CHARTERED MARKET TECHNICIAN (CMT) LEVEL 2 PRACTICE TEST (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

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How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

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Questions

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1. Which trading action is recommended after an initial breakout in an extended rectangle trading strategy?

A. Liquidate all positions immediately.

B. Add to position on pullback to original resistance.

C. Sell short in anticipation of a reversal.

D. Wait for the highest price point to exit.

2. What happens when many strategies are tested on the same data without proper controls?

A. It reduces the chances of a successful strategy

B. It increases the odds of a false positive

C. It provides clearer statistical significance

D. It requires more complicated models

3. Which ARIMA trading strategy utilizes confidence bands to identify oversold conditions?

A. High/Lows

B. Mean-reverting indicator

C. Trend following

D. Slope approximation

4. Which of the following statements about the Chaikin AD is correct?

A. It measures the difference between high and low stock prices

B. It is based on the strength of close compared to open

C. It primarily deals with trading volumes

D. It does not consider price fluctuations

5. What does the amplitude of a cycle's 2nd harmonic decreasing signify?

A. It indicates the market is stabilizing

B. It can lead to a cycle inversion

C. It suggests a bullish market scenario

D. It means overall market demand is increasing

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6. How is +DI calculated in the DMI analysis?

A. By taking the ratio of +DM MA to the ATR

B. By summing +DM and -DM

C. By measuring the difference between high and low prices

D. By averaging the closing prices over 14 days

7. Which form of Efficient Market Hypothesis (EMH) includes all public and private information?

A. Semi-strong form

B. Strong form

C. Weak form

D. Dynamic form

8. What does the Base Rate Fallacy illustrate?

A. The tendency to ignore historical data

B. The tendency for people to err in assessing probabilities by neglecting relevant data

C. The inclination to rely solely on quantitative analysis

D. The focus on recent performance rather than overall trends

9. What directional movement is recorded on an inside day?

A. A positive directional movement

B. A negative directional movement

C. No directional movement

D. A strong directional movement

10. What is a significant risk when trading an exhaustion gap?

A. Buying during a downward move

B. Selling during a downward move

C. Selling during an upward move

D. Shorting at the lowest point

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Answers

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1. B
2. B
3. B
4. B
5. B
6. A
7. B
8. B
9. C
10. C

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Explanations

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1. Which trading action is recommended after an initial breakout in an extended rectangle trading strategy?

A. Liquidate all positions immediately.

B. Add to position on pullback to original resistance.

C. Sell short in anticipation of a reversal.

D. Wait for the highest price point to exit.

The correct approach after an initial breakout in an extended rectangle trading strategy is to add to the position on a pullback to the original resistance. In technical analysis, when a price breaks out above a resistance level, that level often turns into a new support level. By waiting for a pullback to this newly established support (original resistance), traders can increase their position at a more favorable price, ideally before a further upward move occurs. This strategy aligns with the principles of "buying the dip" after a confirmed breakout, where traders seek to capitalize on momentum while managing risk. Additionally, this action reflects the bullish sentiment that typically follows a breakout, as it suggests that the market is likely to continue trending higher once it tests previous resistance levels that have now become support. Therefore, adding to the position during this pullback can enhance the potential for profit while still being mindful of the market's structure.

2. What happens when many strategies are tested on the same data without proper controls?

A. It reduces the chances of a successful strategy

B. It increases the odds of a false positive

C. It provides clearer statistical significance

D. It requires more complicated models

When many strategies are tested on the same data without proper controls, it increases the odds of a false positive. This phenomenon is commonly known as "data mining" or "overfitting." In this scenario, if numerous strategies are evaluated on the same dataset, there's a higher likelihood that some of those strategies will appear to perform well purely by chance, rather than due to any genuine predictive power. This occurs because the more tests you run, the higher the probability of finding a statistically significant result that does not actually reflect the true underlying relationship. Essentially, if one tests a variety of models or strategies on limited data, it becomes increasingly difficult to distinguish between those that truly work and those that seem to work merely by coincidence. The implication is that without appropriate controls, such as adjusting for multiple comparisons and using robust validation techniques, the findings can lead to misguided confidence in strategies that are simply relics of random data variations. Thus, maintaining rigorous controls in testing is crucial for achieving accurate and reliable results in strategy development.

