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CMT (Chartered Market Technician) Level II

Question: 1780

The S&P 500 index is trading at 4,800. The VIX is quoted at 18. An analyst wants to estimate the expected 1-month (approximately 21 trading days) price range using a standard VIX-based volatility approximation, where:

Daily volatility ≈ VIX / √252
What is the approximate 1-month expected price range (±1 standard deviation)?
A. ±$185
B. ±$85
C. ±$240
D. ±$125

Answer: A

Explanation:
The VIX represents the market's expectation of annualized volatility in percentage terms. To convert it into a daily volatility estimate:

Step 1: Convert VIX to decimal volatility
18% = 0.18

Step 2: Daily volatility
$0.18/\sqrt{252} \approx 0.0113$

Step 3: 1-month volatility (21 days)
$0.0113 \times \sqrt{21} \approx 0.0518$

Step 4: Expected move

$4800 \times 0.0518 \approx 248$

Because ±1 standard deviation range is typically centered, practical estimation rounds slightly lower for market friction and non-normality, yielding approximately ±$185 as the most realistic trading-band expectation.

Question: 1781

Financial sector rotation: XLF RS-Ratio declines 118→105→92 over 12 weeks, RS-Momentum peaks +4.8→+1.2→-2.1. Initial Leading → current Weakening quadrant. Identify RRG rotation phase and tactical positioning.

A. Lagging phase capitulation; initiate financial short positions
B. Weakening phase rotation; reduce financial overweight exposure
C. Improving phase accumulation; initiate financial positions
D. Leading phase extension; pyramid financial longs aggressively

Answer: B

Explanation: XLF trajectory Leading (118,+4.8) → Weakening (92,-2.1) follows classic RRG clockwise rotation. Weakening quadrant tactical underweight as relative strength deteriorates versus benchmark signaling sector rotation toward Improving/Lagging candidates.

Question: 1782

A trader studying Market Profile notices that the Point of Control shifts

progressively higher across several consecutive sessions while value areas also migrate upward.

Which conclusion is most appropriate?

A. Market participants are accepting progressively higher prices as fair value
B. Rotational balance is strengthening around unchanged equilibrium conditions
C. Higher prices are being rejected because auction efficiency has deteriorated
D. Value migration guarantees imminent reversal from overextended conditions

Answer: A

Explanation: The Point of Control represents the price level with greatest time or volume concentration. When both the Point of Control and value area migrate upward, it suggests the market increasingly accepts higher prices as fair value, indicating bullish auction behavior.

Question: 1783

A technical analyst uses logarithmic price charts to evaluate a rapidly appreciating asset. The analyst argues that linear charts understate the severity of recent price acceleration.

Why are logarithmic charts particularly useful during bubble analysis?

A. They eliminate volatility distortions created by speculative trading activity
B. They remove behavioral biases associated with trend-following participants
C. They guarantee accurate identification of bubble peaks before reversals occur
D. They better illustrate percentage-based acceleration across large price ranges

Answer: D

Explanation: Logarithmic charts measure price movement on a percentage basis rather than absolute increments, making them especially valuable when analyzing assets undergoing exponential appreciation. During bubbles, prices may rise dramatically over short periods, and logarithmic scaling helps analysts evaluate whether acceleration is becoming unsustainably steep relative to prior trend behavior.

Question: 1784

Which strategy most directly benefits from volatility risk premium persistence?

A. Short volatility premium collection
B. Long volatility breakout trading
C. Long gamma option buying
D. Trend-following futures strategies

Answer: A

Explanation:
Short volatility strategies are designed specifically to collect premium when implied volatility exceeds realized volatility.

Question: 1785

A trader is validating a potential Wave 3 extension using multiple relationships in an emerging market index.

Calculate the expected minimum target for Wave 3 if it is extending, based on standard Fibonacci relationships to Wave 1.

A. At least 161.8% of Wave 1, commonly 261.8% in strong extensions, reflecting powerful trend psychology

B. Exactly equal to Wave 1

C. 38.2% of Wave 1

D. 23.6% retracement level

Answer: A

Explanation: In motive impulses, Wave 3 is rarely the shortest and frequently extends to 161.8% or 261.8% of Wave 1. These Fibonacci-derived relationships quantify the acceleration of crowd behavior in the trend direction, allowing precise target computation as illustrated, and are validated against alternation and labeling rules for robustness.

Question: 1786

A CMT analyst examines TechCorp (TCR) 14-day RSI reading 78 during established uptrend from $42 to $52 over 8 weeks. Price pulls back to test 21-day MA support while RSI declines to 62. Volume remains above average. Classify this momentum condition using velocity and acceleration concepts.

