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PRACTICE QUESTIONS

Chartered Market Technicians Association (CMTA)

CMT3

Chartered Market Technician - Level III

EDITION	QUESTIONS	FORMAT
Demo	9	Limited Edition PDF

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Before you begin

What this is

9 practice questions for Chartered Market Technicians Association (CMTA) `CMT3`, 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, `CMT3`
- the question number
- the email address on your order

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

QUESTION 1 MULTIPLE CHOICE

An analyst observes that the U.S. 10-year Treasury yield is falling, the CRB Commodity Index is weakening, and the trade-weighted U.S. dollar index is strengthening. Under a classic intermarket framework, which two asset classes are most likely to be adversely affected in the near term? (Choose two.)

- A **Emerging market equities**
- B U.S. domestic large-cap consumer staples stocks
- C **Gold and precious metals producers**
- D U.S. utility sector equities

ANSWER **A · C**

WHY A strengthening dollar combined with falling commodities and lower long-end yields typically reflects a risk-off / deflationary impulse. This is bearish for emerging market equities (dollar-denominated debt burden and capital outflows) and bearish for gold/precious metals (rising real yields and a strong dollar historically pressure gold). Defensive U.S. sectors such as consumer staples and utilities typically benefit, not suffer, in such an environment.

QUESTION 2 MULTIPLE CHOICE

Which two of the following behavioral phenomena are most likely to cause a market bottom to be accompanied by a period of low trading volume and persistent bearish sentiment surveys? (Choose two.)

- **A** **Anchoring on prior peak prices**
- **B** **Disposition effect**
- C Confirmation bias during a bull market
- D Herding behavior at secular highs

ANSWER **A · B**

WHY Anchoring causes participants to fixate on prior peak prices and refuse to bid until those levels are revisited, suppressing volume at the bottom. The disposition effect keeps investors from adding to positions while prior losses remain unrealized, prolonging bearish sentiment and low participation. Confirmation bias and herding are more characteristic of late-stage bull market tops, not bottoms.

QUESTION 3 SINGLE CHOICE

In the Wyckoff method, a Spring that occurs after a prolonged Trading Range, is accompanied by expanded volume on the test, and is followed by a return to the range on lighter volume is most consistent with which schematic event?

- A Sign of strength (SOS) completing a redistribution phase
- **B** **Terminal shakeout marking the end of accumulation**
- C Upthrust after distribution (UTAD) initiating markdown
- D Last point of support (LPS) within an established uptrend

ANSWER **B**

WHY A Spring that occurs near the end of accumulation, on heavy volume, and fails to hold below the range (a 'terminal shakeout') is the classic Wyckoff indication that the Composite Operator has completed accumulation and is poised to mark up. An SOS appears as a wide-range up bar on heavy volume breaking resistance; UTAD appears at the top of a distribution range; and an LPS occurs after the breakout, not before it.

QUESTION 4 SINGLE CHOICE

A market that has completed five waves up from a major low, then retraces in three waves that overlap the prior fourth wave, and then resumes a five-wave advance to new highs is most likely displaying which Elliott Wave structure?

- A An ending diagonal fifth wave followed by a simple zigzag correction
- B A double-three (W-X-Y) corrective structure preceding new lows
- C **A leading extension first wave within a new bull cycle**
- D An expanded flat (3-3-5) correction within an ongoing bull market

ANSWER C

WHY A new five-wave advance from a major low that subdivides 1-2-3-4-5, with one of the impulse waves (1, 3 or 5) extending, is the textbook signature of a leading extension — typically the first wave of a new bull-market cycle. The described three-wave overlap is wave 2 of the new cycle, and the resumption to new highs marks the extended first wave completing and wave 2 correcting. The other patterns do not match the described 5-3-5 structure from a major low.

