

CHARTERED MARKET TECHNICIAN (CMT) LEVEL 1 PRACTICE TEST (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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THE FULL VERSION STUDY GUIDE

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Table of Contents

Copyright	1
Table of Contents	2
Introduction	3
How to Use This Guide	4
Questions	5
Answers	8
Explanations	10
Next Steps	15

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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. Historically, when does the market tend to show the largest upward bias?**
 - A. At the market's opening
 - B. During the lunch hour
 - C. The last 15 minutes before closing
 - D. Midday trading session

- 2. What does the concept of mean reversion imply about a stock that has been performing well?**
 - A. It will likely continue to perform well in the future
 - B. It is time to sell since its performance may decline
 - C. It is a sign to invest more in the stock
 - D. It indicates the stock is stable and a safe investment

- 3. What does a price advance halt indicate when accompanied by high volume?**
 - A. A potential market bottom
 - B. A market correction
 - C. A potential market top
 - D. Increased market volatility

- 4. What does a gap indicate in market trading?**
 - A. Prolonged price stability
 - B. A price range during regular trading hours
 - C. Opening prices that deviate from previous day's range
 - D. Steady price movement without interruption

- 5. How do Bollinger Bands account for market volatility?**
 - A. They stay fixed regardless of market action
 - B. They expand when markets are calm
 - C. They contract during volatility
 - D. They dynamically adjust based on a set number of standard deviations

6. What does the stochastics indicator primarily help traders identify?

- A. The best times to enter a market
- B. Overbought and oversold conditions
- C. The volatility of a particular stock
- D. The effectiveness of different trading strategies

7. Which of the following describes the high low logic index?

- A. The ratio of total market volume to market cap
- B. The lesser of new highs or new lows to total issues
- C. The average price of stocks over a time period
- D. The total number of stocks traded on an exchange

8. What does an oscillator's range indicate?

- A. It is always open-ended
- B. It can only be between -100 to 100
- C. It determines stock volatility
- D. It represents liquidity levels in the market

9. What is the implication of a security's gap closing in trading?

- A. Higher probability of continued price movement
- B. Increased risk of a price reversal
- C. Stability in investment returns
- D. Indication of market strength

10. What does the stochastics indicator measure in trading?

- A. The overall market trend
- B. The relative position of the closing price
- C. The volume of trades
- D. The strength of a stock

Answers

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

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Explanations

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1. Historically, when does the market tend to show the largest upward bias?

- A. At the market's opening
- B. During the lunch hour
- C. The last 15 minutes before closing**
- D. Midday trading session

The market historically tends to show the largest upward bias in the last 15 minutes before closing. This phenomenon is largely attributed to various factors, including the behavior of institutional investors and end-of-day trading strategies. Many traders and fund managers adjust their positions towards the end of the trading session to align with their daily targets or to respond to news developments that occurred throughout the day. As the market approaches the close, buying pressure can increase, particularly from institutional entities who often engage in window dressing, which involves buying certain stocks to improve the appearance of their portfolios. This activity creates upward pressure on stock prices, leading to a notable bias toward gains during this period. In contrast, during the market's opening, fluctuations can be more erratic as traders react swiftly to overnight news; the lunch hour tends to see lower trading volume and less volatility; and the midday trading session can often be quieter, with less pronounced movements in price. Therefore, the time immediately before market close stands out as the period with the most significant upward bias.

2. What does the concept of mean reversion imply about a stock that has been performing well?

- A. It will likely continue to perform well in the future
- B. It is time to sell since its performance may decline**
- C. It is a sign to invest more in the stock
- D. It indicates the stock is stable and a safe investment

The concept of mean reversion suggests that asset prices, including stocks, tend to move towards their historical average or mean over time. When a stock has been performing particularly well, it is seen as being above its typical performance level. Mean reversion implies that a stock that has had a strong upward move might experience a decline in its price as it reverts to its historical average. This principle is grounded in the idea that extreme price movements are often unsustainable and that factors driving the strong performance may not persist indefinitely. Thus, if a stock is trading significantly higher than its historical averages or trends, it might be an indicator to consider the possibility of an impending drop in price. This understanding can guide traders and investors in their decision-making, leading them to consider selling or at least not buying into the stock at a higher price due to the likelihood of a pullback toward the mean.

