

# Accredited Wealth Management Advisor 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 a behavioral concern particular to high net worth individuals?**
  - A. Overconfident about investment mistakes**
  - B. Very private about and understate their wealth**
  - C. Overconfident that they cannot be scammed**
  - D. Very trusting in new relationships**
  
- 2. What is primarily stated as the most important life goal for wealthy individuals?**
  - A. Leaving an estate for heirs.**
  - B. Assuring a comfortable retirement.**
  - C. Maintaining good health.**
  - D. Protecting their wealth.**
  
- 3. What determines a client's risk tolerance?**
  - A. An assessment of their financial situation, investment experience, and emotional capacity to endure market fluctuations**
  - B. The amount of money they have available to invest**
  - C. The types of investments they have previously made**
  - D. The age of the client**
  
- 4. What is a distinguishing feature of a Section 2503(c) trust compared to a support trust?**
  - A. The gift tax annual exclusion is available for transfers to a Section 2503(c) trust, but is not available for a support trust.**
  - B. A support trust must distribute assets to the beneficiary by age 21, while a Section 2503(c) trust may continue indefinitely.**
  - C. Gifts to a support trust are present interests, while gifts to a Section 2503(c) trust are future interests.**
  - D. A support trust is revocable, while a Section 2503(c) trust is irrevocable.**

5. What is the correct calculation for Jensen's alpha of a fund that returned 14% with a beta of 1.1, given a risk-free rate of 4% and a market return of 12%?
- A. 9.1
  - B. 6.0
  - C. 1.2
  - D. 2.0
6. According to John Brown, what is the most commonly used exit planning strategy?
- A. Insider transfer.
  - B. Transfer to children.
  - C. Third-party transfer.
  - D. ESOP.
7. Which fund allows for privacy in donor identities while maximizing tax benefits?
- A. Private foundation
  - B. Both have equal privacy
  - C. Donor-advised fund
  - D. Neither fund menances privacy
8. In wealth management, what does "rebalancing" mean?
- A. Increasing the total number of assets in a portfolio
  - B. Buying and selling assets to achieve maximum profit
  - C. Adjusting the proportions of different assets in a portfolio
  - D. Creating a new portfolio from scratch
9. What role does a trust play in wealth management?
- A. It allows for management and distribution of assets per the grantor's terms
  - B. It solely focuses on tax evasion strategies
  - C. It is used to avoid estate planning altogether
  - D. It allows for personal loans to family members only

**10. What outcome results from the proactive role of activist hedge funds?**

- A. Minimal corporate influence.**
- B. Focus solely on financial exit strategies.**
- C. Active engagement in corporate governance.**
- D. Passive investment approaches.**

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## Answers

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

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## **Explanations**

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**1. What is a behavioral concern particular to high net worth individuals?**

- A. Overconfident about investment mistakes**
- B. Very private about and understate their wealth**
- C. Overconfident that they cannot be scammed**
- D. Very trusting in new relationships**

The behavioral concern particularly associated with high net worth individuals centers on their tendency to be very private about, and often understate, their wealth. This trait can stem from a desire to maintain a level of confidentiality and discretion regarding their financial status. High net worth individuals might face different social pressures and expectations, prompting them to wish to avoid discussions about their wealth, as they may fear judgment or unwanted attention. This behavior can also be influenced by a variety of factors, including personal values, past experiences, and concerns about privacy and security. Understanding this concern is vital for wealth management advisors, as it can affect how these individuals engage in financial planning and investment discussions. Being aware of this tendency allows advisors to approach conversations with sensitivity and respect for the client's boundaries, enabling more effective communication and relationship-building. The other options address various issues that might be prevalent in different demographics or personality types but do not specifically capture the unique behavioral tendencies that high net worth individuals are likely to exhibit concerning their wealth.

**2. What is primarily stated as the most important life goal for wealthy individuals?**

- A. Leaving an estate for heirs.**
- B. Assuring a comfortable retirement.**
- C. Maintaining good health.**
- D. Protecting their wealth.**

The most important life goal for wealthy individuals is primarily centered around maintaining good health. Health is foundational to enjoying life's pleasures, including the financial benefits that wealth can provide. Wealthy individuals often recognize that no amount of financial success can replace the value of good health; it is essential for enjoying retirement, engaging in activities they love, and ensuring a high quality of life. Without good health, the ability to take advantage of wealth diminishes significantly, leading many to prioritize their physical and mental well-being above other objectives. This perspective resonates strongly within the affluent community, as they often have access to resources that can help them maintain and enhance their health, making it a focal point in their overall life goals. While leaving an estate for heirs, assuring a comfortable retirement, and protecting wealth are indeed important considerations, these factors can become secondary if an individual does not have their health. It is the foundation that allows them to engage with their wealth fully, highlighting why maintaining good health is often viewed as the most critical life goal for wealthy individuals.

