

# Chartered Market Technician (CMT) Level 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. Why are speculative trading activities important for hedging?**
  - A. They ensure stable income for investors**
  - B. They provide liquidity for commercial hedges to mitigate risks**
  - C. They create market volatility**
  - D. They allow for better long-term forecast accuracy**
  
- 2. What situation constitutes a swing low?**
  - A. Two consecutive higher closes**
  - B. Higher low than previous two days**
  - C. Lower low than previous two days**
  - D. Equal low over three days**
  
- 3. What directional movement is recorded on an inside day?**
  - A. A positive directional movement**
  - B. A negative directional movement**
  - C. No directional movement**
  - D. A strong directional movement**
  
- 4. What type of moving average is used as a signal line in the Relative Vigor Index?**
  - A. Exponential moving average**
  - B. Four-period triangular weighted moving average**
  - C. Simplified moving average**
  - D. Simple moving average**
  
- 5. Which method of optimization involves testing on small subsequent portions of data?**
  - A. Whole sample optimization**
  - B. In-Sample, Out-of-Sample testing**
  - C. Walk Forward optimization**
  - D. Parameter sensitivity analysis**

- 6. Which cognitive bias causes investors to overweight confirming information?**
- A. Avoidance bias**
  - B. Confirmation bias**
  - C. Representativeness bias**
  - D. Anchoring bias**
- 7. How is the MACD line calculated?**
- A. 12-day EMA minus 26-day EMA**
  - B. 26-day EMA minus 12-day EMA**
  - C. 9-day EMA minus the MACD line**
  - D. MACD line's simple moving average**
- 8. What trading signal follows an inverted hammer?**
- A. A continuation pattern**
  - B. A bearish reversal signal**
  - C. A bullish signal based on the closing price**
  - D. A signal to exit long positions**
- 9. What is the accumulation phase associated with?**
- A. High prices leading to speculative selling**
  - B. Low prices where cautious investors build positions**
  - C. Rapid price increases due to panic**
  - D. Stable prices across multiple utilities**
- 10. Which direction should the ADX line be moving to implement a trend-following strategy?**
- A. The ADX line should be pointing down.**
  - B. The ADX line should be flat.**
  - C. The ADX line should be pointing up.**
  - D. The ADX line should be fluctuating.**

## Answers

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

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## **Explanations**

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## 1. Why are speculative trading activities important for hedging?

- A. They ensure stable income for investors
- B. They provide liquidity for commercial hedges to mitigate risks**
- C. They create market volatility
- D. They allow for better long-term forecast accuracy

Speculative trading activities play a crucial role in the functioning of financial markets, particularly in their interaction with hedging strategies. The primary reason why these activities are important for hedging is that they provide liquidity, which is essential for the execution of commercial hedges. When hedgers seek to mitigate risk by taking positions in the market—such as using futures contracts to lock in prices—speculators are often on the other side of those trades. Speculators, who are willing to take on risk, enhance market liquidity by making it easier for hedgers to enter and exit their positions. This liquidity is vital for hedgers, as it ensures that they can transact efficiently without significantly impacting market prices. If the market were solely composed of hedgers, the lack of opposite positions could lead to illiquidity and increased transaction costs. The presence of speculative trading allows hedgers to more effectively manage their exposure to price fluctuations, enabling them to stabilize their earnings and manage operational risks associated with their underlying business activities.

## 2. What situation constitutes a swing low?

- A. Two consecutive higher closes
- B. Higher low than previous two days
- C. Lower low than previous two days**
- D. Equal low over three days

A swing low is defined in technical analysis as a point where the price has made a temporary bottom before moving higher, typically characterized by a series of price movements. It occurs when the current price is lower than the previous two price points but then makes a bounce upwards. Choosing the second option, which states that it involves a lower low than the previous two days, accurately describes this scenario. This situation indicates that the price has declined, creating potential buying interest as the market prepares to shift direction, signaling to traders that a reversal may be on the horizon. In contrast, the first option describes a situation where there are two consecutive higher closes, which indicates an uptrend but does not define a swing low. The third option, which suggests a higher low than the previous two days, points toward a potential swing high rather than a swing low, implying strength rather than weakness. The fourth choice, stating an equal low over three days, might indicate consolidation but does not signify a distinctive swing low, as it lacks the crucial aspect of a lower price preceding the reversal. Thus, the correct identification of a swing low is fundamentally rooted in the price action of being lower than previous conditions, setting the stage for a bullish reversal.

