




Question #1 of 49

Question ID: 1573905

Use the data below to determine which of the statements is *most* accurate?

As of December 31		
Company	Stock Price	Shares Outstanding
A	\$25	20,000
B	\$50	20,000
C	\$100	10,000

- A) For a given percentage change in the stock price, Company B will have less of an impact on the market-cap weighted index as Company C. 
- B) A 100% increase in the stock price of Company A will have a smaller impact on the price-weighted index than a 100% increase in the stock price of Company C. 
- C) For a given percentage change in the stock price, Company A will have a greater impact on the market-cap weighted index than Companies B or C. 

Explanation


A 100% change in the stock price of Company C will have a larger impact than a 100% change in either stocks A or B on the price-weighted index. A price-weighted index adds together the market price of each stock in the index and then divides this total by the number of stocks in the index. The price-weighted index assumes you purchase one share of each stock represented in the index. The price-weighted index is influenced most by given percentage changes in the higher priced stocks.

(Module 42.1, LOS 42.e)

Question #2 of 49

Question ID: 1573899

The type of index weighting that produces a portfolio similar to that of a momentum strategy is an index with weights that are:

- A) equal. 
- B) based on market capitalization. 
- C) based on fundamentals. 

Explanation

An index based on market capitalization (value-weighted index) will put more weight over time on the stocks that have increased the most (and less weight on stocks that have decreased the most) in value, which is similar to a momentum strategy that invests heavily in stocks that have increased the most in value over the recent past.

(Module 42.1, LOS 42.d)

Question #3 of 49

Question ID: 1573891

Assume a stock index consists of many firms who have recently split their stock. Which of the following weighting schemes will see a bias due to the impact of stock splits?

A) Unweighted price series.



B) Market value-weighted series.



C) Price-weighted series.



Explanation

Firms that split their stock price will have the identical weight before and after the split in both the unweighted and the market value-weighted series. However, in the price-weighted series, large successful firms will lose weight within the index due to simply splitting their stock. This creates a downward bias in a price-weighted series. Standard and Poor's 500 Index is a market value-weighted index.

(Module 42.1, LOS 42.d)

Question #4 of 49

Question ID: 1573900

James Investments is calculating an equally weighted index on a four stock portfolio.

Stock	Number of Shares	Initial Cost	Current Cost
W	100	5.00	5.00
X	1,000	10.00	12.50
Y	500	7.50	10.00
Z	1500	5.00	8.00

If the initial index value is 100, the current index is *closest* to:

A) 142.6.



B) 129.5.



C) 137.9.



Explanation

First calculate the return relatives and then find the mean of the relatives. The number of shares is irrelevant in this question.

$$5/5 = 1$$

$$12.5/10 = 1.25$$

$$10/7.50 = 1.33$$

$$8/5 = 1.60$$

$$(1 + 1.25 + 1.33 + 1.60) / 4 = 1.295$$

$$100 \times 1.295 = 129.5$$

(Module 42.1, LOS 42.e)

Question #5 of 49

Question ID: 1573895

Which type of stock index must be adjusted for stock splits?

A) Market capitalization weighted index.



B) Equal weighted index.



C) Price weighted index.



Explanation

When computing any price-weighted index, the denominator must be adjusted to take stock splits into account.

(Module 42.1, LOS 42.d)

Question #6 of 49

Question ID: 1573909

The providers of the Smith 30 Stock Index remove Jones Company from the index because it has been acquired by another firm, and replace it with Johnson Company. This change in the index is *best* described as an example of:

A) rebalancing.



B) reconstitution.



C) redefinition.



Explanation

Reconstitution refers to changing the securities that make up an index. Reconstitution of an index is required if one of its constituent securities goes out of existence (for example, a maturing bond or an expiring futures contract) or no longer meets the requirements to be included in the index.

(Module 42.2, LOS 42.f)

Question #7 of 49

Question ID: 1573890

Which of the following is *least likely* required when defining a security market index? The:

A) number of securities in the index.



B) target market the index will represent.



C) weighting method for the index.



