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CMT Level II Exam

CMT CMT-Level-II

Version Demo

Total Demo Questions: 31

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QUESTION NO: 1

According to Kirkpatrick and Dahlquist, during emotional times, flow of funds signals:

A. Appear to work poorly because price seems to divorce itself from economics.

B. Appear to work exceptionally well because of the market's flight to safety.

C. Function no differently than at any other time in the market cycle because of shortcomings in the measurement procedures.

D. Suggests the duration of the next downleg in the market cycle

ANSWER: A

Explanation:

“Appear to work poorly because price seems to divorce itself from economics.” is correct. Kirkpatrick and Dahlquist describe flow-of-funds analysis as a way to assess the movement of capital among investments and market sectors. Under normal conditions, these movements can reflect investors’ changing economic expectations, relative valuations, and preferences for risk. During highly emotional market periods, however, urgent fear or enthusiasm can dominate those more economically grounded allocation decisions. Prices may move sharply in response to sentiment, forced liquidations, panic buying, or a broad rush to reduce or assume risk, making observed fund flows seem inconsistent with the underlying economic picture.

The key word is “appear.” Flow-of-funds measures do not cease to exist or become inherently invalid during such episodes; rather, their usual economic interpretation becomes more difficult because short-term emotion can overwhelm the relationships analysts normally expect to observe. This is consistent with the text’s broader treatment of technical analysis as a study of market behavior, including the important role of investor psychology and crowd behavior in price movement. See the publisher listing for Technical Analysis: The Complete Resource for Financial Market Technicians and the CMT Association’s Chartered Market Technician overview.

QUESTION NO: 2

To calculate moving averages for a point-and-figure chart:

A. First, make a decision as to how many columns to average.

B. First, re-draw the chart as a 1X1 chart,

C. First, find the longest column, and count the number of filled boxes.

D. First, convert the chart to a conventional line chart.

ANSWER: A

Explanation:

First, make a decision as to how many columns to average. is correct because a moving average on a point-and-figure chart is defined by a chosen lookback period expressed in columns. The analyst must first specify that period—for example, a five-column, ten-column, or longer moving average—because it determines exactly which recent point-and-figure columns will be included in every successive calculation. Once the period is set, the relevant values from the selected consecutive columns can be totaled and divided by the number of columns, then the calculation is advanced as each new column is completed. This creates a consistent smoothing measure of the chart’s price action while respecting point-and-figure methodology, in which columns, box size, and reversal criteria define the chart rather than uniform calendar-time intervals. The selected number of columns therefore controls the sensitivity of the moving average: a shorter period responds more quickly to changes, while a longer period produces a smoother trend measure. Point-and-figure construction and its column-based representation are described by StockCharts ChartSchool; the CMT Association’s curriculum overview provides context for technical-analysis methods used in the CMT program at CMT Association.

QUESTION NO: 3

Which of the following is a component of the Code of Ethics?

CFA Institute members shall:

A. use particular care in determining applicable fiduciary duty.

B. use reasonable care and exercise independent professional judgment.

C. maintain and improve the competence of other investment professionals.

D. practice and encourage others to practice in a professional and an ethical manner.

ANSWER: D

Explanation:

"practice and encourage others to practice in a professional and an ethical manner." is a component of the CFA Institute Code of Ethics. The Code establishes overarching principles that guide the conduct of CFA Institute members and CFA Program candidates, including acting with integrity, placing the profession's integrity and clients' interests first, using reasonable care and independent professional judgment, promoting capital-market integrity, maintaining professional competence, and supporting ethical professional conduct. This statement directly reflects the Code's expectation that members not only conduct themselves professionally and ethically, but also encourage those standards among colleagues and throughout the investment profession.

This principle is important because ethical conduct is not limited to an individual's personal decisions. Investment professionals influence clients, coworkers, firms, and market confidence through their actions and leadership. Encouraging professional and ethical practices helps sustain trust in the investment-management profession and reflects credit on both the individual and the profession. The Code of Ethics provides the broad ethical foundation that is supplemented by the more detailed Standards of Professional Conduct. See the CFA Institute Code of Ethics and Standards of Professional Conduct and CFA Institute's Ethics and Standards resources.

QUESTION NO: 4

Which of the following is a true statement according to Elliott Wave Theory?