### 3. What directional movement is recorded on an inside day?

- A. A positive directional movement
- B. A negative directional movement
- C. No directional movement**
- D. A strong directional movement

An inside day occurs in technical analysis when the price range of a current trading day is completely contained within the price range of the previous trading day. This formation indicates a period of indecision in the market, where neither buyers nor sellers were able to gain control, resulting in a neutral or non-directional movement. In the context of directional movement, the concept refers to the change in price direction from one period to the next. Since the current day's high is lower than the previous day's high and the current day's low is higher than the previous day's low, the overall net movement of price does not indicate a clear direction. Therefore, an inside day would be categorized as having no directional movement. Understanding this concept is crucial because it can affect trading strategies. Traders may interpret an inside day as a consolidation pattern, anticipating that a breakout in either direction may follow, making this day pivotal in their decision-making process.

### 4. What type of moving average is used as a signal line in the Relative Vigor Index?

- A. Exponential moving average
- B. Four-period triangular weighted moving average**
- C. Simplified moving average
- D. Simple moving average

The Relative Vigor Index (RVI) uses a four-period triangular weighted moving average as its signal line. This choice is significant because the triangular weighted moving average gives more weight to the middle values, allowing for a smoother representation of price trends while being more responsive to recent price movements. This method effectively highlights momentum shifts and provides clearer signals for traders using the RVI. The unique characteristics of the triangular weighted moving average allow it to filter out noise better than a simple moving average or other forms of moving averages. This enhanced filtering can help in identifying trends and potential reversals more effectively in the context of momentum indicators like the RVI. While other options such as exponential and simple moving averages are commonly used in various technical indicators, they do not offer the same level of responsiveness and smoothing properties that the four-period triangular weighted moving average provides in this specific application.

**5. Which method of optimization involves testing on small subsequent portions of data?**

- A. Whole sample optimization**
- B. In-Sample, Out-of-Sample testing**
- C. Walk Forward optimization**
- D. Parameter sensitivity analysis**

Walk Forward optimization is a method that involves evaluating a trading strategy by testing it on small, subsequent portions of data, effectively using a rolling window approach. This technique allows for the real-time adjustment of the parameters of a trading strategy based on the most recent data, as well as assessing how a strategy performs across different segments of data that simulate live trading conditions. The main advantage of Walk Forward optimization lies in its ability to reduce the risk of overfitting that can occur when a strategy is optimized on a single large dataset. By constantly testing the strategy on a smaller, "out-of-sample" segment of data after optimizing it on a previous segment, practitioners can better understand how the strategy might behave in future market conditions, enhancing its robustness and adaptability. This methodology is particularly valuable in environments that are constantly changing, as it reflects a trader's ongoing adjustments based on new information. The combination of optimizing and re-evaluating in smaller increments over time aligns well with the dynamic nature of the markets, making Walk Forward optimization a preferred choice among traders aiming for long-term success and consistent performance.

**6. Which cognitive bias causes investors to overweight confirming information?**

- A. Avoidance bias**
- B. Confirmation bias**
- C. Representativeness bias**
- D. Anchoring bias**

Confirmation bias is the cognitive bias that leads investors to give disproportionate weight to information that confirms their existing beliefs or hypotheses. This phenomenon can significantly impact investment decisions, as individuals may seek out or favor data that aligns with their preconceptions while disregarding contradictory evidence. For investors, this means that if they have a positive outlook on a certain stock, they are more likely to notice and remember favorable news about that stock, further reinforcing their positive view. This can lead to poor decision-making, as ignoring negative information or contrary perspectives may prevent them from seeing the full picture and can result in significant financial losses if the investment does not perform as expected. Understanding confirmation bias is crucial for market technicians and investors alike, as it helps them recognize the importance of evaluating all available data objectively rather than selectively. This acknowledgment can encourage a more balanced approach to market analysis and decision-making.

