

CFA® SAMPLE QUESTION – LEVEL I

Portfolio Management

Q: A portfolio manager adds a new stock that has the same standard deviation of returns as the existing portfolio but has a correlation coefficient with the existing portfolio that is less than +1. Adding this stock will have what effect on the standard deviation of the revised portfolio's returns?

The standard deviation will:

- (a)** increase.
- (b)** decrease.
- (c)** decrease only if the correlation is negative.
- (d)** unchanged.



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