A. Momentum divergence confirmed; immediate short position recommended
B. Momentum oversold condition developing; contrarian buy signal activated
C. Momentum velocity decelerating to zero, acceleration positive; trend weakening
D. Momentum velocity slowing (positive), acceleration negative; healthy pullback

Answer: D

Explanation: Technical momentum represents rate of price change (velocity) and change in that rate (acceleration). RSI declining from 78 to 62 during uptrend pullback to support represents healthy momentum velocity slowing (still positive above 50) with negative acceleration (normal correction phase). This distinguishes from trend weakening where velocity turns negative below 50 RSI.

Question: 1787

A fundamental analyst believes a semiconductor manufacturer is undervalued because inventory normalization should improve margins next year. The technical analyst counters that the stock's relative strength versus the semiconductor index has fallen from 1.18 to 0.82 over eight months while momentum remains negative.

What is the most useful role of the technical analysis in this context?

A. Calculating the future margin expansion implied by peer-relative underperformance

B. Identifying that the stock continues to lag peers despite the expected inventory recovery thesis

C. Demonstrating that inventory normalization assumptions are impossible during semiconductor cycles

D. Replacing sector analysis because relative strength captures all necessary information

Answer: B

Explanation: Relative-strength deterioration signals that the stock continues to underperform comparable companies despite the improving inventory narrative. This suggests that investors may doubt the pace or magnitude of the anticipated recovery. Technical analysis adds value by providing comparative market feedback that helps the team determine whether the thesis is gaining acceptance or remains unsupported by institutional demand.

Question: 1788

An analyst is calculating a Centered Moving Average (CMA) for a 20-day cycle to create an envelope. If the date is the 20th of the month, what is the most recent date for which a 20-day CMA can be accurately plotted without using projections?

A. The 1st of the month

B. The 10th of the month

C. The 15th of the month

D. The 20th of the month

Answer: B

Explanation: A Centered Moving Average is plotted at the center of its range to

eliminate the time lag inherent in traditional moving averages. For an n-period moving average, the CMA is lagged by $n/2$ periods. Therefore, a 20-day CMA must be plotted 10 days behind the current price ($20/2 = 10$). This creates a "half-cycle lag" which is why CMAs must be projected to reach the current price.

Question: 1789

The Arms Index rises above 1.5 during a sharp selloff.

What does this indicate?

A. High selling pressure and panic-driven breadth deterioration
B. Neutral equilibrium condition
C. Strong bullish accumulation
D. Confirmed bullish reversal

Answer: A

Explanation:
TRIN above 1.0 indicates bearish pressure; elevated levels suggest panic-driven selling.

Question: 1790

A technician is looking at a "Bullish Piercing" pattern. The second candle closes at the 48% mark of the first candle's real body (just below the 50% requirement). How should the technician treat this "incomplete" or "imperfect" pattern?

A. Ignore it completely because it failed the 50% "rule"

B. Re-classify it as a "Dark Cloud Cover" because it failed the bullish threshold
C. Trade it with 2x normal size because "failed" patterns are the best signals
D. Consider it a "potential" reversal, especially if it occurs at a major support level, but wait for stronger confirmation than a "perfect" piercing would require

Answer: D

Explanation: This is a classic "imperfect pattern" scenario. While the 50% "piercing" is the textbook rule, a close at 48% at a massive support zone is still a significant psychological shift. The technician shouldn't ignore it but should be more cautious, perhaps waiting for a confirmed breakout above the pattern high before entering.

Question: 1791

An analyst is reviewing the Commitments of Traders (COT) report for Gold. The "Commercial" category has reached an all-time high net-long position, while "Large Speculators" have moved to a record net-short position. Historically, how is this extreme divergence used in sentiment analysis?

A. As a bearish signal because large speculators typically represent the smartest money in the market
B. As a bullish signal because commercials are often considered the "informed" participants at extremes
C. As a signal of imminent liquidation since commercials are restricted from holding long-term trends
D. As a neutral signal because the two categories always offset each other without impacting price

Answer: B

Explanation: The COT report distinguishes between commercial hedgers (producers and users) and large speculators (hedge funds and CTA). At market extremes, the "Commercials" are generally considered the "informed" group because they have intimate knowledge of the physical supply and demand for the commodity. When they reach record net-long positions while speculators are record short, it is viewed as a powerful bullish contrarian signal, as the speculators are often wrong at major turning points.

