the returns on the added security is 0.0058, the variance of returns on the new portfolio will be *closest* to:

A) 0.00545.

B) 0.00724.

C) 0.00984.

Question #2 of 87

Question ID: 1458917

A portfolio manager invests 40% of a portfolio in Asset X, which has an expected standard deviation of returns of 15%, and the remainder in Asset Y, which has an expected standard deviation of returns of 25%. If the covariance of returns between assets X and Y is 0.0158, the expected standard deviation of portfolio returns is closest to:

A) 18.4%.

B) 2.7%.

C) 16.3%.

Question #3 of 87

Question ID: 1458916

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) 0.151.

B) 0.426.

C) 0.370.

Question #4 of 87

Question ID: 1458913

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) 0.39.

B) 0.54.

C) 0.25.

Question #5 of 87

Question ID: 1462959

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 risk averse but Fiona is not.

B) Fiona's indifference curves are flatter than Scott's.

C) Scott is willing to take on more risk to increase her expected portfolio return than Fiona is.

Question #6 of 87

Question ID: 1458887

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

A) the current market risk-free rate as compared to the current market return rate.

B) the individual's utility curve.

C) the individual's asset allocation plan.

Question #7 of 87

Question ID: 1458927

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

A) 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.

B) For a two-stock portfolio, the lowest risk occurs when the correlation coefficient is close to negative one.

C) 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.

Question #8 of 87

Question ID: 1458870

Computing the internal rate of return of the inflows and outflows of a portfolio would give the:

A) money-weighted return.

B) net present value.

C) time-weighted return.

Question #9 of 87

Question ID: 1462964

In the Markowitz framework, risk is defined as the:

A) variance of returns.

B) probability of a loss.

C) beta of an investment.

Question #10 of 87

Question ID: 1458935

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 set of portfolios that dominate all others as to risk and return.

C) the group of portfolios that have extreme values and therefore are "efficient" in their allocation.

Question #11 of 87

Question ID: 1458866

An investor expects a stock currently selling for $20 per share to increase to $25 by year-end. The dividend last year was $1 but he expects this year's dividend to be $1.25. What is the expected holding period return on this stock?

A) 24.00%.

B) 28.50%.

C) 31.25%.

Question #12 of 87

Question ID: 1458871

Which of the following is *most accurate* with respect to the relationship of the money-weighted return to the time-weighted return? If funds are contributed to a portfolio just prior to a period of favorable performance, the:

A) money-weighted rate of return will tend to be depressed.

B) money-weighted rate of return will tend to be elevated.

C) time-weighted rate of return will tend to be elevated.

Question #13 of 87

Question ID: 1458933

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

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

A) B.

B) C.

C) A.

Question #14 of 87

Question ID: 1458910

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) A and B.

B) A and C.

C) C and B.

Question #15 of 87

Question ID: 1458922

Adding a stock to a portfolio will reduce the risk of the portfolio if the correlation coefficient is *less* than which of the following?

A) +1.00.

B) 0.00.

C) +0.50.

Question #16 of 87

Question ID: 1458900

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 #17 of 87

Question ID: 1458931

Of the six attainable portfolios listed, which portfolios are not 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) A, B, and C.

B) B, C, and F.

C) C, D, and E.

Question #18 of 87

Question ID: 1458857

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

Year	Return
20X7	+6%
20X8	-37%
20X9	+27%

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

A) arithmetic mean return.

B) geometric mean return.

C) holding period return.

Question #19 of 87

Question ID: 1458929

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 risk for the same return.

C) There is a portfolio that has a lower return for the same risk.

Question #20 of 87

Question ID: 1458865

An investor sold a 30-year bond at a price of $850 after he purchased it at $800 a year ago. He received $50 of interest at the time of the sale. The annualized holding period return is:

A) 6.25%.

B) 15.0%.

C) 12.5%.

Question #21 of 87

Question ID: 1462958

An investor buys a non-dividend paying stock for $100 at the beginning of the year with 50% initial margin. At the end of the year, the stock price is $95. Deflation of 2% occurred during the year. Which of the following return measures for this investment will be greatest?

