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CMT Association CMT-Level-I

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Topic Break Down

Topic	No. of Questions
Topic 1, Technical Analysis	254
Topic 2, Ethics	10
Total	264

QUESTION NO: 1

A symmetrical triangle is:

- A. Also called a coil
- B. Usually a continuation pattern
- C. A temporary pause in the existing trend
- D. All of the above

ANSWER: D

Explanation:

“All of the above” is correct because each listed characteristic describes a symmetrical triangle. This pattern develops when two converging trendlines connect a sequence of lower highs and higher lows. As price moves toward the apex, the trading range narrows, reflecting a contraction in volatility and a balance between buying and selling pressure. For that reason, technicians commonly describe the formation as a coil.

In the context of an established trend, a symmetrical triangle is generally treated as a continuation pattern: it represents a temporary consolidation or pause while the market absorbs the preceding move. The eventual breakout through either boundary signals that the period of compression has ended. Although a breakout can occur in either direction and confirmation is important, classical technical-analysis practice regards continuation in the direction of the prior trend as the usual expectation. This makes the descriptions “also called a coil,” “usually a continuation pattern,” and “a temporary pause in the existing trend” jointly applicable. See StockCharts’ discussion of [triangle patterns](#) and the CMT Association’s [professional technical-analysis resources](#).

QUESTION NO: 2

Which of the following is LEAST reliable?

- A. Triangles
- B. Wedges
- C. Broadening Formations
- D. Pennants

ANSWER: A

Explanation:

Triangles are the least reliable choice in this comparison because their converging trendlines represent a balance between progressively less aggressive buying and selling, rather than a clearly resolved directional condition. Although triangles commonly function as continuation formations, the eventual breakout can occur in either direction, and the pattern is especially vulnerable to whipsaws when the breakout is not confirmed by a decisive close, expanding volume, or appropriate trend context. This ambiguity makes a triangle less dependable as a standalone trading signal than the more tightly defined continuation behavior traditionally associated with pennants and the directional implications generally assigned to wedges. In the classical approach associated with Martin Pring, pattern interpretation is never mechanical: confirmation by trend, volume, breakout behavior, and price follow-through remains essential. The CMT curriculum similarly treats classical chart patterns as evidence to be integrated with market context and risk management, not as guarantees. See the CMT Association’s [Body of Knowledge](#) and the publisher information for Martin Pring’s [Technical Analysis Explained](#).

QUESTION NO: 3

The equity put/call ratio rises to an unusually high level after a sustained market decline. In sentiment analysis, the most defensible conclusion is that:

- A. Call buying has increased relative to put buying
- B. Bearish option activity has increased and may represent an extreme pessimism condition
- C. A market bottom has been confirmed regardless of price action
- D. Institutional investors have eliminated all hedging activity

ANSWER: B

Explanation:

Bearish option activity has increased and may represent an extreme pessimism condition is correct. A rising put/call ratio indicates that put activity has increased relative to call activity, which is generally associated with more defensive or bearish sentiment. At an extreme, excessive pessimism can become evidence for a possible contrary-opinion bullish setup. However, the ratio alone does not establish that a market bottom has occurred; price behavior and other confirmation remain necessary.

QUESTION NO: 4

Treasury bill returns come from:

- A. Volatility
- B. Price changes
- C. Interest payments
- D. Dividend payments

ANSWER: B

Explanation:

Price changes is correct. U.S. Treasury bills are short-term government securities with maturities of one year or less that are issued at a discount to their stated face value (also called par value). Rather than making periodic coupon or interest payments, an investor purchases a bill for less than its face value and receives the full face value when it matures. The investor's dollar return is therefore the difference between the discounted purchase price and the amount paid at maturity. For example, purchasing a Treasury bill for \$9,800 and receiving \$10,000 at maturity produces a \$200 gain. In return terminology, this gain is commonly characterized as price appreciation or an accretion in value toward par as maturity approaches. Although a Treasury bill's market price can fluctuate before maturity as interest rates and market conditions change, its fundamental holding-period return for an investor who purchases it and holds it to maturity arises from that discount-to-par price change. The U.S. Treasury describes bills as securities sold at a discount and redeemed at par value, and the Federal Reserve likewise distinguishes them from coupon-bearing Treasury notes and bonds. See [TreasuryDirect: Treasury Bills](#) and [Federal Reserve: Treasury Securities](#).

