

Comprehensive Guide to Day Trading 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. What is a margin account?**
 - A. A margin account allows traders to borrow funds from a brokerage to purchase more securities than they could with their own cash.**
 - B. A margin account is where brokers hold cash deposits only with no lending.**
 - C. A margin account guarantees profit on every trade.**
 - D. A margin account is a retirement savings account.**

- 2. Which asset category is NOT listed as tradable in the material?**
 - A. Real estate**
 - B. Stocks**
 - C. Foreign currencies**
 - D. Commodities like gold and oil**

- 3. A bear ETF is best used to capitalize on which market movement?**
 - A. Rising markets**
 - B. Declining markets**
 - C. Stable markets**
 - D. Markets with no movement**

- 4. What does the spread in trading indicate?**
 - A. The dealer's profit margin and the liquidity of the instrument.**
 - B. The company's quarterly earnings.**
 - C. The number of outstanding shares.**
 - D. The duration of the trading day.**

- 5. What is the significance of having a 'seat' on the exchange?**
 - A. Having a seat allows traders to participate directly in the trading action on the exchange floor**
 - B. Having a seat grants lifetime voting rights on all listed securities**
 - C. Having a seat exempts the holder from certain regulations**
 - D. Having a seat guarantees access to initial public offerings**

- 6. What is the most basic type of day trading?**
- A. Trading futures only.**
 - B. Trading equities, also known as stocks, based on the principle of buying low and selling high.**
 - C. Trading options only.**
 - D. Trading currencies.**
- 7. What is the secondary market?**
- A. The market where previously issued stocks and bonds are traded among investors.**
 - B. The market for primary offerings.**
 - C. The market for government securities exclusively.**
 - D. The market for over-the-counter derivatives only.**
- 8. What is a tight spread in trading?**
- A. A small difference between the buying and selling price**
 - B. A large difference between bid and ask**
 - C. No difference between prices**
 - D. A negative spread that guarantees profit**
- 9. What happens to your trade value if the stock price increases?**
- A. The trade value decreases due to leverage.**
 - B. The trade value remains the same.**
 - C. The trade value increases, reflecting the higher price per share.**
 - D. The trade value becomes invalid.**
- 10. What triggers CTAs to respond in terms of economic data?**
- A. A specific economic data release such as payroll data.**
 - B. Random news headlines.**
 - C. Weather patterns.**
 - D. Corporate tax rate changes.**

Answers

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

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Explanations

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1. What is a margin account?

- A. A margin account allows traders to borrow funds from a brokerage to purchase more securities than they could with their own cash.**
- B. A margin account is where brokers hold cash deposits only with no lending.**
- C. A margin account guarantees profit on every trade.**
- D. A margin account is a retirement savings account.**

Margin accounts involve using borrowed funds from a broker to buy more securities than you could with your own cash. You deposit cash or securities, the broker lends you additional money, and your investment is secured by the assets in the account. You pay interest on the borrowed amount and must maintain a minimum level of own-money, or equity, in the account. If the market drops and your equity falls below that minimum, you may receive a margin call asking for more funds or securities, or the broker may liquidate holdings to cover the loan. This setup provides leverage: potential for larger gains, but also larger losses, including the possibility of losing more than your initial investment. It's not simply holding cash with no lending, it does not guarantee profits, and it isn't a retirement savings vehicle.

2. Which asset category is NOT listed as tradable in the material?

- A. Real estate**
- B. Stocks**
- C. Foreign currencies**
- D. Commodities like gold and oil**

The main idea is that tradable assets are those with active, centralized markets where prices update continuously. Stocks, foreign currencies, and commodities like gold or oil fit this pattern: they have standardized units, regulated exchanges, and high liquidity, so you can buy or sell quickly at current quoted prices. Real estate, on the other hand, is usually bought or sold through private negotiations, involves longer settlement times and higher transaction costs, and isn't traded on standard exchanges. You can gain real estate exposure through REITs or real estate derivatives, but direct property isn't traded in the same fluid way as the other categories. So real estate is the asset category that isn't listed as tradable in the material.

3. A bear ETF is best used to capitalize on which market movement?

- A. Rising markets**
- B. Declining markets**
- C. Stable markets**
- D. Markets with no movement**

A bear ETF is designed to move opposite to the market, so it profits when prices fall. It achieves this inverse exposure through mechanisms like short positions or derivatives, aiming for the benchmark's daily inverse return. Because of this setup, the instrument tends to rise when the market declines and fall when the market rises, making it the natural choice for capitalizing on downward moves. In a rising market, the bear ETF loses value as the opposite move unfolds; in a market with little or no movement, the effects of fees, tracking errors, and daily rebalancing can erode returns over time, so it isn't well suited for long-term holds. In short, its design is to benefit from declines, which is why it's best used during falling markets.

4. What does the spread in trading indicate?

- A. The dealer's profit margin and the liquidity of the instrument.**
- B. The company's quarterly earnings.**
- C. The number of outstanding shares.**
- D. The duration of the trading day.**

The spread represents the difference between the bid (selling) price and the ask (buying) price, and it shows two key things: how much profit a market maker can earn on each trade and how easily the instrument can be traded. A small spread means there are many buyers and sellers, so trades can be executed cheaply and quickly, reflecting high liquidity. A larger spread indicates lower liquidity and higher cost to trade, since market makers charge more to compensate for greater risk. This idea is why the spread is described as the dealer's profit margin tied to liquidity. It isn't about a company's quarterly earnings, the number of outstanding shares, or how long the trading day lasts.