A) Nominal return.

B) Real return.

C) Leveraged return.

Question #22 of 87

Question ID: 1462960

Smith has more steeply sloped risk-return indifference curves than Jones. Assuming these investors have the same expectations, which of the following *best* describes their risk preferences and the characteristics of their optimal portfolios? Smith is:

A) less risk averse than Jones and will choose an optimal portfolio with a lower expected return.

B) more risk averse than Jones and will choose an optimal portfolio with a higher expected return.

C) more risk averse than Jones and will choose an optimal portfolio with a lower expected return.

Question #23 of 87

Question ID: 1458934

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 #24 of 87

Question ID: 1458924

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

A) Potential benefits from diversification arise when correlation is less than +1.

B) If the correlation coefficient were -1, a zero variance portfolio could be constructed.

C) If the correlation coefficient were 0, a zero variance portfolio could be constructed.

Question #25 of 87

Question ID: 1458930

The efficient frontier is *best* described as the set of attainable portfolios that gives investors:

A) the highest expected return for any given level of risk.

B) the highest diversification ratio for any given level of expected return.

C) the lowest risk for any given level of risk tolerance.

Question #26 of 87

Question ID: 1458920

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) decrease only if the correlation is negative.

B) decrease.

C) increase.

Question #27 of 87

Question ID: 1458861

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) arithmetic mean return.

B) geometric mean return.

C) money-weighted return.

Question #28 of 87

Question ID: 1458876

An investor buys one share of stock for $100. At the end of year one she buys three more shares at $89 per share. At the end of year two she sells all four shares for $98 each. The stock paid a dividend of $1.00 per share at the end of year one and year two. What is the investor's money-weighted rate of return?

A) 0.06%.

B) 5.29%.

C) 6.35%.

Question #29 of 87

Question ID: 1458937

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

A) A portfolio that plots above efficient frontier is not attainable, while a portfolio that plots below the efficient frontier is inefficient.

B) The efficient frontier is the set of portfolios with the greatest expected return for a given level of risk.

C) The slope of the efficient frontier increases steadily as risk increases.

Question #30 of 87

Question ID: 1458902

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

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

What is the covariance for this portfolio?

A) 3.

B) 12.

C) 6.

Question #31 of 87

Question ID: 1458928

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) 100% in Bridgeport.

B) 50% in Bridgeport, 50% in Rockaway.

C) 80% in Bridgeport, 20% in Rockaway.

Question #32 of 87

Question ID: 1458939

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

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

A) Z.

B) Y.

C) X.

Question #33 of 87

Question ID: 1458898

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) 0.0001.

B) 0.0022.

C) 0.0031.

Question #34 of 87

Question ID: 1458878

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

A) a negative relationship.

B) a positive relationship.

C) no clear relationship.

Question #35 of 87

Question ID: 1458904

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 #36 of 87

Question ID: 1458899

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) 1.00.

C) –100.00.

Question #37 of 87

Question ID: 1458883

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 averse.

B) risk neutral.

C) risk seeking.

Question #38 of 87

Question ID: 1458914

Question ID: 1458914

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.

Question #39 of 87

Question ID: 1458863

If an investor bought a stock for $32 and sold it nine months later for $37.50 after receiving $2 in dividends, what was the holding period return on this investment?

A) 17.19%.

B) 32.42%.

C) 23.44%.

Question #40 of 87

Question ID: 1458862

A bond was purchased exactly one year ago for $910 and was sold today for $1,020. During the year, the bond made two semi-annual coupon payments of $30. What is the holding period return?

A) 12.1%.

B) 18.7%.

C) 6.0%.

Question #41 of 87

Question ID: 1458859

A security portfolio earns a gross return of 7.0% and a net return of 6.5%. The difference of 0.5% *most likely* results from:

A) taxes.

B) fees.

C) inflation.