QUESTION NO: 5

Which type of chart is usually considered BEST suited for establishing price targets based on a horizontal measurement?

- A. Line charts
- B. Daily bar charts
- C. Point and figure charts
- D. Candlestick charts

ANSWER: C

Explanation:

Point and figure charts are best suited to establishing price targets from a horizontal measurement because their construction supports the point-and-figure horizontal count method. Rather than plotting every period of elapsed time, a point-and-figure chart records meaningful price reversals in columns of Xs and Os using a specified box size and reversal amount. This makes the width of a consolidation, accumulation, or distribution area readily measurable as a number of columns. In traditional point-and-figure analysis, that horizontal width represents the potential “cause” built during the trading range; multiplying the count by the box size and reversal criterion produces an objective vertical price objective, or expected “effect.” The count is ordinarily taken at an appropriate support or resistance line within the completed pattern and projected from the relevant breakout level. Because this methodology is explicitly designed around horizontal counts and price-only movement, point-and-figure charts provide a structured, repeatable approach to deriving such targets. The CMT curriculum treats point-and-figure charting as a distinct chart-construction and pattern-analysis method, including vertical and horizontal counting techniques. See the CMT Association’s [Chartered Market Technician program overview](#) and StockCharts’ reference on [point-and-figure charts](#).

QUESTION NO: 6

In constructing a point and figure chart, a new box is added ONLY when:

- A. The price has moved by less than the specified box size
- B. The price has moved by equal to or more than the specified box size
- C. The volume confirms the price movement
- D. The price has moved to a new high

ANSWER: B**Explanation:**

The price has moved by equal to or more than the specified box size is correct because a point and figure chart records price movement in predetermined, discrete increments rather than plotting every small fluctuation. The box size establishes the minimum price change required to print one additional box in the current direction. For example, where the box size is \$1, a move of \$0.90 does not produce a new plotted box; once price has moved at least \$1 beyond the relevant prior box level, the chart can be extended by one box. If price moves multiple box-size increments, multiple boxes may be added, subject to the chart’s construction convention and data method.

This filtering feature is fundamental to point and figure analysis: it focuses the chart on meaningful price changes and reduces attention to movements smaller than the selected threshold. Reversal columns apply the same box-size principle, together with the chosen reversal amount—for example, a three-box reversal requires movement equal to three times the box size in the opposite direction before a new column begins. The CMT curriculum identifies point and figure charting as a price-based technique built around box size and reversal criteria. See the [CMT Association's CMT program overview](#) and StockCharts’ [Point & Figure Charts reference](#).

QUESTION NO: 7

Accumulation normally occurs:

- A. Near a market bottom
- B. Near a market top
- C. In declining markets
- D. After a completed trading range

ANSWER: A**Explanation:**

Near a market bottom is correct because accumulation describes the portion of a market cycle in which informed, well-capitalized buyers progressively absorb shares being sold after an extended decline. Selling pressure tends to become exhausted as pessimism is widespread, and price commonly ceases making meaningful new lows. Rather than necessarily producing an immediate reversal, this process often creates a sideways base or trading range while supply is transferred from discouraged holders to longer-term buyers.

From a technical-analysis perspective, the important context is the preceding downtrend and the subsequent evidence that demand is beginning to overcome available supply. Volume and price behavior may help identify this transition: declines can lose momentum, rallies may broaden, and the security can eventually break upward from its base. Accumulation therefore belongs near the low end of a broader market cycle, before a sustained markup phase develops. This framework is consistent with the Wyckoff market-cycle concept and with the CMT Association's emphasis on interpreting price and volume in trend and market-structure analysis. See the [StockCharts explanation of the Wyckoff Method](#) and the [CMT Association](#) for professional technical-analysis resources.

