

Accredited Wealth Management Advisor (AWMA) Exam 2 Practice Test (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. Portfolio X had a Sharpe ratio of 1.10, while Portfolio Y had a Sharpe ratio of 0.55. Which statement is correct?**
 - A. Portfolio X had better performance than Portfolio Y on a risk-adjusted basis.**
 - B. Portfolio X had twice the performance of Portfolio Y.**
 - C. Portfolio X had better performance than Portfolio Y.**
 - D. Portfolio X had worse performance than Portfolio Y.**

- 2. Which statement regarding buy-sell agreements is NOT correct?**
 - A. In an entity purchase buy-sell agreement, each owner agrees to purchase their proportionate share of any interest redeemed by the business entity from any other owner.**
 - B. In a cross-purchase buy-sell agreement, each owner agrees to sell his or her interest in the business to the other owners under certain stated conditions.**
 - C. None of these statements regarding buy-sell agreements are correct.**
 - D. In a buy-sell agreement, the actions of the purchasing owners can be made optional rather than mandatory.**

- 3. Which factor is most important in establishing trust with a client?**
 - A. Being associated with a good financial company**
 - B. Having a pleasant manner**
 - C. Demonstrating professional knowledge**
 - D. Being genuine and following best practices**

- 4. An advantage to a third-party business sale is that**
 - A. it is the least expensive method to sell a business.**
 - B. it ensures the company will remain in the community.**
 - C. the owner will receive the majority of the sales proceeds well after the change in control.**
 - D. the sale can be accomplished in a relatively short time frame.**

- 5. A SERP can be funded or unfunded.**
- A. A SERP can be funded or unfunded.**
 - B. A SERP must be funded.**
 - C. A SERP is only for nonexecutives.**
 - D. A SERP cannot be offered to executives.**
- 6. REITs must distribute what percentage of taxable income to shareholders?**
- A. 75%**
 - B. 90%**
 - C. 80%**
 - D. 100%**
- 7. Which one of the following is a significant concern when funding a PPLI policy?**
- A. Once an investment adviser is selected he or she cannot be changed during the life of the policy.**
 - B. Initial overfunding may cause it to be classified as a MEC.**
 - C. PPLI policies are usually too structured to allow much investment flexibility.**
 - D. The normal universal life structure only allows money market investments.**
- 8. If the assets in a portfolio have a high correlation of returns, what is the likely effect on the portfolio's standard deviation?**
- A. The standard deviation will be high.**
 - B. The standard deviation will be low.**
 - C. The standard deviation will be unaffected.**
 - D. The standard deviation will be zero.**

- 9. Goals that a business owner can reasonably expect to achieve in a preferred stock recapitalization include all of the following except?**
- A. none of these goals can be achieved through a preferred stock recapitalization.**
 - B. maintaining a preference in payment of income from the business.**
 - C. eliminating the value of the business from his or her gross estate.**
 - D. maintaining control of the business.**
- 10. Some high net worth clients are very concerned about the economy; what should advisers recognize about these clients?**
- A. Advise clients to ignore economic conditions.**
 - B. Be concerned that those clients are concentrating on short-term and not long-term goals.**
 - C. Refer those clients to an economic specialist.**
 - D. Change a client's investment policy statement based on current economic conditions.**

Answers

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

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Explanations

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1. Portfolio X had a Sharpe ratio of 1.10, while Portfolio Y had a Sharpe ratio of 0.55. Which statement is correct?

A. Portfolio X had better performance than Portfolio Y on a risk-adjusted basis.

B. Portfolio X had twice the performance of Portfolio Y.

C. Portfolio X had better performance than Portfolio Y.

D. Portfolio X had worse performance than Portfolio Y.

Sharpe ratio shows how much excess return a portfolio earns per unit of risk, so a higher ratio means a better risk-adjusted performance. With Portfolio X at 1.10 and Portfolio Y at 0.55, X delivers more excess return per unit of risk than Y. Therefore, X has better risk-adjusted performance. The ratio isn't a direct measure of raw return or a simple multiple of performance, so it wouldn't be accurate to say X is twice as good in raw terms.

