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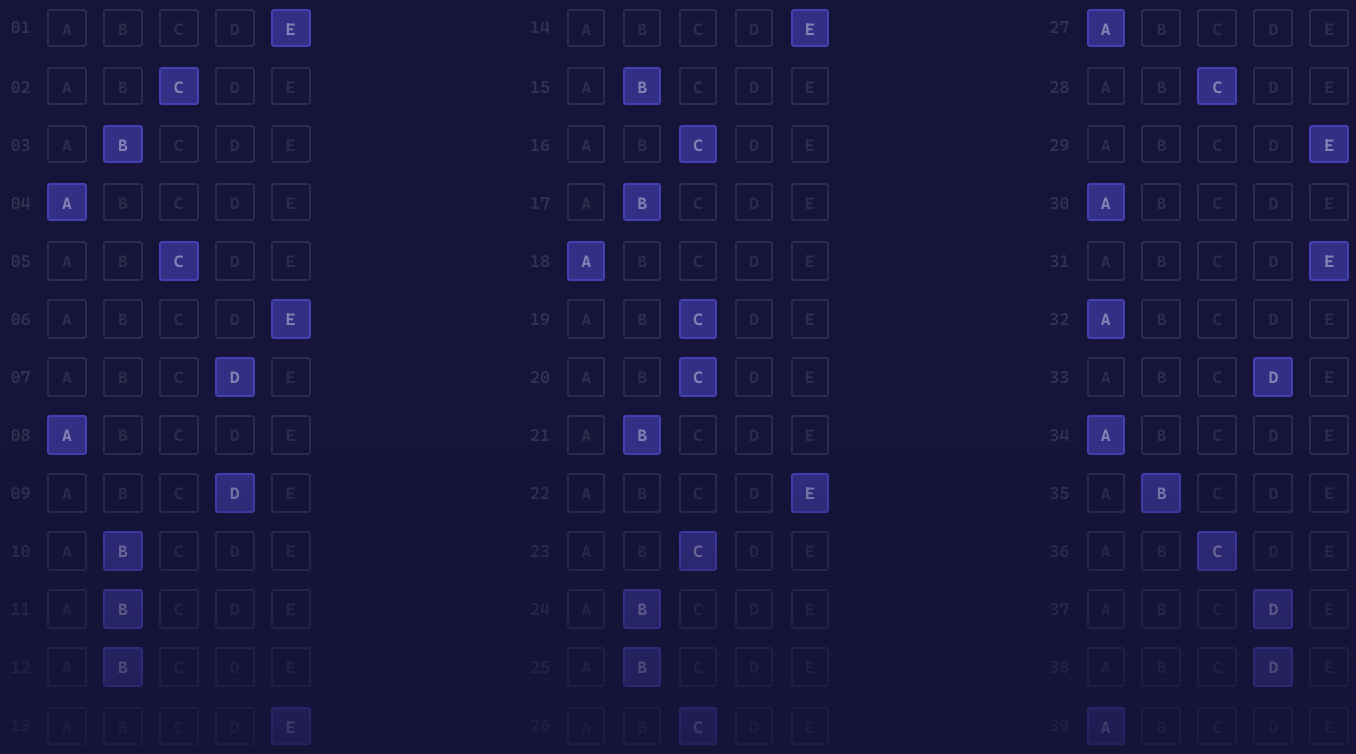

PRACTICE QUESTIONS

GISI – Ghana Investment and Securities Institute Limited

WPM

Wealth and Portfolio Management

EDITION	QUESTIONS	FORMAT
Demo	9	Limited Edition PDF

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Before you begin

What this is

9 practice questions for GISI – 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

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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.

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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.

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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.

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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 = (Rp − Rf) / 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.

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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.

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