QUESTION NO: 8

The two common ways that a greed-driven investor can suffer losses, even when his longer-term forecast is correct, are from:

- A. Indexes and currencies
- B. Indexes and pyramiding
- C. Leveraging and currencies
- D. Leveraging and pyramiding

ANSWER: D

Explanation:

Leveraging and pyramiding is correct because both practices magnify the effect of adverse price movement and can force a trader out of an otherwise sound long-term position. Leverage uses borrowed funds or derivatives to control a position larger than the investor's available capital. Although it can amplify gains, it also amplifies losses; a relatively ordinary countertrend move may trigger a margin call, require additional capital, or result in liquidation before the expected longer-term trend develops. Pyramiding means increasing exposure as a position moves, often by committing unrealized profits or additional capital. When driven by greed rather than disciplined position sizing and risk controls, it can create an excessively large, concentrated exposure. A reversal or normal correction can then erase accumulated gains and produce substantial losses despite an accurate underlying market outlook. Technical analysis emphasizes that market timing, position sizing, and risk management matter alongside directional forecasting. The CMT curriculum's ethical and professional framework likewise stresses disciplined decision-making and awareness of risk. See the [CMT Association's Chartered Market Technician program overview](#) and the [FINRA overview of margin accounts and their risks](#).

QUESTION NO: 9

Treasury inflation-protected securities (TIPS) are bonds whose _____ is adjusted as the consumer price index fluctuates.

- A. Principal
- B. Interest rate
- C. Future value
- D. Discount rate

ANSWER: A

Explanation:

Principal is correct. Treasury inflation-protected securities (TIPS) are U.S. Treasury marketable securities designed to provide inflation protection. Their principal amount is adjusted in line with changes in the Consumer Price Index for All Urban Consumers (CPI-U), using an index ratio calculated from the reference CPI. When inflation increases the CPI, a TIPS bond's adjusted principal rises; during deflation, its adjusted principal can decline.

The coupon rate on a TIPS issue is fixed when it is issued, but the semiannual interest payment changes because that fixed rate is applied to the inflation-adjusted principal. At maturity, the Treasury pays the greater of the original principal amount or the inflation-adjusted principal, which protects an investor's original principal from deflation at maturity. Consequently, it is the principal adjustment mechanism—not a periodically reset coupon rate—that gives TIPS their direct linkage to consumer-price inflation. The U.S. Treasury describes TIPS as securities whose principal is adjusted for inflation and whose interest payments therefore vary with the adjusted principal. See [TreasuryDirect: Treasury Inflation-Protected Securities](#) and [U.S. Treasury: TIPS information](#).

QUESTION NO: 10

A trend-based trading system where the trend is the weighting of the recent closing prices by a smoothing constant is known as:

- A. An N-day breakout system
- B. A Point and Figure system
- C. A simple moving average system
- D. An exponential smoothing system

ANSWER: D

Explanation:

An exponential smoothing system is correct because exponential smoothing calculates a trend measure by assigning progressively greater weight to more recent closing prices. The weighting is governed by a smoothing constant, commonly expressed as alpha, which determines how quickly the calculated series responds when market prices change. In the common exponential moving average formulation, the current average equals the prior average plus the smoothing constant multiplied by the difference between the current price and prior average. This recursive process means that the latest observation has the greatest influence, while the impact of older observations declines exponentially rather than ending abruptly after a fixed number of periods.

For technical analysis, this produces a moving average that can be used as the basis of a trend-following trading system: price position relative to the average, or the relationship between averages calculated with different smoothing constants, may be used to identify and trade changes in trend direction. The smoothing constant is central to both the name and behavior of the method. A larger constant produces a more responsive measure; a smaller constant produces a smoother, slower-moving measure. CMT curriculum concepts distinguish this exponentially weighted approach from fixed-window averaging methods. See the [CMT Association](#) and the [exponential moving average overview](#).

