

PRACTICE EXAM 4

QUESTIONS

1. Which of the following are considered fiduciaries?

- (1) A retirement plan administrator, including any third-party administrator that is used by the employer.
 - (2) A retirement plan sponsor/employer, including its officers and/or directors.
 - (3) An investment adviser that renders advice to a retirement plan for a fee or other compensation.
 - (4) A retirement plan trustee.
- A. (1) and (2) only
 - B. (2) and (4) only
 - C. (1), (2), and (3) only
 - D. All of the above are correct.

2. Which of the following typically invest in high-quality, short-term investments, such as Treasury bills, commercial paper, and negotiable CDs? The underlying investments have an average maturity of 30 to 90 days.

- A. CDs
- B. Commercial paper
- C. Money market funds
- D. Treasury bonds

3. Which of the following is the formula to calculate an investment's real return?

- A. Real return = Nominal return – Inflation
- B. Real return = Nominal return + Inflation
- C. Real return = Nominal return ÷ Inflation
- D. Real return = Inflation ÷ Nominal return

4. All but which of the following are correct regarding the IARD?

- A. It was developed according to the requirements of its sponsors, the SEC and NASAA.
- B. Its database helps promote uniformity through the use of common forms, and efficiency through a paperless environment.
- C. It is to investment advisers what the CRD is to broker-dealers.
- D. All of the above are correct.

5. Which of the following describes the illegal practice of excessive buying and selling of securities in a customer's account without considering the customer's investment goals? Its primary goal is to generate commissions that benefit the broker.

- A. Capping
- B. Churning
- C. Front running
- D. Painting the tape

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6. Which of the following is/are correct regarding liquidity and marketability?

- (1) Liquidity is the ability to sell or redeem an investment quickly and at a known price without incurring a significant loss of principal.
 - (2) Marketability is the speed and ease with which an investment may be bought or sold.
- A. (1) only
 - B. (2) only
 - C. Both (1) and (2) are correct.
 - D. Neither (1) or (2) are correct.

7. Which of the following are among the economic goals of the Federal Reserve and the U.S. Treasury?

- (1) Full employment
 - (2) Stable prices
 - (3) Economic growth
 - (4) Decrease government spending
- A. (1) and (4) only
 - B. (3) and (4) only
 - C. (1), (2), and (3) only
 - D. All of the above are correct.

8. Which of the following retirement plans would be most suitable to retain young employees?

- A. Cash balance plan
- B. Defined benefit plan
- C. Money purchase plan
- D. Target benefit plan

9. Which of the following is the largest options exchange in the U.S., and focuses on options contracts for individual equities and indexes?

- A. AMEX
- B. CBOE
- C. NASDAQ
- D. NYSE

10. Which of the following acts is designed to provide greater deterrence and punishment for people trading on material non-public information, and to improve detection of other perceived market abuses?

- A. Securities Act Amendments of 1975
- B. Insider Trading and Securities Fraud Enforcement Act of 1988
- C. National Securities Market Improvement Act of 1996
- D. Sarbanes-Oxley Act of 2002

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- 11. The Dow Jones Industrial Average is an index comprised of _____ industrial companies.**
- A. 20
 - B. 30
 - C. 40
 - D. 50
- 12. Which of the following is a type of mutual fund that invests only in the equity securities of companies located outside the U.S.?**
- A. Aggressive growth fund
 - B. Balanced fund
 - C. Global fund
 - D. International fund
- 13. All but which of the following are characteristics of defined contribution plans?**
- A. Employer contributions are defined.
 - B. The employee assumes the risk of investment performance.
 - C. The employer assumes the risk of pre-retirement inflation.
 - D. Benefits cannot be provided for past service.
- 14. All but which of the following are among the three categories of firm communications that are defined and regulated by FINRA Rule 2210?**
- A. Correspondence
 - B. Institutional communication
 - C. Marketing communication
 - D. Retail communication
- 15. All but which of the following are considered qualitative data?**
- A. Account balances
 - B. Goals
 - C. Lifestyle
 - D. Needs
- 16. A _____ is issued by a governmental body to finance a specific project. It is not backed by the full faith and credit of the issuing body.**
- A. general obligation bond
 - B. multi-purpose bond
 - C. private activity bond
 - D. revenue bond

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17. Which of the following is defined as the benefit provided to an asset manager by a broker-dealer as a result of commissions generated from financial transactions executed by the broker-dealer?

- A. 12b-1 compensation
- B. Administrative compensation
- C. Hard-dollar compensation
- D. Soft-dollar compensation

18. Which of the following is/are correct regarding registered bonds and bearer bonds?

- (1) A registered bond is registered with the corporation or organization that issued the bond, and coupon payments are made to the owner of record.
- (2) A bearer bond can be transferred like cash, and coupon payments are made to the person who holds the bond.

- A. (1) only
- B. (2) only
- C. Both (1) and (2) are correct.
- D. Neither (1) or (2) are correct.

19. Gifts made during a donor's lifetime receive a _____ of basis, and gifts made at death receive a _____ of basis.

- A. carryover, carryover
- B. carryover, step-up
- C. step-up, carryover
- D. step-up, step-up

20. Which of the following impose the reporting and disclosure requirements for defined benefit plans?

- A. ERISA
- B. IRS
- C. PBGC
- D. SEC

21. Which of the following is/are correct regarding interest paid from municipal bonds?

- (1) Interest paid from municipal bonds is not taxed by the federal government.
- (2) Interest paid from municipal bonds is never taxable at the state level.

- A. (1) only
- B. (2) only
- C. Both (1) and (2) are correct.
- D. Neither (1) or (2) are correct.

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22. To promote and enhance cyber security, an RIA's Chief Compliance Officer should educate firm employees about which of the following fraudulent activities that involves obtaining financial or other confidential information from internet users, usually by sending an email that looks as though it has been sent by a legitimate organization? The email usually contains a link to a fake website that looks authentic.
- A. Phishing
 - B. Spamming
 - C. Spoofing
 - D. Worming
23. Which of the following is an unconditional promise to pay a sum of money to a payee, either at a fixed or determinable future time, under specific terms?
- A. Bank draft
 - B. IOU
 - C. Promissory note
 - D. None of the above are correct.
24. According to the "brochure rule," if there have been material changes in the brochure since the adviser's last annual updating amendment, the adviser must deliver either a current brochure or a summary of the material changes to each client within _____ of the end of the adviser's fiscal year.
- A. 30 days
 - B. 60 days
 - C. 90 days
 - D. 120 days
25. A currency transaction report (CTR) is a report that U.S. financial institutions are required to file with which of the following?
- A. FinCEN
 - B. FINRA
 - C. NAIC
 - D. NASD
26. Which of the following is/are correct regarding beta?
- (1) It is used to measure the amount of unsystematic risk in an investor's portfolio.
 - (2) A portfolio's beta can be positive or equal to zero, but cannot be negative.
- A. (1) only
 - B. (2) only
 - C. Both (1) and (2) are correct.
 - D. Neither (1) or (2) are correct.

