

Financial Exam Help 123™

2027 Level III Mock Exam Portfolio Management Pathway

Morning Session Sample Exam Short Answers

Question 1 relates to Derivative Securities – Core Curriculum**AJBWU Case Scenario**

- 1.1 To achieve Degenek's target asset allocation and target betas, **determine** the action (buy or sell) and the number of small-cap equity futures contracts required.

- Buy 710 contracts

- 1.2 **Identify** *one* alternative derivative strategy that Degenek could use to achieve his goals *instead of his proposed futures strategy*.

Synthetic futures using options

– or –

Total return equity swap

Identify the derivative security(ies) that Degenek would use, and **describe** his position (e.g., long, short, buy, sell, etc.) in *each* derivative security.

- Short large-cap calls, long large-cap puts
- Long small-cap calls, short small-cap puts

– or (respectively) –

- Equity swap
 - ↳ Pay large-cap equity total return
 - ↳ Receive small-cap equity total return

Question 3 relates to Capital Market Expectations & Asset Allocation – Core Curriculum**Mount Wuteve Advisors Case Scenario**

- 3.1 Based on the data in Exhibit 1, **calculate** the expected return on Edmundsson's portfolio, given his constraints.

7.39%

- 3.2 Based on the data in Exhibit 2, **identify** the approach (1/N rule, risk parity, optimal risk budgeting) that Di Maria *most likely* employed to create Martinez' existing portfolio.

risk parity

Assuming that she employs the same approach to construct Martinez' new portfolio, **determine** which allocation to commodities in Exhibit 3 (Allocation A, Allocation B, Allocation C) is *most appropriate* for Di Maria to select.

Allocation C

Justify your determination.

- The ACTR of 0.6996% is closest to the target ACTR of 0.7014%

- 3.3 **Determine** whether Muslera's bias is *more likely* emotional, or else cognitive.

emotional

Evaluate the appropriateness of Čaleta-Car's suggested approach for handling Muslera's bias.

Appropriate

- Loss aversion can be handled with each goal having an assigned subportfolio
↳ High-priority goals will have low-risk subportfolios and vice-versa