EASY INTERMEDIATE HARD

CFA® SAMPLE QUESTION – LEVEL I

Portfolio Management

Q: Research showed that differences in target asset allocations can explain as much as 90% of the variation in a portfolio's returns over time, it is most likely because of:

CORRECT ANSWER:

ⓑ **market timing with respect to asset class exposure has not greatly improved returns.**

Research highlight the importance of asset allocation in determining the overall portfolio returns.
While successful market timing or stock selection could lead to superior returns by active management, these studies show that achieving it may be difficult or even impossible on average in long term.
Target asset allocations should be based on the objectives and constraints of the investor.
The fact that asset allocation is more important on average than stock selections does not imply that portfolio managers are good (or bad) at either one.

CFA Society Hong Kong
Candidate Services

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