

Accredited Wealth Management Advisor (AWMA) 1 Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. What is the impact of varying tax implications on asset location?**
 - A. They result in increased investment fees.**
 - B. They determine the net returns from different investments.**
 - C. They affect investment time horizons.**
 - D. They eliminate all risks associated with investments.**

- 2. What is one effect of market volatility on wealth management?**
 - A. It stabilizes investment portfolios**
 - B. It complicates investment planning and risk assessment**
 - C. It leads to a guaranteed increase in wealth**
 - D. It has no effect on wealth management**

- 3. Which statement regarding self-employment taxes is true?**
 - A. Net earnings must be calculated under the cash method.**
 - B. Self-employment tax discourages entrepreneurship.**
 - C. There is no self-employment tax once the wage base is exceeded.**
 - D. One-half of self-employment tax liability can be deducted from income.**

- 4. In personal finance, how is "liability" defined?**
 - A. A potential financial asset**
 - B. An investment opportunity**
 - C. A financial obligation or debt**
 - D. An income-generating asset**

- 5. What is meant by the financial literacy gap?**
 - A. Variation in financial product offerings among institutions.**
 - B. Differences in financial knowledge across different groups.**
 - C. Disparities in wealth among affluent individuals.**
 - D. Differences in investment strategies between generations.**

- 6. How will the enactment of Regulation Best Interest likely affect client expectations?**
- A. Increase expectations and put downward pressure on fees**
 - B. Decrease expectations and keep fees the same**
 - C. Increase expectations while resulting in higher fees**
 - D. Have little impact on expectations or fees**
- 7. What aspect of sustainable and responsible investments (SRIs) is considered a fact?**
- A. They yield higher returns than traditional investments.**
 - B. Shareholder activism is included within SRIs.**
 - C. SRI investments avoid all forms of negative screening.**
 - D. Baby boomers are the sole demographic investing in SRIs.**
- 8. Which one of the following industries would be expected to perform well in the early stage of an economic expansion?**
- A. Equipment manufacturers**
 - B. Chemicals**
 - C. Consumer credit**
 - D. Food**
- 9. What is the purpose of asset allocation?**
- A. To focus investments solely on low-risk options**
 - B. To equally distribute investments among all sectors**
 - C. To balance risk and reward across different asset categories**
 - D. To invest heavily in real estate**
- 10. What amount of self-employment tax does Walter owe based on his income?**
- A. \$25,245**
 - B. \$25,429**
 - C. \$21,494**
 - D. \$22,460**

Answers

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1. B
2. B
3. D
4. C
5. B
6. A
7. B
8. C
9. C
10. C

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Explanations

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1. What is the impact of varying tax implications on asset location?

- A. They result in increased investment fees.**
- B. They determine the net returns from different investments.**
- C. They affect investment time horizons.**
- D. They eliminate all risks associated with investments.**

Varying tax implications significantly influence asset location because they directly determine the net returns from different investments. Different types of accounts (such as tax-deferred, tax-exempt, and taxable accounts) have unique tax treatments, which can affect how much investors ultimately retain from their investments. When an asset is held in a tax-deferred account, such as an IRA or 401(k), the growth of the investment is not taxed until withdrawals are made, which can lead to a higher compound growth over time compared to assets in taxable accounts that incur taxes on dividends, interest, and capital gains annually. Similarly, assets that generate significant taxable income might be better located in tax-advantaged accounts to minimize tax liabilities. This strategic placement allows investors to maximize their after-tax returns and overall portfolio efficiency. Understanding these tax implications helps investors make informed decisions about where to place different types of investments, ensuring that tax efficiency is prioritized to enhance overall performance and goal achievement.

2. What is one effect of market volatility on wealth management?

- A. It stabilizes investment portfolios**
- B. It complicates investment planning and risk assessment**
- C. It leads to a guaranteed increase in wealth**
- D. It has no effect on wealth management**

Market volatility refers to the fluctuations in asset prices and can significantly impact the process of wealth management. One primary effect of volatility is that it complicates investment planning and risk assessment. When markets are volatile, prices of assets can change rapidly and unpredictably, making it difficult for wealth managers to project future performance accurately. This uncertainty requires a more nuanced approach to risk assessment, as traditional models may not capture the dynamics present during volatile periods. Wealth managers must adapt their strategies to account for potential downturns and the need for liquidity, forcing them to reassess clients' risk tolerance and investment goals regularly. Additionally, in a volatile market, the correlation between asset classes can shift, complicating diversification strategies, which are meant to mitigate risk. This necessitates a deeper analysis of the client's overall financial situation and may require more frequent adjustments to their investment portfolio. Therefore, understanding and navigating the complexities introduced by market volatility is crucial for effective wealth management.