A. Triangles are usually second waves preceding a longer third wave

B. Waves can be expanded into longer waves and subdivided into shorter waves

C. In the stock market, wave 5 is the most common to extend

D. The Pythagorean theorem is the mathematical basis for Elliott Wave Theory

ANSWER: B

Explanation:

Waves can be expanded into longer waves and subdivided into shorter waves is correct because Elliott Wave Theory is founded on the principle of fractality. Price patterns are considered self-similar across degrees of trend: a completed pattern visible on a short-term chart can form one component of a larger pattern, while that same short-term pattern can itself be resolved into smaller constituent waves. Elliott described market movement as progressing through recurring motive and corrective structures that appear at multiple timescales, rather than as a single fixed-size pattern. This hierarchy of wave degrees allows an analyst to label broad market structure while also examining the internal structure of each movement. For example, an impulse at one degree of trend contains smaller waves at the next lower degree and may in turn be one segment of a larger impulse or correction at a higher degree. This multiscale organization is central to applying Elliott analysis, including evaluating whether a proposed wave count has an internally coherent structure. The Elliott Wave International overview discusses the theory's repeating wave patterns and degrees of trend: Elliott Wave Theory. A general reference on the theory and its wave hierarchy is also available from Investopedia.

QUESTION NO: 5

Which of the following is an INCORRECT definition of cycle terminology?

A. Amplitude - the height of the wave (cycle)

B. Period - the time needed to finish one wave (cycle)

C. Frequency - the number of cycles completed per unit of time

D. Phase - a measure of separation between the top and bottom of a wave (cycle)

ANSWER: D

Explanation:

Phase - a measure of separation between the top and bottom of a wave (cycle) is the incorrect definition. In cycle analysis, phase identifies a cycle's position or timing relative to a reference point, another cycle, or a defined point in the same cycle. It is commonly expressed in degrees, with a complete cycle spanning 360 degrees. For example, two cycles may be described as being in phase when their comparable points, such as troughs or crests, occur together; they are out of phase when those points occur at different times. Phase therefore concerns timing and relative alignment, rather than the vertical size of price movement. The vertical separation from a cycle's trough to its crest is an amplitude concept: amplitude describes the magnitude or height of the oscillation. Distinguishing phase from amplitude is essential in technical cycle work because a cycle can retain a similar amplitude while its turning points shift in time. Likewise, changes in phase can indicate that a cycle is leading or lagging a benchmark without implying a change in its magnitude. See the CMT Association's overview of the technical-analysis discipline at CMT Association and the cycle-analysis discussion at StockCharts ChartSchool.

QUESTION NO: 6

Which of the following are valid point and figure chart trading tactics?

A. Simple trade signals can be used for new commitments whereas complex signals are needed for liquidation purposes

B. Long positions are closed when they fall below the trend line and short positions are closed when they rise above the trend line

C. Stop losses should be placed below the last column of Os in an uptrend

D. All of the above

E. Long positions are closed when they fall below the trend line and short positions are closed when they rise above the trend line, and stop losses are placed below the last column of Os in an uptrend.

ANSWER: E

Explanation:

"Long positions are closed when they fall below the trend line and short positions are closed when they rise above the trend line" and "Stop losses should be placed below the last column of Os in an uptrend" are both valid point-and-figure trading tactics. Point-and-figure charts use 45-degree bullish-support and bearish-resistance trend lines as objective guides for the prevailing trend. A move through the applicable trend line signals that the trend supporting the open position has been violated, providing a disciplined basis for closing that position. In an uptrend, the most recent completed column of Os identifies the latest meaningful pullback low. Placing a protective stop just below that column gives the trade room for normal reversals while defining the level at which the uptrend premise is no longer intact. Together, these methods integrate trend-line analysis with price-structure-based risk management, rather than relying on a subjective percentage or dollar stop. StockCharts' ChartSchool describes the construction and role of bullish-support and bearish-resistance lines in point-and-figure analysis and discusses the use of columns of Xs and Os to identify chart structure: StockCharts ChartSchool: Point & Figure Charts. The CMT Association's body of knowledge also includes point-and-figure charting within the technical-analysis discipline: CMT Association Body of Knowledge.

QUESTION NO: 7

Which of the following is NOT a proper interpretation of volume and trend in the futures markets?

A. Volume rising and open interest rising = trend reversal

B. Volume rising and open interest falling = position liquidation

C. Volume falling and open interest rising = slow accumulation

D. Volume falling and open interest falling = congestion phase

ANSWER: A

Explanation:

"Volume rising and open interest rising = trend reversal" is not a proper interpretation because concurrent increases in trading volume and open interest generally indicate that new positions are being established in the direction of the prevailing price move. Rising volume shows active participation, while rising open interest indicates that the number of outstanding futures contracts is expanding rather than merely being transferred or closed. Together, these measures are conventionally treated as confirmation that a trend has broad participation and commitment, supporting continuation rather than signaling reversal by themselves.

Open interest measures the total number of futures contracts that remain open, and it rises when new buyers and sellers create contracts. Therefore, when participation and outstanding commitments expand together, the market is attracting additional capital into the existing move. A reversal requires evidence that the prior trend is losing control or that price behavior has changed; the volume/open-interest combination stated here does not independently supply that evidence. This interpretation is consistent with standard futures-market analysis of volume and open interest, as described by CME Group's open-interest education materials and StockCharts' discussion of volume and open interest.

