

Accredited Wealth Management Advisor (AWMA) Exam 3 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. Investors seeking the least risk should acquire stocks with beta coefficients**
 - A. less than 1.0.**
 - B. less than 0.5.**
 - C. greater than 1.5.**
 - D. greater than 1.0.**

- 2. Which portfolio structure is recommended for a risk-averse high net worth investor under the wealth allocation framework?**
 - A. 20% liquid assets / 75% main diversified assets / 5% risky assets**
 - B. 30% liquid assets / 50% main diversified assets / 20% risky assets**
 - C. 25% liquid assets / 60% main diversified assets / 15% risky assets**
 - D. 45% liquid assets / 50% main diversified assets / 5% risky assets**

- 3. The loss on the sale of an individually owned rental property is**
 - A. deductible as an ordinary loss, without limitation.**
 - B. deductible as a capital loss up to \$25,000.**
 - C. deductible as a capital loss, without limitation.**
 - D. deductible as a capital loss up to \$3,000 net capital loss annually.**

- 4. Which condition triggers the use of the 110% of prior year's tax rule for estimated tax payments?**
 - A. AGI exceeding \$150,000**
 - B. Filing status**
 - C. Tax rate change**
 - D. Prior-year tax refund**

5. Five years ago, Jason received a gift of 1,000 shares of stock. FMV on the gift date was \$75 per share; donors had purchased four years earlier at \$47 per share. He sold the stock this week for \$110 per share. What was Jason's per-share basis in the stock when it was sold?
- A. \$122
 - B. \$75
 - C. \$47
 - D. \$110
6. Which incentive would best serve a chief executive who fears a takeover and wants a strong retention package?
- A. Stock appreciation right
 - B. Golden parachute
 - C. Tin parachute
 - D. Incentive stock option
7. Which statement is correct regarding the qualified charitable distribution (QCD) rules?
- A. The donor is entitled to a reduced charitable contribution deduction.
 - B. For distributions from a traditional IRA, only deductible contributions are eligible for the qualified charitable distribution.
 - C. The charitable distribution may be made to any type of charity.
 - D. QCDs may begin at age 59½.
8. Qualified charitable distributions may begin at what age?
- A. 59½
 - B. 65
 - C. 70½
 - D. 72
9. Which of the following is a main category of hedge funds?
- A. Corporate restructuring
 - B. Mezzanine financing
 - C. Venture capital
 - D. Real estate

10. Compared with the mass affluent, high net worth individuals have which of the following tendencies regarding loss aversion?

- A. More money-avoidance beliefs**
- B. Less of a tendency for loss aversion**
- C. Fewer money status beliefs**
- D. More external locus of control**

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Answers

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

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Explanations

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1. Investors seeking the least risk should acquire stocks with beta coefficients

- A. less than 1.0.**
- B. less than 0.5.**
- C. greater than 1.5.**
- D. greater than 1.0.**

Beta measures a stock's sensitivity to overall market movements, i.e., its systematic risk. A beta of 1 means the stock tends to move with the market; a beta below 1 indicates the stock is less volatile than the market, so it carries less market risk. To seek the least risk relative to the market, you want a beta under 1.0, which describes stocks that are less reactive to market swings. A beta above 1 signals greater volatility and higher risk, so those are not the best for minimizing risk. Keep in mind that even low-beta stocks still have unsystematic risk, which diversification can reduce.

2. Which portfolio structure is recommended for a risk-averse high net worth investor under the wealth allocation framework?

- A. 20% liquid assets / 75% main diversified assets / 5% risky assets**
- B. 30% liquid assets / 50% main diversified assets / 20% risky assets**
- C. 25% liquid assets / 60% main diversified assets / 15% risky assets**
- D. 45% liquid assets / 50% main diversified assets / 5% risky assets**