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- 27. Which of the following regulations contains rules providing exemptions from the registration requirements under the Securities Act of 1933?**
- A. Regulation A
 - B. Regulation G
 - C. Regulation T
 - D. Regulation U
- 28. Regarding the money supply, which of the following is the formula for M2?**
- A. $M2 = M1 + \text{Savings accounts} + \text{Short-term time deposits}$
 - B. $M2 = M1 + \text{Coins and currency in circulation} + \text{Money held in checking accounts}$
 - C. $M2 = M1 + \text{Long-term time deposits}$
 - D. $M2 = M1 + \text{Money held in checking accounts}$
- 29. An investment adviser that has custody of client assets must file an audited balance sheet with the SEC within how many days of the investment adviser's fiscal year end?**
- A. 30 days
 - B. 60 days
 - C. 90 days
 - D. 120 days
- 30. Which of the following acts is credited with forming the Municipal Securities Rule-making Board (MSRB)?**
- A. Securities Investor Protection Act of 1970
 - B. Securities Act Amendments of 1975
 - C. Uniform Prudent Investors Act of 1994
 - D. National Securities Market Improvement Act of 1996
- 31. Which of the following describes a strategy used to minimize the interest rate risk of bond investments by adjusting the portfolio duration to match the investment time horizon?**
- A. Bond hedging
 - B. Bond immunization
 - C. Bond laddering
 - D. Bond spread
- 32. The Federal Reserve Board performs which of the following actions?**
- A. It sets monetary policy, but does not set tax policy.
 - B. It sets tax policy, but does not set monetary policy.
 - C. It sets monetary policy and tax policy.
 - D. None of the above are correct.

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33. When a bond is selling at a premium to par, the yield to maturity (YTM) will always be _____ the bond's coupon rate. If a bond is selling at a discount to par, the YTM will always be _____ the bond's coupon rate.
- A. greater than, equal to
 - B. greater than, less than
 - C. less than, equal to
 - D. less than, greater than
34. When an individual dies without a will and without family, the decedent's property will _____ to the state where he or she resided at the date of death.
- A. abate
 - B. escheat
 - C. estop
 - D. reform
35. Which of the following bonds guarantees that the principal will act in accordance with certain laws, and if the principal fails to perform in this manner, the bond will cover resulting damages or losses?
- A. Bearer bond
 - B. Brady bond
 - C. Fidelity bond
 - D. Surety bond
36. Emily creates an irrevocable trust to which she contributes income producing property. The trust will pay her income for life equal to 6% of the value of the trust revalued annually. At Emily's death, the trust corpus will be paid to a public charity. Which type of trust did Emma create?
- A. Charitable remainder annuity trust
 - B. Charitable remainder unitrust
 - C. Charitable lead unitrust
 - D. Charitable lead annuity trust
37. In which of the following qualified retirement plans are the employees responsible for the investment risk?
- (1) Money purchase plans
 - (2) Target benefit plans
 - (3) Defined benefit plans
 - (4) Cash balance plans
- A. (1) and (3) only
 - B. (1) and (2) only
 - C. (2) and (3) only
 - D. (3) and (4) only

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For questions 38 – 41, match the form of dividend with the description that follows. Use only one answer per blank. Answers may be used more than once or not at all.

- A. Stock dividend
- B. Credit dividend
- C. Ordinary dividend
- D. Qualified dividend
- E. Constructive dividend
- F. Liquidating dividend
- G. Tax dividend

38. ___ A distribution made by a corporation that is paid as additional shares of stock rather than cash.

39. ___ A type of dividend to which capital gains tax rates are applied.

40. ___ Normally a disguised dividend, such as a below-market shareholder loan.

41. ___ A payment to shareholders that exceeds the company's retained earnings; payment is made from capital rather than earnings.

42. An annual interest rate of 4.7% is equivalent to:

- A. 0.392% monthly or 1.175% quarterly.
- B. 0.392% monthly or 1.573% quarterly.
- C. 1.175% quarterly or 0.412% monthly.
- D. 2.352% quarterly or 0.783% monthly.

43. Which of the following is a characteristic of a debenture bond?

- A. Debenture bonds are secured bonds.
- B. Debenture bondholders have the same rights as general creditors.
- C. To account for the lower default risk, debenture bonds will have lower yields to maturity than secured bonds issued for the same term by the same issuer.
- D. All of the above are correct.

44. Earnings after taxes ÷ Total assets = _____

- A. Current ratio
- B. Net profit margin
- C. Return on assets
- D. Return on equity

45. If a portfolio has a beta of 1.0, what type of risk does the portfolio have?

- A. Diversifiable risk
- B. Non-systematic risk
- C. Systematic risk
- D. Both non-systematic and diversifiable risk

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- 46. An investor who owns 5% cumulative preferred stock will receive a semiannual dividend of:**
- A. \$0.25 per share.
 - B. \$0.50 per share.
 - C. \$2.50 per share.
 - D. \$5.00 per share.
- 47. A skip person for generation-skipping transfer tax (GSTT) purposes is a related individual _____ below that of the transferor.**
- A. one or more generations
 - B. two or more generations
 - C. 21 years
 - D. 27.5 years
- 48. If an employer maintains a SIMPLE plan, which of the following plans can it also have in operation at the same time?**
- A. 403(b) plan
 - B. SEP
 - C. Qualified plan
 - D. None of the above are correct.
- 49. All but which of the following are correct regarding advertising activities engaged in by an RIA?**
- A. Securities laws and rules prohibit performance advertising.
 - B. Advertisements may not use or refer to testimonials.
 - C. A testimonial refers to any statement of a client's experience or endorsement.
 - D. All of the above are correct.
- 50. Which of the following mutual fund share classes will charge investors a back-end load?**
- A. Class A shares
 - B. Class B shares
 - C. Class C shares
 - D. Class D shares
- 51. Which of the following options will put an investor at the greatest risk?**
- A. Buying a put while not owning the stock.
 - B. Buying a put while owning the stock.
 - C. Selling a stock short while not owning the stock.
 - D. Selling a stock short while owning the stock.

