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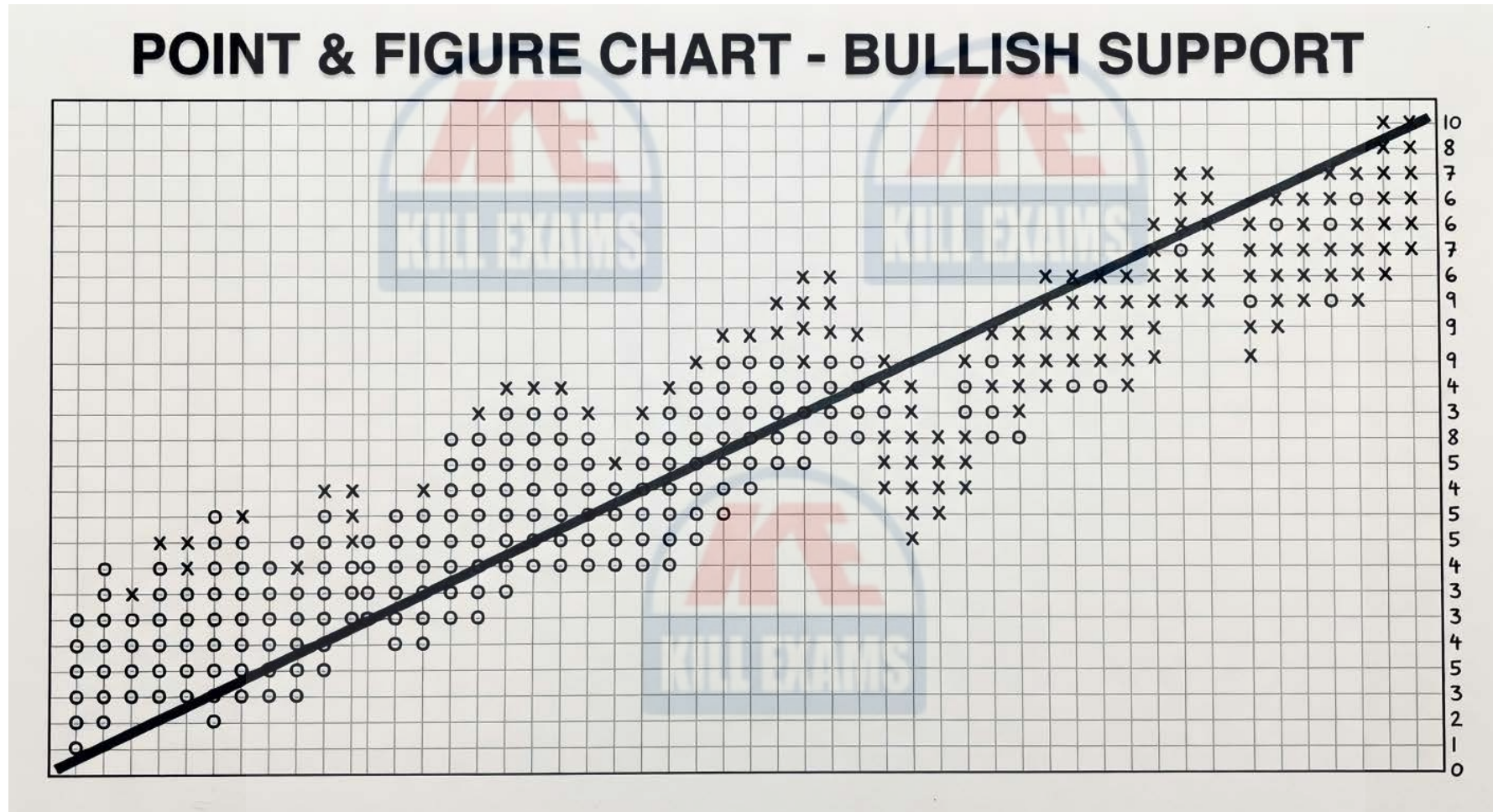
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Question #85

An institutional portfolio manager is studying the interaction between trend lines and point and figure charts. The manager observes that diagonal support and resistance lines can also be drawn on these charts.



