2026 CAIA Level II ERRATA　Printed Version

As of 02/09/2026

LII Section1.2_question14

14. ABC is a U.S. endowment that has previously invested only a marginal portion of its portfolio in alternative investments. ABC is considering allocating more funds to alternative investments, including hedge funds, but is afraid of the negative effects that the illiquidity of some of these alternative assets may have on the riskiness of its portfolio. To this end, ABC hires a consultant to determine, among other issues, the effects of lockup periods on returns, the costs of liquidity risk during periods of market stress, how to manage liquidity risks, the potential effects of gates on investors, as well as the effects that the smoothing of data reported by a number of alternative assets may have on allocations to these investments. The consultant has just submitted a report to ABC addressing these questions.

At the end of the report, the consultant expresses that "… *To the extent that certain alternative investments have smoothed returns or net asset values that are reported with a time lag, liquid alternatives and traditional assets will decline in allocation rapidly during times of crisis*." What is the underlying principle of this analysis?

Should be: illiquid

Solution:

In the case of relatively illiquid investments (e.g., certain alternative investments such as private equity and hedge funds), the net asset value adjusts slowly to changes in public market valuation. As a result, in periods of crisis, prices of liquid assets decline rapidly and investors may react by only rebalancing within the liquid assets, while slowly changing allocations to relatively illiquid alternative investments (by modifying the size of future commitments).

LII Section 8.5.3, Page 370

Original:

Whale Ratio

The **whale ratio** measures the proportion of market participants who are buying (bullish) versus selling (bearish). It's calculated by dividing the number of buy orders by the number of sell orders, then normalizing the result to a value between 0 and 1. A value close to 0 indicates a strong bearish sentiment, meaning more traders are selling than buying. A value close to 1 indicates a strong bullish sentiment, meaning more traders are buying than selling. A value around 0.5 indicates a neutral or balanced market. The whale ratio is usually combined with the RSI analysis.

Corrected Version:

Whale Ratio

The **whale ratio** typically refers to the ratio of large transactions (usually >100 BTC or >1,000 BTC) to total transactions on a blockchain to measure the proportional activity of large market participants. A value close to 0 indicates a strong bearish sentiment, meaning there is less activity from whales. A value close to 1 indicates a strong bullish sentiment, meaning large investors are moving significant amounts, potentially signaling market moves. A value around 0.5 indicates a neutral or balanced market. The whale ratio is usually combined with the RSI analysis.

LII Section 9.2.1. Page 441

Original:

A **laissez-faire** system takes a hands-off approach to policy coordination and generally applies the main tenets of the Washington Consensus enthusiastically. A return to laissez-faire capitalism would likely have a dampening impact on inflation and a mildly positive impact on growth over the long term. **Dirigisme** sees the government far more directly involved in the economy, in terms of regulatory, trade, and fiscal policy. It could have a slightly greater impact on inflation, although growth outcomes ought to be similar to laissez-faire. **Populism** specifically seeks to create positive nominal growth outcomes over the short term but creates massive inefficiencies over the long term, leading to both higher inflation outcomes and lower growth outcomes.

Last sentence should be:

Populism specifically seeks to create positive nominal growth outcomes over the short term but creates massive inefficiencies over the long term, leading to both higher inflation outcomes and lower growth outcomes relative to laissez-faire and dirigisme.