

CFA Investment 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. A document that provides the precise instructions for actions necessary to achieve a desired outcome is most likely a:**
 - A. Policy document**
 - B. Process document**
 - C. Procedure document**
 - D. Guideline document**
- 2. How do client cash inflows and outflows affect the calculation of holding-period returns using the time-weighted rate of return method?**
 - A. They have no impact on the number of sub-periods**
 - B. More frequent cash flows lead to more sub-periods**
 - C. Less frequent cash flows will result in fewer sub-periods**
 - D. They always complicate the calculation**
- 3. What is referred to as debt securities with maturities of less than one year?**
 - A. Bonds.**
 - B. Gilts.**
 - C. Notes.**
 - D. Bills.**
- 4. What is a common reason for investors to utilize investment trusts?**
 - A. Tax benefits**
 - B. Diversification of holdings**
 - C. Access to private equity**
 - D. Lack of regulation**
- 5. Regulation helps to reduce the risk of systemic financial market failure caused by which of the following?**
 - A. Companies failing to transfer financial risk**
 - B. Decreasing availability of investment-grade debt**
 - C. Increasing levels of debt funding**
 - D. High demand for corporate bonds**

6. Which type of investor is typically characterized by significant holdings and the ability to influence market pricing?

- A. Retail investors**
- B. Institutional investors**
- C. Self-directed investors**
- D. Venture capitalists**

7. What is the main goal of all economic systems?

- A. Produce sufficient goods and services**
- B. Support government spending on public services**
- C. Efficiently allocate scarce resources to their most productive uses**
- D. Maximise consumer satisfaction**

8. Which option best defines a company's level of risk?

- A. The probability of lower-than-expected profitability**
- B. The likelihood of losses from events outside its control**
- C. The chance an uncertain occurrence will have a negative impact**
- D. The maximum loss that could occur**

9. An increase in international trade results in:

- A. Access to resources that are in limited supply**
- B. Reduced competition and higher domestic prices**
- C. A decrease in demand for domestic products and services**
- D. Lower wages for domestic workers**

10. Which of the following best describes human resources in the context of investment firms?

- A. Portfolio management**
- B. Client relations**
- C. Regulatory compliance**
- D. Workforce management**

Answers

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

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Explanations

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1. A document that provides the precise instructions for actions necessary to achieve a desired outcome is most likely a:

- A. Policy document**
- B. Process document**
- C. Procedure document**
- D. Guideline document**

The correct answer is a procedure document because it specifically outlines the step-by-step instructions necessary to complete a task or achieve a particular result. Procedure documents are designed to ensure consistency and efficiency in performing tasks, detailing exactly how processes should be carried out. In contrast, a policy document typically establishes the overall framework and guidelines for decision-making but does not provide detailed instructions for specific actions. A process document may describe a series of steps in a broader sense but lacks the granular detail found in a procedure document. Lastly, a guideline document offers recommendations or best practices but does not dictate strict steps to follow, allowing for more flexibility. Therefore, for achieving a desired outcome through precise actions, a procedure document is the most appropriate choice.

2. How do client cash inflows and outflows affect the calculation of holding-period returns using the time-weighted rate of return method?

- A. They have no impact on the number of sub-periods**
- B. More frequent cash flows lead to more sub-periods**
- C. Less frequent cash flows will result in fewer sub-periods**
- D. They always complicate the calculation**

When calculating holding-period returns using the time-weighted rate of return method, less frequent cash flows directly impact the number of sub-periods. The time-weighted rate of return isolates the investment manager's performance from the effects of cash flows, and it does this by breaking the investment period into sub-periods based on the timing of cash flows. If cash flows occur less frequently, there will be fewer distinct sub-periods created within the overall time frame. For example, if an investor has a single cash flow at the beginning and another at the end, that creates just one sub-period. Conversely, if there are multiple cash flows, each one will delineate a new sub-period, resulting in more frequent cash flows leading to more sub-periods. Therefore, when cash flows are less frequent, there are indeed fewer sub-periods, which simplifies the calculation of the time-weighted rate of return. Thus, the concept that less frequent cash flows result in fewer sub-periods is a fundamental aspect of how performance measurement is structured in this methodology.

