

Active Investor Course: Quiz Answers

Chapter 1: Introduction to the Active Investor

Correct answers are bold.

1. *True or false?* Active investing is always better than passive investing.
 - a. This is true because the potential for better returns indicates active investing is better.
 - b. **This is false because the type of investing that is best will be based on personal preference.**
2. Some potential pros of active investing are:
 - a. Higher returns, higher costs, increased risk
 - b. Lower returns, lower risk
 - c. **Higher returns, ability to move in and out of the markets quickly**
3. *True or false?* Passive investors seek to beat the leading indices such as the S&P 500.
 - a. This is true. They are taking on more risk and working hard to do so.
 - b. **This is false. Passive investors are happy with leading the indices returns.**
4. Which of the following statements is incorrect regarding "growth" companies and "value" companies?
 - a. Growth companies will typically reinvest earnings rather than pay a dividend to further expand.
 - b. Value companies use some of their profits to pay out dividends as an incentive to investors.
 - c. **Value investing does not require patience as the stock market is always quick to reflect a company's true value.**
 - d. Growth companies typically are more volatile than value companies; risk averse investors typically prefer value investing.
5. *True or false?* Before making investments you should have an understanding of what you are trying to achieve by investing.
 - a. **This statement is true. Investment time frame and risk tolerance are two factors you must deeply consider. A lower rate of return due to lower risk may be preferable to some investors.**
 - b. This statement is false. You should always be investing with receiving the highest rate of return as the main objective.
6. Which of the following statements is true? *Only select one answer.*

- a. An active investor is looking to beat the S&P 500.
 - b. Just like day trading, active investing requires control of your emotions. Allowing fear and greed to control your actions can result in losses.
 - c. Active investors are in search of stocks that will provide the maximum amount of return in the shortest time frame.
 - d. **All of the above**
7. *True or false?* Investing in one low-risk stock provides you with the same amount of risk as two low-risk stocks.
- a. True -- your risk is the same.
 - b. **False -- by investing in two stocks you have eliminated firm specific (unsystematic) risk.**
8. What is active portfolio investing?
- a. An investing approach that is generally within a long time frame, often taking into consideration retirement goals and employing a “buy and hold” mentality.
 - b. An investing approach with a time frame that is relatively short in length with a goal of expecting results anywhere from 3-12 months.
 - c. **An investing approach accompanied by an active trading mentality with a time frame that is very short-term with the expectation of creating consistent cash flow on a weekly or even daily basis.**
9. *True or false?* Stocks & equities generally are thought of as high risk investments compared to commodities and derivatives.
- a. True
 - b. **False**
10. *True or false?* Certificates of deposit, bonds, mutual funds, & fixed income instruments are generally thought of as low risk investments compared to stocks and equities.
- a. **True**
 - b. False
11. Which of the following falls under the Active Investor Approach taught in this course?
- a. A collection of investments that may include, but is not limited to, stocks, bonds, cash, physical gold, and real estate with the “big picture” being the primary focus
 - b. Low risk investments, certificates of deposit, bonds, mutual funds, and fixed income instruments
 - c. **A portfolio of stocks that are positioned to move along with the direction of the market**
12. Which of the following statements are true? *Select only one answer,*
- a. Risk management is the cornerstone to success.

- b. The first step in formulating your approach is to determine what you are seeking from your investments and over what timeline.
 - c. A critical element to consistent success is simplicity.
 - d. **All of the above**
13. Who might the Active Investor Approach in this course best suit?
- a. Those who seek to not spend much time observing the market
 - b. **Any investor and/or trader seeking to broaden their understanding of the markets while learning how to more efficiently deploy capital for consistent returns**
 - c. Those who wish to have a portfolio consisting of 100% cash at the end of each trading day
14. Does the Active Investor Approach differ from traditional swing trading?
- a. No, they are the same thing.
 - b. **Yes, they are different. *Through the Active Investor approach, a portfolio of stocks is actively managed on a daily basis while a traditional swing trading approach generally involves fewer positions and longer hold times.***
15. Why might you consider an active approach to investing?
- a. **Capital turnover**
 - b. **Small account building**
 - c. **Retirement (IRA) account building**
 - d. **Creating alternative strategies for when the market dynamic shifts**
- All of the above are good reasons to consider an active investing approach!*
16. *True or false?* An active investor approach does not require a macro sense of the market. You only need to observe a single market sector.
- a. True; an active investor has to narrow their focus.
 - b. **False; an active portfolio requires a broad perspective of markets in order to consistently navigate all market conditions.**
17. The vast majority of traders who end up failing may have which two things in common?
- a. **A lack of emotional control and no defined strategy/rule set**
 - b. Not enough money to start investing and not enough monitors
18. *True or false?* The most important part of coming out of a tough trading day, week, or month is to just get green, regardless of the amount. Start chipping away with your established low-risk approach.
- a. This is false. We are working hard to make large gains and should expect such!
 - b. **This is true. We should focus on booking profits each day to continue building our accounts since this will put us in a position to survive short-term disturbances.**