For a risk-averse high-net-worth investor, the emphasis is on preserving capital, ensuring liquidity, and maintaining a broad, stable base of investments. The wealth allocation framework divides resources into three buckets: liquid assets (cash and near-cash instruments for flexibility and safety), main diversified assets (a broad, diversified base that balances risk and return), and risky assets (higher-volatility, higher-risk investments). The best fit is the structure that maximizes liquidity while keeping the diversified core substantial and limiting exposure to the riskiest investments. Having a large portion in liquid assets provides flexibility to meet expenses, emergencies, or opportunities without needing to sell long-term holdings at potentially inopportune times. A sizable allocation to the main diversified assets ensures the portfolio has solid, stable growth with diversification benefits, reducing overall volatility. Keeping risky assets to a very small portion minimizes the chance of sharp drawdowns that a risk-averse investor wants to avoid. The allocation with 45% in liquid assets, 50% in the main diversified portfolio, and 5% in risky assets best aligns with this approach. It offers a strong liquidity cushion, a broad, diversified foundation for steady returns, and minimal exposure to high-risk investments. Other structures either squeeze liquidity too tightly or increase exposure to high-risk assets, which would undermine the safety and stability a risk-averse investor seeks.

- 3. The loss on the sale of an individually owned rental property is**
- A. deductible as an ordinary loss, without limitation.**
 - B. deductible as a capital loss up to \$25,000.**
 - C. deductible as a capital loss, without limitation.**
 - D. deductible as a capital loss up to \$3,000 net capital loss annually.**

When property used in a business (like rental real estate) is sold at a loss, that loss is treated under Section 1231 as an ordinary loss. Ordinary losses can be deducted against your ordinary income without the special capital-loss limits that apply to net capital losses. Since this is not a capital loss, the deduction isn't subject to the \$3,000 per year limit that applies to capital losses, so the loss can reduce ordinary income without that cap. Depreciation matters for gains (depreciation recapture), but it doesn't create a limit here because there isn't a gain to recapture when you're selling at a loss.

- 4. Which condition triggers the use of the 110% of prior year's tax rule for estimated tax payments?**
- A. AGI exceeding \$150,000**
 - B. Filing status**
 - C. Tax rate change**
 - D. Prior-year tax refund**

High-income taxpayers get a larger cushion for estimated tax payments. When your prior-year adjusted gross income was more than \$150,000, the IRS requires you to use 110% of your prior-year tax as the safe harbor amount to avoid penalties. This means your estimated payments should total at least 110% of what you owed last year. The reason is that higher income can bring more variable tax situations, so a bigger safety margin helps prevent underpayment penalties. If prior-year AGI was at or below \$150,000, you can use 100% of prior-year tax (or 90% of current-year tax) as the safe harbor. The other factors listed—filing status, a tax-rate change, or simply receiving a prior-year refund—do not by themselves trigger the 110% rule.

5. Five years ago, Jason received a gift of 1,000 shares of stock. FMV on the gift date was \$75 per share; donors had purchased four years earlier at \$47 per share. He sold the stock this week for \$110 per share. What was Jason's per-share basis in the stock when it was sold?
- A. \$122
 - B. \$75
 - C. \$47**
 - D. \$110

For gifts, the recipient's basis to determine gain is the donor's basis (carryover basis). The fair market value at the date of the gift only affects loss calculations if the sale price falls below that FMV; otherwise it doesn't change the basis used for gain. In this case, the donor originally bought the stock for \$47 per share. The FMV at the gift date was \$75, which is higher than the donor's basis, so the basis used for any future gain remains the donor's basis of \$47 per share. When sold for \$110 per share, Jason would have a gain of $\$110 - \$47 = \$63$ per share, but the basis itself is still \$47.

6. Which incentive would best serve a chief executive who fears a takeover and wants a strong retention package?
- A. Stock appreciation right
 - B. Golden parachute**
 - C. Tin parachute
 - D. Incentive stock option

The idea here is to use a change-in-control retention and severance arrangement—the golden parachute. This type of package is designed to keep a CEO financially secure if the company is takeover or undergoes a major ownership change, and it often accelerates vesting or provides a substantial cash and benefit payout if the executive loses the job or the role changes after the deal. For someone who fears a takeover, a golden parachute directly addresses that risk by guaranteeing meaningful compensation even in the event of ouster or significant change in control, making it financially tolerable to stay through the process and align incentives with completing the deal rather than racing to exit. Stock appreciation rights and incentive stock options focus on stock price upside and long-term ownership, but they don't guarantee meaningful protection or a guaranteed payout in a change in control. They may be valuable if stock rises, but they don't specifically reduce the risk of losing employment or ensuring a strong, immediate retention payout during a takeover. The tin parachute isn't a standard instrument used for this purpose. In short, the golden parachute best meets the need for strong retention during a takeover by providing a substantial, guaranteed safety net tied to a change in control.

