

Name: _____ Date: _____

Yield Curves and Capital Gains: 12th Grade Advanced Finance Quiz

Analyze tax-loss harvesting and geometric mean returns across 10 rigorous scenarios evaluating sophisticated asset allocation strategies.

1. An investor in the 37% marginal tax bracket realizes a \$50,000 short-term capital gain. To mitigate the tax liability via tax-loss harvesting, which action provides the most immediate fiscal efficiency?

- A. Selling a long-term asset held for 5 years at a \$50,000 loss.
- B. Selling a short-term asset held for 8 months at a \$50,000 loss.
- C. Holding the gain until the following tax year to defer the 15% rate.
- D. Reinvesting the \$50,000 gain into a Municipal Bond fund immediately.

2. A strategy involving the simultaneous purchase of a put option and a lead-in stock to protect against downside risk while maintaining upside potential is known as a _____.

- A. Protective Put
- B. Naked Call
- C. Iron Condor
- D. Wash Sale

3. According to the Modern Portfolio Theory (MPT), an investor can eliminate all systematic risk through the process of hyper-diversification across global equity markets.

- A. True
- B. False

4. Evaluate the impact of a 'backwardated' futures market on a commodity-heavy investment portfolio. What is the primary benefit to the investor?

- A. Negative roll yield as the spot price is lower than the future price.
- B. Positive roll yield as the futures price converges upward toward the spot price.
- C. Lower storage costs due to decreased demand for physical delivery.
- D. Increased dividends from the underlying commodity producers.

5. The _____ rule prevents an investor from claiming a loss on a security if they purchase a 'substantially identical' security within 30 days before or after the sale.

- A. Fiduciary
- B. Wash-Sale
- C. Mark-to-Market
- D. Rule of 72

6. A Treasury Inflation-Protected Security (TIPS) adjusts its principal based on the Consumer Price Index (CPI), meaning the interest payment (coupon) remains constant in dollar terms but increases in purchasing power.

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- A. True
- B. False

7. Which scenario best describes the 'Sequence of Returns Risk' for a retiree beginning withdrawals in a bear market?

- A. The total average return over 30 years is high, so the timing of losses is irrelevant.
- B. Inflation erodes the purchasing power of fixed-income annuities over time.
- C. Early losses combined with withdrawals deplete the principal too quickly to recover during later bull markets.
- D. High interest rates increase the cost of maintaining a mortgage during retirement.

8. The ratio used to measure the risk-adjusted return of an investment by subtracting the risk-free rate from the total return and dividing by the standard deviation is the _____ Ratio.

- A. Sortino
- B. Treynor
- C. Sharpe
- D. P/E

9. If the Federal Reserve implements an expansionary monetary policy during a period of high stagflation, what is the most likely outcome for a holder of long-duration corporate bonds?

- A. Bond prices will rise significantly as interest rates are lowered.
- B. The real value of the bonds will decrease as inflation expectations rise, despite lower nominal rates.
- C. Yield spreads will tighten, making corporate bonds safer than Treasuries.
- D. Zero-coupon bonds will become the most liquid asset class in the market.

10. In a 'Roth Conversion Ladder' strategy, an individual converts Traditional IRA funds to a Roth IRA to access the principal penalty-free after a five-year waiting period, regardless of age.

- A. True
- B. False