

Name: _____ Date: _____

Prudent Portfolios: Personal Finance Problems for Prospering Pros

Imagine managing a \$50,000 portfolio while navigating 10 complex scenarios covering tax-advantaged accounts, inflation hedging, and risk-adjusted returns.

1. A 25-year-old investor chooses a Target Date Fund (TDF) with a 'glide path' for retirement. What is the primary analytical justification for this strategy?

- A. It maximizes immediate liquidity for short-term consumption.
- B. It automates the shift from capital appreciation to capital preservation over time.
- C. It guarantees a higher yield than individual small-cap value stocks.
- D. It eliminates the need for any tax-deferred accounts like a Roth IRA.

2. The _____ Ratio is a common metric used by investors to measure the risk-adjusted return of an investment portfolio by subtracting the risk-free rate from the return.

- A. Treynor
- B. Sharpe
- C. Sortino
- D. Expense

3. True or False: In a high-inflation environment, holding large amounts of cash in a standard checking account results in a 'negative real interest rate.'

- A. True
- B. False

4. Which of the following describes the 'Time Value of Money' (TVM) principle when comparing a lump sum today versus a series of future payments?

- A. Future sums are always more valuable due to currency appreciation.
- B. Money today is worth more due to its potential earning capacity.
- C. Market volatility renders the timing of cash flows irrelevant.
- D. Interest rates and inflation always perfectly cancel each other out.

5. When an individual utilizes a 'Backdoor Roth,' they are typically trying to bypass _____, which would otherwise prevent them from contributing to a Roth IRA.

- A. Age restrictions
- B. Income limits
- C. Capital gains taxes
- D. Margin requirements

6. True or False: Tax Loss Harvesting involves selling securities at a loss to offset capital gains liabilities, thereby improving the net after-tax return.

- A. True

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B. False

7. Consider the 'Efficient Market Hypothesis' (EMH). If a college student believes they can consistently 'beat the market' by picking individual stocks based on public news, they are challenging which form of EMH?

- A. Weak form
- B. Semi-strong form
- C. Strong form
- D. Technical form

8. A standard 'Debt Avalanche' method of repayment focuses on paying off the balance with the _____ first to minimize total interest paid over time.

- A. Lowest balance
- B. Highest interest rate
- C. Longest term
- D. Most recent charge

9. Which document is essential for evaluating the internal fees, management strategy, and historical performance of a Mutual Fund or ETF?

- A. 10-K Annual Report
- B. Prospectus
- C. Credit Score Report
- D. Amortization Schedule

10. True or False: A 'Fiduciary' standard of care requires a financial advisor to act solely in the client's best interest, rather than just providing 'suitable' advice.

- A. True
- B. False