2. Which statement regarding buy-sell agreements is NOT correct?

A. In an entity purchase buy-sell agreement, each owner agrees to purchase their proportionate share of any interest redeemed by the business entity from any other owner.

B. In a cross-purchase buy-sell agreement, each owner agrees to sell his or her interest in the business to the other owners under certain stated conditions.

C. None of these statements regarding buy-sell agreements are correct.

D. In a buy-sell agreement, the actions of the purchasing owners can be made optional rather than mandatory.

The main idea is who actually buys the departing owner's shares when a buy-sell is triggered. In an entity-purchase arrangement, the company itself is the buyer and purchases the departing owner's stock, not the other owners buying their proportionate shares from that owner. So stating that each owner agrees to purchase their proportionate share of the interest redeemed by the business entity is not correct. By contrast, a cross-purchase setup has each surviving owner buy the departing owner's shares directly from that owner (typically funded by life insurance). That description is accurate. The statement about optional rather than mandatory purchases is generally not how these agreements are treated at trigger time, where a sale is usually required to proceed.

3. Which factor is most important in establishing trust with a client?

- A. Being associated with a good financial company**
- B. Having a pleasant manner**
- C. Demonstrating professional knowledge**
- D. Being genuine and following best practices**

Trust with a client comes from genuine care combined with consistent, ethical action. Being genuine means you truly prioritize the client's interests, listen actively, be transparent about risks, fees, and any conflicts, and follow through on commitments. Following best practices means you apply proven, ethical processes—conducting proper due diligence, tailoring recommendations to the client's goals, documenting the rationale, and staying within fiduciary or regulatory duties. When these two elements align, clients feel informed, protected, and confident in the advisor's integrity over time. Being associated with a reputable firm can help, but it isn't enough on its own—if the relationship lacks authenticity or a disciplined, client-centered process, trust may falter. A pleasant manner helps rapport, yet it doesn't replace genuine behavior or solid, consistent practices. Knowledge matters, but trust grows strongest when that knowledge is paired with true integrity and adherence to best practices.

4. An advantage to a third-party business sale is that

- A. it is the least expensive method to sell a business.**
- B. it ensures the company will remain in the community.**
- C. the owner will receive the majority of the sales proceeds well after the change in control.**
- D. the sale can be accomplished in a relatively short time frame.**

When you sell to a third party, you're transferring ownership to an outside buyer. A key benefit is that the transaction can close in a relatively short time frame because the buyer usually comes with ready financing and a defined closing process. Professional deal teams—brokers, attorneys, and accountants—coordinate due diligence and negotiations toward a firm closing date, which tends to streamline the timeline compared with more phased or owner-driven transitions. Proceeds are typically received at closing, not delayed for a long post-close period, which is another reason this route can feel quicker. It doesn't guarantee the business stays in the same community, nor is it inherently the least expensive option, and the funds aren't usually paid out well after the change in control.

5. A SERP can be funded or unfunded.

- A. A SERP can be funded or unfunded.**
- B. A SERP must be funded.**
- C. A SERP is only for nonexecutives.**
- D. A SERP cannot be offered to executives.**

A SERP is a supplementary executive retirement plan for top executives that can be set up as either funded or unfunded. Some employers place assets in a trust or other funding vehicle to secure the promise, while others simply promise benefits and pay them from the company's assets as they come due. The choice to fund or not is a strategic decision based on tax, cash-flow, and risk considerations, so there is no requirement that a SERP must be funded. It isn't limited to nonexecutives and can be offered to executives, which is why the statement that a SERP can be funded or unfunded is the most accurate overall.

6. REITs must distribute what percentage of taxable income to shareholders?

- A. 75%
- B. 90%**
- C. 80%
- D. 100%

The main idea here is the tax structure of REITs. A REIT must pass through most of its taxable income to shareholders to avoid paying corporate income tax at the entity level. To keep that favorable status, the REIT must distribute at least ninety percent of its taxable income to shareholders each year. If it does so, the income is taxed at the investor level rather than at the corporate level, which is the key benefit of the REIT structure. Therefore, distributing ninety percent of taxable income is the required rule, making it the correct answer. Distributing more than that is possible, and distributing less can jeopardize REIT status and trigger corporate taxation on the remaining income.