5. What is the significance of having a 'seat' on the exchange?

- A. Having a seat allows traders to participate directly in the trading action on the exchange floor**
- B. Having a seat grants lifetime voting rights on all listed securities**
- C. Having a seat exempts the holder from certain regulations**
- D. Having a seat guarantees access to initial public offerings**

Having a seat on the exchange means you are a member with the right to trade directly on that venue. This direct access lets you execute orders within the exchange's systems rather than routing every trade through another broker, which can lead to faster execution and potential cost advantages as you participate in the exchange's liquidity. Vote rights, regulatory exemptions, and IPO access don't come from a seat. Voting on companies is determined by stock ownership, not membership. Regulations still apply to members, and compliance requirements remain in force. IPO allocations are controlled by underwriters and exchange rules, not by holding a seat.

6. What is the most basic type of day trading?

- A. Trading futures only.
- B. Trading equities, also known as stocks, based on the principle of buying low and selling high.**
- C. Trading options only.
- D. Trading currencies.

Day trading aims to profit from intraday price moves by opening and closing positions within the same session. The most basic form is trading equities: you buy stocks you expect to rise and sell them during the same day to capture the price move. Stocks are the simplest starting point because they're widely accessible, have straightforward pricing, and offer ample liquidity for quick entries and exits. This lets you focus on core skills like recognizing intraday momentum, identifying short-term support and resistance, and using simple risk controls such as stop-loss orders. Futures, options, and currencies can be day-traded as well, but they introduce extra layers of complexity—for example, contract specifications and margin for futures, time decay and volatility considerations for options, and leverage and macro-driven moves in the forex market. Those factors make them less basic for someone just starting out.

7. What is the secondary market?

- A. The market where previously issued stocks and bonds are traded among investors.**
- B. The market for primary offerings.
- C. The market for government securities exclusively.
- D. The market for over-the-counter derivatives only.

The secondary market is where investors trade securities that have already been issued, allowing quick buying and selling among participants after the initial sale. It provides liquidity and price discovery, with prices driven by current supply and demand rather than new issues. For example, you might sell shares of a company to another investor on an exchange or through a broker, and the company itself doesn't receive any of the money from that trade. The primary market is the one where new securities are issued to raise new capital, so that's not the same. Saying the market is exclusively for government securities or only for over-the-counter derivatives misses the broader reality: the secondary market covers a wide range of already-issued securities, including stocks and bonds, and even includes various derivatives traded after issuance.

8. What is a tight spread in trading?

- A. A small difference between the buying and selling price**
- B. A large difference between bid and ask**
- C. No difference between prices**
- D. A negative spread that guarantees profit**

A tight spread means the gap between the bid and the ask is small. The bid is what buyers are willing to pay, and the ask is what sellers want to receive. When these two prices are close, entering and exiting trades costs less because you're not paying a large premium to buy or a large discount to sell. This indicates strong liquidity and active participation from market makers, which is why tight spreads are desirable for traders, especially for quick or frequent trades. The other notions describe scenarios that aren't typical: a large difference is a wide spread and signals higher trading costs and lower liquidity; no difference would be a zero spread which is rare in real markets; a negative spread would imply an impossible situation where you could profit just by placing a trade, which doesn't occur in normal markets.

9. What happens to your trade value if the stock price increases?

- A. The trade value decreases due to leverage.**
- B. The trade value remains the same.**
- C. The trade value increases, reflecting the higher price per share.**
- D. The trade value becomes invalid.**

Trade value follows the price per share times the number of shares you own. If you hold the same amount of shares and the stock price goes up, the product increases, so your position's value rises. For example, 100 shares at \$50 are worth \$5,000; if the price climbs to \$55, the value becomes \$5,500. This is why the trade value increases with a higher share price. The other options don't fit: value wouldn't automatically fall because of leverage when prices rise, it wouldn't stay the same unless the price didn't change, and it wouldn't become invalid simply from a price increase.

10. What triggers CTAs to respond in terms of economic data?

- A. A specific economic data release such as payroll data.**
- B. Random news headlines.**
- C. Weather patterns.**
- D. Corporate tax rate changes.**

CTAs respond to concrete economic data releases because these releases move markets in ways that fit their rules-based trading strategies. A payroll data release, in particular, is a flagship macro indicator. It provides new information about employment, wages, and overall economic momentum, and markets react to the surprise or alignment with forecasts. When the data comes out, traders see whether it's stronger or weaker than expected, which can shift inflation and growth expectations and trigger immediate price moves across asset classes. CTAs—often using trend-following or volatility-targeting rules—tune their positions to those fresh moves, increasing exposure on clear trend signals or reducing risk when the data causes reversal or heightened volatility. Other options don't fit as reliably triggers for CTA systems. Random headlines lack a consistent, quantifiable signal that a rules-based model can act on. Weather patterns influence only specific commodities or sectors and don't typically generate broad, repeatable trading signals for most CTA strategies. Corporate tax changes are policy events with longer horizons and more gradual impact; they don't produce the immediate, data-driven moves CTAs are designed to capitalize on.

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://compguidetodaytrading.examzify.com>

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

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