

Session 38

The Grand Finale

Test

1. Which of the following will affect the time horizon that you have as an investor?
 - a. Your patience or impatience, as a person.
 - b. Your age
 - c. Your job security
 - d. Your health
 - e. All of the above
2. If you have a medium term time horizon and believe that markets over react to news and correct themselves over time, which of the following investment philosophies would best fit you?
 - a. Momentum investing, based upon trend lines and trading volume
 - b. Passive value investing, where you buy stocks with low PE ratios.
 - c. Near arbitrage investments (Example: buying closed end funds)
 - d. Information trading, where you buy stocks after very negative earnings surprises and hold for a few months.
 - e. Passive growth investing, where you buy growth companies where you believe that the growth is being under priced.
3. If you are a market timer, you cannot be a stock picker.
 - a. True
 - b. False
4. Which of the following combinations of investment philosophies are incompatible?
 - a. Passive value investing + Contrarian value investing
 - b. Technical momentum investing + Passive Growth investing
 - c. Passive growth investing + Active growth investing
 - d. Technical Momentum investing + Contrarian Market Timing
 - e. Pure arbitrage + Near arbitrage
 - f. None of the above
5. Which of the following is the best investment philosophy for you?
 - a. The philosophy that has delivered the best returns over time.
 - b. The philosophy that is practiced by most other investors
 - c. The philosophy that has the lowest trading costs
 - d. The philosophy that is used by great investors
 - e. The philosophy that best fits you as an investor

Solution

1. Which of the following will affect the time horizon that you have as an investor?
 - a. Your patience or impatience, as a person.
 - b. Your age
 - c. Your job security
 - d. Your health
 - e. All of the above**

Explanation: All of these can affect your time horizon. If you are an impatient, older, sicker person with job prospects that are variable, you have a short time horizon.

2. If you have a medium term time horizon and believe that markets over react to news and correct themselves over time, which of the following investment philosophies would best fit you?
 - a. Momentum investing, based upon trend lines and trading volume
 - b. Passive value investing, where you buy stocks with low PE ratios.
 - c. Near arbitrage investments (Example: buying closed end funds)
 - d. Information trading, where you buy stocks after very negative earnings surprises and hold for a few months.**
 - e. Passive growth investing, where you buy growth companies where you believe that the growth is being under priced.

Explanation: Since your belief is that markets over react to news, you have to build a strategy around information and you need to keep your time horizon to medium term (months rather than years).

3. If you are a market timer, you cannot be a stock picker.
 - a. True
 - b. False**

Explanation: You can be both and they may supplement each. Thus, you may believe that investors learn too slowly at both the company and the market level and build market timing/security selection strategies around both.

4. Which of the following combinations of investment philosophies are incompatible?
 - a. Passive value investing + Contrarian value investing
 - b. Technical momentum investing + Passive Growth investing
 - c. Passive growth investing + Active growth investing
 - d. Technical Momentum investing + Contrarian Market Timing**
 - e. Pure arbitrage + Near arbitrage
 - f. None of the above

Explanation: Technical momentum investing assumes that markets learn slowly and that stock prices tend to keep going in the direction that they have historically. Contrarian market timing assumes the opposite. It is difficult to reconcile the two.

5. Which of the following is the best investment philosophy for you?
- a. The philosophy that has delivered the best returns over time.
 - b. The philosophy that is practiced by most other investors
 - c. The philosophy that has the lowest trading costs
 - d. The philosophy that is used by great investors
 - e. The philosophy that best fits your needs and beliefs as an investor.**

Explanation: The lesson of this book (hopefully) is that you have to pick the philosophy that best fits your characteristics/needs.