QUESTION NO: 11

A point and figure chart:

- A. Ignores time and volume
- B. Shows opening and closing prices
- C. Cannot be used to project price targets
- D. Provides a clear picture of volume distribution

ANSWER: A

Explanation:

Ignores time and volume is correct because a traditional point-and-figure chart is a price-only charting method. It records meaningful price movement in columns of Xs and Os, according to a predefined box size and reversal amount. A new mark is added only when price moves enough to satisfy those rules; periods in which price does not produce a qualifying movement do not create additional chart entries. Consequently, the horizontal progression of a point-and-figure chart does not represent equal, sequential time intervals as it does on a bar, candlestick, or line chart.

Traditional point-and-figure construction also does not use volume as an input in plotting its columns. Its analytical value comes from filtering smaller price fluctuations and emphasizing trends, reversals, support and resistance, and price objectives derived from horizontal counts. This price-focused construction is why point-and-figure analysis is often categorized as an approach that removes the potentially distracting effects of elapsed time and trading activity from the primary chart. The CMT body of knowledge treats point-and-figure charts as an important form of price-based chart construction and analysis. See the [CMT Association's CMT program overview](#) and StockCharts' [Point & Figure Charts reference](#).

QUESTION NO: 12

The key variable in the CAPM (Capital Asset Pricing Model) equation is:

- A. Rho
- B. Beta
- C. Delta
- D. Alpha

ANSWER: B

Explanation:

Beta is correct because it is the CAPM input that measures an individual asset's systematic risk—its sensitivity to movements in the broad market. The standard CAPM relationship is $E(R_i) = R_f + \beta_i[E(R_m) - R_f]$. In this expression, the risk-free rate establishes the baseline return and the expected market return less the risk-free rate is the market risk premium. Beta determines how much of that market risk premium investors require for the particular security. A beta of 1 indicates market-like sensitivity; a beta greater than 1 indicates greater sensitivity to market movements; and a beta below 1 indicates lower sensitivity. Because CAPM prices only non-diversifiable, market-related risk, beta is the central security-specific variable used to translate market risk into a required or expected return. This use of beta reflects CAPM's core diversification principle: idiosyncratic security risk is not separately rewarded in expected return when investors hold diversified portfolios. See the U.S. Securities and Exchange Commission's definition of [beta](#) and the CAPM formula overview from [Corporate Finance Institute](#).

QUESTION NO: 13

Three things should never be neglected in the market. Which one of the below four DOES NOT fit in this list?

- A. Ticker Tape
- B. Federal Reserve
- C. Crowd at the extremes
- D. Advice from market experts

ANSWER: D

Explanation:

Advice from market experts is the item that does not belong in this market maxim. The principle emphasizes monitoring three direct, market-relevant sources of information: actual price behavior, the monetary-policy environment, and sentiment when participation reaches emotional extremes. These inputs are central to technical-market analysis because they reflect

observable market action, liquidity conditions, and the positioning or psychology that can accompany important turning points.

Expert commentary, by contrast, is not one of the three foundational observations named in the rule. Professional opinions can be useful context, but they are interpretations rather than primary market evidence. Technical analysis places particular importance on what the market itself is doing, including the trend and price action, while sentiment analysis considers how broadly shared expectations may affect risk and potential reversals. In that framework, a market expert's advice may itself contribute to an assessment of prevailing sentiment, but it is not a standalone element of the stated three-part maxim.

This emphasis on price action and market psychology is consistent with the CMT Association's description of technical analysis as the study of market behavior and its application to investment decision-making. See the [CMT Association's Chartered Market Technician overview](#) and the [CMT Association's technical analysis resources](#).

QUESTION NO: 14

Dow Theory uses:

- A. Low prices
- B. High prices
- C. Closing prices
- D. Average daily prices

ANSWER: C

Explanation:

Closing prices is correct because a central tenet of traditional Dow Theory is that market averages and their signals are evaluated using closing-price data. Charles H. Dow regarded the closing price as the day's most meaningful consensus valuation: it incorporates the final transactions and judgments of market participants after the full trading session. Consequently, classical Dow Theory confirmation, trend identification, and the assessment of significant movements in the Dow averages are based on closing values rather than intraday highs, lows, or an arithmetic average of prices observed during the day.