Task:

Explain how bullish support lines and bearish resistance lines are constructed on point and figure charts. Discuss their role in identifying major trend changes.

Answer:

Bullish support lines are drawn at a 45-degree angle upward from a significant low point. This line represents the minimum rate of ascent required to maintain an uptrend.

Bearish resistance lines are drawn downward from a major high point, also at a 45-degree angle.

Explanation:

When price breaks below a bullish support line, it often signals a weakening of the uptrend. Conversely, a breakout above a bearish resistance line suggests a potential shift toward bullish momentum.

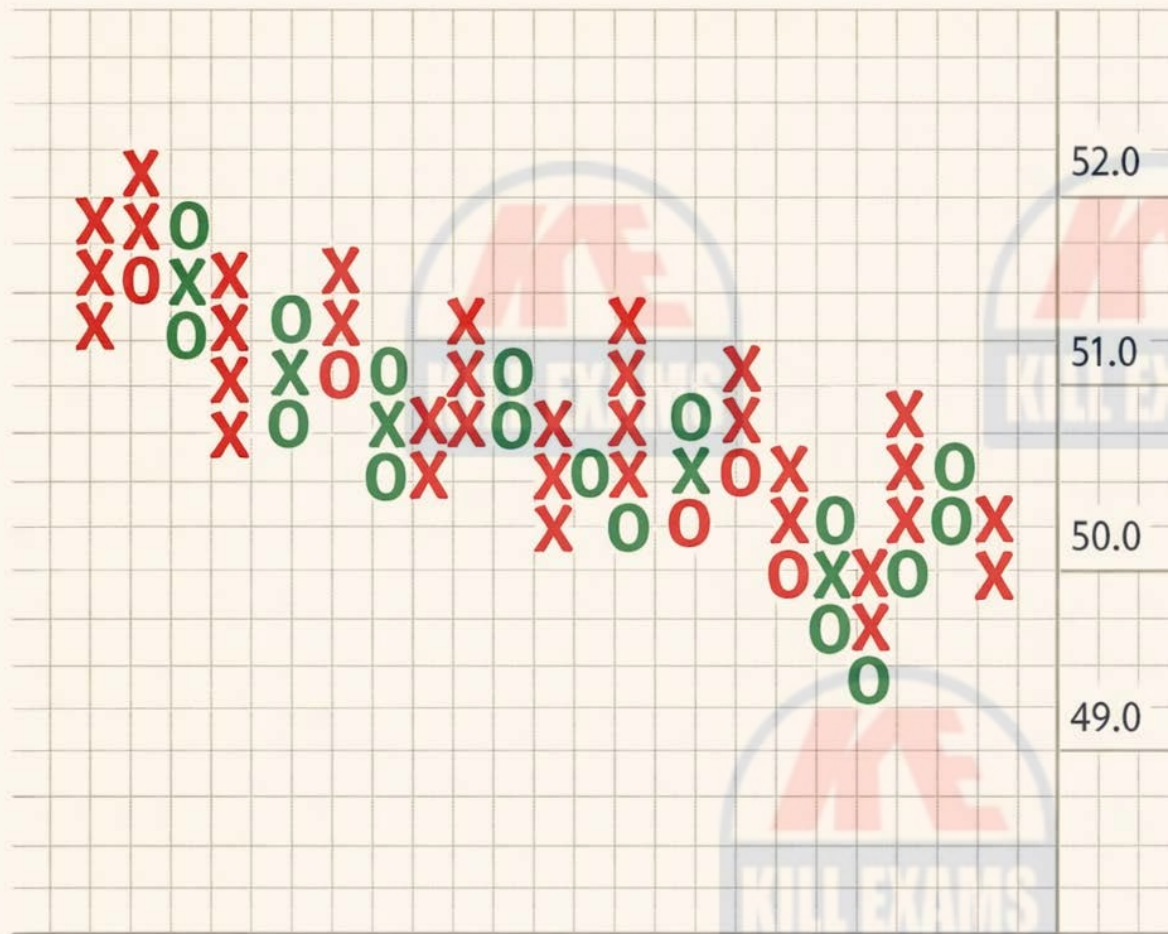
Question #86

A technical strategist is evaluating how volatility affects the interpretation of point and figure charts. During a period of market turbulence, the strategist observes frequent column reversals and irregular patterns.



