

CFA® SAMPLE QUESTION - LEVEL I

Portfolio Management

Q: According to the Markowitz Portfolio Theory:

CORRECT ANSWER:

- (b) adding a risky stock to a less risky bond portfolio can decrease portfolio risk**

Since stock and bond returns are most likely less than perfectly positively correlated. So adding some of a stock to a bond portfolio will initially decrease the total portfolio risk.

If two assets have returns that are perfectly positively correlated and have the same total risk, there is no risk-reduction benefit to combining the two assets.

With no risk-free asset, the minimum risk portfolio is one specific portfolio on the efficient frontier, not "any" portfolio on the efficient frontier.



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