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52. If an investor expects a large decrease in the stock market 60 days from today, she can take advantage of the change by doing which of the following?

- (1) Buying S&P 500 index calls
- (2) Buying S&P 500 index puts
- (3) Selling S&P 500 index calls
- (4) Selling S&P 500 index puts

- A. (1) and (3) only
- B. (1) and (4) only
- C. (2) and (3) only
- D. (2) and (4) only

53. An investor purchased a 5-year bond that pays a 3.5% semiannual coupon payment. The bond is priced at \$97 per \$100 of par value. What is the bond's current yield?

- A. 3.50%
- B. 3.61%
- C. 7.22%
- D. 7.65%

The following information relates to questions 54 – 55.

Beta Corporation, a broker-dealer, would like to withdraw their state registration.

54. Which of the following forms must Beta Corporation submit to withdraw registration?

- A. Form ADV-W
- B. Form BDW
- C. Form BR
- D. Form W

55. The withdrawal will become effective _____ following the SEC's receipt of the form, unless the division notifies Beta Corporation otherwise.

- A. 30 days
- B. 60 days
- C. 90 days
- D. 120 days

56. Which of the following is correct regarding profit sharing plan allocation formulas?

- A. Allocation formulas may discriminate in favor of highly compensated employees without penalty.
- B. Contributions may not be skewed to favor older employees.
- C. Allocation formulas must be definite and predetermined.
- D. Employee contributions must be allocated on a pro-rata basis.

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57. As a base country's currency strengthens relative to other countries, which of the following will result?

- A. The base country's exports will become less attractive to foreign consumers because the base country's goods are considered to be expensive.
- B. The base country's exports will become less attractive to foreign consumers because the base country's goods are considered to be cheap.
- C. The base country's exports will become more attractive to foreign consumers because the base country's goods are considered to be expensive.
- D. The base country's exports will remain unchanged because the strength or weakness of a country's currency does not affect exports.

58. In a joint tenancy between non-spouses, _____ of the property will be included in the gross estate of the decedent unless the survivor shows consideration furnished.

- A. 0%
- B. 25%
- C. 50%
- D. 100%

59. According to the Rule of 72, how many years will it take for an investment to double if the rate of return is 8% per year?

- A. 8 years
- B. 9 years
- C. 10 years
- D. 12 years

60. Rob owns 200 shares of Epsilon stock, which recently announced that it will pay a 4% stock dividend. How many shares will Rob have after the dividend has been paid?

- A. 192 shares
- B. 200 shares
- C. 204 shares
- D. 208 shares

61. Which of the following are permitted investments in a 403(b) plan?

- (1) Mutual funds
- (2) Bond funds
- (3) Treasury bills
- (4) Life insurance that is incidental to an annuity contract

- A. (1) and (4) only
- B. (2) and (3) only
- C. (1), (2), and (4) only
- D. All of the above are correct.

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62. The initial margin percentage is currently _____ as established by Regulation T of the Federal Reserve Board.

- A. 25%
- B. 30%
- C. 50%
- D. 75%

63. All but which of the following are correct regarding counter-cyclical stocks?

- A. They perform better during economic downturns.
- B. They are negatively correlated to the overall state of the economy.
- C. Examples of counter-cyclical stocks include airlines and hotels.
- D. They outperform during the contraction phase of the business cycle.

64. Which of the following is the minimum age requirement to use the substantially equal period payment (SEPP) exception to the 10% premature distribution penalty from an IRA?

- A. Age 21
- B. Age 59 ½
- C. Age 65
- D. There is no minimum age requirement.

65. An investor purchases two puts. The first is a September Theta put at \$35, underlying currently selling at \$37. The second is a November Delta put at \$28, underlying currently selling at \$25. Ignoring transaction costs, what is the value of the options?

- A. Theta: -\$2; Delta: \$3
- B. Theta: \$0; Delta: -\$3
- C. Theta: \$0; Delta: \$3
- D. Theta: \$2; Delta: \$3

66. The duration of a bond is least affected by its:

- A. coupon.
- B. interest rate.
- C. quality.
- D. time to maturity.

67. Jessica would like to set up a revocable living trust but is concerned about potential adverse tax consequences. If she sets up a revocable living trust and places all of her income producing assets into the trust, how will the income from the trust be taxed?

- A. The income will pass through to the Jessica, who will pay it personally.
- B. The income will be taxed at trust tax rates.
- C. The income will accumulate tax-free within the trust.
- D. Part of the income will pass through to Jessica, who will pay it personally, and part of the income will accumulate tax-free within the trust.

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68. An analyst provides the following information for an index comprised of 4 securities:

Security	Beginning of Period Price (\$)	End of Period Price (\$)
Security A	\$38.00	\$46.00
Security B	\$29.00	\$33.00
Security C	\$50.00	\$53.00
Security D	\$80.00	\$86.00

If the securities are part of a price-weighted index, what is the return of the index?

- A. 10.66%
- B. 12.09%
- C. 13.63%
- D. 14.29%

69. Which of the following will result if money distributed from a 529 Plan is not used to pay for qualifying education expenses?

- A. The gain is taxed at capital gains rates, and a 10% penalty is applied.
- B. The gain is taxed at capital gains rates, and a 20% penalty is applied.
- C. The gain is taxed as ordinary income, and a 10% penalty is applied.
- D. The gain is taxed as ordinary income, and a 20% penalty is applied.

70. All but which of the following are correct regarding a convertible bond?

- A. It is a type of corporate bond that may be converted into common stock of the issuing corporation.
- B. It may be converted at the bondholder's discretion.
- C. It allows an investor to share in the growth of the corporation only if the bond is converted into common stock.
- D. It is a zero-coupon bond issued at a discount to par.

71. John owns an investment yielding an after-tax return of 9.5%. If he is in the 15% tax bracket, what is the equivalent pre-tax return?