Point & Figure Chart

High Volatility



Task:

Analyze how increased volatility impacts the reliability of point and figure signals. Discuss techniques analysts use to adapt their charts to volatile market environments.

Answer:

High volatility can cause frequent reversals and reduce the reliability of short-term signals. Minor fluctuations may appear as legitimate trend changes when using small box sizes.

Explanation:

Technicians often increase the box size or reversal parameter during volatile periods. This adjustment filters out minor fluctuations and ensures that only significant price movements are recorded.

Question #87

A research analyst is investigating the statistical reliability of breakout signals generated by point and figure charts across multiple asset classes including equities, commodities, and currencies.

Task:

Discuss how historical testing can be used to evaluate the predictive value of point and figure breakout signals. Include a description of how analysts might design such a study.

Answer:

Analysts can conduct backtesting studies by converting historical price data into point and figure charts and identifying all breakout signals generated over a specified period.

The performance of each signal can then be evaluated by measuring subsequent price movements relative to the breakout level.

Explanation:

Statistical analysis of these outcomes helps determine whether certain breakout patterns consistently produce profitable trading opportunities across different markets.

Question #88

A quantitative trader is integrating point and figure chart signals into an automated trading algorithm. The system must identify breakout signals, calculate price targets, and execute trades accordingly.

Task:

Describe the algorithmic steps required to convert raw price data into point and figure columns and detect trading signals automatically.

Answer:

The algorithm must first define parameters including box size and reversal amount. Incoming price data is then compared against the last recorded symbol to determine whether a new box should be added.

If price moves in the same direction by at least one box, the column is extended. If price reverses by the reversal threshold, a new column in the opposite direction is started.

Explanation:

Once the chart is constructed, the algorithm scans for patterns such as double-top breakouts or triple-bottom breakdowns and executes trades when these conditions occur.

Question #89

A hedge fund analyst is studying the interaction between point and figure charts and momentum indicators such as the Relative Strength Index (RSI).

Task:

Explain how combining point and figure analysis with momentum indicators can improve trade confirmation and reduce false breakout signals.

Answer:

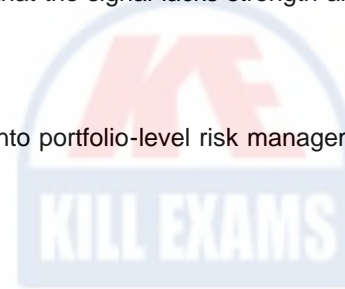
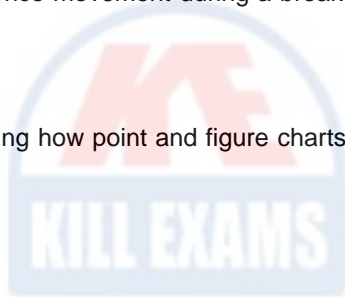
Momentum indicators provide additional information about the strength of price movements. When a point and figure breakout occurs simultaneously with strong momentum readings, the probability of a sustained trend increases.