### 3. What determines a client's risk tolerance?

- A. An assessment of their financial situation, investment experience, and emotional capacity to endure market fluctuations**
- B. The amount of money they have available to invest**
- C. The types of investments they have previously made**
- D. The age of the client**

The correct determination of a client's risk tolerance is encapsulated in the comprehensive assessment of their financial situation, investment experience, and emotional capacity to endure market fluctuations. This multifaceted approach recognizes that risk tolerance is not solely a function of one's financial resources or demographic factors but is influenced by a combination of aspects that shape how an individual responds to market volatility. Financial situation involves evaluating a client's current assets, liabilities, income, and expenditures, which help to gauge their capacity to absorb losses without significantly impacting their financial wellbeing. Investment experience provides insights into how comfortable and knowledgeable a client is regarding various investment vehicles, which can affect their willingness to take on risk. Lastly, emotional capacity is crucial; clients who are more resilient in the face of downturns will generally have a higher risk tolerance. Other options may touch on elements that could inform or influence risk tolerance, but do not capture the entirety of what defines it. For instance, simply having a certain amount of money to invest does not directly correlate to how much risk someone is willing to take; it is more about how they perceive that risk and their overall psychological comfort with fluctuations. Similarly, prior investment types and age can provide context but do not encompass the broader elements that contribute to a complete understanding of risk tolerance.

### 4. What is a distinguishing feature of a Section 2503(c) trust compared to a support trust?

- A. The gift tax annual exclusion is available for transfers to a Section 2503(c) trust, but is not available for a support trust.**
- B. A support trust must distribute assets to the beneficiary by age 21, while a Section 2503(c) trust may continue indefinitely.**
- C. Gifts to a support trust are present interests, while gifts to a Section 2503(c) trust are future interests.**
- D. A support trust is revocable, while a Section 2503(c) trust is irrevocable.**

A Section 2503(c) trust is specifically designed to qualify for the gift tax annual exclusion, allowing transfers into the trust to be excluded from the donor's taxable gifts up to the annual exclusion limit. This is significant because it enables individuals to make gifts without incurring a gift tax liability, making it an attractive option for individuals looking to provide for a child's future. The main characteristic that distinguishes a Section 2503(c) trust from a support trust is centered around the treatment of contributions and distributions. In a Section 2503(c) trust, the beneficiary must have the right to withdraw the assets or income from the trust when they reach the age of 21. Until that age, the trust can hold the funds without needing to distribute them, effectively providing flexibility in the management of the assets for the beneficiary's benefit. In contrast, a support trust is typically designed to make distributions only for the beneficiary's health, education, maintenance, or support, without an explicit age threshold for distribution like that of the Section 2503(c) trust. Therefore, the distinguishing feature highlighted in the correct choice emphasizes the gift tax implications and the eligibility for the annual exclusion due to the structure of the Section 2503(c) trust. The other options

5. What is the correct calculation for Jensen's alpha of a fund that returned 14% with a beta of 1.1, given a risk-free rate of 4% and a market return of 12%?

- A. 9.1
- B. 6.0
- C. 1.2**
- D. 2.0

To calculate Jensen's alpha, the formula is:  $\text{Jensen's Alpha} = \text{Actual Return} - [\text{Risk-Free Rate} + \text{Beta} \times (\text{Market Return} - \text{Risk-Free Rate})]$  In this scenario: - The actual return of the fund is 14% - The risk-free rate is 4% - The beta of the fund is 1.1 - The market return is 12% First, we calculate the expected return using the Capital Asset Pricing Model (CAPM): 1. Calculate the market premium:  $\text{Market Return} - \text{Risk-Free Rate} = 12\% - 4\% = 8\%$  2. Multiply the market premium by the beta:  $1.1 \times 8\% = 8.8\%$  3. Add the risk-free rate to this product:  $4\% + 8.8\% = 12.8\%$  Now we can determine Jensen's alpha:  $\text{Actual Return} (14\%) - \text{Expected Return} (12.8\%) = 14\% - 12.8\% = 1.2\%$  Thus, Jensen's alpha is 1.2%. This signifies that the fund performed better than what was expected given its risk and the market performance. This is evidence of the fund manager's ability to generate excess returns over

6. According to John Brown, what is the most commonly used exit planning strategy?

- A. Insider transfer.**
- B. Transfer to children.
- C. Third-party transfer.
- D. ESOP.

The most commonly used exit planning strategy, according to John Brown, is an insider transfer. This approach involves transferring ownership of a business to individuals who are already involved in the company, such as employees or management. Insider transfers can provide a smoother transition since these individuals are often already familiar with the business operations, culture, and challenges. This strategy allows for a continuous operational flow, as the business can maintain its existing management style and customer relationships. It also offers the business owner the opportunity to mentor the new owners, ensuring that the company's legacy and values are upheld. In many cases, this method is seen as less risky compared to other options, as it can lead to stability and continuity for both the staff and customers following the ownership change. While other options like transferring to children, third-party transfers, and ESOPs (Employee Stock Ownership Plans) are viable exit strategies, they may come with unique challenges, such as family dynamics, establishing the right market value for a third-party sale, or the complexities of setting up an ESOP. These factors contribute to the prevalence of insider transfers as a preferred exit strategy among business owners looking for viable succession solutions.

