Katherine Hult, CFA, works for Rocky Road Investments in New York. She works as a financial consultant and helps individuals manage their investments and savings. It is her company's policy to review the client's IPS once a year to monitor any change in risk taking ability and willingness, individual's circumstances and any behavioral biases they may have. The following paragraphs detail profiles of three of her clients.

Client 1: Mrs. Wentworth

Mrs. Wentworth is retired and lives alone in New York. She has no children and donates a considerable amount of her retirement earnings to charity. During the annual meeting, Katherine tried to convince her to invest in international stocks (given her high risk ability) but Mrs. Wentworth refused. Mrs. Wentworth believes that all international stocks are risky, even though Katherine has shown her several research reports stating otherwise.

Client 2: Mr. Jack Black

Mr. Jack Black belongs to a rich entrepreneurial family and has a number of investments in startup companies. He prides himself on knowing good investments and having a keen sense of the market. As a result, he keeps investing in a new startup every month. When a startup succeeds he tells all his friends about his superior investment skills but when a startup fails, he blames it on unexpected market conditions.

Client 3: Mr. Henry Tillman

Mr. Henry Tillman is in his mid-forties and an executive in a pharmaceutical company. He started his investment in his early 20s and since then has made little change to his portfolio despite Katherine's insistence. Henry's portfolio is mainly invested in pharmaceutical and oil company stocks and he doesn't want to change the portfolio. He tells Katherine that his parents left him this portfolio and he won't sell it off.

Next month, Katherine prepares a presentation on behavioral biases and investor types for newly hired internees at her firm. One of the internees asks a question about mental accounting bias and its consequences, which Katherine then explains. Another internee asks about the three methods for decision making that most investors apply. Katherine replies by explaining the methods namely decision theory, bounded rationality and prospect theory.

Katherine then moves on to explaining the different investor types: Passive Preserver, Friendly Follower, Independent Individualist and Active Accumulator. She then describes the following investor and asks the internees which investor type she closely resembles.

'Kristie Matthews has moderate risk tolerance and suffers from cognitive biases. She likes to invest and has recently bought a large chunk of stock in a cosmetic company that was recommended to her by a few friends who invest actively. What kind of investor profile categorizes her best?

1. Which of the following behavioral biases is most likely demonstrated by Mrs. Wentworth?

   A. Conservatism bias
   B. Confirmation bias
   C. Availability bias

2. Which of the following is most likely demonstrated by Jack Black?

   A. Illusion of knowledge bias
   B. Self-attribution bias
   C. Hindsight bias

3. Which of the following biases did Henry Tillman NOT demonstrate?

   A. Anchoring and adjustment bias
   B. Status quo bias
   C. Endowment bias

4. Which of the following is not a typical consequence of mental accounting bias?

   A. Allocating funds to different 'buckets.'
   B. Neglecting to focus on total return and total risk.
   C. A higher risk profile in the portfolio due to pursuit of higher returns.

5. An investor chooses an investment option based on available information. This is most likely an example of:

   A. Decision theory
   B. Bounded rationality
   C. Prospect theory

6. Which of the following best describes the behavioral investor type for Kristie Matthews?

   A. Friendly follower
   B. Independent individualist
   C. Active accumulator