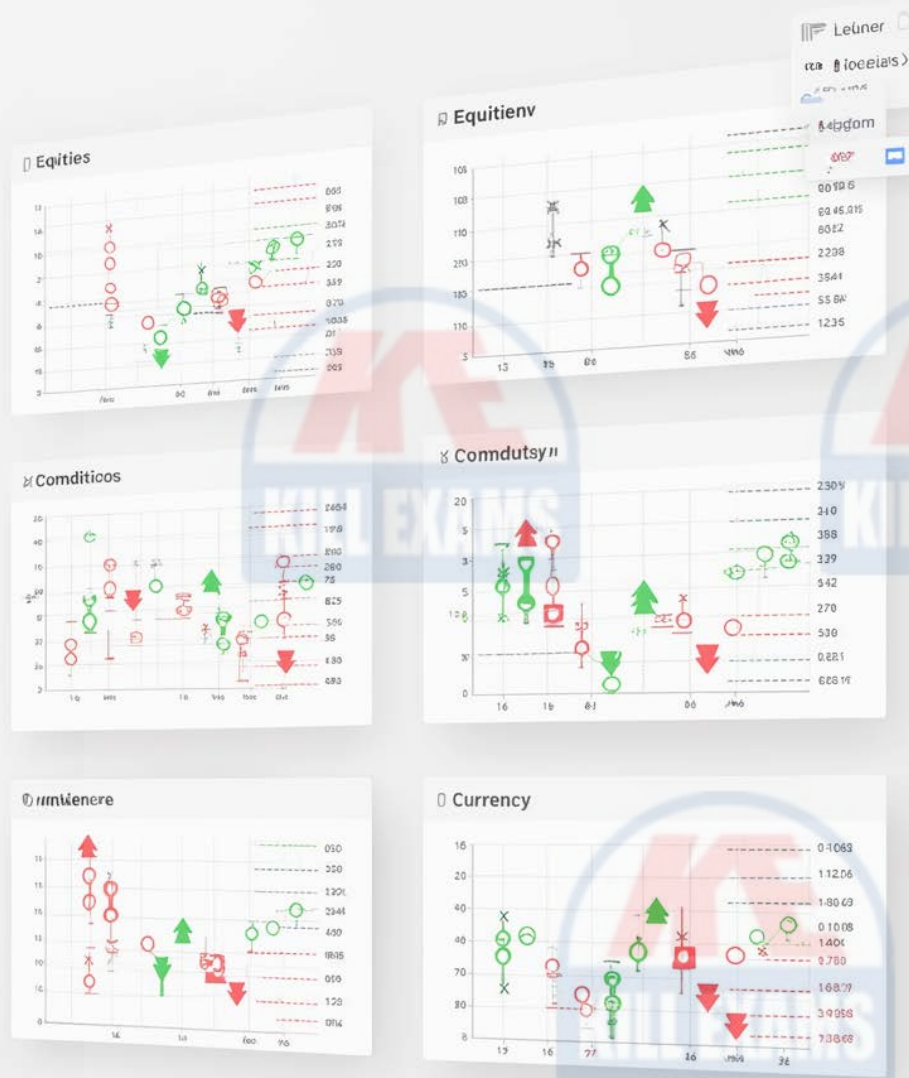
Explanation:

If momentum indicators diverge from price movement during a breakout, it may indicate that the signal lacks strength and could lead to a false breakout.

Question #90

A senior technical strategist is evaluating how point and figure charts can be integrated into portfolio-level risk management strategies.





Task:

Discuss how point and figure charts can be used to allocate capital across multiple assets and manage portfolio risk.

Answer:

Point and figure charts can identify assets experiencing strong directional trends. Portfolio managers may allocate more capital to assets showing bullish breakouts while reducing exposure to assets displaying bearish breakdowns.

Question: 645

An analyst is evaluating a long-term monthly chart of a financial asset and observes a structure that resembles a classic 5-wave impulse advance. However, upon closer inspection of the arithmetic price scale, Wave 3 appears shorter than Wave 1, and Wave 5 appears shorter than Wave 3. The analyst remembers that Frost and Prechter discuss the critical importance of scale selection when analyzing long-term secular trends and wave relationships.

Task:

Perform a comparative technical analysis using arithmetic versus semi-logarithmic chart scales. Identify how scale selection impacts the identification of the shortest wave rule. Evaluate the weight of evidence to determine if this structure violates the cardinal rule of Elliott Wave theory. Provide a professional recommendation regarding structural validation and trading posture based on this scaling discrepancy.