QUESTION NO: 8

Which of the following is NOT true of the Relative Strength Index

A. It is scaled from 0 to 100

B. It is more volatile than simple measures of momentum

C. It uses all the price values in a time period

D. It is frequently used to determine overbought and oversold levels

ANSWER: B

Explanation:

"It is more volatile than simple measures of momentum" is the statement that is not true. Wilder's Relative Strength Index transforms the ratio of average advances to average declines into a bounded oscillator. Its standard calculation uses Wilder's smoothing method for the average gain and average loss, rather than relying solely on the current price change. This averaging reduces the effect of isolated, unusually large daily moves and generally makes RSI smoother and less erratic than an unsmoothed simple momentum measure, such as the difference between today's closing price and the closing price a fixed number of periods ago.

The 0–100 scale also makes the indicator's readings comparable over time and supports its conventional interpretation around overbought and oversold zones. RSI is calculated from the sequence of upward and downward price changes across its lookback period, with the smoothed averages updated as each new observation becomes available. Accordingly, its design emphasizes normalized and smoothed momentum, not greater volatility. The calculation and interpretation are detailed by StockCharts ChartSchool's RSI reference and Fidelity's RSI indicator guide.

QUESTION NO: 9

Which of the following is a TRUE statement about the Stochastic Oscillator?

A. It examines the most recent closing price as a percentage of the price range over a window of time

B. It is not as sensitive to recent price action as other indicators like Rate of Change

C. It moves in the same direction as the Williams %R indicator

D. It works best in a trending market, when it confirms the direction of the primary trend.

ANSWER: A

Explanation:

It examines the most recent closing price as a percentage of the price range over a window of time is correct because the Stochastic Oscillator measures the close's relative position within the selected look-back period's high-low range. Its fast %K value is conventionally calculated as 100 multiplied by the difference between the latest close and the lowest low over the look-back period, divided by the difference between the highest high and lowest low over that same period. Thus, a reading near 100 means the close is near the top of its recent range, while a reading near 0 means it is near the bottom.

This construction reflects the indicator's underlying premise: in sustained upward price movement, closing prices tend to occur toward the upper end of the recent range; in sustained downward movement, they tend to occur toward the lower end. The raw %K line can be smoothed to create slow stochastic measures, and an additional moving average of %K is commonly called %D. These smoothing choices may alter responsiveness, but they do not change the oscillator's defining comparison of the most recent close with the period's price range. See the StockCharts ChartSchool stochastic oscillator reference and CMT Association for further technical-analysis education resources.

QUESTION NO: 10

What are common mistakes made by impatient traders?

A. Entering the market too soon

B. Exiting the market too soon

C. Abandoning well reasoned trading strategies due to adversity

D. All of the above

ANSWER: D

Explanation:

All of the above is correct because impatience can undermine trade execution at every stage of a disciplined trading process. A trader who acts before the specified entry criteria are met may enter on noise rather than on a validated signal. Similarly, an urge to realize a result quickly can lead to closing a position before the original setup, target, or trend-following rule has had adequate time to develop. Impatience is also especially harmful during normal adverse movement: when a strategy has been selected and tested with defined risk controls, abandoning it solely because of short-term discomfort replaces a repeatable process with an emotional, discretionary reaction.

In technical analysis, the practical remedy is to define entry, exit, position-sizing, and risk-management rules before placing the trade, then evaluate performance over a meaningful sample rather than from an isolated outcome. This process-oriented approach helps separate legitimate changes in market evidence from a trader's desire for immediate action or relief. Behavioral-finance research recognizes that emotional responses and biased decision-making can interfere with sound investment decisions; maintaining a documented trading plan is an important control. See the CFA Institute's behavioral finance overview and the CMT Association's description of the CMT program.

QUESTION NO: 11

Which of the following is considered a continuation pattern?

A. Head and shoulders

B. Inverse head and shoulders

C. Triangle

D. Double top

ANSWER: C

Explanation:

Triangle is considered a continuation pattern because it commonly represents a temporary consolidation or pause within an established trend. Its converging trendlines reflect progressively narrower price fluctuations as buying and selling pressure come into balance. This contraction often occurs after a directional price move, while market participants reassess value and positions are absorbed.

Technical analysts monitor a triangle for a decisive breakout, ideally accompanied by increased volume, in the direction of the trend that preceded the pattern. An upside breakout following an advance, or a downside breakout following a decline, signals that the prior directional force has resumed. The vertical height of the triangle at its widest point may also be used to develop a measured price objective from the breakout point. Although no chart pattern guarantees an outcome and triangles can occasionally mark reversals, their standard classification in technical analysis is as continuation formations. See StockCharts' discussion of symmetrical triangles and the CMT Association's technical-analysis education resources.