Explanation

A market index does not necessarily have to consist of a fixed number of securities. For example, some indices are defined to include all the stocks that trade on a certain exchange, a number that can vary over time.

(Module 42.1, LOS 42.c)

Question #8 of 49

Question ID: 1573914

An analyst using the capital asset pricing model is *most likely* to use a security market index as a proxy for:

A) the market return.



B) beta.



C) the risk-free rate.



Explanation

The return on a security market index can be used as a proxy for the market return in a pricing model such as the CAPM.

(Module 42.2, LOS 42.g)

Question #9 of 49

Question ID: 1573880

When using a security market index to represent a market's performance, the performance of that market over a period of time is *best* represented by:

- A) the change in the index value.
- B) the index value.
- C) the percent change in the index value.

**Explanation**

Percentage changes in the value of a security market index over time represent the performance of the market, segment, or asset class from which the securities are chosen.

(Module 42.1, LOS 42.a)

Question #10 of 49

Question ID: 1573903

What is the price-weighted index of the following three stocks?

As of December 31, 2001		
Company	Stock Price	Shares Outstanding
A	\$50	10,000
B	\$35	20,000
C	\$110	30,000

- A) 80.
- B) 75.
- C) 65.

**Explanation**

The price-weighted index equals $[(50 + 35 + 110) / 3] = 65$.

(Module 42.1, LOS 42.e)

Question #11 of 49

Question ID: 1573919

Ken Miller, CFA, wants to compare the returns on government agency bonds to the returns on corporate bonds. Peg Egan, CFA, wants to compare the returns on high yield bonds in developed markets to the returns on investment grade bonds in emerging markets. Which of these analysts is *most likely* able to use bond indexes for their analysis?

- A) Both of these analysts.
- B) Neither of these analysts.
- C) Only one of these analysts.



Explanation

Because of the wide universe of bonds that trade in financial markets, indexes are available (or can be constructed) based on virtually any feature or classification of bonds.

(Module 42.2, LOS 42.j)

Question #12 of 49

Question ID: 1573885

An index provider maintains a price index and a total return index for the same 40 stocks. Assuming both indexes begin the year with the same value, the total return index at the end of the year will *least likely* be:

- A) equal to the price index if the constituent stocks do not pay dividends.
- B) greater than the price index.
- C) less than the price index if the price index increases and greater than the price index if the price index decreases.



Explanation

A price index only includes the prices of the constituent securities in the calculation of the index value. A total return index includes the prices and the dividends paid in the calculation of the index value. If all of the constituents are non-dividend paying stocks, then the total return index will be the same as the price index at the end of the year. Otherwise the total return index will be greater than the price index.

(Module 42.1, LOS 42.b)

Question #13 of 49

Question ID: 1573917

Which of the following statements regarding bond market indexes is *least accurate*?

- A) The bond universe is more stable than the stock universe.
- B) There are more bond issues than stocks.
- C) Unlike stocks, bonds lack continuous price trading data.



Explanation

One reason why the creation of a bond index is more difficult than a stock index is due to the fact that the universe of bonds is constantly changing because of numerous new issues, bond maturities, calls, and bond sinking funds.

(Module 42.2, LOS 42.j)

Question #14 of 49

Question ID: 1573902

An index was recently begun with the following two stocks:

- Company A – 50 shares valued at \$2 each.
- Company B – 10 shares valued at \$10 each.

Given that the value-weighted index was originally set at 100 and Company A's stock is currently selling for \$4 per share while Company B's stock is still at \$10 per share, what is the current value of the price-weighted index and the market-cap-weighted index?

	<u>Price-weighted</u>	<u>Market-cap-weighted</u>	
A) 7	150		
B) 7	300		
C) 8	150		

Explanation

Price weight = $[(4) + (10)] / 2 = 7$

Market-cap weight = $[(4)(50) + (10)(10)] / [(2)(50) + (10)(10)](100) = 150$

(Module 42.1, LOS 42.e)

Question #15 of 49

Question ID: 1573888

The first step in developing a security market index is choosing the index's:

- A) constituent securities.
- B) target market.
- C) weighting method.



