

CFA® SAMPLE QUESTION – LEVEL I

Equity Investments

Q: Which of the following statements about the SML and the CML is least likely correct?

CORRECT ANSWER:

(b) Securities fall on the SML have no intrinsic value to the investor

Securities that fall on the SML are expected to earn the market rate of return and, therefore, do have intrinsic value to the investor (and may also have the diversification benefits too).

Investors expected to be compensated for systematic risk (unsystematic risk should not be compensated because it should be eliminated away by suitable diversification)

Securities that plot above the SML are undervalued.



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