This convention also supports disciplined analysis. Intraday movements can be temporary and may reverse before the market closes, whereas a closing value provides a consistent daily observation point for comparing one session with another and determining whether an average has decisively exceeded a prior important level. In CMT curriculum treatment of Dow Theory, the emphasis on closing prices reflects this original methodological principle and remains foundational to interpreting Dow Theory trend signals. See the CMT Association's [Chartered Market Technician program overview](#) and the Technical Analysis educational material from [CFA Institute](#).

QUESTION NO: 15

Which of the following statement is correct regarding the McClellan Oscillator?

- A. It is a breadth momentum oscillator
- B. It is the sum of two exponential moving averages
- C. It is used for longer-range trading compared to the McClellan Summation Index
- D. It measures the volume of advancing stocks

ANSWER: A

Explanation:

"It is a breadth momentum oscillator" is correct because the McClellan Oscillator evaluates the momentum of market breadth rather than the price movement of one security or index. Its input is daily net advances, calculated as the number of

advancing issues less the number of declining issues. The oscillator is then produced by taking the difference between a shorter-term and a longer-term exponential moving average of that net-advances series, conventionally 19 periods and 39 periods. This construction makes the indicator responsive to whether participation across the market is improving or deteriorating and to the rate at which that participation is changing. A rising or positive oscillator indicates that breadth momentum is strengthening relative to its longer-term trend, while a falling or negative reading indicates weakening breadth momentum. Because it is centered around zero and tracks the acceleration or deceleration of advances relative to declines, it is appropriately classified as an oscillator and, more specifically, a market-breadth momentum measure. The related McClellan Summation Index is formed by cumulatively adding oscillator values, whereas the oscillator itself focuses on the shorter-term momentum condition. See [StockCharts: McClellan Oscillator](#) and [CMT Association](#).

QUESTION NO: 16

Which of the following is NOT CORRECT regarding the belt-hold candlestick pattern?

- A. The pattern consists of one candle
- B. A short belt-hold line has more significance than a long belt-hold line
- C. The bearish belt-hold is a long black candle that opens on the high and moves lower through the trading session
- D. It is an opening bozu

ANSWER: B

Explanation:

"A short belt-hold line has more significance than a long belt-hold line" is the statement that is not correct. A belt-hold is a one-session candlestick formation, also commonly described as an opening marubozu (or opening bozu). Its interpretive value comes from decisive price movement away from the opening price and a close near the opposite end of the session's range. Consequently, the length of the real body is important: a long real body reflects stronger intraday control by buyers or sellers and therefore gives the pattern greater technical significance than a short real body.

In practical chart analysis, the body's length should be assessed relative to recent candles and the instrument's normal volatility rather than through an arbitrary absolute price amount. A conspicuously long belt-hold indicates that price moved persistently in one direction after the open, which can provide meaningful evidence of momentum or of a potential reversal when it appears after a sustained prior trend. Candlestick signals are generally interpreted in their market context, including preceding trend, support or resistance, volume, and subsequent price confirmation. The CMT body of knowledge treats candlestick patterns as visual evidence of market psychology and supply-demand behavior. See the [CMT Association's CMT program overview](#) and the [CMT Association technical analysis resources](#).

QUESTION NO: 17

An analyst is updating one-box reversal point and figure charts (\$1 box size) and the current column contains 4 Xs. The most recent posting is \$40. The stock closed yesterday at \$40.50, opened today at \$40.60, went up to \$40.95, and closed at the low for the day at \$39.11. How many NEW postings should the analyst make on the chart to reflect today's trading?

- A. 0
- B. 1
- C. 2
- D. 3

ANSWER: A

Explanation:

0 is correct. In a one-box reversal point-and-figure chart with a \$1 box size, an existing rising column of Xs can be extended only when the price reaches the next full box level above its most recent X. Because the latest X is at \$40, the stock must

trade at \$41.00 or higher to add an X. The day's high of \$40.95 does not reach that threshold, so no upward posting is made.