3. What is referred to as debt securities with maturities of less than one year?

- A. Bonds.**
- B. Gilts.**
- C. Notes.**
- D. Bills.**

Debt securities with maturities of less than one year are referred to as "bills." This classification typically includes instruments like Treasury bills (T-bills) in the context of government debt, which are sold at a discount and mature at par value, allowing investors to earn interest without periodic coupon payments. Bills are characterized by their short duration, making them less sensitive to interest rate changes compared to longer-term debt securities, which can lead to higher volatility and risk. On the other hand, bonds generally have longer maturities and typically provide periodic interest payments, while notes are commonly associated with obligations that usually have maturities ranging from one to ten years. Gilts specifically refer to government securities issued in certain countries, often in the context of UK government debt, and can include a broader maturity spectrum, not limited to short-term instruments. Therefore, the term "bills" correctly identifies debt securities that fit the specified criterion of having maturities shorter than one year.

4. What is a common reason for investors to utilize investment trusts?

- A. Tax benefits**
- B. Diversification of holdings**
- C. Access to private equity**
- D. Lack of regulation**

Investors often utilize investment trusts primarily for the diversification of holdings. Investment trusts pool capital from multiple investors to invest in a diversified portfolio of assets, which may include equities, bonds, or other securities. This pooling allows individual investors to gain exposure to a wider array of investments than they could typically achieve on their own, effectively spreading out risk. By investing in a single investment trust, investors benefit from the collective investment strategy, reducing the impact of poor performance from any single asset. This diversification is particularly beneficial in mitigating systemic risk and enhancing potential returns over time. While tax benefits and access to private equity can be relevant aspects of certain investment vehicles, they are not as universally applicable as diversification. Investment trusts are also subject to regulation, and claiming a lack of regulation would not accurately reflect the standards and oversight that govern these investment vehicles.

5. Regulation helps to reduce the risk of systemic financial market failure caused by which of the following?

- A. Companies failing to transfer financial risk**
- B. Decreasing availability of investment-grade debt**
- C. Increasing levels of debt funding**
- D. High demand for corporate bonds**

Regulation plays a critical role in mitigating the risk of systemic financial market failure, particularly in the context of increasing levels of debt funding. When firms leverage high levels of debt, they become more vulnerable to economic downturns, interest rate hikes, or other financial shocks. This heightened risk of default not only jeopardizes the individual firms but can also have a cascading effect on the broader financial system, leading to a loss of confidence among investors and potentially resulting in a systemic crisis. Regulatory frameworks are designed to impose limits on leverage, enhance transparency, and ensure that firms maintain sufficient capital buffers to withstand economic fluctuations. Through regulations such as capital requirements, stress testing, and risk management standards, authorities aim to prevent excessive borrowing and promote stability in the financial system. By curbing excessive debt levels, regulation helps to protect against the possibility of widespread defaults, thereby reducing the risk of a systemic failure.

6. Which type of investor is typically characterized by significant holdings and the ability to influence market pricing?

- A. Retail investors**
- B. Institutional investors**
- C. Self-directed investors**
- D. Venture capitalists**

Institutional investors are typically characterized by their significant holdings in various financial assets, such as stocks, bonds, and alternative investments. These investors manage large pools of capital, which can come from entities like pension funds, insurance companies, mutual funds, and endowments. Their substantial financial resources allow them to have a considerable impact on market pricing. As they buy or sell significant amounts of securities, their trades can create noticeable movements in market prices. This influence stems from both the sheer volume of their transactions and their reputation, which may lead market participants to react to their investment decisions. Furthermore, institutional investors often have access to more comprehensive market research, analytical resources, and are subject to different regulatory requirements compared to individual or retail investors. In contrast, retail investors typically operate on a smaller scale and generally do not have the same level of influence on market prices due to the relatively limited size of their investments. Self-directed investors are also individual investors who manage their investment portfolios but still lack the significant capital and resultant market influence of institutional holders. Venture capitalists, while they do wield influence within niche markets, primarily focus on early-stage companies and startups rather than influencing public market pricing with massive holdings.