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3. Which ARIMA trading strategy utilizes confidence bands to identify oversold conditions?

A. High/Lows

B. Mean-reverting indicator

C. Trend following

D. Slope approximation

The mean-reverting indicator is the ARIMA trading strategy that leverages confidence bands to identify oversold conditions. In this context, mean reversion is based on the assumption that asset prices will eventually return to their historical mean or average level. Confidence bands, which are visually represented on price charts around the mean line, help traders identify scenarios where the price has deviated significantly from its average. When the asset price is within these bands, it might be considered fairly valued; however, if it moves beyond the lower confidence band, it could signal an oversold condition. This provides traders with a potential buying opportunity, based on the expectation of price returning toward the mean. In contrast, high/lows generally pertains to identifying extreme points in a specific time frame rather than focusing on the mean. Trend-following strategies concentrate on capturing ongoing price movements rather than reverting to a mean, while slope approximation focuses on the angle and momentum of price movement rather than mean reversion.

4. Which of the following statements about the Chaikin AD is correct?

A. It measures the difference between high and low stock prices

B. It is based on the strength of close compared to open

C. It primarily deals with trading volumes

D. It does not consider price fluctuations

The Chaikin Accumulation/Distribution (AD) line is a technical analysis indicator that helps to assess the buying and selling pressure based on price and volume. The correct statement highlights that it is derived from the strength of the close in relation to the open price of a stock. This relationship is crucial because the Chaikin AD is calculated using the closing price in comparison to the price range (high and low) during a given period, which reflects whether the stock is closing near the high or low of its range. A close near the high indicates buying pressure, while a close near the low suggests selling pressure. This closing strength relative to the day's range is what informs the cumulative total of the indicator, making it a vital tool for traders looking to gauge how much accumulation or distribution is occurring in a given stock. In contrast, the other statements misinterpret what the Chaikin AD represents. The measure of high and low stock prices alone does not capture the underlying dynamics of volume and price movement relation necessary for the Chaikin AD. Furthermore, while trading volume is an integral part of calculating the AD line, simply stating it "primarily deals with trading volumes" overlooks the significance of the closing price in relation to price fluctuations. Lastly, the Cha

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5. What does the amplitude of a cycle's 2nd harmonic decreasing signify?

A. It indicates the market is stabilizing

B. It can lead to a cycle inversion

C. It suggests a bullish market scenario

D. It means overall market demand is increasing

The amplitude of a cycle's 2nd harmonic decreasing indicates that the existing cycle is losing its strength and may be approaching a point where an inversion could occur. In technical analysis, harmonics represent different frequency components of price movement. A decrease in the amplitude of a harmonic suggests weakening in the market's directional movement. When the 2nd harmonic loses amplitude, it can signal that the market dynamics are shifting, potentially leading to cycle inversion, where the trend may reverse direction. This concept is particularly significant in cyclical analysis, as it helps technicians anticipate shifts in market behavior that could impact trading decisions. The other options do not align with the implications of decreasing amplitude in this context. For instance, a stabilizing market would not typically be characterized by diminishing harmonic amplitudes, as stabilizing markets tend to show consistent or increasing cycles. Similarly, a bullish scenario would suggest rising demand and strength, contradicting the idea of decreasing amplitude. The statement about increasing overall market demand also does not connect with the technical observation of diminishing harmonic strength, which reflects a potential weakening rather than strengthening condition.

6. How is +DI calculated in the DMI analysis?

A. By taking the ratio of +DM MA to the ATR

B. By summing +DM and -DM

C. By measuring the difference between high and low prices

D. By averaging the closing prices over 14 days

The calculation of +DI in the Directional Movement Index (DMI) analysis involves taking the ratio of +DM (Positive Directional Movement) to the Average True Range (ATR), then multiplying that result by 100 to convert it into a percentage. +DI serves as an indication of the strength of bullish price movement over a defined period. Using this method, +DI provides traders with insights into whether a security is in a strong upward trend compared to a downward trend. The ratio reflects how much of the price movement is attributed to upward movement, allowing for comparisons of strength between +DI and -DI, which measures downward movement. Higher values of +DI suggest a stronger bullish sentiment, while lower values indicate weaker bullish conditions. This methodology is critical for traders who utilize the DMI to inform their trading decisions, as it simplifies the process of analyzing price action trends in conjunction with volatility measures. Understanding the relationship between +DM and ATR also helps traders account for market conditions more accurately.