A reversal from the X column into a new O column requires the price to decline by one full box from the last plotted X. With the most recent X at \$40, the reversal threshold is \$39.00. Although the stock closed weakly at \$39.11, its intraday low did not trade at or below \$39.00. Consequently, the reversal condition is not met either. Since neither the continuation threshold nor the one-box reversal threshold was reached, the day produces no new chart entries. Point-and-figure charts record qualifying box movements rather than every intraday price change or the closing price alone. See StockCharts' discussion of [point-and-figure chart construction](#) and the CMT Association's [technical-analysis educational resources](#).

QUESTION NO: 18

Which of the following is the calculation for price objective using the HORIZONTAL count method for a 3 box reversal Point and Figure chart?

- A. Price level of the lowest box X (number of boxes in reversal)
- B. Price level of the lowest box + (number of boxes in reversal)
- C. Price level of the lowest box X (number of columns of base)
- D. Price level of the lowest box (for up counts) of the base + (number of columns of the base × box size × reversal size)

ANSWER: D

Explanation:

Price level of the lowest box (for up counts) of the base + (number of columns of the base × box size × reversal size) is the appropriate horizontal-count calculation for a bullish Point and Figure price objective. The horizontal method measures the width of a sufficiently developed consolidation or base, rather than the height of a single column. Each column in that base represents a potential move whose value is determined by the chart's box size and reversal amount. With a three-box reversal chart, the reversal size is 3, so the count is the number of qualifying columns multiplied by the box size and then by 3. That result is added to the lowest box price in the base to project an upside objective. For example, a base that is 10 columns wide on a 1-point, three-box-reversal chart produces a 30-point count; adding it to the applicable low establishes the projected objective. This construction keeps the count consistent across different box sizes and reversal settings. StockCharts explains that a horizontal count uses the width of the congestion pattern and incorporates both box size and reversal amount; see its [Point & Figure Price Objectives](#) reference. The broader Point and Figure charting methodology is also outlined by the [CMT Association](#).

QUESTION NO: 19

Bullish support lines on a 3-box reversal Point & Figure chart are drawn at a ____ degree angle.

- A. 45
- B. 60
- C. 75
- D. 90

ANSWER: A

Explanation:

The correct answer is **45**. In traditional Point & Figure charting, the bullish support line is a standardized, objective trendline drawn upward from left to right at a 45-degree angle, beginning at an important low. This construction follows the chart's square-box geometry: each successive column is one box to the right, and the support line rises one box for each column. The result is a consistent one-by-one diagonal that represents the prevailing bullish trend and provides a visual reference for support. The three-box reversal setting determines the number of boxes required to reverse into a new column, but it does

not change the prescribed angle of the bullish support line. Maintaining this fixed 45-degree convention is important because it lets technicians interpret support, resistance, and trend violations consistently across Point & Figure charts. A move through the established bullish support line can therefore be assessed as a meaningful change in the chart's underlying trend structure. See the CMT Association's [Chartered Market Technician program](#) and StockCharts' discussion of [Point & Figure charting](#).

QUESTION NO: 20

A point & figure chart:

- A. Ignores time
- B. Is limited by a four-year time horizon
- C. Cannot be used to project price targets
- D. Gives a clear picture of volume distribution

ANSWER: A

Explanation:

Ignores time is correct because point-and-figure chart construction is driven by price movement rather than by fixed time intervals. A column of Xs is extended only when price rises by at least the specified box size, and a column of Os is extended only when price declines enough to satisfy the chart's box-size and reversal criteria. If price remains within the required range, no new box is recorded, even if substantial calendar time passes. Consequently, the horizontal progression of a point-and-figure chart represents completed reversals and changes in direction, not a continuous or evenly spaced timeline. This price-focused construction is intended to filter smaller fluctuations and emphasize meaningful supply-and-demand shifts. It also makes point-and-figure charts useful for recognizing patterns, identifying support and resistance, and deriving vertical or horizontal price objectives. The CMT curriculum treats point-and-figure charting as a price- and reversal-based charting method whose omission of time is a defining characteristic. See the CMT Association's [Chartered Market Technician program overview](#) and StockCharts' [Point & Figure basics](#) for chart-construction details.

QUESTION NO: 21

Which of the following DOES NOT have a trader involved in selling?

