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## CMT Level II Exam

CMT CMT-Level-II

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## QUESTION NO: 1

Which of the following BEST describes equity market performance during the presidential election cycle:

- A. Market has its strongest year during first year of president's term, posts its worst returns during the pre-election year and slightly negative returns in election years
- B. Market has an above average year during first year of president's term, posts negative returns during the pre-election year and its strongest returns in election years
- C. Market has a below average year during first year of president's term, posts its strongest returns during the pre-election year or in the election year
- D. Market has a below average year during first year of president's term, posts its strongest returns in the second year and reasonably strong returns during the pre-election and election years

ANSWER: C

## QUESTION NO: 2

What percentage of return should be earned if you have \$100 in the capital and sustain a 20% loss to return to the break-even level of \$100?

- A. Return 30 percent to the \$80 to return to the \$100 break-even level
- B. Return 25 percent to the \$70 to return to the \$100 break-even level
- C. Return 30 percent to the \$70 to return to the \$100 break-even level
- D. Return 25 percent to the \$80 to return to the \$100 break-even level

ANSWER: D

## QUESTION NO: 3

The only effective method of diversifying a portfolio is by including asset classes with \_\_\_\_\_ correlation to stocks such as cash, foreign exchange or commodities.

- A. positive

- B. meaningful
- C. low/negative
- D. moderately positive

**ANSWER: C**

## QUESTION NO: 4

According to Charles Dow, what has been the main downfall of Wall Street investors?

- A. Independent thinking
- B. Failure to stay the course
- C. Pride of opinion
- D. Failure to abide by classic trading rules

**ANSWER: C**

## QUESTION NO: 5

Which of the following is true of Wilder's Parabolic System?

- A. It is a time/price reversal system
- B. It always in the market
- C. It only works for trending markets
- D. All of the above

**ANSWER: D**

## QUESTION NO: 6

Which is the CORRECT interpretation of the candlestick hammer pattern?

- A. A hammer always has a black real body
- B. A hammer comes after market rallies

- C. A hammer has no lower shadow
- D. A hammer need not be confirmed by other indicators

**ANSWER: D**

## QUESTION NO: 7

Which of the following is true of the Efficient Frontier concept in modern portfolio theory?

- A. It centers on the premise that systemic risks in the financial markets can be diversified away.
- B. It is a 45 degree line plotting possible risk versus return
- C. It is a plot of the highest possible returns obtainable over a series of risk levels
- D. It is unrelated to the risk free rate

**ANSWER: C**

## QUESTION NO: 8

Which of the following is NOT a valid technical method for determining price targets?

- A. Discounted value of expected future cash flows
- B. Height of the head in a head and shoulders pattern
- C. Channel width
- D. Measure of triangle base from breakout

**ANSWER: A**

## QUESTION NO: 9

The Sharpe Ratio is defined as?

- A. (expected return plus the risk free interest rate) divided by the standard deviation of returns
- B. (expected return minus the risk free interest rate) divided by the standard deviation of returns
- C. (expected return divided by the risk free interest rate) divided by the standard deviation of returns

D. (expected return times the risk free interest rate) divided by the standard deviation of returns

**ANSWER: B**

## QUESTION NO: 10

Which of the following method is used to plot sequential trading data? Choose the best possible answer.

- A. Point-and-figure charts
- B. Line charts
- C. Japanese candlestick charts
- D. Bar charts

**ANSWER: A**

## QUESTION NO: 11

From a contrarian's perspective, which of the following would be considered a bullish indicator?

- A. A Business Week cover with a story on "The Death of Equities"
- B. The vast majority of professional financial letter writers are bullish
- C. CNBC is on the television at the local bar, and everyone is paying attention
- D. Sales of investment books are increasingly dramatically

**ANSWER: A**

## QUESTION NO: 12

If we increase the sample size what effect does it have on the approximation/outcome of the statistical tests?

- A. The approximation will decrease
- B. The approximation will improve
- C. It has no effect on the approximation

D. The approximation will not improve

**ANSWER: B**

## QUESTION NO: 13

Which of the following is NOT true in chart interpretation:

- A. A price chart is a representation of human behavior
- B. The goal is to find consistent, reliable and logical patterns
- C. Chart patterns can be caused by commonly used trading techniques
- D. The behavioral aspects of prices are irrational

**ANSWER: D**

## QUESTION NO: 14

Which of the following is the CORRECT order of the Industrial Life Cycle?

- A. Innovation, Maturity, Consolidation and Decay
- B. Innovation, Consolidation, Decay and Maturity
- C. Innovation, Consolidation, Maturity and Decay
- D. Innovation, Maturity, Decay and Consolidation

**ANSWER: C**

## QUESTION NO: 15

Which of the following is a true statement according to Elliott Wave Theory?

- A. Wave four should not overlap wave one
- B. The theory is composed of time, ratios and wave forms, in that order of importance
- C. The theory was originally applied to individual stocks and does not work as well for indices

D. The theory works best in commodity markets traded primarily by professional traders such agricultural futures

**ANSWER: A**