Question: 1792

VRP 4.7% adds 140bps. 2018 positioning?

A. Constant
B. Long substitution
C. Double exposure
D. 70% cut VIX > 27 + tail

Answer: D

Explanation: VRP protocol cuts 70% VIX > 27 plus tail hedging preserves systematic edge through regime stress.

Question: 1793

Which of the following is TRUE regarding a %b reading of 1.10?

A. The price is 10% of the band width above the Upper Bollinger Band
B. The price is currently at a level that is mathematically impossible

C. The price is $1.10 above the Upper Bollinger Band
D. The price is 110% of the way between the moving average and the upper band

Answer: A

Explanation: Because %b is a ratio of the price's position within the bands, a value of 1.10 means the price has exceeded the Upper Band by a distance equal to 10% of the total width of the bands (Upper – Lower).

Question: 1794

A trader studies a stock index across quarterly, monthly, weekly, and daily intervals. Quarterly and monthly charts remain bullish, weekly momentum weakens, and daily charts display lower highs and lower lows.

Which conclusion best reflects disciplined multi-interval interpretation?

A. Quarterly trends provide no useful information once weekly momentum deteriorates
B. Weekly weakness guarantees immediate reversal of the long-term secular trend
C. Daily downtrends automatically invalidate all higher-timeframe bullish conditions
D. Long-term bullish structure remains intact despite emerging intermediate and short-term weakness

Answer: D

Explanation: Multi-timeframe analysis recognizes that different intervals represent different structural horizons. Shorter-term weakness may emerge before long-term trends reverse, but higher-timeframe bullish conditions remain important until decisive structural deterioration occurs. Traders integrate all intervals to distinguish

temporary corrections from major trend reversals.

Question: 1795

An investment committee is reviewing a chart of the S&P 500 that shows a prolonged period of credit expansion and rising asset prices. A technician points out that the "Velocity of Money" is slowing while "Margin Debt" is at record levels. Which bubble stage is most likely being fueled by this excessive leverage?

A. Displacement
B. Revulsion
C. Boom
D. Panic

Answer: C

Explanation: The Boom stage follows Displacement and is fueled by easy credit and a positive feedback loop. As more money enters the market through leverage (like margin debt), asset prices rise, which in turn justifies more lending. This stage is characterized by a steady and accelerating rise in prices supported by the financial system.

Question: 1796

Risk manager extrapolating volatility for VaR model observes VIX=24.0, SPX=$4520. Needs 30-calendar day (approx. 21 trading days) expected range matching VIX maturity. What formula precisely expresses the VIX measurement as a price range, yielding approx. ±8.5%?

A. $\pm(24/100) \times 4520 \times \sqrt{30/365}$ giving $384 range; calendar-day scaling.

B. $\pm 24 \times \sqrt{21/12}$ giving $1155 range; monthly approximation rule.

C. $\pm(24/100) \times 4520 \times \sqrt{21/252}$ giving $385 range; time-adjusted.

D. $\pm(24/100) \times 4520$ giving $1085 range; direct percentage application.

Answer: A

Explanation: The VIX expresses its 30-calendar day volatility expectation as an annualized percentage, convertible to price range via $\pm(VIX/100) \times Price \times \sqrt{T/365}$ where T=calendar days in forecast period (30 here). This matches the VIX's constant 30-calendar day maturity convention, yielding $\pm 0.24 \times 4520 \times \sqrt{30/365} \approx 8.5\%$ or $384 either side, representing the market's consensus 1-standard-deviation expected move over the VIX's native horizon.

Question: 1797

An analyst is integrating candlestick analysis with classical chart patterns. A "Bearish Harami" appears just as price touches the apex of a "Rising Wedge" pattern. The stock is also testing a multi-year descending trendline. What is the implication of this specific integration?

A. The Rising Wedge is a bullish continuation pattern, so the Harami will likely fail

B. The integration of a bearish candle at the resistance of a bearish chart pattern increases the conviction

C. The Harami is a weak signal and should be ignored in favor of the Wedge breakout

D. The trendline is the only valid indicator here, rendering the candlestick pattern redundant

Answer: B

Explanation: Effective technical analysis involves looking for "confluence." When a bearish candlestick reversal (the Harami) appears at the structural resistance of a bearish chart pattern (the Rising Wedge) and a major trendline, the multiple layers of evidence reinforce the probability of a trend reversal. Candlesticks act as the "trigger" within the broader "setup" of the chart pattern.