- A. 1.43%
- B. 8.08%
- C. 10.93%
- D. 11.18%

72. Which of the following lines indicates the direction and speed that a security's price moves over a period of time?

- A. Capital market line
- B. Security market line
- C. Support line
- D. Trendline

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73. A doctor starting a new medical practice is concerned about limiting her personal liability. She would like to have flow-through taxation and the ability to easily sell interests in her practice in the future. Which of the following entities is most suitable for the doctor to meet her goals?

- A. C Corp
- B. S Corp
- C. Sole proprietorship
- D. Limited partnership

74. Which of the following is/are correct regarding support and resistance levels?

- (1) Support is the level at which demand is strong enough to prevent security prices from rising further.
 - (2) Resistance is the level at which selling activity is strong enough to prevent security prices from declining further.
- A. (1) only
 - B. (2) only
 - C. Both (1) and (2) are correct.
 - D. Neither (1) or (2) are correct.

75. If an investment is held for more than one year, the holding period return _____ the true investment return on an annual basis. If an investment is held for less than one year, the holding period return _____ the true investment return.

- A. correctly states, overstates
- B. overstates, correctly states
- C. overstates, understates
- D. understates, overstates

76. Which of the following is an advertisement used by a registered investment company that advises readers to obtain a full prospectus? It is not permitted to include an application to invest, and it must contain specific caveats pursuant to SEC Rule 482.

- A. Omitting prospectus
- B. Preliminary prospectus
- C. Shelf registration
- D. Tombstone ad

77. Long-term capital gains tax rates apply if an asset is held for:

- A. at least 12 months.
- B. longer than 12 months.
- C. at least 6 months using the half-year convention.
- D. longer than 6 months using the half-year convention.

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78. Which of the following is an investment strategy entered into to reduce or offset the risk of adverse price movements in a security by taking an offsetting position in another investment?

- A. Arbitrage
- B. Derivative
- C. Option
- D. Hedge

79. Contractionary policy is characterized by which of the following?

- A. Increasing government borrowing
- B. Increasing public spending
- C. Increasing taxes
- D. All of the above are correct.

80. An individual who meets which of the following criteria must register as an investment adviser?

- (1) The individual provides advice or analyses concerning securities.
- (2) The individual is in the business of providing investment advice.
- (3) The individual provides investment advice for compensation.
- (4) The individual is a CPA or attorney whose investment advice is only incidental to his or her other activities.

- A. (3) only
- B. (1), (2), and (3) only
- C. (1), (2), and (4) only
- D. (2), (3), and (4) only

81. Which of the following can an investor sign which allows him or her to receive break-point discounts based upon a commitment to buy a specified number of mutual fund shares over a period of time, usually 13 months?

- A. Investment advisory contract
- B. Investment memorandum
- C. Letter of intent
- D. Prospectus

82. Bill, age 67, recently received a \$650,000 inheritance from his uncle's estate. To provide sufficient income during retirement, he needs an annuity that will produce the highest payout for the rest of his life. Which settlement option should Bill select?

- A. Dollar certain
- B. Joint life
- C. Life with a 10-year period certain
- D. Single life

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83. All but which of the following are characteristics of a C Corp?

- A. They are subject to double taxation.
- B. They have a perpetual life.
- C. They must have stock available for purchase on an exchange.
- D. They can potentially be classified as a personal service corporation (PSC).

84. Which of the following is correct regarding the interest paid by Treasury STRIPS?

- A. They pay interest monthly.
- B. They pay interest semiannually.
- C. They pay interest annually.
- D. They do not pay interest.

For questions 85 – 88, match the retirement plan with the description that follows. Use only one answer per blank. Each answer may be used only once.

- A. Profit sharing plan
- B. Money purchase plan
- C. Cash balance plan
- D. Target benefit plan

85. ___ A plan that requires a fixed percentage of compensation to be contributed for each eligible employee.

86. ___ A plan similar to a defined benefit plan because contributions are based on projected retirement benefits.

87. ___ A type of defined contribution plan that is not a pension plan.

88. ___ A defined benefit plan that defines an employee's benefit in terms that are more characteristic with a defined contribution plan.

89. Which of the following measures the level of trading activity within a mutual fund?

- A. Capitalization rate
- B. Expense rate
- C. Price/earnings rate
- D. Turnover rate

90. If an investment pays a monthly interest rate of 0.9%, it is equivalent to:

- A. 1.8% quarterly or 5.4% annually.
- B. 2.7% quarterly or 8.1% annually.
- C. 2.7% quarterly or 10.8% annually.
- D. 5.4% quarterly or 10.8% annually.

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91. A hedge fund is a _____ offered fund of securities for high-net worth investors. The hedge fund manager is generally paid a _____ fee.
- A. privately, flat
 - B. privately, performance
 - C. publicly, flat
 - D. publicly, performance
92. When a corporation files a registration with the SEC in an effort to sell shares to the public, the period of time between the filing of the registration statement and its effective date is referred to as the:
- A. cooling-off period.
 - B. prospectus period.
 - C. registration period.
 - D. terminable interest period.
93. Last year, Alpha Holding Company reported an annual cost of goods sold of \$17.6 million. Total assets increased by \$12.1 million, including an increase of \$1.1 million in inventory. Total liabilities increased by \$9.9 million, including an increase of \$440,000 in accounts payable. Based on this information, how much cash was paid to suppliers?
- A. \$10.34 million
 - B. \$16.94 million
 - C. \$18.26 million
 - D. \$18.70 million
94. Which of the following is the measure of a company's earnings per share if all convertible securities were exercised and converted to common stock?
- A. Converted earnings per share
 - B. Conversion ratio per share
 - C. Diluted earnings per share
 - D. Price/earnings per share
95. Which of the following describes actions taken by the Federal Reserve and their effect on the money supply?
- (1) If the Federal Reserve sells government securities, it receives money in return, which increases the money supply.
 - (2) If the Federal Reserve sells government securities, it is considered contractionary policy.
- A. (1) only
 - B. (2) only
 - C. Both (1) and (2) are correct.
 - D. Neither (1) or (2) are correct.

