

Chapter One

The Process of Portfolio Management

- B** 1. Classical security analysis is sometimes called
- ABC analysis
 - EIC analysis
 - GBY analysis
 - CPI analysis
- C** 2. The modern trend in investments is to _____ security analysis and _____ portfolio management.
- emphasize, emphasize
 - emphasize, de-emphasize
 - de-emphasize, emphasize
 - de-emphasize, de-emphasize
- B** 3. Portfolio management is primarily concerned with
- increasing return
 - reducing risk
 - predicting the future
 - explaining the past
- D** 4. Most of the academic literature of the past two decades has supported the
- arbitrage pricing theory
 - benefits of high PE stocks
 - usefulness of stock charts
 - efficient markets paradigm
- A** 5. “The lower the dispersion in returns, the greater the accumulated value of otherwise equal investments.” This statement is
- true
 - false
 - true for the short run, but not necessarily true for the long run
 - true for the long run, but not necessarily true for the short run
- D** 6. _____ is cheap in the investment business.
- Risk
 - Return
 - Time
 - Talk

- A** 7. Which of the following is a key concept in finance?
- a. A dollar today is worth more than a dollar tomorrow
 - b. Regardless of anything else, the higher the stock price, the better
 - c. Regardless of anything else, the lower the risk, the better
 - d. Risk averse people will not take a risk
- B** 8. Understanding _____ is essential to bond portfolio management.
- a. convexity
 - b. duration
 - c. semi-variance
 - d. bond betas
- C** 9. According to the book, the first step in portfolio management is
- a. setting portfolio objectives
 - b. formulating an investment strategy
 - c. learning the basic principles of finance
 - d. having a game plan for portfolio revision
- B** 10. A portfolio should have both _____ and _____ objective.
- a. a short term, a long term
 - b. a primary, a secondary
 - c. an initial, a final
 - d. an explicit, an implicit
- A** 11. One of the most consequential bits of academic research regarding portfolio construction is a paper by
- a. Evans and Archer
 - b. Andrew and McLaughlin
 - c. Lawrence and Philippatos
 - d. Miles and Ezzell
- B** 12. _____ is a topic in this textbook that most others omit.
- a. Real estate
 - b. Security screening
 - c. Performance evaluation
 - d. Principles of the futures market
- C** 13. Real assets discussed in this book include
- a. art
 - b. rare coins
 - c. timberland
 - d. diamonds

- D** 14. Which of the following is a popular means of increasing income from a portfolio?
- a. Selling bonds
 - b. Selling stock short
 - c. Buying put options
 - d. Option overwriting
- A** 15. Portfolio protection was called _____ until the stock market crash in 1987.
- a. portfolio insurance
 - b. portfolio hedging
 - c. dynamic hedging
 - d. arbitrage
- D** 16. In this text, the chapter on contemporary issues includes all of the following EXCEPT
- a. tactical asset allocation
 - b. stock lending
 - c. program trading
 - d. put-call parity
- C** 17. A stock is a good investment if the company is
- a. well-run
 - b. in a growing industry
 - c. poorly run but the stock is underpriced
 - d. extremely popular among investors
- B** 18. As an introduction, the two key concepts in finance are
- a. buy low and sell high
 - b. the time value of money and adjustment for risk
 - c. be patient, but strike when the time is right
 - d. manage earnings and save judiciously
- A** 19. According to Chapter 1, should investors invest in stocks today?
- a. Yes, because it can be a costly decision to try to time the market
 - b. Yes, because the economy looks good now
 - c. No, because the market is too high now
 - d. No, because the market is too volatile now