

CFA® SAMPLE QUESTION - LEVEL I

Alternative Investments

Q: Which of the following is the most likely reason why private equity firms perceive a depressed stock as an attractive target company for a leveraged buyout (LBO)?

CORRECT ANSWER:

Ⓒ The intrinsic value of the company is expected to exceed its market price.

Private equity firms perceive depressed stocks as attractive target companies for LBOs because the intrinsic value of the company is expected to exceed its market price.

Thus, the private equity firm will buy the undervalued stock and sell it when it reaches its intrinsic value.

Fair value is not the critical value in making investment decisions.



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