Explanation

The first decision that must be made is choosing the target market the index will represent. Only then can the index provider determine which constituent securities should be included and which weighting scheme is most appropriate to measure the target market's returns.

(Module 42.1, LOS 42.c)

Question #16 of 49

Question ID: 1573884

The value of a total return index:

- A) may increase at either a faster or slower rate than the value of a price return index with the same constituent securities and weights.
- B) can be calculated by multiplying the beginning value by the geometrically linked series of periodic total returns.
- C) is determined by the price changes of the securities that constitute the index.



Explanation




The value of a total return index can be calculated by multiplying the beginning value by the geometrically linked series of index total returns. The value of a total return index includes both the price changes of the securities that constitute the index and any cash flows from the securities (dividends, interest, and other distributions). A total return index cannot increase at a slower rate (or decrease at a faster rate) than an otherwise identical price return index because cash flows from the securities cannot be negative.

(Module 42.1, LOS 42.b)

Question #17 of 49

Question ID: 1573922

Commodity price indexes are based on the prices of:

- A) commodities. 
- B) futures contracts. 
- C) real assets such as grains, oil, and precious metals. 

Explanation




The constituent securities of commodity price indexes are commodity futures contracts. As a result, the return on a commodity index can be different than the returns from holding the constituent commodities themselves.

(Module 42.2, LOS 42.k)

Question #18 of 49

Question ID: 1573913

Contreras Fund is a mutual fund that invests in value stocks. The *most appropriate* type of equity index to use as a benchmark of manager performance for Contreras Fund is a:

- A) sector index. 
- B) style index. 
- C) broad market index. 

Explanation

The index selected as a benchmark for manager performance should represent the investment universe from which the manager actually selects stocks. If the manager only invests in value stocks, then the most appropriate index is a style index that seeks to represent the returns from a value strategy. A sector index is appropriate for managers who invest in specific sectors (e.g., technology stocks, emerging market bonds).

(Module 42.2, LOS 42.g)

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Question ID: 1573906

The table below lists information on price per share and shares outstanding for three companies—Lair Enterprises, Kurlaw, Inc., and Mowe, Ltd.

Stock	As of Beginning of Year		As of End of Year	
	Price Per Share (\$)	# Shares Outstanding	Price Per Share (\$)	# Shares Outstanding
Lair	15	10,000	10	10,000
Kurlaw	45	5,000	60	5,000
Mowe	90	500	110	500

Assume that at the beginning of the year, the value of the market-weighted index was 100.

The one-year return on the market-cap weighted index is *closest* to:

A) 13.33%.



B) 30.0%.



C) 8.33%.



Explanation

Expand the table as follows:

	As of Beginning of Year 1			As of End of Year 1		
Stock	Price Per Share (in \$)	# Shares Outstanding	Market Capitalization (in \$)	Price Per Share (in \$)	# Shares Outstanding	Market Capitalization (in \$)
Lair	15	10,000	150,000	10	10,000	100,000
Kurlew	45	5,000	225,000	60	5,000	300,000
Mowe	90	500	45,000	110	500	55,000
<i>Total</i>	<i>150</i>		<i>420,000</i>	<i>180</i>		<i>455,000</i>

First, we will calculate the year-end market-cap weighted index value, then we will calculate the return percentage.

Value of market-cap weighted index = $[(\text{market capitalization}_{\text{year-end}}) / (\text{market capitalization}_{\text{beginning of year}})] \times \text{Beginning index value}$

$= (455,000 / 420,000) \times 100 = 108.33$

One-Year Return = $[(\text{Index value}_{\text{year-end}} / \text{Index value}_{\text{beginning of year}}) - 1] \times 100$

$= [(108.33 / 100) - 1] \times 100 = \mathbf{8.33\%}$.

(Module 42.1, LOS 42.e)

Question #20 of 49

Question ID: 1573907

Compared to a value-weighted index, the type of index *most likely* to have a value tilt is a(n):

A) equal-weighted index.



