

Solution

1. Which of the following characteristics would you not expect to see in a good collectible?
 - a. A high price (now).
 - b. Prices that hold up or rise during financial crises
 - c. An increasing supply over time**
 - d. Enduring demand
 - e. Unique investments

Explanation: Scarcity is a feature of collectibles, and a rapidly increasing supply is incompatible with scarcity.

2. Fine art historically has had lower returns and higher standard deviations than stocks. Assuming that these are representative of this investment class, which of the following statements best describes why you may still own them?
 - a. They are highly illiquid
 - b. The transactions costs of trading on fine art are high
 - c. They need expert appraisals, with fraud as a clear and present danger
 - d. They have low correlation with stocks, and adding them provides the possibility of a better risk/return tradeoff**

Explanation: The low correlation may reduce the standard deviation of the portfolio, and compensate for the lower returns. All of the others are negatives.

3. Gold has a long history of returns. Over that history, which of the following statements best describes its performance as an investment, during the period
 - a. Gold always underperforms stocks, and has higher volatility
 - b. Gold, on average, underperforms stocks, but has lower volatility
 - c. Gold always outperforms stocks, and has higher volatility
 - d. Gold, on average, outperforms stocks, and has higher volatility
 - e. Gold, on average, underperforms stocks, with similar volatility**

Explanation: Over history, gold has delivered lower expected returns on stocks, with similar or even higher volatility..

4. Gold has long held standing as a good collectible. Which of the following is not a good reason for that standing?
 - a. It is a natural resource, and thus there is only a finite amount of it.
 - b. It is durable, and difficult to destroy.
 - c. It has an enduring hold on human beings.
 - d. It can be used to pay for things.**

Explanation: The fact that you can pay for things is what makes for a currency. If gold is a collectible, it is the first three qualities that make it a good one..

5. If you put all your wealth into gold, which of the following would be the best reason for doing so?
- a. Gold has a negative correlation with stocks and bonds
 - b. Gold will go up in price over time
 - c. Gold is safer than stocks
 - d. You are expecting hyperinflation or a crisis

Explanation: Gold, as a stand-alone investment, outperforms stocks only during crises or hyperinflationary periods.