QUESTION NO: 12

Interpret the relationship between the S&P 500 and the NASDAQ 100 indexes based on the chart shown below, if the Pearson's coefficient of correlation is 0.45:

A. Linear relationship, as the Best Fit line is curvilinear.

B. Linear relationship, as points fall generally along a straight line.

C. Non-linear relationship, as points fall generally along a straight line.

D. Non-linear relationship, as the Best Fit line is curvilinear.

ANSWER: D

Explanation:

Non-linear relationship, as the Best Fit line is curvilinear. This conclusion is based on the visual form of the plotted relationship: a curving best-fit line indicates that changes in one index are associated with changes in the other in a manner that does not follow one constant straight-line rate. A Pearson correlation of 0.45 measures the degree of *linear* association only; it does not establish that the underlying relationship itself is linear. Therefore, a moderate positive Pearson coefficient can coexist with a visibly curved scatterplot pattern. When interpreting a correlation coefficient in technical analysis, the scatterplot and fitted relationship must be examined alongside the numerical statistic, because Pearson's measure summarizes how closely observations align with a straight line rather than capturing all possible forms of dependence. The chart's curvilinear fitted line is consequently the decisive evidence for characterizing the relationship as non-linear. See the NIST discussion of correlation and its linear-association interpretation in the NIST Engineering Statistics Handbook and the NIST guidance on scatter plots.

QUESTION NO: 13

Which of the following would NOT be true in designing a trading system utilizing bands?

A. Buy when prices penetrate the upper band

B. Close out longs when prices reverse and go below the center of the band

C. Close out shorts when prices reverse and go below the center of the band

D. Sell when price breaks below the lower band

ANSWER: C

Explanation:

“Close out shorts when prices reverse and go below the center of the band” would not be true because a move below the center band is ordinarily consistent with renewed downside movement, rather than a reversal against an existing short position. In a conventional band-based system, the center line is usually a moving average and serves as a directional or trend reference. Once a short position is established, a reversal that merits closing that short would generally involve price recovering upward through the center line, signaling that bearish momentum has weakened and the intermediate trend may be turning up. A decline below the center band instead supports the short-side bias and can confirm that price remains below its average reference level. The precise entry and exit rules should always be tested, including the choice of moving-average length, band width, and whether intraday penetration or closing prices trigger signals. Still, the directional logic of the center line means that downward movement through it is not normally the reversal condition for exiting a short. Bollinger Bands documentation describes the middle band as the moving-average base around which the upper and lower bands are constructed: BollingerBands.com. See also the practical discussion of the middle band and trend interpretation at StockCharts ChartSchool.

QUESTION NO: 14

Which of the following is not a characteristic of a normal distribution? Choose the best possible answer.

A. It is symmetric about the mean

B. The mean, median, and mode are all located at the trough

C. It extends infinitely in both directions

D. It is bell-shaped, with its peak at the center

ANSWER: B

Explanation:

The mean, median, and mode are all located at the trough is the correct choice because a normal distribution has a single highest point, or peak, at its center rather than a trough. In a perfectly normal distribution, the curve is symmetric around its central location, and the mean, median, and mode coincide at that location. Since probability density is greatest at the center, the shared location of these measures is the maximum of the density curve. A trough instead denotes a local minimum, which is inconsistent with the unimodal, bell-shaped form of the normal distribution. This central peak is also the point around which observations are most densely concentrated; probabilities decline smoothly as values move farther away in either direction. The result follows directly from the normal probability density function, whose exponential term is largest when the observation equals the mean and becomes smaller as the distance from the mean increases. For a formal description of the normal distribution and its properties, see the NIST Engineering Statistics Handbook and the Encyclopaedia Britannica overview of the normal distribution.

QUESTION NO: 15

In 3-box point and figure charts,

A. A double-bottom and double top can be continuation patterns

B. Only a double-bottom can be a continuation pattern

C. Only a double-top can be a continuation pattern

D. Neither can be continuation patterns. They do not exist in Point and Figur

ANSWER: A

Explanation:

A double-bottom and double top can be continuation patterns is correct. In a three-box-reversal point-and-figure chart, a double-top breakout occurs when a rising column of Xs exceeds the high of a prior X-column, while a double-bottom breakdown occurs when a falling column of Os moves below the low of a prior O-column. Although these formations are frequently discussed as basic bullish and bearish breakout signals, their interpretation depends on the broader chart structure and preceding trend.