B) fundamental-weighted index.



C) price-weighted index.



Explanation

An index based on company fundamentals, for example on earnings or book value, will assign more weight to stocks with low P/E or price-to-book ratios compared to a value-weighted index. This is similar to managing an equity portfolio using a value strategy.

(Module 42.1, LOS 42.e)

Question #21 of 49

Question ID: 1573918

Which of the following is NOT a reason bond market indexes are more difficult to create than stock market indexes?

- A) The universe of bonds is much broader than that of stocks.
- B) There is a lack of continuous trade data available for bonds.
- C) Bond deviations tend to be relatively constant.

**Explanation**

Bond prices are quite volatile as measured by the bond's duration.

(Module 42.2, LOS 42.j)

Question #22 of 49

Question ID: 1573896

Compared to S&P 500 index weighting, an equities index that is weighted based on a fundamental factor, such as earnings, will *most likely*:

- A) have a value tilt.
- B) have a momentum tilt.
- C) overweight firms with high EPS.

**Explanation**

Compared to the S&P 500 index, which is market cap weighted, an index that is weighted based on fundamentals will have a value tilt. Firms that have a higher earnings weight than market cap weight will be those with higher earnings yields. Weights are based on firm earnings, not earnings per share.

(Module 42.1, LOS 42.d)

Question #23 of 49

Question ID: 1573901

The table below lists information on price per share and shares outstanding for three stocks.

	As of Beginning of Year		As of End of Year	
Stock	Price per Share (\$)	# Shares Outstanding	Price per Share (\$)	# shares Outstanding
Mertz	10	10,000	15	10,000
Norton	50	5,000	50	5,000
Rubble	100	500	85	500

At the beginning of the year, the value of a market-cap weighted index of these three stocks was 100. The index value at year-end is *closest to*:

A) 44.3.



B) 93.8.



C) 110.6.



Explanation

Market-cap weighted index = (ending market capitalization / beginning market capitalization) × beginning index value.

Beginning market capitalization = (10)(10,000) + (50)(5,000) + (100)(500) = 400,000

Ending market capitalization = (15)(10,000) + (50)(5,000) + (85)(500) = 442,500

Index value = (442,500 / 400,000) × 100 = 110.625

(Module 42.1, LOS 42.e)

Question #24 of 49

Question ID: 1573915

An equity index comprised of value stocks, identified by their price-to-earnings ratios, is *best* described as a:

A) sector index.



B) style index.



C) fundamental weighted index.



Explanation

An index of value stocks is an example of a style index. Sector indexes measure the performance of securities in specific industries or industry sectors. Fundamental weighting is used to weight indexes by a factor such as the size of the firms or economies represented in the index.

(Module 42.2, LOS 42.h)

Question #25 of 49

Question ID: 1573882

In one year, a security market index has the following quarterly price returns:

First quarter	3%
Second quarter	4%
Third quarter	-2%
Fourth quarter	5%

The price return for the year is *closest to*:

- A) 10.00%. 
- B) 10.2%. 
- C) 9.9%. 

Explanation

Return for the year = $(1.03)(1.04)(0.98)(1.05) - 1 = 10.23\%$.

(Module 42.1, LOS 42.b)

Question #26 of 49

Question ID: 1573916

The Top Banking Index contains stocks in the finance industry that represent more than 90% of the total market capitalization for the finance industry. The index is *best* described as a:

- A) broad market index. 
- B) sector index. 
- C) style index. 

Explanation


A sector index measures the returns for an industry sector such as financials. Style indexes measure the returns to strategies that are differentiated by market capitalization and by value or growth. A broad market index typically consists of constituent securities that represent 90% or more of the total market capitalization for a given market.

(Module 42.2, LOS 42.h)

Question #27 of 49

Question ID: 1573928

Which of the following equity indexes is an example of a market capitalization weighted index?

- A) Dow Jones Industrial Average. 
- B) MSCI All Country World Index. 
- C) Nikkei Stock Average. 