Answer: The analyst must verify the wave lengths on a semi-logarithmic scale; if Wave 3 is still the shortest wave in percentage terms, the impulse interpretation is completely invalid.

Explanation: One of the unbreakable cardinal rules of the Elliott Wave Principle is that Wave 3 can never be the shortest of the three motive waves (Waves 1, 3, and 5). Frost and Prechter note that on long-term charts spanning many years or massive price gains, an arithmetic scale can distort wave relationships, making a later wave look smaller in absolute points even though it represents a larger percentage move. Therefore, full technical analysis must be conducted on a semi-logarithmic (log) scale to evaluate the waves based on relative percentage changes. If, after switching to a log scale, Wave 3 remains shorter than both Wave 1 and Wave 5 in percentage terms, the structure cannot be an impulse wave. The weight of evidence would dictate that the current count is incorrect, and the market is likely forming a complex corrective structure (such as a double zigzag or a diagonal variation). The recommendation is to adopt a neutral or defensive trading posture, avoiding large trend bets until a valid structural interpretation reveals a solid invalidation level.

Question: 646

A traditional technical analyst wants to integrate a Point and Figure chart with volume analysis. Since Point and Figure charts are time-independent and record price changes rather than time intervals, traditional volume bars cannot be plotted at the bottom of the chart in a standard manner. The analyst reviews Du Plessis' methodology for integrating volume directly into the P&F matrix via "Volume-at-Price" or tracking total accumulated column volume.

Task:

Perform a full technical analysis of how volume is accurately tracked and analyzed within a Point and Figure infrastructure. Identify the concepts of total column volume and horizontal volume profiles. Evaluate the weight of evidence regarding volume validation during breakouts. Provide a structural recommendation on how to utilize volume data to confirm a double top breakout. Discuss the time horizon implications and note the risk of low-liquidity data skewing column counts.

Answer: Integrate volume by accumulating total transaction volume within each individual vertical price column, validating breakouts when a column of Xs occurs on rising total column volume relative to previous X columns.

Explanation: Because Point and Figure charts compress time and focus solely on price action, traditional volume bars are incompatible with the horizontal axis. To solve this, volume must be integrated vertically or contextually. Total Column Volume accumulates all volume traded during the lifespan of that specific vertical column. Alternatively, a horizontal volume profile can be constructed to show the total volume executed at each specific price box level across the entire chart. The weight of evidence suggests that a breakout column of Xs is significantly more sustainable if the total volume accumulated within that column is higher than the volume in preceding columns of Xs, confirming institutional participation. The primary risk is that low-liquidity blocks or off-exchange crossing trades can artificially skew volume data without representing true broader market directional flow.

Question: 647

An investment committee is evaluating a stock portfolio. The lead analyst presents a chart where the price of a major equity asset has been

grinding sideways to lower over the past six weeks, creating lower highs and lower lows. Concurrently, the 14-period RSI has compressed into a narrow band, failing to drop below 45 during price declines and capping its rallies exactly at 65. The committee is highly uncertain about the directional bias of this asset.

Task:

Perform a technical interpretation of this compressed oscillator behavior and classify the market condition and upcoming structural expectations.

Answer: This compression indicates a neutral, transitional consolidation phase where the market is resetting its momentum energy. The oscillator's failure to drop below 45 prevents confirmation of a bear market, while its failure to exceed 65 prevents confirmation of a bull market. The market is coiled, and analysts must await a clean breakout of both price and the 45–65 RSI bands to determine the next major medium-term directional trend.

Explanation: When an oscillator compresses into a tight range between 45 and 65, it reflects a market that has lost its clear directional trend and is building directional energy. In Constance Brown's methodology, this is a transitional state. The fact that the RSI holds above 45 demonstrates that the bears do not possess the structural strength to shift the market into a true bear regime (which would require drops into the 20 to 30 range). Conversely, the failure to break above 65 shows that the bulls have not yet triggered an upward range shift. This neutral condition requires patience. A breakout above 65 on the RSI, accompanied by a price breakout past resistance, provides the weight of evidence needed to initiate long positions, while a breakdown below 45 would signal a shift to a bearish regime.