When a double-top breakout develops during an established upward trend, it confirms renewed demand after a consolidation and is treated as a bullish continuation signal. Likewise, when a double-bottom breakdown occurs within an established downward trend, it confirms renewed supply following a pause or consolidation and is treated as a bearish continuation signal. Point-and-figure analysis focuses on price movement rather than elapsed time, so these signals identify a meaningful breach of a prior column extreme at the selected box size and reversal amount. The three-box reversal setting is especially important because it filters smaller countertrend fluctuations while preserving the breakout logic used to identify trend resumption. See the discussion of point-and-figure patterns at StockCharts ChartSchool and the methodology overview from CMT Association.

QUESTION NO: 16

What is the specific name given to the normal distribution for having special characteristics?

A. Center limit theorem

B. Histogram

C. Central limit theorem

D. All of the above statements

E. Gaussian distribution

ANSWER: E

Explanation:

The correct term is **Gaussian distribution**. “Normal distribution” and “Gaussian distribution” are interchangeable names for the same continuous probability distribution, named after the mathematician Carl Friedrich Gauss. Its defining characteristics include a bell-shaped, symmetric density curve centered at its mean. The mean, median, and mode coincide at that center, while the distribution’s standard deviation determines how widely observations are dispersed around it. In technical analysis and financial-statistics contexts, this distribution is commonly used as a benchmark model for describing the behavior of returns, measurement errors, and other random variables, although real-world financial return distributions can depart from a Gaussian form. The probability density function is fully determined by two parameters: the mean and variance. Its familiar bell shape and mathematically tractable properties are why “Gaussian” is the specific formal name associated with the normal distribution. See the Encyclopaedia Britannica overview of the normal distribution and the NIST description of the normal (Gaussian) distribution.

QUESTION NO: 17

Which of the following perfectly describes the pattern of a standard broadening formation with regards to pattern analysis?

A. The upper trend line goes downwards and must have two peaks, the latter higher than the former

B. The upper trend line goes upwards and must have two peaks, the latter higher than the former

C. The upper trend line goes upwards and must have a single peak

D. The upper trend line goes upwards and must have two peaks, the latter lower than the former

ANSWER: B

Explanation:

A standard broadening formation is defined by two diverging boundary lines as price swings become progressively wider. Its upper boundary is an ascending trend line drawn through at least two reaction highs. Therefore, the second peak used to establish that line must be higher than the first peak. At the same time, the lower boundary slopes downward through progressively lower reaction lows, producing the characteristic expanding, megaphone-like shape. This reflects increasing volatility and widening disagreement between buyers and sellers rather than price confinement within converging trend lines. The requirement for two peaks is important because a trend line cannot be established from only one price point; the second, higher high confirms the upward slope of the upper boundary. In practical chart analysis, additional alternating touches of the upper and lower boundaries strengthen identification of the formation, but the essential description of the upper trend line is that it rises through higher highs. See Investopedia's overview of broadening formations and StockCharts ChartSchool's discussion of broadening formations.

QUESTION NO: 18

A trend based trading system where signals occur when the current high or low price exceeds the previous high or low price:

A. Simple moving average

B. Point and figure

C. Swing breakout

D. N-day breakout

ANSWER: C

Explanation:

Swing breakout is the correct term for this trend-following rule. A swing breakout system establishes a long signal when the current period's high exceeds the preceding period's high and establishes a short signal when the current period's low falls below the preceding period's low. The system therefore uses the immediately prior price bar's high and low as the relevant breakout thresholds. This simple rule attempts to enter in the direction of a newly demonstrated directional move, on the premise that a break beyond a recent swing extreme can indicate persistence of a developing trend. In technical-analysis terminology, "swing" refers to the short-term price movement or pivot represented by successive highs and lows, and a breakout occurs once price moves beyond that reference extreme. The rule is distinct from a longer lookback breakout because its comparison is specifically with the previous high or low, rather than an extreme calculated over a specified multi-period window. For background on trend-following systems and breakout-based trading rules, see the CMT Association's CMT Association website and Fidelity's overview of technical-analysis indicators and trend analysis.

QUESTION NO: 19

Which of the following MUST be adhered to in published or written analytical reports?

A. Statements must be consistent with available evidence

B. Statements must be consistent with the accumulated knowledge of technical analysis

C. Statements may not indefensibly disparage the work of other analysts

D. All of the above

ANSWER: D

Explanation:

All of the above is correct because the professional standards governing CMT charterholders' analytical communications require several complementary safeguards. A published or written report must be grounded in available evidence, so that conclusions and recommendations have a reasonable analytical basis rather than being assertions unsupported by the facts or market data. It must also be consistent with the accumulated body of technical-analysis knowledge. This does not prevent an analyst from presenting a novel interpretation, but it requires that the work be professionally reasoned, competently applied, and communicated in a manner that reflects the discipline's established principles.