7. Which statement is correct regarding the qualified charitable distribution (QCD) rules?
- A. The donor is entitled to a reduced charitable contribution deduction.
 - B. For distributions from a traditional IRA, only deductible contributions are eligible for the qualified charitable distribution.**
 - C. The charitable distribution may be made to any type of charity.
 - D. QCDs may begin at age 59½.

Qualified charitable distributions let you transfer funds directly from a traditional IRA to a qualified charity, and the amount can be excluded from your taxable income (and counts toward your required minimum distribution if you're of eligible age). The donor must be at least 70½ to make a QCD, and the distribution must go to a qualified charity—not to just any recipient. The statement that only deductible contributions are eligible for the qualified charitable distribution is the best fit. That's because the tax benefit of a QCD comes from moving pre-tax dollars that were deductible when contributed. If the traditional IRA also contains nondeductible (after-tax) contributions, those portions have already been taxed, and the QCD rules don't create an additional tax-free benefit for that after-tax basis. So the QCD effectively applies to the funds that were deductible when contributed (and the earnings on them), aligning with the idea that only deductible contributions are eligible for a QCD. Why the other ideas aren't correct: a QCD is not a charitable deduction you claim on Schedule A; the age is 70½, not 59½; the distribution must go to a qualified charity (not just any recipient); and while QCDs do count toward RMDs, they aren't simply "begin when you please" at a younger age.

8. Qualified charitable distributions may begin at what age?
- A. 59½
 - B. 65
 - C. 70½**
 - D. 72

Qualified charitable distributions can be started at age 70½. This rule allows individuals to have IRA dollars sent directly to a qualified charity, and the amount can count toward the annual required minimum distribution (RMD) while not being included in taxable income. Even though the RMD age was raised to 72 for new accounts, the starting age for QCDs remains 70½, making it possible to use these distributions earlier for charitable giving and tax planning. The distribution must go directly from the IRA custodian to the charity and is typically from a traditional IRA. Distributions before 70½ would generally face penalties and tax issues, so 70½ is the practical threshold here.

9. Which of the following is a main category of hedge funds?

- A. Corporate restructuring**
- B. Mezzanine financing**
- C. Venture capital**
- D. Real estate**

Hedge funds are grouped by the investment approach they use, and corporate restructuring fits squarely into the event-driven category. Funds focused on corporate restructuring seek to profit from actions that change a company's capital structure during events like reorganizations, bankruptcies, mergers, recapitalizations, or spin-offs. They may trade in distressed debt, convertible securities, or equity tied to the restructuring outcome, aiming to capture value as the restructuring unfolds or is completed. Mezzanine financing is a debt instrument used within private capital deals, not a standalone hedge fund strategy category. Venture capital targets early-stage private companies and isn't a hedge fund strategy. Real estate involves property investments or related securities and, while there are real estate funds, it's not considered a primary hedge fund strategy category like event-driven.

10. Compared with the mass affluent, high net worth individuals have which of the following tendencies regarding loss aversion?

- A. More money-avoidance beliefs**
- B. Less of a tendency for loss aversion**
- C. Fewer money status beliefs**
- D. More external locus of control**

Loss aversion is the tendency to feel losses more deeply than gains of the same size. As wealth grows, investors can absorb larger drawdowns without compromising lifestyle or long-term goals, have longer time horizons, and can diversify more effectively. This reduces the emotional impact of short-term losses, making high net worth individuals more willing to endure temporary declines for potentially higher long-term returns. They're also more likely to work with professionals and rely on disciplined strategies rather than reacting emotionally to market drops. So, compared with the mass affluent, high net worth individuals show less loss aversion.

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://awma3.examzify.com>

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