Question: 648

A cryptocurrency trading pair has surged from a structural low of \$10,000 to an all-time high of \$60,000. It is now undergoing a major multi-week correction. The price drops sharply to \$40,800, bounces briefly, and then falls through that level to trade at \$29,100. A macro analyst points out that \$29,100 is a random price point with no technical justification.

Task:

Calculate the exact 38.2%, 50%, and 61.8% Fibonacci retracement levels for this macro advance. Evaluate the technical validity of the \$29,100 level, determine the current structural trend state, and formulate an investment or trading recommendation with clear execution levels.

Answer: The \$29,100 price level sits close to the 61.8% Fibonacci retracement level (\$29,100 exactly based on calculation), making it a major structural support zone for the primary trend rather than a random price point.

Explanation:

To verify the analyst's claim, we calculate the Fibonacci retracement levels for the entire bull market run. The total vertical advance is:

Range = \$60,000 – \$10,000 = \$50,000. Applying the standard Fibonacci percentages to the peak price (\$60,000):

* 38.2% Retracement: $\$60,000 - (50,000 \times 0.382) = \$40,900$

* 50.0% Retracement: $\$60,000 - (50,000 \times 0.500) = \$35,000$

* 61.8% Retracement: $\$60,000 - (50,000 \times 0.618) = \$29,100$

The calculation shows that \$29,100 is the exact 61.8% Fibonacci retracement level. This golden ratio level represents the deep value support zone for a major uptrend. The weight of evidence indicates that the primary trend remains structurally bullish over the long term, and the decline from \$60,000 is a standard, albeit volatile, corrective wave. The \$29,100 zone represents a high-probability location for the correction to end, as institutional buyers scale back into long-term positions.

Tactical Blueprint:

* Strategy: Macro Trend Long Re-Entry

* Entry: Buy market orders or scale into long positions at the current price of \$29,100.

- * Stop-Loss: \$24,800 (placed below the nearest psychological support level and the 78.6% retracement boundary).
 - * Target: \$48,000 (targeting the primary structural resistance zone and the 50% retracement of the down-leg).
 - * Risk-Reward: 4.4:1
 - * Time Horizon: Long-term (3 to 6 months).
 - * Risks: A confirmed weekly close below \$24,800 would invalidate this macro long thesis, indicating that the multi-year bull trend has broken down toward a complete retracement to \$10,000.
-

Question: 649

An analyst is implementing a relative strength strategy based on Martin J. Pring's **The Concept of Relative Strength**. The analyst tracks Sector X relative to the benchmark index via a standard ratio chart. The ratio line has been trending down for over a year, under a long-term bearish trendline. Recently, the absolute price of the benchmark index breaks down to a major new 52-week low. Simultaneously, the absolute price of Sector X also drops, but its corresponding Relative Strength ratio line breaks cleanly above its year-long descending trendline and completes a structural inverse head-and-shoulders breakout pattern.

Task:

Formulate a full technical interpretation of this divergence. Explain the conflicting signals between absolute price and relative price, and provide a definitive investment recommendation for Sector X based on Pring's methodology.

Answer:

The technical interpretation is that Sector X is undergoing heavy institutional accumulation and is transitioning from a period of secular underperformance to strong market leadership. The drop in absolute price is purely a function of market-wide systemic liquidations dragging all assets down, but the breakout of the RS ratio line confirms Sector X is declining at a much slower rate than the index and has begun structurally outperforming. Recommendation: Aggressively overweight or buy Sector X, as it represents the prime leadership candidate for the next cyclical market uptrend.