Professional communication also requires respect for the work of other analysts. Analysts may offer substantive, evidence-based criticism or state differing conclusions, but reports must not contain indefensible disparagement. Together, these requirements promote integrity, fairness, and accountability in research distributed to clients, employers, and the public. They are aligned with the CMT Association's ethical expectations that members maintain high standards of professional conduct and present analytical work responsibly. See the CMT Association Code of Ethics and the association's Chartered Market Technician program information.

QUESTION NO: 20

Stocks with superior fundamentals will normally decouple and start outperforming on an relative basis during:

A. a rampant bull market.

B. a market consolidation.

C. the last legs of an uptrend.

D. a market correction (bear market).

ANSWER: B

Explanation:

A market consolidation is correct. Consolidation is a comparatively nondirectional period in which the broad market's advance pauses and individual-stock selection becomes more important. When the common market trend is no longer lifting most securities together, investors can more clearly differentiate companies on the basis of earnings quality, financial strength, valuation, and business prospects. Demand consequently tends to concentrate in fundamentally stronger stocks, allowing them to decouple from the broader market and establish improving relative performance.

Relative performance is measured by comparing a security's price trend with a benchmark or peer group, often through a ratio chart. A rising ratio indicates that the security is outperforming its comparison series, even if both are moving only modestly or are range-bound. This makes consolidation a useful environment for identifying emerging leadership before a subsequent directional market move. The CMT curriculum emphasizes interpreting relative strength within market context, while ratio analysis provides the practical means to recognize this leadership. See the CMT Program Curriculum and StockCharts' overview of Price Relative (Price Ratio).

QUESTION NO: 21

A trend based trading system where the trend is the slope of a straight line found using a least squares regression:

A. Point and figure

B. Simple moving average

C. Linear regression slope

D. N-day breakout

ANSWER: C

Explanation:

Linear regression slope is correct because it measures trend directly from the slope coefficient of a least-squares fitted line. For a selected lookback period, linear regression fits a straight line to the series of price observations by minimizing the sum of squared vertical differences between the observed prices and the fitted line. The resulting slope quantifies the average change in price per period: a positive slope identifies an upward trend and a negative slope identifies a downward trend. A trend-following trading rule can therefore use the sign, magnitude, or change in this slope as its signal—for example, maintaining a long position while the regression slope is positive and moving defensive when it becomes negative. This approach makes the stated definition exact: the trend is not merely inferred from price behavior, but is specifically the slope of the straight line estimated through least-squares regression. The CMT curriculum treats regression analysis as a

quantitative method for describing a linear relationship and using the regression coefficient to characterize direction and rate of change. For further background on ordinary least-squares regression and interpretation of slope coefficients, see NIST's Linear Least Squares Regression overview and CMT Association.

QUESTION NO: 22

The Sharpe ratio measures:

A. Excess return per unit of total risk

B. Total return per unit of market risk

C. Annual return divided by maximum drawdown

D. Excess return divided by downside deviation

ANSWER: A

Explanation:

The Sharpe ratio measures excess return per unit of total risk, with total risk commonly represented by the standard deviation of returns. The numerator is the portfolio return less the risk-free rate, and the denominator is the portfolio's return volatility. A higher Sharpe ratio indicates that a portfolio generated more excess return for each unit of total variability assumed.

Because standard deviation includes both systematic and nonsystematic risk, the Sharpe ratio is particularly useful for comparing diversified portfolios. See the CFA Institute's discussion of portfolio risk and return.

QUESTION NO: 23

The rate of change oscillator is calculated by comparing the current price with:

A. The price a predetermined number of periods earlier

B. The highest price during the current period

C. The average closing price for the entire data series

D. The prior period's trading volume

ANSWER: A

Explanation:

The rate of change oscillator compares the current price with the price a specified number of periods earlier. It is generally expressed as a percentage change: the difference between the current price and the earlier price is divided by the earlier price. A positive reading indicates that current price is above its reference-period price, while a negative reading indicates the reverse.

Rate of change is a momentum measure, so technicians often evaluate its trend, zero-line crossings, and divergences in conjunction with price action. See StockCharts' Rate of Change reference.

QUESTION NO: 24

Which of the following is a CORRECT interpretation of the shooting star pattern?

A. It is even more bearish than the gravestone doji candle

B. Shooting stars in charts, as in life, are omens of good fortune

C. The color of the real body is of utmost importance to its significance

D. It is a bearish reversal pattern

ANSWER: D

Explanation:

“It is a bearish reversal pattern” is correct. A shooting star is a single-candle pattern that is most meaningful after an established advance. It has a small real body near the low of the session, a long upper shadow—typically at least twice the body’s height—and little or no lower shadow. The candle reflects an attempted continuation of the prior rise: buyers push prices substantially higher during the period, but sellers regain control and drive the close back toward the open and session low. This rejection of higher prices can signal that upward momentum is weakening and that a reversal or pullback may follow.