Question #42 of 87

Question ID: 1458884

Three portfolios have the following expected returns and risk:

Portfolio	Expected return	Standard deviation
Jones	4%	4%
Kelly	5%	6%
Lewis	6%	5%

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

A) Jones or Lewis, but not Kelly.

B) Lewis, but not Kelly or Jones.

C) Jones, but not Kelly or Lewis.

Question #43 of 87

Question ID: 1458869

Time-weighted returns are used by the investment management industry because they:

A) are not affected by the timing of cash flows.

B) result in higher returns versus the money-weighted return calculation.

C) take all cash inflows and outflows into account using the internal rate of return.

Question #44 of 87

Question ID: 1458925

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 #45 of 87

Question ID: 1458903

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) 0.40.

C) 0.91.

Question #46 of 87

Question ID: 1458938

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

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

A) B.

B) C.

C) D.

Question #47 of 87

Question ID: 1458858

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 #48 of 87

Question ID: 1458923

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?

	Stock A	Stock B
A)	0%	100%
B)	100%	0%
C)	63%	37%

Question #49 of 87

Question ID: 1458907

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.

Question #50 of 87

Question ID: 1458911

Calculating the variance of a two-asset portfolio *least likely* requires inputs for each asset's:

A) weight in the portfolio.

B) standard deviation.

C) beta.

Question #51 of 87

Question ID: 1458872

On January 1, Jonathan Wood invests $50,000. At the end of March, his investment is worth $51,000. On April 1, Wood deposits $10,000 into his account, and by the end of June, his account is worth $60,000. Wood withdraws $30,000 on July 1 and makes no additional deposits or withdrawals the rest of the year. By the end of the year, his account is worth $33,000. The time-weighted return for the year is *closest to*:

A) 5.5%.

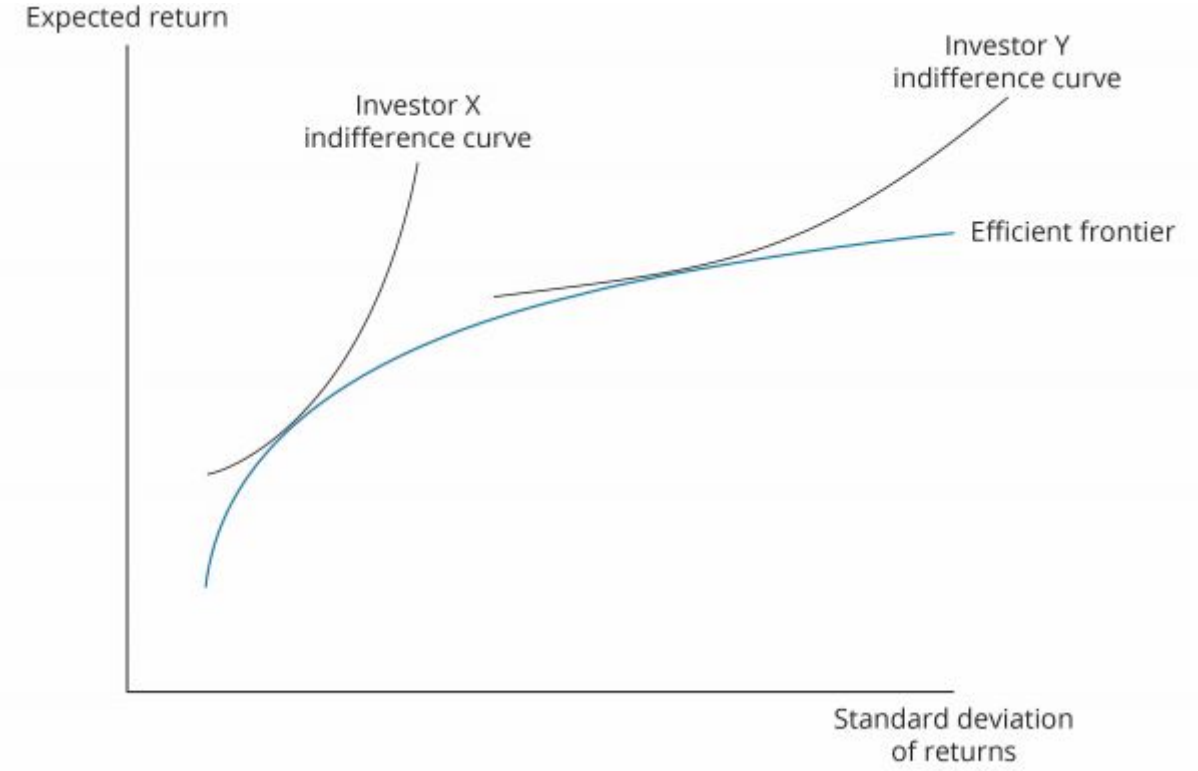
B) 10.4%.