3. What does a price advance halt indicate when accompanied by high volume?

- A. A potential market bottom
- B. A market correction
- C. A potential market top**
- D. Increased market volatility

A price advance halt accompanied by high volume typically indicates a potential market top. When prices rise significantly and then experience a halt in their advancement, especially with high trading volume, it suggests that many traders are likely taking profits after a sustained uptrend. High volume during this period signals strong participation in the market, indicating that a considerable number of traders are reacting to the price movement, potentially signaling a shift in market sentiment. This phenomenon often suggests exhaustion among buyers, as they may have driven the price up to a level where sellers start to dominate, leading to decreased buying support moving forward. Therefore, recognizing a price advance halt with high volume can be critical for traders anticipating a reversal or slowdown in the prevailing upward trend, marking a potential market top.

4. What does a gap indicate in market trading?

- A. Prolonged price stability
- B. A price range during regular trading hours
- C. Opening prices that deviate from previous day's range**
- D. Steady price movement without interruption

A gap in market trading refers to the condition where the opening price of a security differs significantly from its previous closing price, leading to a range without any trading occurring in between. This scenario is most accurately represented by the choice that identifies opening prices that deviate from the previous day's range. A gap often indicates a shift in market sentiment or a reaction to news or events that occurred after the market closed, leading traders to adjust their positions dramatically. This phenomenon can signal strong buying or selling interest, which can result in significant price movements. Gaps are categorized into several types—such as common gaps, breakaway gaps, exhaustion gaps, and continuation gaps—each providing insights into market dynamics and potential future movements. Understanding this concept helps traders gauge market sentiment and make informed trading decisions based on the implications of price gaps.

5. How do Bollinger Bands account for market volatility?

- A. They stay fixed regardless of market action
- B. They expand when markets are calm
- C. They contract during volatility
- D. They dynamically adjust based on a set number of standard deviations**

Bollinger Bands are a technical analysis tool used to measure market volatility based on standard deviations. The bands consist of a middle line, which is typically a moving average, and two outer bands that are calculated based on the standard deviation of price movements from that moving average. When market prices show greater volatility, the standard deviation increases, causing the outer bands to expand outward. Conversely, when the market experiences less volatility and price movements are more stable, the standard deviation decreases, leading the outer bands to contract. This dynamic adjustment allows Bollinger Bands to provide an ongoing indication of market volatility, reflecting current market conditions and helping traders make decisions based on that volatility. In this context, the choice indicates that the band structure adjusts to the fluctuating nature of the market, thus providing critical signals for price movement. Other options do not reflect the true nature of how Bollinger Bands are designed to function in relation to market volatility.

6. What does the stochastics indicator primarily help traders identify?

- A. The best times to enter a market
- B. Overbought and oversold conditions**
- C. The volatility of a particular stock
- D. The effectiveness of different trading strategies

The stochastics indicator is a momentum oscillator that compares a security's closing price to its price range over a specific period. Its primary function is to help traders identify overbought and oversold conditions in the market. When the indicator reaches high levels, it suggests that the asset may be overbought, indicating a potential pullback, while low levels signal that the asset may be oversold, suggesting a potential rise. This insight allows traders to make more informed decisions about potential entries and exits based on the prevailing market conditions. The other options, while relevant to trading strategies, do not capture the main purpose of the stochastics indicator. The indicator is not designed to pinpoint the best times to enter the market specifically, quantify volatility, or evaluate the effectiveness of various trading strategies. Its primary utility centers on analyzing price momentum and gauging market extremes.

