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38	A	B	C	D	E
39	A	B	C	D	E

PRACTICE QUESTIONS

AAFM India

CPM

Chartered Portfolio Manager® (CPM®) Certification
Examination

EDITION

Demo

QUESTIONS

9

FORMAT

Limited Edition PDF

Before you begin

What this is

9 practice questions for AAFM India CPM, each with its answer key and an explanation. Answer a question before you read its key — the explanation is worth more once you have committed.

If something looks wrong

Send us three things and we will check it:

- the exam code, CPM
- the question number
- the email address on your order

Write to **support@mometrix.net**. We reply within one business day.

QUESTION 1

SINGLE CHOICE

According to Modern Portfolio Theory (MPT), the efficient frontier represents the set of portfolios that:

- ☒ **A** Offer the highest expected return for every level of risk, or the lowest risk for every level of expected return
- ☐ **B** Contain only risk-free assets
- ☐ **C** Maximize expected return regardless of risk taken
- ☐ **D** Minimize transaction costs across all asset classes

ANSWER A

WHY The efficient frontier, as defined by Harry Markowitz's MPT, is the curve of optimal portfolios that provide the maximum expected return for a given level of risk (or minimum risk for a given expected return), based on diversification benefits from combining assets with less than perfectly correlated returns.

QUESTION 2

SINGLE CHOICE

Using the CAPM, if the risk-free rate is 5%, the expected market return is 12%, and a stock has a beta of 1.4, what is the stock's required rate of return?

- ☐ **A** 12.0%
- ☒ **B** 14.8%
- ☐ **C** 16.8%
- ☐ **D** 9.8%

ANSWER B

WHY CAPM: Required Return = $R_f + \text{Beta} \times (R_m - R_f) = 5\% + 1.4 \times (12\% - 5\%) = 5\% + 9.8\% = 14.8\%$.

QUESTION 3 SINGLE CHOICE

Which risk-adjusted performance measure uses total risk (standard deviation) rather than systematic risk (beta) in its denominator?

- ☐ A Treynor Ratio
- ☐ B Jensen's Alpha
- ☒ C Sharpe Ratio
- ☐ D Information Ratio using tracking error only for systematic risk

ANSWER C

WHY The Sharpe Ratio measures excess return per unit of total risk, calculated as (Portfolio Return - Risk-Free Rate) / Standard Deviation of Portfolio Returns, making it appropriate for evaluating undiversified portfolios.

QUESTION 4 MULTIPLE CHOICE

Which of the following are recognized behavioral finance biases that can affect investor decision-making? (Choose two.)

- ☒ A Overconfidence bias
- ☒ B Loss aversion
- ☐ C Efficient market hypothesis
- ☐ D Modigliani-Miller theorem

ANSWER A • B

WHY Overconfidence bias (overestimating one's own judgment or skill) and loss aversion (feeling losses more strongly than equivalent gains) are well-documented behavioral finance biases. The Efficient Market Hypothesis and Modigliani-Miller theorem are traditional finance theories, not behavioral biases.

QUESTION 5

SINGLE CHOICE

A bond has a modified duration of 6.5. If interest rates rise by 50 basis points, what is the approximate expected percentage change in the bond's price?

- ☐ A +3.25%
- ☒ B -3.25%
- ☐ C -6.5%
- ☐ D +6.5%

ANSWER B

WHY Percentage price change is approximated as $-\text{Modified Duration} \times \text{Change in Yield} = -6.5 \times 0.50\% = -3.25\%$. Bond prices move inversely to interest rate changes.

QUESTION 6

SINGLE CHOICE

Which best describes tactical asset allocation?

- ☐ A A fixed, long-term allocation mix that is never adjusted regardless of market conditions
- ☒ B Short-term deviations from the strategic asset allocation to capitalize on perceived market opportunities
- ☐ C Allocating assets solely based on an investor's tax bracket
- ☐ D An allocation methodology used only for fixed income portfolios

ANSWER B

WHY Tactical asset allocation involves actively adjusting a portfolio's asset class weights away from its strategic (long-term policy) allocation, based on short- to medium-term market forecasts, in an attempt to enhance returns.

QUESTION 7

TRUE FALSE

Diversification can eliminate unsystematic (company-specific) risk but cannot eliminate systematic (market) risk.

☒ **A** True☐ B False**ANSWER A**

WHY Diversification reduces or eliminates unsystematic risk, which is specific to individual companies or industries, by spreading investments across many securities. Systematic risk, which affects the entire market (e.g., interest rate changes, recessions), cannot be diversified away.

QUESTION 8

SINGLE CHOICE

A positive Jensen's Alpha for a portfolio indicates that the portfolio:

☐ A Has performed worse than expected given its level of systematic risk☐ B Has exactly matched its benchmark return☒ **C** Has generated a return higher than predicted by the CAPM for its level of beta risk☐ D Has zero systematic risk exposure**ANSWER C**

WHY Jensen's Alpha measures the excess return of a portfolio over the return predicted by CAPM given its beta. A positive alpha indicates the manager generated returns above what would be expected purely from the portfolio's systematic risk exposure, suggesting skill or outperformance.

QUESTION 9

MULTIPLE CHOICE

Which of the following are commonly cited characteristics of hedge funds as an alternative investment class? (Choose two.)

- ☒ **A** Use of leverage and derivatives to enhance returns
- ☐ **B** Typically offer daily liquidity identical to open-end mutual funds
- ☒ **C** Ability to take both long and short positions
- ☐ **D** Guaranteed fixed returns regardless of market conditions

ANSWER **A • C**

WHY Hedge funds commonly use leverage, derivatives, and short-selling strategies to pursue absolute returns and manage risk, unlike traditional long-only mutual funds. They typically have limited liquidity (lock-up periods) and offer no guaranteed returns.