**7. Which fund allows for privacy in donor identities while maximizing tax benefits?**

- A. Private foundation**
- B. Both have equal privacy**
- C. Donor-advised fund**
- D. Neither fund menances privacy**

Donor-advised funds provide a unique advantage when it comes to privacy for donor identities while also maximizing tax benefits. When contributors donate to a donor-advised fund, they can receive immediate tax deductions while retaining the ability to recommend how the funds are distributed over time. This allows donors to maintain a level of anonymity, as their names and contributions are not publicly disclosed when grants are made from the fund. In contrast, private foundations typically have more stringent reporting requirements, which often lead to public disclosure of donor information and the amounts given. While private foundations do offer some tax benefits, they do not provide the same level of privacy that donor-advised funds do. The distinction between these two fund types highlights the specific characteristics that donor-advised funds offer, particularly appealing to individuals who prioritize both privacy and maximizing their tax efficiency.

**8. In wealth management, what does "rebalancing" mean?**

- A. Increasing the total number of assets in a portfolio**
- B. Buying and selling assets to achieve maximum profit**
- C. Adjusting the proportions of different assets in a portfolio**
- D. Creating a new portfolio from scratch**

Rebalancing in wealth management refers to the process of adjusting the proportions of different assets in a portfolio to maintain an intended asset allocation. Over time, as the values of different investments fluctuate, the original allocation can drift due to varying rates of return among the assets. For example, if equities perform exceptionally well, they may represent a larger portion of the portfolio than originally intended, leading to increased risk. By rebalancing, an investor can restore the desired allocation, which helps manage risk and aligns the portfolio with the investor's financial goals, risk tolerance, and investment strategy. This process often involves selling some of the over-performing assets and buying more of the underperforming ones to bring the portfolio back to its target allocation. This disciplined approach helps in maintaining a balanced risk profile and can also take advantage of market opportunities. In contrast, simply increasing the total number of assets or creating a new portfolio does not directly address the management of existing asset proportions. Similarly, while buying and selling assets could relate to various strategies, it does not specifically convey the essence of rebalancing, which is fundamentally about maintaining intended asset proportions rather than seeking maximum profits.

## 9. What role does a trust play in wealth management?

- A. It allows for management and distribution of assets per the grantor's terms**
- B. It solely focuses on tax evasion strategies**
- C. It is used to avoid estate planning altogether**
- D. It allows for personal loans to family members only**

A trust plays a critical role in wealth management by allowing for the management and distribution of assets according to the specific wishes of the grantor. This legal arrangement enables the grantor to establish detailed instructions regarding how and when the assets within the trust are to be distributed to beneficiaries. This can include stipulations about age, specific milestones, or conditions that must be met, providing the grantor with a significant degree of control over their assets even after they are no longer able to manage them directly. In addition to distribution, trusts can also serve various purposes such as protecting assets from creditors, potentially reducing estate and gift taxes, and providing for the care of minors or individuals with special needs. The flexibility and security that trusts provide make them a common tool in comprehensive wealth management strategies. While some misconceptions about trusts may arise, such as the notion that they are only about tax evasion or avoiding estate planning entirely, the fundamental purpose of a trust is much broader and is primarily focused on asset management aligned with the grantor's intentions. Furthermore, trusts are not limited to providing loans to family members; rather, they can serve diverse functions in a well-structured financial plan.

## 10. What outcome results from the proactive role of activist hedge funds?

- A. Minimal corporate influence.**
- B. Focus solely on financial exit strategies.**
- C. Active engagement in corporate governance.**
- D. Passive investment approaches.**

The proactive role of activist hedge funds is characterized by their strategy of actively engaging in corporate governance to influence the management and direction of the companies in which they invest. This involves taking significant positions in underperforming companies and then advocating for changes in management, operational efficiency, or strategic direction to enhance shareholder value. By participating in board meetings, proposing changes in company practices, and sometimes initiating proxy fights to gain more control, activist hedge funds aim to drive performance improvements and unlock value for all shareholders. This approach contrasts sharply with passive investment methods, which simply involve holding shares without seeking to influence company policies or management behavior. The focus on active engagement highlights the activist hedge funds' dedication to fostering significant alterations within a company, aiming for not just financial returns but also transformative actions that can lead to improved organizational performance.

## 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](mailto:hello@examzify.com).**

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

**<https://accreditedwealthmanagementadvisor.examzify.com>**

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

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