QUESTION 5 SINGLE CHOICE

When back-testing a moving-average crossover system, an analyst computes the Sharpe ratio using the excess return over the risk-free rate divided by the standard deviation of returns. To make this ratio comparable across instruments with different return volatilities, the analyst should next:

- A **Annualize both the numerator and denominator by multiplying the per-period values by the square root of the number of periods per year**
- B Convert returns to log-normal form before annualizing
- C Subtract the autocorrelation of returns from the denominator to remove serial dependence
- D Divide the ratio by the skewness of the return distribution to penalize asymmetric outcomes

ANSWER **A**

WHY Annualizing by multiplying the per-period Sharpe components by the square root of periods per year is the standard convention that allows comparison across assets and over different sampling frequencies. The other adjustments (log transformation, autocorrelation adjustment, skewness penalty) are not the conventional or correct method for producing a comparable Sharpe ratio.

QUESTION 6 SINGLE CHOICE

A trader risks 1% of equity per trade with a planned entry, stop-loss and target. After a string of consecutive winners, equity has grown substantially and the fixed 1% risk now represents a much larger dollar amount than at the start of the streak. Which risk-management principle is being violated?

- A. Fixed fractional position sizing is automatically violated whenever equity changes
- B. The Kelly criterion requires compounding at the geometric mean rate
- C. Risk per trade must be expressed as a constant dollar amount, not a percentage
- **D. Risk per trade should be recomputed as a percentage of current equity so dollar exposure scales with account size**

ANSWER D

WHY Fixed-fractional position sizing defines risk as a constant percentage of current equity, so that dollar exposure automatically scales up as the account grows and scales down during drawdowns — this is a feature, not a violation. Fixed dollar risk does not scale with equity and is generally considered inferior for compounding. The Kelly criterion is a separate optimal-f sizing approach. The premise of the question is therefore that percentage-of-equity risk is the correct, scale-consistent method.

QUESTION 7 SINGLE CHOICE

Which combination of monetary, credit, and breadth indicators is most consistent with an early-cycle environment favorable for cyclicals and small-cap equities?

A Flat-to-falling yield curve, contracting bank credit, and negative new-high/new-low breadth

B Steepening yield curve, expanding bank credit, and new-high/new-low breadth crossing above zero

C Inverted yield curve, surging high-yield credit spreads, and breadth thrusts to new lows

D Falling commodity prices, narrowing credit spreads after a recession, and contracting M2 money supply

ANSWER **B**

WHY Early cycle is characterized by a steepening (but not yet flat) yield curve as the central bank eases, expanding bank credit as lending accelerates, and breadth improving as new highs begin to outnumber new lows. These conditions historically favor cyclicals, small caps and emerging markets. The other combinations describe late-cycle, recession or early-recession environments.

QUESTION 8 SINGLE CHOICE

Under Dow Theory, a non-confirmation (a 'divergence' in Dow parlance) occurs when the Dow Jones Industrial Average makes a new primary bull market high while the Dow Jones Transportation Average fails to do so. The classical interpretation is that this non-confirmation most likely signals:

- A The primary bull market is healthy and entering a blow-off phase
- B **A pending primary trend reversal from bull to bear**
- C A secondary correction within an ongoing bull market requiring no action
- D That transports should be sold immediately as a stand-alone trade

ANSWER **B**

WHY Dow Theory requires both averages to confirm each other for a primary trend signal. When one average makes a new primary high that the other does not confirm, classical Dow Theory treats this non-confirmation as an early warning of a pending primary trend reversal. It is not a sell signal in isolation (secondary corrections do not require non-confirmation), nor does it justify an immediate stand-alone trade in transports.

QUESTION 9 SINGLE CHOICE

An analyst using a multi-timeframe top-down approach first identifies the primary trend on a weekly chart, then refines the medium-term direction on a daily chart, and finally times entries on an intraday chart. Which principle best justifies this hierarchical order of analysis?

- A **Higher-timeframe trends drive lower-timeframe trends; trading against the larger trend reduces probability of success**
- B Intraday data contains less noise and is therefore more reliable than daily or weekly data
- C Daily charts are more volatile than weekly charts and should be avoided for trend analysis
- D Weekly charts must be ignored once a daily signal appears in order to act on the most recent information

ANSWER **A**

WHY The multi-timeframe approach is grounded in the hierarchical relationship between trends: the primary (weekly) trend sets the context, the daily chart defines the intermediate swing, and the intraday chart is used purely for execution. Trading against the dominant higher-timeframe trend substantially lowers success rates — a well-documented empirical and practical result. The other statements are either factually wrong or contradict the framework.