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

PRACTICE QUESTIONS

GISI – Ghana Investment and Securities Institute Limited

WPM

Wealth and Portfolio Management

EDITION

Demo

QUESTIONS

9

FORMAT

Limited Edition PDF

Before you begin

What this is

9 practice questions for GSI – Ghana Investment and Securities Institute Limited **WPM**, 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, **WPM**
- 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 of the following best describes the primary objective of portfolio management?

- ☐ A To maximise the market share of the fund manager's firm
- ☐ B To achieve the highest possible returns regardless of risk
- ☒ C To design and manage a portfolio of investments that meets the client's investment objectives within agreed risk tolerance
- ☐ D To minimise the tax payable by the client on all income sources

ANSWER C

WHY Portfolio management's primary objective is to construct and manage a portfolio aligned with the client's stated objectives, risk tolerance and constraints. Option A confuses portfolio management with corporate objectives; Option B ignores risk; Option D is a narrow compliance/tax consideration, not the core objective.

QUESTION 2 SINGLE CHOICE

In which section of an Investment Policy Statement (IPS) would the asset allocation ranges (e.g., equity 40–60%, fixed income 30–50%, cash 0–20%) be specified?

- ☐ A Investment objectives
- ☐ B Investment constraints
- ☒ C Strategic asset allocation and rebalancing rules
- ☐ D Performance review and evaluation

ANSWER C

WHY The strategic asset allocation, including target weights and permissible ranges along with rebalancing rules, is a distinct component of the IPS. Investment objectives define goals/risk tolerance; constraints cover liquidity, time horizon and tax/regulatory limits; performance review specifies benchmarks and evaluation frequency.

QUESTION 3

SINGLE CHOICE

An investor wants a strategy that seeks to match the returns of a specified market index rather than outperform it. This is most consistent with:

- ☐ A Active portfolio management
- ☒ B Passive portfolio management
- ☐ C Market timing
- ☐ D Tactical asset allocation

ANSWER B

WHY Passive management aims to replicate the performance of a benchmark index, typically via index funds or ETFs, and does not attempt to outperform. Active management (A) seeks to beat the index; market timing (C) and tactical allocation (D) are both forms of active discretionary moves away from the strategic mix.

QUESTION 4

SINGLE CHOICE

The Sharpe ratio measures a portfolio's:

- ☒ A Excess return per unit of total risk (standard deviation)
- ☐ B Excess return per unit of systematic risk (beta)
- ☐ C Total return per unit of unsystematic risk
- ☐ D Excess return per unit of downside risk only

ANSWER A

WHY Sharpe ratio = (Portfolio return – Risk-free rate) / Portfolio standard deviation. It uses total risk. The Treynor ratio uses beta (B). C is incorrect because unsystematic risk is diversifiable. D describes a Sortino-like measure, not the Sharpe ratio.

QUESTION 5

SINGLE CHOICE

When market interest rates rise, the price of an existing fixed-coupon bond will generally:

- ☐ A Rise because higher rates signal stronger economic conditions
- ☒ B Fall because the bond's fixed cash flows must be discounted at higher rates
- ☐ C Remain unchanged because the coupon is fixed
- ☐ D Move only if the bond is below investment grade

ANSWER B

WHY Bond prices and market yields move inversely. Higher required yields mean the same fixed future cash flows are worth less today, pushing the bond price down. Option C is wrong because prices adjust even though coupons are fixed; Option D incorrectly limits the relationship to credit quality.

QUESTION 6

SINGLE CHOICE

In the constant-growth dividend discount model (Gordon Growth Model), the required rate of return (r) is calculated as:

- ☐ A $r = (D1 / P0) - g$
- ☒ B $r = (D1 / P0) + g$
- ☐ C $r = P0 / D1 + g$
- ☐ D $r = D0 / P0$

ANSWER B

WHY The Gordon Growth Model: $P0 = D1 / (r - g)$, which rearranges to $r = (D1 / P0) + g$. Option A drops the growth term. Option C incorrectly uses $P0/D1$. Option D is the current dividend yield using $D0$, not the required return.

QUESTION 7

SINGLE CHOICE

Markowitz's Modern Portfolio Theory shows that combining two assets with imperfect positive correlation in a portfolio, compared with either asset held alone, will generally:

- ☐ A Increase the expected return proportionally
- ☒ B Reduce total portfolio risk without necessarily giving up expected return
- ☐ C Eliminate all systematic and unsystematic risk
- ☐ D Only benefit the portfolio if one asset is risk-free

ANSWER B

WHY Combining assets whose returns are not perfectly positively correlated lowers total portfolio risk for a given level of expected return — the essence of diversification. It does not increase expected return proportionally (A). It cannot eliminate systematic (market) risk (C). Option D confuses diversification with a two-asset risk-free combination.

QUESTION 8

SINGLE CHOICE

An equity portfolio returned 12% during a period when the benchmark index returned 10% and the risk-free rate was 6%. The portfolio's beta was 1.5. Using the Treynor measure, what is the portfolio's Treynor ratio?

- ☐ A 0.02
- ☒ B 0.04
- ☐ C 0.10
- ☐ D 1.50

ANSWER B

WHY Treynor ratio = $(R_p - R_f) / \text{Beta} = (12\% - 6\%) / 1.5 = 6\% / 1.5 = 0.04$. Option A would arise from misusing the Sharpe denominator; Option C uses a beta of 0.6; Option D is just the beta itself.

QUESTION 9

SINGLE CHOICE

Which of the following measures the systematic risk of a security relative to the overall market?

- ☐ A Standard deviation
- ☐ B Sharpe ratio
- ☒ C Beta
- ☐ D R-squared of the residuals

ANSWER C

WHY Beta measures the sensitivity of a security's returns to movements in the overall market and is the standard measure of systematic (non-diversifiable) risk. Standard deviation measures total risk, the Sharpe ratio measures excess return per unit of total risk, and R-squared of the residuals relates to idiosyncratic variation.