

Investing and Wealth Management 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. Which term best describes a fund that pools investor money to invest across a broad range of stocks and securities?**
 - A. Mutual Fund**
 - B. Hedge Fund**
 - C. Closed-End Fund**
 - D. Fund of Funds**

- 2. Which order type is typically used to automatically trigger a trade when the price reaches a specified level to protect profits or limit losses?**
 - A. Market Order**
 - B. Limit Order**
 - C. Stop Order**
 - D. Short Selling**

- 3. The annualized rate of interest based on par value is called what?**
 - A. Coupon**
 - B. Par Value**
 - C. Maturity**
 - D. Yield**

- 4. Moody's and S&P rating scales include which overarching category?**
 - A. Bond Ratings**
 - B. Investment Bonds**
 - C. Junk/Bonds**
 - D. Par Value**

- 5. Which term represents the amount of stock in the hands of the general public (shareholders)?**
 - A. Outstanding Stock**
 - B. Common Stock**
 - C. Authorized Stock**
 - D. Treasury Stock**

- 6. What is the term for the annual fee expressed as a percentage of assets to cover the costs of owning a mutual fund or ETF?**
- A. Net Asset Value (NAV)**
 - B. Expense Ratio**
 - C. Exchange Traded Fund (ETF)**
 - D. Real Estate Investment Trust (REIT)**
- 7. Which term denotes spreading investments across multiple assets to minimize risk?**
- A. Diversification**
 - B. Asset Allocation**
 - C. Market Risk**
 - D. Money Market Mutual Fund**
- 8. Which bond category is typically viewed as high quality but not guaranteed, often tied to credit ratings such as BBB and above?**
- A. BBB or above**
 - B. Below BBB**
 - C. AAA**
 - D. BB**
- 9. Which term describes the risk that a security will be difficult to sell quickly without incurring a loss?**
- A. Liquidity Risk**
 - B. Opportunity Cost**
 - C. PEST Analysis**
 - D. Common Stock**
- 10. A financial expert who analyzes financial reports and helps with wealth planning is identified by which designation in the material?**
- A. CFP (Certified Financial Planner)**
 - B. CFA (Certified Financial Accountant)**
 - C. Series 6 Exam**
 - D. Cryptocurrency**

Answers

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

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Explanations

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1. Which term best describes a fund that pools investor money to invest across a broad range of stocks and securities?

- A. Mutual Fund**
- B. Hedge Fund**
- C. Closed-End Fund**
- D. Fund of Funds**

Pooling investor money to invest across a broad range of stocks and securities describes a mutual fund. A mutual fund takes money from many investors and uses it to build a diversified portfolio of stocks, bonds, and other securities, managed by professionals. This structure provides diversification, professional oversight, and liquidity, with shares typically redeemable at the fund's net asset value at the end of each trading day. Other options don't fit this description: hedge funds are private and pursue varied, often riskier strategies; closed-end funds issue a fixed number of shares traded on an exchange; fund of funds invest in other funds rather than directly in securities.

2. Which order type is typically used to automatically trigger a trade when the price reaches a specified level to protect profits or limit losses?

- A. Market Order**
- B. Limit Order**
- C. Stop Order**
- D. Short Selling**

Protective exit triggers are designed to automatically exit a trade when price hits a predefined level. This is exactly what a stop order does: once the price reaches the stop level, the order becomes a market order and is filled at the next available price, helping to limit losses or lock in gains. For example, if you own a stock bought at 100 and set a stop at 95, a move down to 95 will trigger a sale and help cap downside. This contrasts with a market order, which executes immediately at the current price regardless of any level, and a limit order, which will only fill if the price reaches a specified level but may never execute if that level isn't touched. Short selling is a trading strategy, not an automatic exit trigger, so it doesn't describe an order type.

3. The annualized rate of interest based on par value is called what?

- A. Coupon**
- B. Par Value**
- C. Maturity**
- D. Yield**

Coupon rate is the fixed annual interest rate stated on a bond, calculated as a percentage of the bond's par value. It determines how much interest the issuer pays each year and is the figure used to compute the dollar amount of the yearly coupon payoff (for example, a 5% coupon on a \$1,000 par value pays \$50 per year, usually split into two semiannual payments). This concept is different from par value (the face value of the bond) and maturity (the time until the principal is repaid), and from yield (the actual return considering the price you paid and changes in value over time).

4. Moody's and S&P rating scales include which overarching category?

A. Bond Ratings

B. Investment Bonds

C. Junk/Bonds

D. Par Value

Moody's and S&P's rating scales focus on credit quality for debt instruments. The overarching category they use is bond ratings, which evaluate the issuer's ability to meet its financial obligations. These ratings guide investors on risk and the yields they should demand, distinguishing between investment-grade bonds (lower risk) and non-investment-grade or "junk" bonds (higher risk and higher yields). Par value isn't a rating and isn't related to credit quality, and one might hear "investment-grade bonds" as a phrase, but the formal umbrella term used by the rating agencies is bond ratings.