7. Which one of the following is a significant concern when funding a PPLI policy?

- A. Once an investment adviser is selected he or she cannot be changed during the life of the policy.
- B. Initial overfunding may cause it to be classified as a MEC.**
- C. PPLI policies are usually too structured to allow much investment flexibility.
- D. The normal universal life structure only allows money market investments.

The key idea is how funding a PPLI policy affects its tax status. If you put in money too aggressively early on, the policy can fail the seven-pay test and become a Modified Endowment Contract. Once it's a MEC, withdrawals and policy loans are taxed as ordinary income to the extent of the policy's earnings, which undermines the tax-deferral and tax-free benefits that make PPLI attractive. In other words, initial overfunding can substantially erode the tax advantages you're seeking with a PPLI, making this a major concern. Other statements mischaracterize PPLI—these policies are commonly designed for flexible investment options and are not limited to money market investments, and the ability to change a financial advisor or investment approach can be structured in the policy.

8. If the assets in a portfolio have a high correlation of returns, what is the likely effect on the portfolio's standard deviation?

- A. The standard deviation will be high.**
- B. The standard deviation will be low.**
- C. The standard deviation will be unaffected.**
- D. The standard deviation will be zero.**

Correlation shows how asset returns move together. Portfolio risk isn't just about each asset's own volatility; it also comes from how their movements interact through covariances. When assets have high positive correlations, the covariances are large, and those terms add a lot to the portfolio's variance: $\text{Var}(P) = \sum w_i^2 \sigma_i^2 + 2\sum_{i < j} w_i w_j \text{Cov}(R_i, R_j)$. Since $\text{Cov}(R_i, R_j)$ is large, the overall variance increases, and the standard deviation (the square root of variance) rises as well. Diversification reduces risk when correlations are low or negative, but with high correlation you lose much of that benefit, leaving higher overall risk.

9. Goals that a business owner can reasonably expect to achieve in a preferred stock recapitalization include all of the following except?

- A. none of these goals can be achieved through a preferred stock recapitalization.**
- B. maintaining a preference in payment of income from the business.**
- C. eliminating the value of the business from his or her gross estate.**
- D. maintaining control of the business.**

A preferred stock recapitalization is designed to shift some financial rights into a class of stock that has priority for dividends and liquidation while typically not carrying voting power. This structure can support estate and tax planning by providing a fixed income preference and, when combined with transfers to trusts or gifts, can move value out of the owner's estate. Yet, control over the business hinges on voting rights, which are usually retained by the common stock or promised to others through ownership structures. Because preferred stock generally does not confer control, maintaining control of the business is not a goal you can reliably achieve through this kind of recapitalization. So, while you can secure income preference and potentially assist with estate planning through appropriate structuring, preserving control is not an expected outcome.

10. Some high net worth clients are very concerned about the economy; what should advisers recognize about these clients?

A. Advise clients to ignore economic conditions.

B. Be concerned that those clients are concentrating on short-term and not long-term goals.

C. Refer those clients to an economic specialist.

D. Change a client's investment policy statement based on current economic conditions.

When clients fixate on the economy, their behavior often becomes short-term and reactive, which can derail progress toward long-term objectives. Advisers should recognize this tendency and focus on keeping the client anchored to the documented plan—risk tolerance, time horizon, and investment policy—so decisions stay aligned with long-term goals. Economic conditions are uncertain and not reliable guides for near-term moves, so the adviser's role is to educate about market cycles, maintain discipline in asset allocation and rebalancing, and address anxiety without abandoning the plan. Changes to the portfolio should come from shifts in goals or constraints, not from headlines or current conditions. Referring to an economic specialist or altering the policy framework solely because of short-term news isn't the default approach, though these steps can be appropriate in specific circumstances.

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://awma2.examzify.com>

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

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