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39	A	B	C	D	E

PRACTICE QUESTIONS

CFA Institute - CFA® Program

CFA3W

Level III CFA® - Private Wealth

EDITION

Demo

QUESTIONS

9

FORMAT

Limited Edition PDF

Before you begin

What this is

9 practice questions for CFA Institute - CFA® Program CFA3W, 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, CFA3W
- the question number
- the email address on your order

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

QUESTION 1

SINGLE CHOICE

Which characteristic most clearly distinguishes the modern private wealth management industry from traditional retail brokerage and asset management?

- ☐ A Execution-only trading services for high-net-worth individuals
- ☒ B Delivery of holistic, advice-driven solutions that integrate investment, tax, estate, and legacy planning tailored to the individual
- ☐ C Focus on standardized mutual fund products distributed through bank branches
- ☐ D Provision of custody services exclusively to institutional pension funds

ANSWER B

WHY The defining feature of modern private wealth management is the delivery of a holistic, advice-driven solution that integrates multiple disciplines (investment planning, tax planning, estate planning, legacy/wealth structuring) around the specific circumstances of each client. The other options describe retail brokerage execution, standardized product distribution, or institutional custody, which are not the hallmark of private wealth management.

QUESTION 2

SINGLE CHOICE

An advisor notices that a client consistently avoids selling positions that have declined substantially because doing so would 'lock in the loss,' even though the underlying fundamentals have deteriorated. This client behavior is best described as:

- ☐ A Confirmation bias
- ☒ B Disposition effect (specifically, loss aversion in realization decisions)
- ☐ C Overconfidence bias
- ☐ D Representativeness bias

ANSWER B

WHY The disposition effect describes investors' tendency to hold onto losing positions too long and sell winning positions too soon. It is driven by loss aversion: realizing a loss feels more painful than the equivalent gain feels good. Confirmation bias is seeking information that supports an existing view; overconfidence is overestimating one's forecast accuracy; representativeness is assessing probability by similarity to a stereotype. None of these specifically describe reluctance to realize a loss.

QUESTION 3

MULTIPLE CHOICE

When constructing an Investment Policy Statement (IPS) for a private wealth client, which of the following components are typically included? (Choose two.)

- ☒ A Background and investment objectives of the client
- ☒ B Asset allocation ranges permitted under the IPS
- ☐ C Quarterly earnings forecasts for each portfolio holding
- ☐ D Specific buy and sell recommendations for individual securities

ANSWER A - B

WHY A private wealth IPS normally includes the client's background and objectives, investment objectives (return objectives and risk objectives/tolerance), asset allocation guidelines/ranges, portfolio management responsibilities, and procedures for IPS review and update. Stock-level earnings forecasts and specific buy/sell recommendations are tactical implementation details, not IPS components.

QUESTION 4

SINGLE CHOICE

A private wealth client requires daily liquidity, capital preservation, and check-writing capability for a substantial cash reserve. Which investment vehicle is most appropriate?

- ☐ A A 5-year bank certificate of deposit (CD)
- ☒ B A money market mutual fund
- ☐ C A 10-year U.S. Treasury bond held to maturity
- ☐ D A private equity limited partnership

ANSWER B

WHY A money market mutual fund offers daily liquidity, seeks to preserve capital, and is the standard cash-equivalent vehicle in private wealth portfolios. A 5-year CD and a 10-year Treasury lock up principal and lack daily liquidity, and a private equity limited partnership is illiquid with a multi-year horizon and capital risk.

QUESTION 5

SINGLE CHOICE

When constructing a tax-efficient equity portfolio for a taxable private wealth client, which technique most directly reduces the realization of capital gains?

- ☐ A Frequent portfolio rebalancing without regard to tax lots
- ☒ B Tax-loss harvesting using the realized loss to offset realized gains, subject to wash-sale rules
- ☐ C Concentrating holdings in a single sector to reduce transaction frequency
- ☐ D Investing exclusively in low-dividend-paying stocks

ANSWER B

WHY Tax-loss harvesting directly reduces realized gains (and net taxable capital gains) by selling positions at a loss to offset gains. Frequent rebalancing without regard to tax lots would actually increase taxable events; single-sector concentration is a diversification problem; low-dividend selection affects ordinary/qualified dividend income, not capital gains realization.

QUESTION 6

SINGLE CHOICE

Which estate planning tool allows a client to transfer assets to beneficiaries outside of probate while retaining the ability to modify or revoke the transfer during the client's lifetime?

- ☐ A Irrevocable trust
- ☒ B Revocable living trust
- ☐ C Testamentary trust established under a will
- ☐ D Irrevocable life insurance trust (ILIT)

ANSWER B

WHY A revocable living trust lets the grantor transfer legal title to the trust while retaining the power to amend or revoke the trust during the grantor's lifetime; assets held in it pass to beneficiaries outside probate. An irrevocable trust generally cannot be modified or revoked by the grantor; a testamentary trust is created only at death under the will (so it does pass through probate of the will); an ILIT is irrevocable.

QUESTION 7

SINGLE CHOICE

Under the CFA Institute Code of Ethics, a member or candidate must act with integrity and must also:

- ☐ A Place the client's interests ahead of the employer's interests in all circumstances
- ☒ B Use reasonable care and exercise independent professional judgment
- ☐ C Guarantee the performance of recommended investment strategies
- ☐ D Disclose every personal financial holding to every client

ANSWER B

WHY The CFA Institute Code of Ethics components require members and candidates to act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, and colleagues in the investment profession, and to use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities. Placing the client ahead of the employer in all circumstances overstates the rule (the Standards of Professional Conduct address loyalty to both); guaranteeing performance is prohibited as Misrepresentation; disclosing every personal holding to every client is not required (only conflicts and certain holdings per Standard VI).

QUESTION 8

MULTIPLE CHOICE

Which of the following are appropriate elements of a comprehensive risk management framework for an individual private wealth client? (Choose two.)

- ☒ **A** Identification and quantification of risks across investment, liability, longevity, and lifestyle categories
- ☒ **B** Diversification of investment exposures across asset classes, geographies, and factors
- ☐ **C** A strategy of holding a single concentrated stock position to maximize expected return
- ☐ **D** Elimination of all insurance coverage to reduce household expenses

ANSWER A - B

WHY Comprehensive private wealth risk management involves identifying and quantifying a broad set of risks (market, credit, longevity, liability, lifestyle/employment) and managing them through techniques such as diversification across asset classes, regions, and risk factors. A single concentrated position is the antithesis of risk management, and eliminating insurance is generally inappropriate because insurance addresses insurable risks that investments cannot.

QUESTION 9

SINGLE CHOICE

Compared with an accumulation-phase client, a client in the distribution/retirement phase typically has which of the following as a primary objective?

- ☐ A Maximizing long-term capital appreciation through aggressive growth stocks
- ☒ B Preserving real (inflation-adjusted) spending power while drawing a sustainable level of income from the portfolio
- ☐ C Eliminating all equity exposure to avoid sequence-of-returns risk entirely
- ☐ D Concentrating the portfolio in illiquid private investments for higher returns

ANSWER B

WHY In the distribution phase, the central objective is to support the client's spending needs while preserving real purchasing power, typically by generating a sustainable withdrawal income from a diversified portfolio. Eliminating all equity is too conservative and exposes the client to inflation/longevity risk, while concentrating in illiquid private investments is inconsistent with the need for income and liquidity during retirement.