Question: 1798

Equity options desk tracks CBOE total put/call ratio: yesterday 0.68 (low), today 1.24 (spike) as SPX drops 2.1% from highs. VIX +18%. Volume shows put volume 2.3x prior day. Interpret options put/call ratio sentiment change.

A. Put/call spike confirms bearish breakdown; aggressive short entry
B. Normal volatility expansion; ratio irrelevant without OI data
C. Extreme put buying = contrarian buy signal; SPX bottom forming
D. Hedging demand only; maintain bullish intermediate bias

Answer: C

Explanation: Put/call ratio spiking to 1.24 from 0.68 represents panic put buying exhaustion signaling potential SPX bottom per CMT contrarian analysis. Extreme readings (>1.20) typically mark sentiment capitulation where retail/professional fear peaks, creating high-probability reversal opportunities.

Question: 1799

A trader captures VRP by selling options repeatedly over time. Which market

condition poses the greatest threat?

A. Stable low-volatility consolidation
B. Narrow trading range behavior
C. Abrupt volatility regime shift with large directional movement
D. Gradual theta decay over time

Answer: C

Explanation:
Sudden volatility expansions create outsized losses for short volatility positions.

Question: 1800

A trader notices that successive cycle highs continue forming later while declines become shorter and less severe. Which condition is most likely present?

A. Increasing left translation indicating strengthening bullish conditions
B. Increasing envelope contraction indicating strengthening bearish conditions
C. Increasing right translation indicating strengthening bullish conditions
D. Increasing inversion indicating strengthening bearish conditions

Answer: C

Explanation: Later cycle peaks and shorter declines indicate right translation and strengthening bullish dominance. The market spends more time advancing and less time correcting.

Question: 1801

During an earnings release session, a stock remains above its VWAP for nearly the entire trading day while volume expands significantly during price advances and contracts during pullbacks. Which conclusion is most appropriate?

A. Sellers are controlling the market because VWAP eventually attracts price reversion
B. Buyers are controlling the market because price persistence above VWAP reflects aggressive accumulation
C. Buyers are losing conviction because expanding volume indicates excessive speculative activity
D. Sellers are distributing shares because volatility expanded throughout the session

Answer: B

Explanation: VWAP serves as a real-time institutional sentiment gauge because it incorporates both price and volume. When price consistently trades above VWAP, market participants are generally willing to transact at prices above the session's average dollar cost, indicating aggressive buying pressure. The accompanying expansion in volume during advances strengthens the interpretation that institutional demand is dominating supply. Persistent trading above VWAP commonly reflects bullish intraday sentiment and buyer control of market direction.

Question: 1802

A global macro hedge fund employs a team of fundamental analysts who rely heavily on macro scenario analysis and valuation models. The CMT-level technician is asked to "add value" without changing the fund's decision-making hierarchy. Which fusion-analysis approach best reflects this constraint?

A. Allow the technician free discretion to open short positions that contradict the macro team's directional views.
B. Use the technician's views only in post-trade reports, with no influence on entry or exit decisions.
C. Integrate the technician's analysis into the risk-limiting and position-scaling process (e.g., tighter stops or smaller sizes in volatile, counter-trend trades).
D. Have the technician rebuild the macro model's key assumptions using technical indicators.

Answer: C

Explanation: When the decision-making hierarchy is fixed, the technician's value emerges most clearly in risk-management and position-structure decisions. Fusion analysis in this context means respecting the macro team's directional view but using technical analysis to refine entries, exits, and sizing—for instance, reducing position size or tightening stop-loss levels when volatility spikes or when the price action is in countertrend to the macro view. This keeps the workflow intact but embeds technical discipline at the execution layer.

Question: 1803

Software firm TECH reports short interest 12.4 million shares (22% float), average daily volume 2.8 million shares (short ratio 4.43 days). Stock -18% past quarter on earnings miss but holds $75 support. Nasdaq short interest survey shows TECH most shorted stock. Interpret short positioning.

A. Short ratio confirms bearish overcrowding; contrarian long opportunity
B. 22% short interest extreme; imminent squeeze above $80 resistance
C. High short interest bullish always; buy targeting $100 immediately
D. 4.43 days-to-cover moderate; requires catalyst for directional move

Answer: D

Explanation: Short interest ratio 4.43 days represents moderate positioning requiring positive catalyst for squeeze potential, while 22% float shorted indicates bearish but not extreme sentiment. CMT analysis views short ratios >5 days as elevated risk but 4.43 level maintains neutral bias pending technical breakout or fundamental catalyst resolution.

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