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96. Which of the following is the electronic service that provides quotation information for stocks traded on the AMEX, NYSE, and other regional stock exchanges, and also includes issues traded by FINRA member firms in the third market?
- A. Alternative Trading System
 - B. Consolidated Quotation System
 - C. National Service Clearing Corporation
 - D. Trade Reporting and Compliance Engine
97. For a defined contribution plan, annual contributions to an employee's account are limited to the lesser of _____ of compensation or _____ in 2024.
- A. 20%, \$23,000
 - B. 20%, \$30,500
 - C. 25%, \$69,000
 - D. 25%, \$275,000
98. Which of the following is another name for conduit theory, which states that an investment company that passes all of its capital gains, interest, and dividends through to shareholders shouldn't be taxed at the corporate level?
- A. Corporate tax theory
 - B. Passive income theory
 - C. Passthrough theory
 - D. Pipeline theory
99. When an economy is experiencing inflation, an overall _____ in consumer prices leads to a _____ of purchasing power.
- A. decrease, decrease
 - B. decrease, increase
 - C. increase, decrease
 - D. increase, increase
100. The gift tax annual exclusion is permitted for:
- (1) present interest gifts only.
 - (2) future interest gifts only.
 - (3) present and future interest gifts.
 - (4) any completed gift that does not revert back to the grantor.
- A. (1) only
 - B. (3) only
 - C. (3) and (4) only
 - D. (1), (3), and (4) only

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- 101.** Which of the following acts regulates the organization of companies, including mutual funds, that engage primarily in investing, reinvesting, and trading in securities? The act is designed to minimize conflicts of interest that arise in these complex operations.
- A. Securities Exchange Act of 1934
 - B. Trust Indenture Act of 1939
 - C. Investment Company Act of 1940
 - D. Uniform Securities Act of 1956
- 102.** Which of the following is a system that automates and standardizes procedures for the transfer of assets in a customer account from one brokerage firm and/or bank to another?
- A. ACATS
 - B. ECN
 - C. TRACE
 - D. WIRE
- 103.** The Trust Indenture Act of 1939 prohibits bond issues over _____ from being offered for sale without a formal agreement signed by both the bond issuer and the bondholder that fully discloses the details of the issue.
- A. \$1 million
 - B. \$5 million
 - C. \$10 million
 - D. \$15 million
- 104.** Which of the following is/are correct regarding investment risk in a qualified retirement plan?
- (1) In a defined contribution plan, the employer bears the investment risk.
 - (2) In a defined benefit plan, the employee bears the investment risk.
- A. (1) only
 - B. (2) only
 - C. Both (1) and (2) are correct.
 - D. Neither (1) or (2) are correct.
- 105.** Which of the following are among the criteria to be an “accredited investor”?
- A. Net worth exceeding \$500,000, either alone or together with a spouse, excluding the value of the person’s primary residence.
 - B. Net worth exceeding \$500,000, either alone or together with a spouse, including the value of the person’s primary residence.
 - C. Net worth exceeding \$1,000,000, either alone or together with a spouse, excluding the value of the person’s primary residence.
 - D. Net worth exceeding \$1,000,000, either alone or together with a spouse, including the value of the person’s primary residence.

Practice Exam 4

106. Which of the following are among the exemptions from the 10% early withdrawal penalty from an IRA?

- (1) Higher education costs for the account owner's child.
 - (2) Hardship withdrawals.
 - (3) A first-time home purchase up to \$10,000.
 - (4) Separation from employment service at age 55 or older.
 - (5) A loan for medical expenses.
- A. (1) and (3) only
 - B. (2) and (4) only
 - C. (3) and (5) only
 - D. (1), (3), and (4) only

For questions 107 – 109, match the real estate investment with the description that follows. Use only one answer per blank. Answers may be used more than once or not at all.

- A. Equity REIT
- B. Mortgage REIT
- C. REMIC

107. ___ Invests in loans secured by real estate.

108. ___ Self-liquidating, flow-through entity that invests in real estate mortgages or mortgage-backed securities.

109. ___ Acquires ownership interests in commercial, industrial, and residential properties. Income is received from the rental of these properties.

110. Which of the following yield curves results from short-term debt instruments having a higher yield than long-term debt instruments of the same credit quality?

- A. Flat yield curve
- B. Inverted yield curve
- C. Normal yield curve
- D. Steep yield curve

111. The Federal Trade Commission implemented which of the following rules that requires broker-dealers and other financial institutions to create a written identity theft prevention program designed to detect the warning signs of identity theft in their day-to-day operations?

- A. CTR Rule
- B. Red Flags Rule
- C. SRO Rule
- D. Whistleblower Rule

Practice Exam 4

112. Inflation is measured by which of the following?

- A. CPI
- B. GNI
- C. GNP
- D. NNI

113. Which of the following is a requirement in which financial institutions need to verify the identity of individuals wishing to conduct financial transactions with them?

- A. Automated Client Account Transfer Service
- B. Customer Identification Program
- C. Trade Reporting and Compliance Engine
- D. None of the above are correct.

114. Which of the following is a model statute designed to guide each state in drafting its state securities laws? It was created by the National Conference of Commissioners on Uniform State Laws.

- A. Maloney Act
- B. Patriot Act
- C. Uniform Prudent Investors Act
- D. Uniform Securities Act

The following information relates to questions 115 – 117.

Kappa Fund has recorded the following investment returns for the past seven years: -3%, +4%, +5%, -3%, +2%, +6%, -1%

115. Which of the following is the mean return?

- A. 1.43%
- B. 1.67%
- C. 1.81%
- D. 1.98%

116. Which of the following is the median?

- A. -3%
- B. -1%
- C. 2%
- D. 6%

117. Which of the following is the mode?

- A. -3%
- B. -1%
- C. 2%
- D. 6%

Practice Exam 4

118. Book value is calculated through which of the following formulas?

- A. Book value = Total assets – (Intangible assets + Liabilities)
- B. Book value = Tangible assets + Intangible assets – Liabilities
- C. Book value = Total assets – (Intangible assets – Liabilities)
- D. Book value = Tangible assets – Intangible assets + Liabilities

119. The difference between a bond's price and the conversion parity price is referred to as which of the following?

- A. Bond premium
- B. Conversion premium
- C. Discount price
- D. Option premium

120. Which of the following SEC regulations require member firms that offer or maintain covered accounts to develop and implement written identity theft prevention programs?

- A. Regulation BB
- B. Regulation CF
- C. Regulation FD
- D. Regulation S-ID

121. Which of the following is correct regarding Electronic Communication Networks (ECNs)?

- A. All registered investment advisers are permitted to become ECN subscribers.
- B. ECNs are not permitted to become members of FINRA.
- C. An execution occurs when the price of a buy order and the price of a sell order intersect on the ECN.
- D. All of the above are correct.