Explanation




The MSCI All Country World Index is a market capitalization weighted index. The Dow Jones Industrial Average and the Nikkei Stock Average are price-weighted indexes.

(Module 42.2, LOS 42.i)

Question #28 of 49

Question ID: 1573923

Which of the following statements is *most accurate* regarding commodity indexes?

- A) Commodity indexes are based on spot prices, while most investors purchase futures contracts. 
- B) The return to commodity indexes consists of two major components: the risk-free rate of return and the roll yield. 
- C) Weighting methodology varies among index providers and leads to differences in index risk and returns. 

Explanation

Weighting methodology is a major issue for commodity indexes. Several different methodologies are used, including equal weighting and global production values. Differences in weighting cause differing exposures for the indexes and lead to different risk and return profiles.

Commodity indexes represent futures contracts on commodities, not the actual spot prices of commodities. Commodity index returns come from three sources: the risk-free rate of return, changes in futures prices, and the roll yield.

(Module 42.2, LOS 42.k)

Question #29 of 49

Question ID: 1573898

Which type of equity market index is *most likely* to be adjusted for free float?

- A) Price weighted. 
- B) Value weighted. 
- C) Fundamental weighted. 

Explanation




Value-weighted (market-capitalization weighted) index weights may be based on the total value of shares available for investment (the market float) rather than on all the outstanding shares of a firm.

(Module 42.1, LOS 42.d)

Question #30 of 49

Question ID: 1573920

Which of the following statements regarding fixed income indexes is *most accurate*?

- A) Because some fixed income securities are illiquid, indexes may include estimates of value. 
- B) Compared to stock indexes, turnover is typically lower in fixed income indexes. 
- C) It is typically easier for portfolio managers to replicate a fixed income index than an equity index. 

Explanation

Because some fixed income securities are illiquid, a lack of recent trade prices may result in indexes having to estimate values. Unlike stocks, bonds mature and must be replaced in fixed income indexes. As a result turnover is higher in fixed income indexes. Illiquidity, transaction costs, and high turnover make it more expensive and difficult for a portfolio manager to replicate a fixed income index than a stock index.

(Module 42.2, LOS 42.j)

Question #31 of 49

Question ID: 1573889

The target market for a security market index is *best* described as the:

- A) market or segment the index is designed to measure.
- B) portfolio managers who will track the index.
- C) investors who will follow the index.



Explanation

The target market of an index is the securities market or portion of a securities market that the index will be designed to represent. The securities from the target market that are included in the index are called its constituent securities.

(Module 42.1, LOS 42.c)

Question #32 of 49

Question ID: 1573904

What is the market-cap weighted index of the following three stocks assuming the beginning index value is 100 and a base value of \$150,000?

As of December 31		
Company	Stock Price	Shares Outstanding
X	\$1	5,000
Y	\$20	2,500
Z	\$60	1,000

A) 30.



B) 77.



C) 100.



Explanation

The market-cap weighted index = $[(\$1)(5,000) + (\$20)(2,500) + (\$60)(1,000)]/\$150,000](100)$
 $= (\$115,000/\$150,000)(100)$

$= (0.767)(100)$

$= 76.67$ or 77

(Module 42.1, LOS 42.e)

Question #33 of 49

Question ID: 1573883

The measure of return on a security market index that includes any dividends or interest paid by the securities in the index is known as the:

A) total return.



B) cash flow return.



C) price return.



Explanation

The total return on a security market index includes cash flows from the securities (dividends and interest) as well as price changes. Price return only accounts for changes in the price of the security. Cash flow return (or yield) refers to the internal rate of return of a portfolio.

(Module 42.1, LOS 42.b)

Question #34 of 49

Question ID: 1573926

Which of the following sets of indexes are price-weighted?

A) Dow Jones World Stock Index and Russell Index.



B) Dow Jones Industrial Average and Nikkei Dow Jones Stock Market Average.



C) S&P 500 Index and Dow Jones Industrial Average.



Explanation




The Dow Jones World Stock Index, the Russell Index, the S&P 500 Index, and Morgan Stanley Capital International Index are all market-value weighted. Only the Dow Jones Industrial Average and the Nikkei Dow Jones Stock Market Averages are price-weighted.

