

CFA® SAMPLE QUESTION - LEVEL I

Portfolio Management

Q: Which of the following decisions contributes most to the return of a portfolio's performance?

CORRECT ANSWER:

(a) Asset Allocation

Asset allocation deals with how investors divide their portfolio among three major asset categories: cash, bonds and stocks.

The asset-allocation decision, otherwise known as investment policy, is arguably the most important determinant of a portfolio's long-term return. A study by landmark Brinson, Hood and Beebower, "Determinants of Portfolio Performance" (1986, 1991) argues that investment policy accounts for 94% of the variation in returns in a portfolio, leaving market timing and stock selection to account for only 6%.



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