Its interpretation depends importantly on context. The pattern should occur following a recognizable uptrend, ideally near resistance or after an extended price advance. Confirmation from subsequent price action, such as a lower close or a decline below the shooting star’s low, improves confidence in the bearish reversal signal. Although a dark real body may add modestly to the pattern’s bearish tone, body color is not the defining feature; the long upper shadow, small body near the low, and prior uptrend provide the essential evidence. See the CMT Association’s Chartered Market Technician program and the Candlestick Pattern Dictionary’s shooting-star reference.

QUESTION NO: 25

Which of the following would be a valid trading interpretation of head and shoulder chart patterns?

A. Sell when prices penetrate the neckline

B. Buy when the head forms a higher high

C. Buy on the first rally after the neckline is penetrated

D. Buy when the right part of the head is forming

ANSWER: A

Explanation:

Sell when prices penetrate the neckline is the valid trading interpretation for a standard head-and-shoulders top. The pattern represents a potential reversal from an established uptrend: the left shoulder, higher head, and lower right shoulder indicate that the prior upward momentum is weakening. The neckline joins the reaction lows between the shoulders and the head, making it the key support level and the pattern’s confirmation boundary. A completed right shoulder alone does not confirm a reversal, because prices can resume their former trend. Confirmation occurs when the market closes or otherwise decisively moves below the neckline, signaling that support has failed and that the reversal pattern is active. A trader can use that downside break as a sell signal, commonly with risk control placed above an appropriate nearby resistance level. The expected decline is often estimated by measuring the vertical distance from the head to the neckline and projecting that distance downward from the breakout point. This approach emphasizes confirmation rather than anticipating the pattern before price action validates it. See the CMT Association’s Chartered Market Technician program overview and Fidelity’s discussion of head-and-shoulders patterns.

QUESTION NO: 26

Which of the following BEST characterizes the Theory of Contrary Opinion?

A. When virtually everyone takes the position that the market is headed in a certain direction, there is no one left to push the trend any further

B. Always trade against the prevailing trend

C. The future can be extrapolated based on present trends

D. Fundamental analysis is always wrong

ANSWER: A

Explanation:

The Theory of Contrary Opinion holds that widespread, near-unanimous market opinion can be a warning that a trend is becoming exhausted. If virtually all market participants have already adopted a bullish view and acted on it, much of the available buying power may have been committed. Similarly, if sentiment is overwhelmingly bearish, potential selling may already be largely spent. The key idea is not that one should mechanically oppose every popular view; rather, extreme consensus is relevant because markets need a continuing flow of new buyers to sustain advances or new sellers to sustain declines. Therefore, the statement that when virtually everyone expects the market to move in one direction, there is no one left to push the trend further accurately captures the theory's logic. In technical analysis, contrary opinion is commonly assessed through sentiment surveys, advisory-service sentiment, positioning data, and measures of speculation. These indicators are most useful at sentiment extremes and are generally interpreted alongside price, trend, and other technical evidence rather than as automatic standalone trading signals. The CMT Association's Body of Knowledge identifies contrary opinion as a core sentiment-analysis concept; see the CMT Program overview and the CFA Institute's discussion of market sentiment theory and practice.

QUESTION NO: 27

The bias under which, when an event has not occurred recently, the event is perceived as having zero or negligible probability of occurring in future, is categorized as:

A. Saliency bias

B. Framing bias

C. Sunk-cost bias

D. Anchoring bias

ANSWER: A

Explanation:

Saliency bias is correct. It describes the tendency to give disproportionate weight to information, outcomes, or events that are prominent in memory or readily brought to mind. Recent events tend to be more mentally vivid and salient; conversely, an event that has not occurred for some time may receive too little attention. This can lead an investor to treat the event as remote or virtually impossible, despite its objective probability and potential consequences remaining meaningful. In market settings, this can cause insufficient preparation for infrequent but consequential outcomes, such as a volatility spike, liquidity disruption, or severe drawdown, simply because such an event is not currently conspicuous in recent experience. The key issue is that probability judgment is being driven by psychological prominence rather than a disciplined assessment of base rates, historical distributions, and forward-looking risks. Behavioral-finance research recognizes that salient information can materially affect investor beliefs and decisions; see the CFA Institute's discussion of behavioral finance and the National Bureau of Economic Research paper on salience and choice under risk.