3. Which statement regarding self-employment taxes is true?

- A. Net earnings must be calculated under the cash method.
- B. Self-employment tax discourages entrepreneurship.
- C. There is no self-employment tax once the wage base is exceeded.
- D. One-half of self-employment tax liability can be deducted from income.**

The statement regarding self-employment taxes that is true is that one-half of self-employment tax liability can be deducted from income. This deduction effectively reduces the overall taxable income for self-employed individuals, which can provide significant tax relief. Specifically, self-employed individuals are subject to self-employment tax, which covers Social Security and Medicare taxes for those who work for themselves. The total amount of self-employment tax is calculated based on net earnings, but only half of that amount is allowed as a deduction when calculating adjusted gross income. This is important because it can lower the overall tax burden associated with self-employment. In contrast, net earnings do not need to be calculated exclusively under the cash method; they can also be determined using the accrual method. Additionally, while some may feel that self-employment tax discourages entrepreneurship, it is an essential part of funding social insurance programs rather than a direct deterrent. Finally, it is not accurate to say there is no self-employment tax once the wage base is exceeded; self-employment taxes are applied to net earnings, not wages, and they continue to apply until certain income thresholds are reached, thus influencing the overall tax planning strategy for self-employed individuals.

4. In personal finance, how is "liability" defined?

- A. A potential financial asset
- B. An investment opportunity
- C. A financial obligation or debt**
- D. An income-generating asset

The term "liability" in personal finance refers to a financial obligation or debt that an individual or entity owes to others. This can include loans, mortgages, credit card debt, and any other forms of financial commitments that require repayment in the future. Understanding liabilities is crucial in personal finance because they directly impact an individual's net worth and financial stability. Liabilities represent the claims that creditors have on a person's resources, and managing them effectively is key to maintaining a healthy financial situation. By identifying and monitoring liabilities, individuals can make informed decisions regarding their budgeting and long-term financial planning. In contrast, the other options do not align with the definition of liabilities. A potential financial asset suggests something that may have value in the future but does not represent an immediate obligation. An investment opportunity implies the possibility of earning income or capital gains, while an income-generating asset refers to property or investments that produce cash flow. None of these concepts encapsulate the idea of a liability.

5. What is meant by the financial literacy gap?

- A. Variation in financial product offerings among institutions.
- B. Differences in financial knowledge across different groups.**
- C. Disparities in wealth among affluent individuals.
- D. Differences in investment strategies between generations.

The financial literacy gap refers to the differences in financial knowledge and understanding among various demographic groups, including factors such as age, income, education level, and socio-economic background. This gap highlights how certain populations may struggle with financial concepts, leading to challenges in making informed decisions related to budgeting, investing, saving, and managing debt. By identifying and addressing the financial literacy gap, financial advisors and educators can focus on improving awareness and providing resources tailored to specific groups, thereby promoting better financial outcomes for individuals who may lack essential financial skills. This understanding is crucial for developing effective financial education programs and fostering a more equitable financial landscape where everyone has access to the information needed to thrive economically.

6. How will the enactment of Regulation Best Interest likely affect client expectations?

- A. Increase expectations and put downward pressure on fees**
- B. Decrease expectations and keep fees the same
- C. Increase expectations while resulting in higher fees
- D. Have little impact on expectations or fees

The enactment of Regulation Best Interest is designed to enhance the level of care that investment professionals must provide to their clients, ultimately ensuring that clients receive advice that is in their best interest. This regulation requires financial advisors to prioritize their clients' interests over their own when making recommendations about investment products. As a result, clients are likely to have higher expectations regarding the quality and transparency of the advice they receive. They will anticipate that advisors are not only knowledgeable but also committed to acting in their best interest, which reinforces the trust basis of the client-advisor relationship. With regulations emphasizing fiduciary duties and best practices, clients may expect more thorough discussions about fees, strategies, and potential conflicts of interest. Additionally, there tends to be a perception that the increased standards of care and transparency may lead to increased fees, as advisors might invest more resources in compliance and higher-quality services. However, the expected rise in overall service quality and trust could also lead to clients being less price-sensitive, thereby allowing advisors to justify their fees based on enhanced services. In conclusion, the regulation is likely to raise client expectations concerning advisory relationships and the quality of service delivered while also influencing the fee structures in various ways as advisors adapt to the new requirements.