C) 7.0%.

Question #52 of 87

Question ID: 1480017

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) The efficient frontier line represents the portfolios that provide the highest return at each risk level.

C) Investor X's expected return is likely to be less than that of Investor Y.

Question #53 of 87

Question ID: 1458860

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) –0.50%.

B) 1.20%.

C) 0.94%.

Question #54 of 87

Question ID: 1462963

Which of the following possible portfolios is *least likely* to lie on the efficient frontier?

Portfolio	Expected Return	Standard Deviation
X	9%	12%
Y	11%	10%
Z	13%	15%

A) Portfolio Z.

B) Portfolio X.

C) Portfolio Y.

Question #55 of 87

Question ID: 1458919

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) more if she bought Branton Co.

B) more if she bought XYZ Co.

C) most if she put half your money in XYZ Co. and half in Branton Co.

Question #56 of 87

Question ID: 1458874

An investor buys a share of stock for $200.00 at time t = 0. At time t = 1, the investor buys an additional share for $225.00. At time t = 2 the investor sells both shares for $235.00. During both years, the stock paid a per share dividend of $5.00. What are the *approximate* time-weighted and money-weighted returns respectively?

A) 10.8%; 9.4%.

B) 7.7%; 7.7%.

C) 9.0%; 15.0%.

Question #57 of 87

Question ID: 1458926

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) 100% in Stock B.

B) 30% in Stock A and 70% in Stock B.

C) 50% in Stock A and 50% in Stock B.

Question #58 of 87

Question ID: 1458936

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 #59 of 87

Question ID: 1458897

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) 0.00084.

B) 17.14300.

C) 0.05830.

Question #60 of 87

Question ID: 1458892

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

A) is the portfolio that gives the investor the maximum level of return.

B) may be different for different investors.

C) lies at the point of tangency between the efficient frontier and the indifference curve with the highest possible utility.

Question #61 of 87

Question ID: 1458867

A 10% coupon bond was purchased for $1,000. One year later the bond was sold for $915 to yield 11%. The investor's holding period yield on this bond is *closest* to:

A) 18.5%.

B) 9.0%.

C) 1.5%.

Question #62 of 87

Question ID: 1458909

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 = 0.03836; Standard Deviation = 19.59%.

C) Variance = 0.04666; Standard Deviation = 21.60%.

Question #63 of 87

Question ID: 1458880

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

A) Large-capitalization stocks.

B) Long-term corporate bonds.

C) Treasury bills.

Question #64 of 87

Question ID: 1458890

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

A) investor's highest utility curve is tangent to the efficient frontier.

B) investor's lowest utility curve is tangent to the efficient frontier.

C) investor's utility curve meets the efficient frontier.

Question #65 of 87

Question ID: 1458885

The basic premise of the risk-return trade-off suggests that risk-averse individuals purchasing investments with higher non-diversifiable risk should expect to earn:

A) rates of return equal to the market.

B) lower rates of return.

C) higher rates of return.

Question #66 of 87

Question ID: 1458905

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) 0.0002.

B) 0.

C) +1.

Question #67 of 87

Question ID: 1458891

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

A) highest return.

B) lowest risk.

C) highest utility.

Question #68 of 87

Question ID: 1458886

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) capital market line.

C) characteristic line.