5. Which term represents the amount of stock in the hands of the general public (shareholders)?

A. Outstanding Stock

B. Common Stock

C. Authorized Stock

D. Treasury Stock

The concept being tested is the quantity of shares actually owned by investors and available for trading. That measure is called outstanding stock. It equals the number of shares the company has issued minus the shares it has repurchased and holds as treasury stock. In other words, outstanding stock represents the shares currently held by public investors and other external holders, not the shares sitting in the company's treasury. Other terms describe different ideas: authorized stock is the maximum number the charter permits the company to issue, not necessarily issued or out there in the market; common stock refers to a class of ownership and voting rights, not the count of shares outstanding; treasury stock refers to shares the company has bought back and keeps in its own treasury, not those held by public investors.

6. What is the term for the annual fee expressed as a percentage of assets to cover the costs of owning a mutual fund or ETF?

A. Net Asset Value (NAV)

B. Expense Ratio

C. Exchange Traded Fund (ETF)

D. Real Estate Investment Trust (REIT)

This question is about the ongoing cost of owning a mutual fund or ETF, expressed as a percentage of assets each year. That ongoing annual charge is called the expense ratio. It covers management, administration, and other operating costs, and is deducted from the fund's assets, reducing your returns regardless of how the fund performs. It's different from NAV, which is simply the price per share of the fund, and it's not about the fund's type (ETF) or its asset class (REIT). The expense ratio is the best fit because it precisely describes the annual fee as a percentage of assets.

7. Which term denotes spreading investments across multiple assets to minimize risk?

- A. Diversification**
- B. Asset Allocation**
- C. Market Risk**
- D. Money Market Mutual Fund**

Diversification means spreading investments across multiple assets to reduce risk. By not putting all money into a single asset or tightly related assets, you smooth out performance when some holdings stumble and others hold up, cutting unsystematic (company- or industry-specific) risk. The benefit comes from assets that aren't perfectly correlated, so their price movements don't move in lockstep. Asset allocation, while related, is about dividing the portfolio across broad asset classes (like stocks, bonds, and cash) to fit risk tolerance, not about choosing many individual assets to spread risk. Market risk is the overall risk to the market that diversification can't eliminate, and a money market mutual fund is a cash-like investment, not a diversification strategy.

8. Which bond category is typically viewed as high quality but not guaranteed, often tied to credit ratings such as BBB and above?

- A. BBB or above**
- B. Below BBB**
- C. AAA**
- D. BB**

High-quality but not guaranteed refers to investment-grade bonds. These are rated BBB- or higher by major agencies (or Baa3 or higher by Moody's), signaling relatively strong credit quality and lower default risk compared with junk bonds, but no rating guarantees against default. The description "BBB and above" directly aligns with this investment-grade band, which spans from BBB up through AAA. That makes it the best fit. Bonds rated below BBB are not considered investment-grade and carry higher risk; BB is below investment grade, and AAA, while the highest quality, describes a single top tier rather than the broader investment-grade category that starts at BBB.

9. Which term describes the risk that a security will be difficult to sell quickly without incurring a loss?

- A. Liquidity Risk**
- B. Opportunity Cost**
- C. PEST Analysis**
- D. Common Stock**

Liquidity risk is the risk that a security cannot be sold quickly without taking a lower price. If there aren't many buyers or the market is thin, selling fast may require accepting a discount from fair value because the bid side is weak or the bid-ask spread is wide. This concept matters because assets with low trading volume or few market participants are harder to exit promptly at a fair price, which is exactly what this risk captures. The other terms don't describe this situation: opportunity cost is what you miss out on by choosing one option over another; PEST analysis is a framework for evaluating political, economic, social, and technological factors; common stock is a type of equity, not a specific risk descriptor.

10. A financial expert who analyzes financial reports and helps with wealth planning is identified by which designation in the material?

- A. CFP (Certified Financial Planner)**
- B. CFA (Certified Financial Accountant)**
- C. Series 6 Exam**
- D. Cryptocurrency**

The key idea is recognizing which credential aligns with wealth planning. The designation that identifies a professional who can analyze financial reports and, more importantly, provide comprehensive wealth planning is the Certified Financial Planner (CFP). CFPs are trained to build and manage holistic financial plans for individuals, covering investments, taxes, retirement, estate planning, insurance, and cash flow—the full spectrum of wealth planning. In contrast, the Chartered Financial Analyst (CFA) focuses on investment analysis, security valuation, and portfolio management, not the broad, client-centered planning that encompasses all aspects of a personal financial plan. The Series 6 Exam is a licensing test for selling certain financial products, not a professional designation, and cryptocurrency is not a certification. Therefore, CFP best matches the description of a financial expert who analyzes financial reports and helps with wealth planning.

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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://investingwealthmgmt.examzify.com>

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

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