- A. Primary Market
- B. Secondary market
- C. Options Market
- D. Futures Market

ANSWER: A

Explanation:

Primary Market is correct because it is the market in which newly created securities are issued to raise capital for the issuing company or other issuer. In this transaction, the economic seller is the issuer, and the proceeds from the sale flow to that issuer. This differs fundamentally from trading activity: a trade ordinarily transfers an already outstanding security between market participants, whereas a primary issuance creates and distributes new securities. An initial public offering is a common primary-market example. The issuer may engage an investment bank or underwriting syndicate to structure, market, and distribute the offering, but that role does not make the sale a transaction in which an existing holder or trader is selling securities from inventory. The defining feature remains that capital is being raised directly for the issuer through the creation and initial sale of the securities. The U.S. Securities and Exchange Commission distinguishes the primary market, where issuers sell new securities and receive the proceeds, from subsequent trading in outstanding securities. This issuance-versus-trading distinction is central to understanding market structure and is why Primary Market best fits the question. See the SEC's [overview of how stock markets work](#) and FINRA's [stock-investing guide](#).

QUESTION NO: 22

Which of the following statements is an important assumption of the Efficient Market Hypothesis?

- A. Investors as a group will act irrationally
- B. Investors as a group will act rationally
- C. Prices typically do not reflect all available information
- D. Liquidity constraints may sometimes drive prices away from their intrinsic value

ANSWER: B

Explanation:

“Investors as a group will act rationally” is an important assumption underlying the Efficient Market Hypothesis (EMH). In its traditional formulation, EMH holds that security prices reflect available information rapidly and without systematic bias. This outcome depends on market participants, in aggregate, evaluating information rationally and trading in ways that move prices toward their fair, information-supported values. The assumption does not require every individual investor to be perfectly rational at every moment. Rather, it requires that irrational trades not consistently dominate price formation and that rational, profit-seeking activity can exploit and correct material mispricings. This collective process is central to the proposition that investors cannot reliably earn abnormal risk-adjusted returns using information that is already publicly available. The classic efficient-markets framework is associated with Eugene Fama’s work, which describes prices as reflecting available information. CMT candidates should recognize rational behavior as a core simplifying assumption of traditional finance and EMH, while also understanding that behavioral finance examines the real-world effects of cognitive biases and limits to arbitrage. See Eugene Fama’s overview in the [Journal of Finance](#) and the [CFA Institute discussion of market efficiency](#).

QUESTION NO: 23

According to Elliott Wave Theory:

- A. Market action is governed by the Golden Ratio
- B. The number of waves follows the Pythagorean theorem
- C. Corrections do not fall below the top of the prior fourth wave
- D. The rule of alternation states that up waves follow down waves

ANSWER: A

Explanation:

Market action is governed by the Golden Ratio is the best answer because Fibonacci relationships are a central component of Elliott Wave Theory. R. N. Elliott proposed that market prices develop in recurring wave patterns reflecting collective investor psychology. In applying the theory, analysts use Fibonacci numbers and their derived ratios—especially approximately 0.618 and 1.618, the inverse and direct forms of the Golden Ratio—to estimate likely relationships between motive-wave advances and corrective-wave retracements. For example, a projected advancing wave may be measured as a 1.618 multiple of a preceding wave, while a retracement may be assessed near a 0.618 proportion of the prior move. These ratios provide a framework for identifying potential price targets, support and resistance zones, and proportional relationships across degrees of trend. The statement should be understood as describing Elliott’s theoretical framework for market-wave proportions rather than a claim that every market movement mechanically reaches an exact ratio. Fibonacci analysis is therefore integrated with wave counting, pattern recognition, and appropriate risk management. The CMT curriculum includes Elliott Wave and other technical-analysis approaches within its study of market behavior and technical tools; see the [CMT Program Curriculum](#) and Elliott Wave International’s overview of [Elliott Wave Theory](#).