(Module 42.2, LOS 42.i)

Question #35 of 49

Question ID: 1573912

The *most* appropriate benchmark for measuring the relative performance of an investment manager is:

- A) a broad market index. 
- B) an index that matches the manager's investment approach. 
- C) the risk-adjusted return on the market portfolio. 

Explanation

An index chosen as a benchmark for an investment manager's performance should include securities in the manager's investment universe. For example, the performance of an emerging market bond fund manager should be measured relative to the performance of an emerging market bond index.

(Module 42.2, LOS 42.g)

Question #36 of 49

Question ID: 1573886

The value of a security market index at the end of December is 1,200. The index returns for the next six months are:

Month	Return
January	3.89%
February	8.76%
March	-4.74%
April	6.88%
May	-5.39%
June	-8.12%

The index value at the end of June is *closest to*:

A) 1,186.



B) 1,214.



C) 1,200.



Explanation

The index value at the end of June is

$$1,200(1.0389)(1.0876)(0.9526)(1.0688)(0.9461)(0.9188) = 1,200.$$

Note that the compound rate of return is

$$(1.0389)(1.0876)(0.9526)(1.0688)(0.9461)(0.9188) - 1 = 0.$$

(Module 42.1, LOS 42.b)

Question #37 of 49

Question ID: 1573924

Voluntary reporting of performance by hedge fund managers leads to:

A) an upward bias in hedge fund index returns.



B) a downward bias in hedge fund index returns.



C) no appreciable bias in hedge fund index returns.



Explanation

Empirical studies have shown that since hedge fund managers have the option to report performance results only funds with good results will report. Since funds with poor performance do not report their results, the results of hedge fund indexes will be biased upwards.

(Module 42.2, LOS 42.k)

Question #38 of 49

Question ID: 1573910

When a security is added to a widely followed market index, the security's price is *most likely* to:

A) be unaffected.



B) decrease.



C) increase.



Explanation




Adding a security to a market index typically causes an increase in that security's price as portfolio managers who track the index purchase the security.

(Module 42.2, LOS 42.f)

Question #39 of 49

Question ID: 1573894

With regard to stock market indexes, it is *least likely* that:

- A) buying 100 shares of each stock in a price-weighted index will result in a portfolio that tracks the index quite well. 
- B) a market-cap weighted index must be adjusted for stock splits but not for dividends. 
- C) the use of price weighting versus market value weighting produces a downward bias on the index. 

Explanation

A price-weighted index needs to be adjusted for stock splits, but a market-cap weighted index does not. Neither type of index considers dividend income unless it is designed as a total return index.




Price weighting produces a downward bias compared to market weighting because firms that split their stocks (which tend to be the more successful firms) decrease in weight within a price-weighted index. The returns on a price-weighted index can be matched by purchasing a portfolio with an equal number of shares of each stock in the index.

(Module 42.1, LOS 42.d)

Question #40 of 49

Question ID: 1573887

Six months after inception, the price return and the total return of an equal-weighted index will be different if:

- A) capital gains exceed capital losses or vice versa. 
- B) constituent securities have paid dividends. 
- C) market prices have not changed. 

Explanation




The difference between a price and total return index is that cash distributions are included in a total return index. The two will differ when the constituent securities make cash distributions over the period. Otherwise, the two versions will be the same.

(Module 42.1, LOS 42.b)

Question #41 of 49

Question ID: 1573892

Which of the following statements *best* describes the investment assumption used to calculate an equal weighted price indicator series?

- A) A proportionate market value investment is made for each stock in the index. 
- B) An equal dollar investment is made in each stock in the index. 
- C) An equal number of shares of each stock are used in the index. 

Explanation




An equal weighted price indicator series assumes that an equal dollar investment is made in each stock in the index. All stocks carry equal weight regardless of their price or market value.

(Module 42.1, LOS 42.d)

Question #42 of 49

Question ID: 1573881

Which of the following statements about a security market index is *most accurate*?