7. What is the main goal of all economic systems?

- A. Produce sufficient goods and services**
- B. Support government spending on public services**
- C. Efficiently allocate scarce resources to their most productive uses**
- D. Maximise consumer satisfaction**

The main goal of all economic systems is to efficiently allocate scarce resources to their most productive uses. This principle stems from the fundamental concept of scarcity, where resources (such as land, labor, and capital) are limited while human wants are virtually unlimited. Economic systems, regardless of their structure—capitalist, socialist, or mixed—must find ways to arrange and utilize these resources effectively to meet the needs and wants of society. Efficient allocation of resources ensures that they are used in a manner that maximizes productivity and economic output. This involves decisions about what to produce, how to produce, and for whom to produce, all aimed at optimizing resource utilization. When resources are allocated efficiently, it helps in minimizing waste and enhances overall economic welfare, which is a primary focus of any economic system. Other aspects, such as producing sufficient goods and services or maximizing consumer satisfaction, are indeed important, but they are often secondary or a means to implement the broader goal of efficient resource allocation. Supporting government spending is a function within an economic system rather than a primary goal, as it typically relies on the overall efficiency of resource allocation to ensure that public services can be funded sustainably.

8. Which option best defines a company's level of risk?

- A. The probability of lower-than-expected profitability**
- B. The likelihood of losses from events outside its control**
- C. The chance an uncertain occurrence will have a negative impact**
- D. The maximum loss that could occur**

A company's level of risk is best defined as the chance that an uncertain occurrence will have a negative impact. This definition encapsulates the overarching concept of risk, which is fundamentally tied to uncertainty and its potential consequences on the company's performance. Risk is inherently about dealing with unknowns and their potential effects. In the context of investing and company operations, risk involves considering events that could adversely affect profitability, operational capabilities, or market position. Therefore, defining risk in terms of the chance of a negative impact accurately captures the essence of what risk entails—it's about the exposure to situations where negative outcomes might arise, thus affecting the company's success. In contrast, other options may reference aspects of risk but do not fully encompass its comprehensive nature. For example, references to profitability or losses from uncontrollable events capture specific dimensions but do not articulate the broader concept of uncertainty and its potential negative effects. Defining risk purely in terms of maximum loss would not consider the broader range of risks that can impact a company, such as reputation, operational risks, or market fluctuations. Thus, the formulation provided in the correct definition is the most holistic understanding of a company's level of risk.

9. An increase in international trade results in:

- A. Access to resources that are in limited supply**
- B. Reduced competition and higher domestic prices**
- C. A decrease in demand for domestic products and services**
- D. Lower wages for domestic workers**

An increase in international trade typically leads to access to resources that are in limited supply. When countries engage in trade, they can import goods and services that they do not produce domestically or that are available in limited quantities within their borders. This expanded access allows nations to benefit from the variety of resources available in the global market, including raw materials, specialized goods, and technologies that may enhance their own production capabilities. By leveraging the comparative advantages of different countries, industries can access what they need while optimizing costs and improving efficiency. This dynamic fosters economic growth, as each country can focus on producing what it does best and trade for the goods it needs. Consequently, international trade can stimulate innovation, increase competition, and lead to more efficient resource allocation worldwide.

10. Which of the following best describes human resources in the context of investment firms?

- A. Portfolio management**
- B. Client relations**
- C. Regulatory compliance**
- D. Workforce management**

Human resources in the context of investment firms primarily refers to workforce management, which encompasses the recruitment, hiring, training, and retention of employees. This function is crucial for ensuring that the firm has a skilled and motivated workforce capable of meeting its investment objectives and client needs. Effective workforce management also includes performance evaluation, employee development, and fostering a positive work culture, all of which are essential for maintaining operational efficiency and competitive advantage in the investment industry. While portfolio management, client relations, and regulatory compliance are key areas within an investment firm, they do not encompass the broader scope of human resources. Portfolio management focuses on the management of investments and assets, client relations deal with interactions with clients and maintaining relationships, and regulatory compliance ensures the firm adheres to laws and regulations governing the industry. Workforce management, however, is specifically about managing the firm's human capital, making it the best description of human resources in this context.

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://cfainvestment.examzify.com>

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

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