QUESTION NO: 24

Enrique Perrago, CMT, is an analyst for a large investment management firm. Perrago issued a research report with an initial buy recommendation on Graham Airlines. The report includes an analysis using some very new and controversial methods of technical analysis, along with complete documentation as to the procedure and rationale. Ten minutes after emailing the report to his clients, Perrago buys Graham stock for his mother's account. With respect to the MTA Code of Ethics, Perrago's actions are:

- A. Not in violation of the Code
- B. In violation of the Code with respect to the methodology, but not the security purchase
- C. In violation of the Code with respect to the security purchase, but not the methodology
- D. In violation of the Code with respect to both the methodology and the security purchase

ANSWER: C

Explanation:

"In violation of the Code with respect to the security purchase, but not the methodology" is correct. A technical analyst may employ innovative, novel, or controversial analytical techniques when the work is supported by an adequately documented procedure and rationale. Complete documentation allows the analytical process, assumptions, and basis for the recommendation to be evaluated, which is essential to professional diligence and to communicating research responsibly. The Code does not require that every analytical method be universally established before it can be used; the analyst must instead have a sound, supportable basis and present the work professionally.

However, client interests and transactions must receive priority over transactions for the analyst or accounts in which the analyst has a beneficial interest, including a parent's account. Sending the recommendation to clients only ten minutes before placing the family-account order does not provide clients a reasonable opportunity to act on the recommendation. The analyst therefore improperly places a related-party transaction ahead of clients' practical ability to trade. This principle protects the integrity of recommendations and prevents analysts from benefiting from information or research before the clients for whom the research was prepared can reasonably use it. See the [CMT Association Code of Ethics](#) and the [CMT Association's professional standards information](#).

QUESTION NO: 25

Wave 4 can enter the top of wave 1 if:2425

- A. A motive wave is being formed26
- B. A diagonal is being formed27
- C. A vicious bear market is taking place
- D. A sharper, complex correction is taking place

ANSWER: B

Explanation:

A diagonal is being formed is correct because overlap between the fourth and first waves is a defining structural feature permitted in Elliott wave diagonal patterns. In a standard impulse, the price territory of wave 4 must not overlap the price territory of wave 1; that non-overlap rule helps distinguish an ordinary impulse from other five-wave structures. A diagonal, however, is a specialized motive-wave pattern that commonly develops within converging or, less commonly, expanding trend lines. Its internal subdivisions are typically corrective in character, and the fourth wave is allowed to move into the price area of the first wave. Diagonals may occur as leading diagonals at the beginning of a larger motive sequence or as ending diagonals near the conclusion of a larger move. Therefore, observing wave 4 enter wave 1 territory does not by itself invalidate the count when the overall form and subdivisions support a diagonal interpretation. This application reflects the Elliott Wave framework tested in technical-analysis study: identify the governing pattern first, then apply the rules appropriate to that pattern rather than applying impulse-wave rules universally. The CMT Association identifies Elliott Wave Principle among the technical-analysis concepts covered by its Body of Knowledge; see the [CMT Association Body of Knowledge](#). For a concise description of diagonal formations and their overlapping waves, see [Elliott Wave International's Elliott Wave tutorial](#).

QUESTION NO: 26

An inverted yield curve has historically pointed toward:

- A. Economic expansions
- B. Inflationary pressures
- C. Deflationary pressures
- D. Slower economic growth and recessions

ANSWER: D

Explanation:

Slower economic growth and recessions is correct. A yield curve is inverted when yields on short-maturity government debt exceed those on longer-maturity debt. This configuration generally reflects a combination of restrictive current monetary conditions and market expectations that future interest rates, inflation, and real economic activity will decline. Investors may be willing to accept lower long-term yields because they anticipate weaker future growth and eventual monetary-policy easing. Historically, inversions of the U.S. Treasury yield curve—especially measures comparing longer-term Treasury yields with short-term rates—have often preceded U.S. recessions, although the timing is variable and an inversion is not a precise market-timing signal. In CMT analysis, the yield curve is therefore used as an important intermarket and macroeconomic indicator of deteriorating growth expectations rather than as a stand-alone forecast with certainty. The Federal Reserve discusses the relationship between the yield curve and recession probabilities in its research at [Federal Reserve: Predicting Recession Probabilities Using the Slope of the Yield Curve](#). Treasury-rate series used to observe the curve are available from [FRED's Interest Rate Data](#).