7. Which of the following describes the high low logic index?

- A. The ratio of total market volume to market cap
- B. The lesser of new highs or new lows to total issues**
- C. The average price of stocks over a time period
- D. The total number of stocks traded on an exchange

The high low logic index focuses on market breadth by analyzing the number of new highs and new lows among a specific set of stocks, usually within a stock exchange or index. This index is calculated by taking the lesser of the number of new highs or new lows and comparing it to the total issues traded. This ratio provides insights into market sentiment and trends, indicating whether a market is experiencing a broad-based rally or a broader decline. By evaluating the lesser of new highs vs. new lows, the high low logic index helps traders and analysts gauge the strength of market movements. If the number of new highs outweighs the new lows significantly, it suggests a bullish market sentiment; conversely, if new lows dominate, it indicates bearish conditions. The other options do not accurately represent what the high low logic index entails. For instance, total market volume to market cap reflects a different aspect of market activity, while average price calculations give insight into price trends rather than breadth. Lastly, total stocks traded focuses on volume metrics rather than the specific dynamics of new highs and lows. This understanding of the high low logic index is important for identifying potential reversals or continuations in market trends.

8. What does an oscillator's range indicate?

- A. It is always open-ended
- B. It can only be between -100 to 100**
- C. It determines stock volatility
- D. It represents liquidity levels in the market

An oscillator generally provides a range of values that helps traders analyze market conditions, typically fluctuating between two thresholds. In many commonly used oscillators, such as the Relative Strength Index (RSI) or the Stochastic Oscillator, the values are confined to a specific set of bounds, often between -100 to 100 or 0 to 100. This defined range facilitates the interpretation of market momentum, indicating overbought or oversold conditions based on where the oscillator currently lies within that span. By having a fixed range, traders can assess whether market conditions are potentially turning in favor of buyers or sellers, aiding in decision-making about entry and exit points. This relationship of bounded values allows for clearer analysis compared to concepts that do not have constrained ranges, making option B the most accurate representation of an oscillator's range.

9. What is the implication of a security's gap closing in trading?

- A. Higher probability of continued price movement
- B. Increased risk of a price reversal**
- C. Stability in investment returns
- D. Indication of market strength

When a security's gap closes in trading, it typically suggests an increased risk of a price reversal. Gaps occur when there is a significant difference between the closing price of a security on one day and the opening price on the next day, often due to news events or significant changes in market sentiment. When the gap closes, it means that the price has moved back into the previous range, which can indicate that the momentum driving the price in the initial direction may have weakened. Traders often interpret this as a sign that the prior trend is losing strength, increasing the likelihood of a reversal in price direction. This is particularly relevant in bearish scenarios, where a gap up can close with a subsequent decline in price, signaling potential vulnerability of the upward price movement. The concept of gap closing is widely used in technical analysis to assess market psychology and potential future price movements. Understanding this behavior helps traders manage their risk and make informed decisions based on historical price patterns and market dynamics.

10. What does the stochastics indicator measure in trading?

- A. The overall market trend
- B. The relative position of the closing price**
- C. The volume of trades
- D. The strength of a stock

The stochastics indicator is a momentum-based oscillator used in technical analysis that measures the relative position of a security's closing price in relation to its price range over a specific period of time. This indicator helps traders identify potential overbought or oversold conditions, which can indicate potential reversals or continuations in price trends. By assessing where the closing price falls within the range between the highest high and the lowest low over the set period (commonly 14 periods), the stochastics indicator generates values between 0 and 100. A reading above 80 typically suggests that a security may be overbought, while a reading below 20 indicates oversold conditions. These thresholds guide traders in making more informed decisions regarding entry and exit points. While options discussing overall market trends, trade volume, or stock strength provide different insights, they do not specifically pertain to the primary function of the stochastics indicator, which is focused on the closing price's relative position.

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://cmtlevel1.examzify.com>

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

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