Question #69 of 87

Question ID: 1458908

An investment advisor is considering a portfolio that is 60% invested in a broad-based stock index fund with the remainder invested in a taxable bond fund. The stock index fund has an expected return of 7% and variance of 0.04, while the bond fund has an expected return of 3% and a variance of 0.0081. If the covariance of returns between the bond and index funds is 0.0108, the standard deviation of returns for the overall portfolio is *closest* to:

A) 12.56%.

B) 1.58%.

C) 14.45%.

Question #70 of 87

Question ID: 1458882

Risk aversion means that an individual will choose the less risky of two assets:

A) if they have the same expected return.

B) even if it has a lower expected return.

C) in all cases.

Question #71 of 87

Question ID: 1458873

Assume an investor makes the following investments:

- Today, she purchases a share of stock in Redwood Alternatives for $50.00.
- After one year, she purchases an additional share for $75.00.
- After one more year, she sells both shares for $100.00 each.

There are no transaction costs or taxes. The investor's required return is 35.0%.

During year one, the stock paid a $5.00 per share dividend. In year two, the stock paid a $7.50 per share dividend.

The time-weighted return is:

A) 23.2%.

B) 51.4%.

C) 51.7%.

Question #72 of 87

Question ID: 1458879

Over long periods of time, compared to fixed income securities, equities have tended to exhibit:

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

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

C) higher average annual returns and higher standard deviation of returns.

Question #73 of 87

Question ID: 1458877

An investor buys one share of stock for $100. At the end of year one she buys three more shares at $89 per share. At the end of year two she sells all four shares for $98 each. The stock paid a dividend of $1.00 per share at the end of year one and year two. What is the investor's time-weighted rate of return?

A) 0.06%.

B) 11.24%.

C) 6.35%.

Question #74 of 87

Question ID: 1458881

An analyst gathers the following data about the returns for two stocks.

	Stock A	Stock B
E(R)	0.04	0.09
σ^2	0.0025	0.0064

$Cov_{A,B}$= 0.001

The correlation between the returns of Stock A and Stock B is *closest* to:

A) 0.25.

B) 0.50.

C) 0.63.

Question #75 of 87

Question ID: 1458864

A stock is currently worth $75. If the stock was purchased one year ago for $60, and the stock paid a $1.50 dividend during the year, what is the holding period return?

A) 27.5%.

B) 22.0%.

C) 24.0%.

Question #76 of 87

Question ID: 1458921

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 #77 of 87

Question ID: 1458912

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) 0.5795.

B) 0.3400.

C) 0.3742.

Question #78 of 87

Question ID: 1458906

If the standard deviation of stock X is 7.2%, the standard deviation of stock Y is 5.4%, and the covariance between the two is –0.0031, their correlation coefficient is *closest* to:

A) -0.64.

B) -0.19.

C) -0.80.

Question #79 of 87

Question ID: 1458888

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

A) Flatter.

B) Steeper.

C) Inverted.

Question #80 of 87

Question ID: 1458893

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 #81 of 87

Question ID: 1462962

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.

Question #82 of 87

Question ID: 1458896

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) decrease.

B) increase.

C) remain the same.

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Question ID: 1458940

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

A) expected return of all securities.

B) level of risk aversion in the market.

C) covariation between all securities.

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Question ID: 1458932

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

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

A) Portfolio C.

B) Portfolio A.

C) Portfolio D.

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Question ID: 1458915

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.

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Question ID: 1458875

An investor makes the following investments:

- She purchases a share of stock for $50.00.
- After one year, she purchases an additional share for $75.00.
- After one more year, she sells both shares for $100.00 each.
- There are no transaction costs or taxes.

During year one, the stock paid a $5.00 per share dividend. In year 2, the stock paid a $7.50 per share dividend. The investor's required return is 35%. Her money-weighted return is *closest to*:

A) 16.1%.

B) 48.9%.

C) -7.5%.

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Question ID: 1458901

If two stocks have positive covariance:

A) they are likely to be in the same industry.

B) their rates of return tend to change in the same direction.

C) they exhibit a strong correlation of returns.