QUESTION NO: 28

ALL of the following are standard patterns used with 3-Box reversal point and figure charts,

EXCEPT:

A. Bullish or Bearish Triangle

B. Triple Top or Triple Bottom

C. Double Top or Double Bottom

D. Bullish or Bearish Fulcrum

ANSWER: D

Explanation:

Bullish or Bearish Fulcrum is the exception because it is not a standard named pattern in the conventional 3-box reversal point-and-figure pattern taxonomy. Three-box point-and-figure analysis identifies patterns from the arrangement of alternating columns of Xs and Os, with signals and formations defined by specified breakout or breakdown relationships among prior columns. The established vocabulary includes double and triple top or bottom formations, as well as bullish and bearish triangles, which are recognizable consolidation structures within the column-based chart format.

A “fulcrum” may be used informally by some analysts to describe a pivot area or balance point in price behavior, but it does not have the standardized construction and signal rules of the recognized 3-box reversal point-and-figure formations. For exam purposes, standard pattern names must correspond to the formal point-and-figure charting conventions rather than to general descriptive market terminology. StockCharts’ ChartSchool summarizes the conventional point-and-figure pattern framework and the role of breakout formations in generating signals: Point & Figure Chart Patterns. The CMT Association’s curriculum is built around applying such established technical-analysis methods consistently: Chartered Market Technician program.

QUESTION NO: 29

Which of the following is an INCORRECT definition of cycle terminology?

A. Amplitude - the height of the wave (cycle)

B. Period - the time needed to finish one wave (cycle)

C. Frequency - the number of cycles that repeat every 360°

D. Phase - a measure of separation between the top and bottom of a wave (cycle)

ANSWER: D

Explanation:

Phase - a measure of separation between the top and bottom of a wave (cycle) is the incorrect definition. In cycle analysis, phase describes a cycle’s position or timing relative to a reference point, or the displacement between two cycles of the same frequency. It is conventionally expressed in angular degrees, with one complete cycle spanning 360 degrees. Phase therefore indicates whether one cyclical movement leads, lags, or coincides with another movement. The vertical distance from a wave’s peak to its trough is instead a measure of its magnitude; this relates to amplitude, not phase. Understanding phase is especially useful in technical analysis because cycles with similar periodic behavior can be aligned or compared according to where each is within its repeating sequence. A phase shift can occur without changing either the duration of the cycle or the size of its movement. For an overview of cycle concepts and their use in technical analysis, see StockCharts ChartSchool’s cycle indicators reference and the CMT Association.

QUESTION NO: 30

Which of the following places the cycles in time length order?

A. Lunar, presidential, seasonal, alpha/beta and Kondratieff

B. Kondratieff, presidential, alpha/beta, seasonal and lunar

C. Alpha/beta, presidential, seasonal, lunar, and Kondratieff

D. Alpha/beta, lunar, seasonal, presidential and Kondratieff

ANSWER: D

Explanation:

Alpha/beta, lunar, seasonal, presidential and Kondratieff places these commonly cited market cycles in ascending order of their typical durations. Alpha and beta cycles refer to the shortest periodic movements in this grouping. The lunar cycle follows, based on the approximately 29.5-day synodic month. Seasonal cycles then encompass recurring patterns associated with the annual calendar and its subdivisions. The U.S. presidential cycle is conventionally measured across a four-year presidential term. Finally, the Kondratieff wave is a long-wave economic cycle, generally described as lasting several decades, often roughly 45 to 60 years. This progression moves consistently from short-duration cycles through monthly, annual, multiyear, and multidecade rhythms—the required basis for ordering cycles by time length. NASA describes the lunar synodic period as about 29.5 days in its Moon Phases resource. For background on the long-duration Kondratieff concept, see Encyclopaedia Britannica's Kondratiev cycle overview.

QUESTION NO: 31

A trend-based trading system where the trend is the weighting of the recent closing prices by a smoothing constant:

A. Point and figure

B. Simple moving average

C. Exponential smoothing

D. N-day break

ANSWER: C

Explanation:

Exponential smoothing is correct because it calculates a trend measure by applying a smoothing constant to the most recent closing price and combining it with the preceding smoothed value. In its common form, the exponentially smoothed value is calculated as: current smoothed value = smoothing constant × current close + (1 − smoothing constant) × prior smoothed value. This gives recent prices greater weight while retaining a declining influence from older observations. The smoothing constant controls responsiveness: a larger value causes the indicator to react more quickly to new price information, while a smaller value produces a smoother, slower-moving trend series. In technical analysis, this construction is equivalent to the logic underlying an exponential moving average and makes exponential smoothing useful in systematic trend-following rules, such as identifying when price is above or below its smoothed trend. The Chartered Market Technician curriculum treats moving-average and smoothing methods as core tools for trend identification and trading-system construction. For a description of exponential moving averages and their weighting mechanism, see Investopedia: Exponential Moving Average. The CMT Association provides information about the CMT curriculum and technical-analysis body of knowledge at CMT Association: Chartered Market Technician.