7. What aspect of sustainable and responsible investments (SRIs) is considered a fact?

- A. They yield higher returns than traditional investments.**
- B. Shareholder activism is included within SRIs.**
- C. SRI investments avoid all forms of negative screening.**
- D. Baby boomers are the sole demographic investing in SRIs.**

The correct answer emphasizes that shareholder activism is indeed a component of sustainable and responsible investments (SRIs). This approach allows investors to advocate for changes in corporate behavior, aligning company practices with social and environmental objectives. Shareholder activism encompasses activities like filing resolutions, engaging in dialogue with management, and voting on important issues, all aimed at influencing corporate policies to promote sustainability and social responsibility. Thus, it forms an integral part of SRIs as it empowers investors to push for accountability and change in the companies they invest in. The other options reflect misconceptions or blanket statements that do not hold true in all circumstances. For instance, while some may believe that SRIs yield higher returns, research indicates that the performance can vary, and there is no definitive evidence that they consistently outperform traditional investments. Similarly, stating that SRI investments avoid all forms of negative screening is inaccurate, as many SRI strategies actively exclude certain sectors (such as tobacco or fossil fuels) to align with ethical guidelines. Lastly, the notion that baby boomers are the sole demographic investing in SRIs is overly simplistic, as this investment approach has gained traction across multiple age groups and demographics, with younger investors increasingly prioritizing sustainability and responsibility in their portfolios.

8. Which one of the following industries would be expected to perform well in the early stage of an economic expansion?

- A. Equipment manufacturers**
- B. Chemicals**
- C. Consumer credit**
- D. Food**

In the early stages of an economic expansion, consumer credit typically performs well because it closely aligns with increased consumer confidence and spending. As the economy begins to recover, individuals are more likely to take on credit to purchase goods and services, such as homes, cars, and other big-ticket items. This uptick in borrowing is driven by optimism about job security and future earnings, leading to greater consumer activity. When people feel secure in their financial situations, they are more inclined to utilize credit options, as this allows them to make larger purchases than they might otherwise afford. The financial institutions that specialize in consumer credit would therefore see a surge in demand for their products, reflecting the overall positive sentiment in the economy. In contrast, industries like equipment manufacturing and chemicals may take longer to feel the impact of an expansion, as their performance often hinges on capital expenditures by businesses that may be cautious until they are more confident in the sustainability of the growth. The food industry, while essential and generally stable, does not experience the same level of growth that consumer credit does during the initial phases of an economic upswing, as its demand is relatively constant regardless of economic fluctuations.

9. What is the purpose of asset allocation?

- A. To focus investments solely on low-risk options
- B. To equally distribute investments among all sectors
- C. To balance risk and reward across different asset categories**
- D. To invest heavily in real estate

The purpose of asset allocation is indeed to balance risk and reward across different asset categories. This strategy involves dividing an investment portfolio among different asset classes, such as stocks, bonds, real estate, and cash. By strategically spreading investments across various asset categories, an investor can manage risk and enhance the potential for returns. Different asset classes react differently to market changes; for example, when stocks may perform poorly, bonds might perform well, and vice versa. This diversification helps to reduce the volatility of the overall portfolio and aims to create a more stable investment experience. The goal is not just to maximize returns but to optimize the risk-return profile according to the investor's individual financial goals, time horizon, and risk tolerance. Other options, such as focusing solely on low-risk investments or investing heavily in one sector like real estate, do not capture the essence of asset allocation. A balanced and diversified approach is crucial for managing investment risk effectively.

10. What amount of self-employment tax does Walter owe based on his income?

- A. \$25,245
- B. \$25,429
- C. \$21,494**
- D. \$22,460

To determine the amount of self-employment tax Walter owes, it is essential to understand how self-employment tax is calculated. Self-employment tax primarily consists of Social Security and Medicare taxes for individuals who work for themselves. The tax rate for self-employment is typically 15.3% of the net earnings from self-employment. This rate includes a 12.4% Social Security tax and a 2.9% Medicare tax. To find the taxable portion of income, you first calculate the net earnings from self-employment. Generally, expenses related to the business are deducted from gross income to arrive at net earnings. After determining the net earnings, you would multiply that amount by 92.35% (to account for the deductible portion of self-employment tax) and then apply the 15.3% tax rate to calculate the total self-employment tax owed. In choosing the most accurate estimate for Walter's self-employment tax, if you arrived at the figure of \$21,494 after applying these calculations, this indicates that Walter's income and the process of determining net earnings were correctly applied, leading to this specific outcome. This assessment reflects a comprehensive understanding of the self-employment tax structure and the deductions available, confirming

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://awma1.examzify.com>

We wish you the very best on your exam journey. You've got this!