122. The two main types of mutual fund prospectuses are the _____ prospectus and the _____ prospectus.

- A. omitting, statutory
- B. preliminary, statutory
- C. preliminary, summary
- D. statutory, summary

123. Which of the following is the world's largest equity derivatives clearing organization? By acting as guarantor, they ensure that the obligations of the contracts that they clear are fulfilled.

- A. AMBAC
- B. NASDAQ
- C. NSCC
- D. OCC

Practice Exam 4

124. Which of the following is a person who, for compensation, makes recommendations regarding securities, manages client accounts, and determines which advice regarding securities should be given?

- A. ADV
- B. CRD
- C. IAR
- D. IARD

For questions 125 – 128, match the type of stock with the description that follows. Use only one answer per blank. Answers may be used more than once or not at all.

- A. Cyclical stocks
- B. Defensive stocks

125. ___ Pharmaceutical companies

126. ___ Automobiles

127. ___ Airlines

128. ___ Railroads

129. Which of the following are activity ratios?

- (1) Inventory turnover ratio
 - (2) Average collection period
 - (3) Fixed asset turnover ratio
 - (4) Debt-to-equity ratio
- A. (1) and (4) only
 - B. (1), (2), and (3) only
 - C. (2), (3), and (4) only
 - D. All of the above are correct.

130. Which of the following is/are correct regarding profit sharing plans?

- (1) Profit sharing plans are a type of defined contribution pension plan.
 - (2) The minimum funding standard requires the employer to make an annual contribution.
- A. (1) only
 - B. (2) only
 - C. Both (1) and (2) are correct.
 - D. Neither (1) or (2) are correct.

ANSWER KEY

1. D

A fiduciary includes a retirement plan administrator, including any third-party administrator that is used by the employer; a retirement plan sponsor/employer, including its officers and/or directors; an investment adviser that renders advice to a retirement plan for a fee or other compensation; and a retirement plan trustee.

2. C

Money market funds typically invest in high-quality, short-term investments, such as Treasury bills, commercial paper, and negotiable CDs. The underlying investments have an average maturity of 30 to 90 days.

3. A

Real return = Nominal return – Inflation

4. D

The IARD was developed according to the requirements of its sponsors, the SEC and NASAA. Its database helps promote uniformity through the use of common forms, and efficiency through a paperless environment. It is to investment advisers what the CRD is to broker-dealers.

5. B

Churning describes the illegal practice of excessive buying and selling of securities in a customer's account without considering the customer's investment goals. Its primary goal is to generate commissions that benefit the broker.

6. C

Liquidity is the ability to sell or redeem an investment quickly and at a known price without incurring a significant loss of principal. Marketability is the speed and ease with which an investment may be bought or sold.

7. C

The goals of the Federal Reserve and the U.S. Treasury are full employment, stable prices, and economic growth.

8. C

The cash balance plan, defined benefit plan, and target benefit plan all favor older employees. The money purchase plan favors younger employees.

9. B

The CBOE (Chicago Board Options Exchange) is the largest options exchange in the U.S. and focuses on options contracts for individual equities and indexes.

10. B

The Insider Trading and Securities Fraud Enforcement Act of 1988 is designed to provide greater deterrence and punishment for people trading on material non-public information, and to improve detection of other perceived market abuses.

Practice Exam 4

11. B

The Dow Jones Industrial Average is an index comprised of 30 industrial companies.

12. D

International mutual funds invest in the equity securities of companies located outside the U.S. Global mutual funds invest in both international and domestic companies.

13. C

In a defined contribution plan, employer contributions are defined, and benefits cannot be provided for past service. The employee assumes the risk of investment performance and pre-retirement inflation.

14. C

The three categories of firm communications that are defined and regulated by FINRA Rule 2210 are correspondence, institutional communication, and retail communication.

15. A

Goals, lifestyle, and needs are considered qualitative data. Account balances are quantitative data.

16. D

A revenue bond is issued by a governmental body to finance a specific project. It is not backed by the full faith and credit of the issuing body. Instead, debts are repaid from revenue generated from the project that was financed.

17. D

Soft-dollar compensation is defined as the benefit provided to an asset manager by a broker-dealer as a result of commissions generated from financial transactions executed by the broker-dealer.

18. C

A registered bond is registered with the corporation or organization that issued the bond, and coupon payments are made to the owner of record. A bearer bond can be transferred like cash, and coupon payments are made to the person who holds the bond.

19. B

Gifts made during a donor's lifetime receive a carryover of basis, and gifts made at death receive a step-up of basis.

20. A

ERISA imposes the reporting and disclosure requirements for defined benefit plans.

21. A

Interest paid from municipal bonds is not taxed by the federal government. The bond interest may also be tax-exempt by various states if certain requirements are met.

22. A

Phishing is a fraudulent activity that involves obtaining financial or other confidential information from internet users, usually by sending an email that looks as though it has been sent by a legitimate organization. The email usually contains a link to a fake website that looks authentic.

Practice Exam 4

23. C

A promissory note is an unconditional promise to pay a sum of money to a payee, either at a fixed or determinable future time, under specific terms. An IOU differs from a promissory note in that an IOU does not specify repayment terms such as the time of repayment. A bank draft is a type of check in which the payment is guaranteed to be available by the issuing bank.

24. D

According to the “brochure rule,” if there have been material changes in the brochure since the adviser’s last annual updating amendment, the adviser must deliver either a current brochure or a summary of the material changes to each client within 120 days of the end of the adviser’s fiscal year.

25. A

A currency transaction report (CTR) is a report that U.S. financial institutions are required to file with FinCEN (Financial Crimes Enforcement Network).

26. D

Beta is used to measure the amount of systematic risk in an investor’s portfolio. A portfolio’s beta can be positive, negative, or equal to zero.

27. A

Regulation A contains rules providing exemptions from the registration requirements under the Securities Act of 1933.

28. A

$M_2 = M_1 + \text{Savings accounts} + \text{Short-term time deposits}$

29. D

An investment adviser that has custody of client assets must file an audited balance sheet with the SEC within 120 days of the investment adviser’s fiscal year end.

30. B

The Securities Act Amendments of 1975 created the Municipal Securities Rulemaking Board (MSRB).

31. B

Bond immunization is an investment strategy used to minimize the interest rate risk of bond investments by adjusting the portfolio duration to match the investment time horizon.

32. A

The Federal Reserve Board sets monetary policy, but does not set tax policy.

