

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