Explanation:

Pring stresses that relative strength changes often precede absolute price changes, particularly at major cyclical turning points. When a market benchmark cuts to fresh lows, but an asset's RS ratio line breaks out into an uptrend, it reveals an immense structural shift. Capital is actively migrating into Sector X because it possesses stronger underlying fundamentals or defensive support. While absolute price may look bearish in isolation, the weight of evidence from Pring's relative strength concepts indicates that Sector X will experience explosive absolute gains the moment the broader market indices stabilize or reverse upward.

Question: 650

An analyst is studying a long-term monthly chart of a major stock index to identify dominant generational cycles. By applying a Fourier transform and peak-to-trough visual verification, the analyst isolates a prominent 54-month cycle (commonly associated with the Kitchin or business inventory cycle). The last major synchronized trough of this cycle occurred in October 2022. It is now May 2026, and the index has been rising almost uninterrupted for over 43 months, currently exhibiting a parabolic price curve.

Task:

Calculate the theoretical time window for the nominal 54-month cycle trough. Analyze the cycle's current translation state and structural maturity. Evaluate the weight of evidence regarding trend sustainability, and provide a long-term investment risk recommendation.

Answer: Liquidate or heavily hedge long positions immediately; look to execute short positions or accumulate defensive assets as the market enters the major 54-month cycle termination window due in April to June 2027, with high vulnerability to a left-translated crash in the next cycle.

Explanation: Calculating from the last validated cycle trough in October 2022, a 54-month cycle is mathematically scheduled to find its next nominal trough around April to June 2027 ($2022.83 + 4.5 \text{ years} = 2027.33$). Currently, in May 2026, the market is 43 months into this 54-month window. This represents a severely mature, right-translated cycle. Because price has continued to rise so late into the cyclic wavelength, the impending downside correction is mathematically compressed into a short window (roughly 11 months remaining until the nominal trough). This structural compression frequently results in a violent, cascading market decline or a mini-crash scenario as the cycle forces its mean reversion. The weight of evidence indicates extreme trend fragility and exhaustion. While momentum may remain temporarily high due to the parabolic blow-off characteristics, the risk-reward ratio for long positions is deeply unfavorable. The alternative scenario is a major cycle elongation, but risk parameters demand defensive scaling or hedging given the immense time-maturity of the wave.

Question: 651

A technical strategist is building a relative strength Point and Figure chart to compare a technology sector ETF against the S&P 500 index ETF. The strategist divides the price of the tech ETF by the price of the S&P 500 ETF to create a relative strength ratio series, and then plots this ratio on a standard 3-box reversal P&F grid. The ratio chart has just generated a clean Triple Top buy signal.

Task:

Perform a full technical analysis of this relative strength P&F chart. Identify what a buy signal signifies in the context of ratio charting. Evaluate the weight of evidence regarding sector outperformance versus broad market performance. Provide an investment recommendation for asset allocation adjustments, defining entry triggers and risk containment rules. Discuss the medium-term time horizon and the risk of a false breakout in a rotating market environment.

Answer: A buy signal on a relative strength P&F ratio chart indicates that the numerator asset (the technology ETF) is outperforming the denominator asset (the S&P 500 ETF) on a structural basis, regardless of whether both assets are rising or falling in absolute terms.

Explanation: Relative strength P&F charting is a powerful tool for sector rotation and asset allocation because it applies objective P&F breakout rules to performance ratios. A Triple Top buy signal on this ratio chart confirms that the tech sector has broken out into a period of sustained outperformance relative to the broader market. The weight of evidence strongly supports overweighting technology equities. The investment recommendation is to increase capital allocation to the tech ETF and reduce exposure to broad index funds. A protective stop-loss on this relative rotation trade is placed one box below the recent column of Os on the ratio chart; a breach of that level would indicate that the outperformance thesis has failed, requiring a rebalancing back to benchmark weights.

Question: 652

Reviewing Liquidity Data Bank (LDB) statistics for an S&P 500 futures contract, a trader notices that Category 1 (Local Floor Traders/Market Makers) cleared 65% of the total volume, while Category 4 (Institutional/Off-Floor Commercial Accounts) showed near-zero execution across the current Value Area, despite total volume being 20% above the 30-day moving average.