33. D

When a bond is selling at a premium to par, the yield to maturity (YTM) will always be less than the bond’s coupon rate. If a bond is selling at a discount to par, the YTM will always be greater than the bond’s coupon rate.

Practice Exam 4

34. B

When an individual dies without a will and without family, the decedent's property will escheat (pass) to the state where he or she resided at the date of death.

35. D

A surety bond guarantees that the principal will act in accordance with certain laws, and if the principal fails to perform in this manner, the bond will cover resulting damages or losses.

36. B

The trust described is a charitable remainder unitrust (CRUT) because the value of the trust is revalued annually.

37. B

The employee assumes the investment risk in a defined contribution plan. Money purchase plans and target benefit plans are types of defined contribution plans.

38. A

Stock dividends are distributions by a corporation that are paid as additional shares of stock rather than cash.

39. D

A qualified dividend is a type of dividend to which capital gains tax rates are applied.

40. E

A disguised dividend, such as a below-market shareholder loan, is considered to be a constructive dividend.

41. F

A payment to shareholders that exceeds the company's retained earnings is a liquidating dividend. The payment is made from capital rather than earnings.

42. A

Monthly interest rate = $4.7\% \div 12 \text{ months} = 0.392\%$

Quarterly interest rate = $4.7\% \div 4 \text{ quarters} = 1.175\%$

43. B

Debenture bonds are unsecured bonds, and debenture bondholders have the same rights as general creditors. To account for the higher default risk, debenture bonds will have higher yields to maturities than secured bonds issued for the same term by the same issuer.

44. C

Earnings after taxes \div Total assets = Return on assets

45. C

A portfolio with a beta of 1.0 will move in the same direction as the overall stock market. Therefore, the portfolio has only market risk, also known as systematic risk.

Practice Exam 4

46. C

An investor who owns 5% cumulative preferred stock will receive a semiannual dividend of \$2.50 per share.

47. B

A skip person for GSTT purposes is a related individual two or more generations below that of the transferor.

48. D

An employer cannot maintain any other qualified plan, 403(b) plan, or SEP at the same time that it has a SIMPLE plan in operation.

49. A

Advertisements by an RIA may not use or refer to testimonials, which refers to any statement of a client's experience or endorsement. Securities laws and rules do not prohibit performance advertising.

50. B

Class B mutual fund shares charge a back-end load.

51. C

Selling a stock short without already owning the stock would put an investor at the greatest risk. If the stock increases in value, the investor would have to repurchase the stock on the open market. However, if the investor already owned the stock, she would benefit from the shares appreciating in value.

52. C

If an investor expects a large decrease in the stock market 60 days from today, she can take advantage of the change by buying S&P 500 index puts and selling S&P 500 index calls.

53. B

Current yield = Sum of coupon payments ÷ Market price

$$\text{Current yield} = (\$100 \times 0.035) \div \$97 = 0.0361 = 3.61\%$$

54. B

Beta Corporation must submit Form BDW to withdraw their state registration.

55. A

The withdrawal will become effective 30 days following the SEC's receipt of the form, unless the division notifies Beta Corporation otherwise.

56. C

For a profit sharing plan, contributions may be skewed to favor older participants through methods such as age-weighting and cross-testing. Therefore, contributions do not need to be allocated on a pro-rata basis. The allocation formula cannot be discriminatory. Although profit sharing contributions must be substantial and recurring, the allocation formula must still be definite and predetermined.

Practice Exam 4

57. A

As a base country's currency strengthens relative to other countries, the base country's exports will become less attractive to foreign consumers because the base country's goods are considered to be expensive.

58. D

In a joint tenancy between non-spouses, 100% of the property will be included in the gross estate of the decedent unless the survivor shows consideration furnished.

59. B

$$72 \div 8 = 9 \text{ years}$$

By dividing 72 by the annual rate of return, an investor can determine how many years it will take for the initial investment to double.

60. D

$$200 \text{ shares} + (200 \text{ shares} \times 0.04) = 208 \text{ shares}$$

61. C

Mutual funds, bonds funds, and life insurance that is incidental to an annuity contract are permitted investments in a 403(b) plan.

62. C

The initial margin percentage is currently 50% as established by Regulation T of the Federal Reserve Board.

63. C

Counter-cyclical stocks perform better during economic downturns because they are negatively correlated to the overall state of the economy. They outperform during the contraction phase of the business cycle. Examples of counter-cyclical stocks include debt collectors, discount retailers, and alcoholic beverage manufacturers.

64. D

The substantially equal periodic payment (SEPP) exception to the 10% premature distribution penalty has no minimum age requirement.

65. C

The Theta option is out-of-the-money, therefore its value is \$0. The value of the Delta option is $\$28 - \$25 = \$3$.

66. C

The duration of a bond is least effected by its quality. There is an inverse relationship between interest rates, coupon payments, and duration. As interest rates and coupon payments decrease, duration increases. There is a direct relationship between time to maturity and duration. The longer the time to maturity, the longer the duration.

67. A

In a revocable living trust, income is passed through to the individual who will pay it personally. The trust itself is tax-neutral.

Practice Exam 4

68. A

The price return of a price-weighted index is the percentage change in price of the index.

$$\text{Step 1: } \$38 + \$29 + \$50 + \$80 = \$197$$

$$\text{Step 2: } \$46 + \$33 + \$53 + \$86 = \$218$$

$$\text{Step 3: } (\$218 - \$197) \div \$197 = 0.1066 = 10.66\%$$

69. C

If money distributed from a 529 plan is not used to pay for qualifying education expenses, the gain is taxed as ordinary income and a 10% penalty is applied.

70. D

A convertible bond is a type of corporate bond that may be converted into common stock of the issuing corporation at the bondholder's discretion. It allows an investor to share in the growth of the corporation only if the bond is converted into common stock.

71. D

$$\text{Pre-tax return} = 0.095 \div (1 - 0.15) = 0.1118 = 11.18\%$$

72. D

The trendline indicates the direction and speed that a security's price moves over a period of time.

73. B

A C Corp would not provide flow-through taxation as the doctor requested. A sole proprietorship would not limit her liability. A limited partnership may be appropriate, but there is no mention of a general partner. The best answer is the S Corp.

74. D

Support is the level at which demand is strong enough to prevent security prices from declining further. Resistance is the level at which selling activity is strong enough to prevent security prices from rising further.

