

## Chapter 9

1. Testing many different trading rules until you find one that would have worked in the past is called \_\_\_\_\_.
  - A. data mining
  - B. perceived patterning
  - C. pattern searching
  - D. behavioral analysis
  
2. Models of financial markets that emphasize psychological factors affecting investor behavior are called \_\_\_\_\_.
  - A. data mining
  - B. fundamental analysis
  - C. charting
  - D. behavioral finance
  
3. The TRIN statistic is a \_\_\_\_\_ indicator.
  - A. Sentiment
  - B. flow of funds
  - C. market structure
  - D. fundamental
  
4. Relative strength is \_\_\_\_\_ indicator.
  - A. a fundamental
  - B. an economic
  - C. a technical
  - D. an international
  
5. The cumulative tally of the number of advancing stocks minus declining stocks is called the \_\_\_\_\_.
  - A. market breadth
  - B. market volume
  - C. trin ratio
  - D. relative strength ratio

6. Behaviorists point out that even if market prices are \_\_\_\_\_, there may be \_\_\_\_\_.
- A. distorted; limited arbitrage opportunities
  - B. distorted; fundamental efficiency
  - C. allocationally efficient; limitless arbitrage opportunities
  - D. distorted; allocationally efficiency
7. According to market technicians, it is time to sell stock in a head-and-shoulders formation when \_\_\_\_\_.
- A. the price index pierces the left shoulder
  - B. the price index pierces the right shoulder
  - C. the price index pierces the head
  - D. none of these options takes place
8. A support level is \_\_\_\_\_.
- A. a level beyond which the market is unlikely to rise
  - B. a level below which the market is unlikely to fall
  - C. an equilibrium price level justified by characteristics such as earnings and cash flows
  - D. the peak of a market wave or cycle
9. The only way for behavioral patterns to persist in prices is if \_\_\_\_\_.
- A. markets are not weak-form efficient
  - B. there are limits to arbitrage activity
  - C. there are no significant trading costs
  - D. market psychology is inconsistent over time
10. If investors are too slow to update their beliefs about a stock's future performance when new evidence arises, they are exhibiting \_\_\_\_\_.
- A. representativeness bias
  - B. framing error
  - C. conservatism
  - D. memory bias

11. An investor needs cash to pay some hospital bills. He is willing to use his dividend income to pay the bills, but he will not sell any stock to do so. He is engaging in \_\_\_\_\_.
- A. Overconfidence
  - B. Representativeness
  - C. forecast errors
  - D. mental accounting
12. Bill and Shelly are friends. Bill invests in a portfolio of hot stocks that almost all his friends are invested in. Shelly invests in a portfolio that is totally different from the portfolios of all her friends. Both Bill's and Shelly's stocks fall 15%. According to regret theory, \_\_\_\_\_.
- A. Bill will have more regret over the loss than Shelly
  - B. Shelly will have more regret over the loss than Bill
  - C. Bill and Shelly will have equal regret over their losses
  - D. Bill's and Shelly's risk aversion will increase in the future
13. When the market breaks through the moving average line from below, a technical analyst would probably suggest that it is a good time to \_\_\_\_\_.
- A. buy the stock
  - B. hold the stock
  - C. sell the stock
  - D. short the stock
14. If the utility you derive from your next dollar of wealth increases by less than a loss of a dollar reduces it, you are exhibiting \_\_\_\_\_.
- A. loss aversion
  - B. regret avoidance
  - C. mental accounting
  - D. framing bias
15. An important assumption underlying the use of technical analysis techniques is that \_\_\_\_\_.
- A. security prices adjust rapidly to new information
  - B. security prices adjust gradually to new information
  - C. security dealers will provide enough liquidity to keep price changes relatively small
  - D. all investors have immediate and costless access to information

16. The tendency of investors to hold on to losing investments is called the \_\_\_\_\_.  
A. overweighting effect  
B. head-in-the-sand effect  
C. disposition effect  
D. prospector effect
17. A major problem with technical trading strategies is that \_\_\_\_\_.  
A. it is very difficult to identify a true trend before the fact  
B. it is very difficult to identify the correct trend after the fact  
C. it is so easy to identify trends that all investors quickly do so  
D. Kondratieff showed that you can't identify trends without 48 to 60 years of data
18. Investors gravitate toward the latest hot stock even though it has never paid a dividend. Even though net income is projected to fall over the current and next several years, the price of the stock continues to rise. What behavioral concept may explain this price pattern?  
A. Overconfidence  
B. Loss aversion  
C. Mental accounting  
D. Calendar bias
19. Which one of the following best describes fundamental risk?  
A. A stock is overpriced, but your fund does not allow you to engage in short sales.  
B. Your models indicate a stock is mispriced, but you are not sure if this is a real profit opportunity or a model input error.  
C. You buy a stock that you believe is underpriced, and the underpricing persists for a long time, hurting your short-term results.  
D. A stock is trading in two different markets at two different prices.
20. A possible limit on arbitrage activity that may allow behavioral biases to persist is \_\_\_\_\_.  
A. technical trends in prices  
B. momentum effects  
C. fundamental risk  
D. trend reversals

1	2	3	4	5
A	D	A	C	A
6	7	8	9	10
A	B	B	B	C
11	12	13	14	15
D	B	A	A	B
16	17	18	19	20
C	A	A	C	C