Task:

Apply Steidlmayer's interpretation of market participant categories to evaluate the sustainability of the current price move. Predict the likely structural lifespan of this trend extension.

Answer: The price move is highly unsustainable and likely represents a short-term, inventory-driven squeeze or rotation controlled entirely by short-timeframe local participants. Without Category 4 commercial participation, long-term value cannot shift.

Explanation: Steidlmayer's Steidlmayer on Markets breaks down the Liquidity Data Bank into four distinct clearing categories. Category 1 represents the floor locals or short-term market makers, while Category 4 denotes the commercial/institutional clearing accounts that represent long-term capital. When Category 1 dominates volume and Category 4 is absent, any range expansion or price movement is purely

a mechanical, liquidity-seeking rotation by locals. It lacks the structural backing of long-term value shifts, meaning the market is prone to sudden reversals back to the mean.

Question: 653

A technical analyst integrates Nison's candle methodologies with western momentum indicators. A stock in a strong downtrend prints a classic Inverted Hammer line. The lower shadow is completely nonexistent, the upper shadow is three times the height of the real body, and the real body is white. Simultaneously, the 14-period Stochastic Oscillator shows a bullish divergence in the oversold zone below 20.

Task:

Describe the market psychology behind the Inverted Hammer's upper shadow, and evaluate the structural validity of this setup for a trend reversal.

Answer: The long upper shadow of the Inverted Hammer reveals that buyers went on the offensive during the session, driving prices up, even though sellers managed to push the price back down by the close. When combined with a bullish divergence on the Stochastic Oscillator in an oversold zone, this setup provides a strong structural reversal signal, though it still requires a higher close on the next session for confirmation.

Explanation: While a long upper shadow usually implies resistance, after an extended downtrend, Nison explains that the Inverted Hammer shows the bulls are beginning to push back. The long upper shadow proves that the market has the liquidity and demand to rally off its lows, even if those gains weren't fully held by the closing bell. The white real body adds a slight bullish tilt by ensuring the close beat the open. Coupled with an oversold Stochastic divergence, the weight of evidence suggests selling pressure is exhausted, making it a high-probability spot for a trend reversal once confirmed by the next candle.

Question: 654

A crypto-asset trader is analyzing a recent sharp sell-off that developed in five clear waves down on a 4-hour chart. The price has just struck a lower low, completing what looks like Wave 5 down. The trader checks the 14-period RSI and observes a strong bullish divergence: the price low of Wave 5 is significantly lower than Wave 3, but the RSI low of Wave 5 is much higher than the RSI low registered during Wave 3. The trader wants to formulate a tactical long entry.

Task:

Formulate a complete trading recommendation based on this Elliott Wave/Oscillator confirmation, including specific entry conditions, stop-loss placement, profit targets, and an evaluation of the risk-reward dynamic.

Answer: Enter long immediately upon the confirmation of a bullish price reversal candle at the Wave 5 low. Place the stop-loss strictly below the absolute lowest point of Wave 5. Set the primary profit target at the structural Wave 4 swing high (the typical termination zone for a subsequent retracement), ensuring a risk-reward ratio of at least 2.5:1.

Explanation: The presence of a classic bullish divergence between Wave 3 and Wave 5 down provides high-probability structural evidence that the primary selling momentum has exhausted itself. Wave 3 was the liquidation phase where panic was greatest and the oscillator hit its lowest absolute point. Wave 5 represents a final, exhausted flush-out on weaker momentum. When the oscillator confirms this divergence by hooking upward, the weight of evidence shifts heavily in favor of a major corrective bounce (an ABC upward correction). Risk is strictly defined and minimal because the stop-loss can be placed just below the freshly minted Wave 5 low. The upside target is substantial because market theory states that corrections following a 5-wave impulse typically retrace back to the territory of the preceding fourth wave, creating a highly asymmetric and favorable risk-reward ratio.

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