## 7. How is the MACD line calculated?

- A. 12-day EMA minus 26-day EMA**
- B. 26-day EMA minus 12-day EMA**
- C. 9-day EMA minus the MACD line**
- D. MACD line's simple moving average**

The MACD (Moving Average Convergence Divergence) line is calculated by taking the difference between the 12-day exponential moving average (EMA) and the 26-day EMA of a security's price. This calculation reflects the momentum of the price trend as it combines two different EMAs, with the shorter (12-day) EMA being more sensitive to price changes than the longer (26-day) EMA. When the 12-day EMA exceeds the 26-day EMA, the MACD line becomes positive, signaling that the market is in a bullish phase. Conversely, when the 12-day EMA falls below the 26-day EMA, the MACD line turns negative, indicating a bearish trend. The other options do not describe the correct calculation for the MACD line. For instance, subtracting the longer EMA (26-day) from the shorter EMA (12-day) would yield an inverted result that does not accurately portray the relationship between the two averages. The 9-day EMA mentioned in one of the alternatives refers to the signal line typically derived from the MACD line itself, rather than being a part of the MACD line's initial calculation. Therefore, understanding the proper method to compute the MACD line is crucial for interpreting trading signals and momentum.

## 8. What trading signal follows an inverted hammer?

- A. A continuation pattern**
- B. A bearish reversal signal**
- C. A bullish signal based on the closing price**
- D. A signal to exit long positions**

An inverted hammer is a candlestick pattern that typically appears at the bottom of a downtrend and is considered a potential bullish reversal signal. The key component of this pattern is the relationship between the open, high, low, and close prices. An inverted hammer has a small real body, a long upper shadow, and little or no lower shadow, which indicates that although sellers pushed the price down during the period, buyers managed to push it back up towards the close. The significance of the inverted hammer lies in the implication that buying pressure may be increasing, which is why it can be interpreted as a bullish signal. For this pattern to be confirmed as a bullish reversal, the subsequent price action—particularly the closing price—becomes crucial. If the price closes higher after forming the inverted hammer, it reinforces the bullish sentiment, suggesting potential upward momentum. In this context, focusing on the closing price helps traders assess the strength of the bullish signal generated by the inverted hammer pattern. The confirmation that often follows—such as a higher close—can validate the expectation of a bullish reversal. Thus, the statement that the inverted hammer provides a bullish signal based on the closing price captures the essence of what traders look for when identifying trading opportunities following this pattern.

## 9. What is the accumulation phase associated with?

- A. High prices leading to speculative selling
- B. Low prices where cautious investors build positions**
- C. Rapid price increases due to panic
- D. Stable prices across multiple utilities

The accumulation phase is characterized by low prices where cautious investors begin to build positions. This phase typically follows a bearish market trend and is marked by a sentiment of uncertainty among market participants. During this time, informed investors or institutions recognize value in the stock or asset, believing that the price will rise in the future. They incrementally buy shares, often without attracting much attention from the broader market, which can contribute to gradually stabilizing or increasing prices. Investors are generally cautious during this phase, as they are likely aware of the risks involved after a downturn but still see potential for future gains. The accumulation phase is pivotal because it sets the groundwork for a potential upward movement in prices as more participants eventually enter the market, leading to a more significant upward price trend known as the markup phase.

## 10. Which direction should the ADX line be moving to implement a trend-following strategy?

- A. The ADX line should be pointing down.
- B. The ADX line should be flat.
- C. The ADX line should be pointing up.**
- D. The ADX line should be fluctuating.

The ADX (Average Directional Index) line is a tool used to measure the strength of a trend without ascribing a direction to it. For a successful trend-following strategy, the ADX line should be pointing up. This upward movement indicates that the market is experiencing increasing momentum and strength in a particular trend, whether it is bullish or bearish. When the ADX is rising, it suggests that there is a strong trend in place, and as a trend-following trader, one would seek to capitalize on this momentum. An upward ADX indicates that price action is becoming more directional, allowing traders to join the prevailing trend with greater confidence, expecting that it will continue. In the context of a trend-following strategy, monitoring the ADX provides valuable information. A rising ADX can signal traders to enter positions in the direction of the trend, as the market is confirmed to be moving strongly in one direction. This is integral for making informed decisions within technical analysis and ensures that traders are aligned with market momentum.

## 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://cmtlevel2.examzify.com>**

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

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