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7. Which form of Efficient Market Hypothesis (EMH) includes all public and private information?

A. Semi-strong form

B. Strong form

C. Weak form

D. Dynamic form

The correct answer is the strong form of the Efficient Market Hypothesis (EMH), which asserts that all available information—both public and private (or insider information)—is fully reflected in stock prices. This means that no one can consistently achieve higher returns than average market returns, regardless of the information they have access to, thus making it impossible to outperform the market on the basis of any information. The strong form suggests that even those with insider knowledge cannot gain an advantage, indicating a high level of efficiency in the market. It posits that all investors have the same access to information, which is factored into asset prices, thereby preventing excess profits. In contrast, the semi-strong form only considers public information, indicating that stock prices reflect all publicly available information but not necessarily private or insider information. The weak form focuses solely on past price and volume data, suggesting that historical prices are already reflected in current prices, while future price movements cannot be predicted based on this historical data alone. The dynamic form is not a standard categorization within EMH frameworks.

8. What does the Base Rate Fallacy illustrate?

A. The tendency to ignore historical data

B. The tendency for people to err in assessing probabilities by neglecting relevant data

C. The inclination to rely solely on quantitative analysis

D. The focus on recent performance rather than overall trends

The Base Rate Fallacy illustrates the tendency for people to err in assessing probabilities by neglecting relevant data, specifically the base rate information, which is statistical information about the general population. When individuals make judgments about the likelihood of an event, they may focus heavily on specific case information without considering how that case fits into the larger statistical context. For instance, if a person encounters a scenario that fits a particular profile, they may overestimate the probability of that scenario occurring by failing to account for the overall base rate of such occurrences. This fallacy is particularly relevant in fields such as finance and investing, where decisions should ideally be based on a combination of specific cases and broader statistical trends. Recognizing the importance of base rates allows analysts and investors to make more informed decisions rather than relying on anecdotal or limited data. Understanding this concept helps market participants avoid common cognitive biases that can lead to misjudgments in risk assessment and probability evaluation.

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9. What directional movement is recorded on an inside day?

A. A positive directional movement

B. A negative directional movement

C. No directional movement

D. A strong directional movement

An inside day occurs in technical analysis when the price range of a current trading day is completely contained within the price range of the previous trading day. This formation indicates a period of indecision in the market, where neither buyers nor sellers were able to gain control, resulting in a neutral or non-directional movement. In the context of directional movement, the concept refers to the change in price direction from one period to the next. Since the current day's high is lower than the previous day's high and the current day's low is higher than the previous day's low, the overall net movement of price does not indicate a clear direction. Therefore, an inside day would be categorized as having no directional movement. Understanding this concept is crucial because it can affect trading strategies. Traders may interpret an inside day as a consolidation pattern, anticipating that a breakout in either direction may follow, making this day pivotal in their decision-making process.

10. What is a significant risk when trading an exhaustion gap?

A. Buying during a downward move

B. Selling during a downward move

C. Selling during an upward move

D. Shorting at the lowest point

An exhaustion gap occurs after a pronounced price movement, typically signaling that the previous trend is losing momentum. The significance of this gap lies in the indication that the prior trend is potentially coming to an end. When traders short the market during an upward move marked by an exhaustion gap, they engage in an action that assumes the trend will reverse or that the asset's price will begin to decline immediately after the gap. However, an exhaustion gap often suggests that the last surge in price could be followed by an increase in volatility or even a continuation of upward movement in the short term before any reversal occurs. This poses a risk to those who short during this phase because the momentum might still favor buyers for a while longer, leading to potential losses if the trader anticipates an immediate reversal that does not materialize. In contrast, buying during a downward move, selling during a downward move, or shorting at the lowest point might present risks, but they do not directly correspond with the nature of an exhaustion gap. Each of these choices carries its own implications and consequences, yet the specific risk tied to shorting in the context of an exhaustion gap focuses on the danger of misjudging the strength and extent of the prior trend signal, especially during moments of heightened volatility.

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Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

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We wish you the very best on your exam journey. You've got this!

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