- A) An index may reflect dividends paid by its constituent securities. 
- B) An index must use actual prices from market transactions. 
- C) If an index increases by 5% in one year, the market return for the year is 5%. 

Explanation

An index that is designed to measure total return will include dividends in its calculation. Some security market indices use estimated prices when actual prices are not available. The percent change in a security market index is the return on a portfolio of its constituent securities. Whether this represents an estimate of the market return depends on the nature and purpose of the index (for example, a security market index may be designed to represent a particular industry or asset class).

(Module 42.1, LOS 42.a)

Question #43 of 49

Question ID: 1573921

Creating a bond market index is more difficult than constructing a stock market index due to:

- A)** lack of continuous trade data for bonds.
- B)** lower price volatility of bonds versus stocks.
- C)** a narrower universe of bonds versus stocks.

**Explanation**

It is difficult to price individual bond issues in an index because continuous trade data may not exist for some bonds. In addition, it is challenging to create a bond market index because the bond universe is much broader, and the price volatility of a bond (i.e., its duration) changes over time as the bond approaches maturity.

(Module 42.2, LOS 42.j)

Question #44 of 49

Question ID: 1573908

Reconstitution of an index refers to:

- A)** adjusting the weights of the securities that constitute the index.
- B)** removing some securities from the index and adding others.
- C)** changing the methodology used to calculate the value of the index.

**Explanation**




Reconstitution begins with evaluating the securities in an index against the index's criteria. Securities that are no longer representative of the index are removed and replaced with different securities that do meet the criteria. Adjusting the weights of the securities that constitute an index is termed rebalancing.

(Module 42.2, LOS 42.f)

Question #45 of 49

Question ID: 1573911

A high yield bond fund states that through active management, the fund's return has outperformed an index of Treasury securities by 4% on average over the past five years. As a performance benchmark for this fund, the index chosen is:

- A) inappropriate, because the index return does not reflect active management. 
- B) appropriate. 
- C) inappropriate, because the index does not reflect the actual bonds in which the fund invests. 

Explanation

Security market indexes may be used as benchmarks for the performance of active managers, but the index chosen should represent the universe of securities from which the manager is choosing. Here, an index of high yield bonds would be a more appropriate benchmark.

(Module 42.2, LOS 42.f)

Question #46 of 49

Question ID: 1573927

Equal weighting is the most common weighting methodology for indexes of which of the following types of assets?

- A) Equities. 
- B) Fixed income securities. 
- C) Hedge funds. 

Explanation


Most hedge fund indexes are equal-weighted. Equity and fixed income indexes are predominately market capitalization weighted.



(Module 42.2, LOS 42.i)

Question #47 of 49

Question ID: 1573893

Which of the following statements about indexes is CORRECT?

- A) A price-weighted index assumes an equal number of shares (one of each stock) represented in the index. 

- B)** An equal weighted index assumes a proportionate market value investment in each company in the index. 
- C)** A market weighted series must adjust the denominator to reflect stock splits in the sample over time. 

Explanation


The descriptions of value weighted and unweighted indexes are switched. The denominator of a price-weighted index must be adjusted to reflect stock splits and changes in the sample over time. A market value-weighted series assumes you make a proportionate market value investment in each company in the index.

(Module 42.1, LOS 42.d)

Question #48 of 49

Question ID: 1573897

The type of securities market index that has a bias toward value stocks is an index with weights based on:

- A)** earnings. 
- B)** security prices. 
- C)** market capitalization. 

Explanation




Fundamental-weighted indexes, such as those weighted on earnings, dividends, or book values, tend to weight value stocks more heavily than growth stocks.

(Module 42.1, LOS 42.d)

Question #49 of 49

Question ID: 1573925

Which of the following indexes is a price weighted index?

- A)** The New York Stock Exchange Index. 
- B)** The Nikkei Dow Index. 
- C)** The Standard and Poor's Index. 

Explanation

The Nikkei Dow Index is a price-weighted index. The other two are market value-weighted indexes.

(Module 42.2, LOS 42.i)