75. C

If an investment is held for more than one year, the holding period return overstates the true investment return on an annual basis. If an investment is held for less than one year, the holding period return understates the true investment return.

76. A

An omitting prospectus is an advertisement used by a registered investment company that advises readers to obtain a full prospectus. It is not permitted to include an application to invest, and it must contain specific caveats pursuant to SEC Rule 482.

77. B

Long-term capital gains tax rates apply if an asset is held for longer than 12 months (at least 12 months and a day).

78. D

A hedge is an investment strategy entered into to reduce or offset the risk of adverse price movements in a security by taking an offsetting position in another investment.

Practice Exam 4

79. C

Contractionary policy is characterized by increasing taxes, decreasing government borrowing, and decreasing public spending.

80. B

An individual who meets the following criteria must register as an investment adviser:

- (1) The individual provides advice or analyses concerning securities.
- (2) The individual is in the business of providing investment advice.
- (3) The individual provides investment advice for compensation.

81. C

An investor can sign a letter of intent (LOI) which allows him or her to receive breakpoint discounts based upon a commitment to buy a specified number of mutual fund shares over a period of time, usually 13 months.

82. D

A single life annuity will provide the maximum payout to Bill. A single life annuity is also referred to as a "pure life" annuity.

83. C

A C Corp is subject to double taxation, has a perpetual life, and could potentially be classified as a personal service corporation (PSC).

84. D

Treasury STRIPS do not pay interest prior to maturity.

85. B

A money purchase plan requires a fixed percentage of compensation to be contributed for each eligible employee.

86. D

A target benefit plan is similar to a defined benefit plan because contributions are based on projected retirement benefits.

87. A

A profit sharing plan is a type of defined contribution plan that is not a pension plan.

88. C

A cash balance plan is a defined benefit plan that defines an employee's benefit in terms that are more characteristic with a defined contribution plan.

89. D

The turnover rate measures the level of trading activity within a mutual fund.

90. C

Quarterly interest rate = $0.9\% \times 3 \text{ months} = 2.7\%$

Annual interest rate = $0.9\% \times 12 \text{ months} = 10.8\%$

Practice Exam 4

91. B

A hedge fund is a privately offered fund of securities for high-net worth investors. The hedge fund manager is generally paid a performance fee.

92. A

When a corporation files a registration with the SEC in an effort to sell shares to the public, the period of time between the filing of the registration statement and its effective date is referred to as the cooling-off period.

93. C

Cash paid to suppliers = Cost of goods sold + Increase in inventory – Increase in accounts payable

$$\text{Cash paid to suppliers} = \$17.6 \text{ million} + \$1.1 \text{ million} - \$440,000 = \$18.26 \text{ million}$$

94. C

Diluted earnings per share is the measure of a company's earnings per share if all convertible securities were exercised and converted to common stock.

95. B

If the Federal Reserve sells government securities, it receives money in return, which reduces the money supply. This is considered contractionary policy.

96. B

The Consolidated Quotation System (CQS) is the electronic service that provides quotation information for stocks traded on the AMEX, NYSE, and other regional stock exchanges, and also includes issues traded by FINRA member firms in the third market.

97. C

For a defined contribution plan, annual contributions to an employee's account are limited to the lesser of 25% of compensation or \$69,000 in 2024.

98. D

Pipeline theory is another name for conduit theory, which states that an investment company that passes all of its capital gains, interest, and dividends through to shareholders shouldn't be taxed at the corporate level.

99. C

When an economy is experiencing inflation, an overall increase in consumer prices leads to a decrease of purchasing power.

100. A

The gift tax annual exclusion is permitted for present interest gifts only.

101. C

The Investment Company Act of 1940 regulates the organization of companies, including mutual funds, that engage primarily in investing, reinvesting, and trading in securities. The act is designed to minimize conflicts of interest that arise in these complex operations.

Practice Exam 4

102. A

The Automated Client Account Transfer Service (ACATS) is a system that automates and standardizes procedures for the transfer of assets in a customer account from one brokerage firm and/or bank to another.

103. B

The Trust Indenture Act of 1939 prohibits bond issues over \$5 million from being offered for sale without a formal agreement signed by both the bond issuer and the bondholder that fully discloses the details of the issue.

104. D

In a defined contribution plan, the employee bears the investment risk. In a defined benefit plan, the employer bears the investment risk.

105. C

To be considered an accredited investor, net worth must exceed \$1,000,000, either alone or together with a spouse, excluding the value of the person's primary residence.

106. A

Qualified education costs and a first-time home purchase are among the exemptions from the 10% early withdrawal penalty from an IRA. Hardship withdrawals, and withdrawals made after separating from employment service at age 55 or older are permitted in 401(k) plans but not IRAs. Loans from IRAs are not allowed.

107. B

Mortgage REITs invest in loans secured by real estate.

108. C

A REMIC is a self-liquidating, flow-through entity that invests in real estate mortgages or mortgage-backed securities.

109. A

Equity REITs acquire ownership interests in commercial, industrial, and residential properties. Income is received from the rental of these properties.

110. B

An inverted yield curve results from short-term debt instruments having a higher yield than long-term debt instruments of the same credit quality.

111. B

The Federal Trade Commission implemented the Red Flags Rule that requires broker-dealers and other financial institutions to create a written identity theft prevention program designed to detect the warning signs of identity theft in their day-to-day operations.

112. A

Inflation is measured by the CPI (Consumer Price Index).

Practice Exam 4

113. B

The Customer Identification Program (CIP) is a requirement in which financial institutions need to verify the identity of individuals wishing to conduct financial transactions with them.

114. D

The Uniform Securities Act was created by the National Conference of Commissioners on Uniform State Laws, and is a model statute designed to guide each state in drafting its state securities laws.

115. A

$$\text{Mean} = [(-3\%) + (4\%) + (5\%) + (-3\%) + (2\%) + (6\%) + (-1\%)] \div 7 = 1.43\%$$

116. C

$$\text{Median} = -3\%, -3\%, -1\%, +2\%, +4\%, +5\%, +6\% = 2\%$$

117. A

-3% is the only number that appears twice, therefore it is the mode.

118. A

Book value = Total assets – (Intangible assets + Liabilities)

119. B

The difference between a bond's price and the conversion parity price is referred to as the conversion premium.

120. D

Regulation S-ID requires member firms that offer or maintain covered accounts to develop and implement written identity theft prevention programs.

121. C

ECNs are members of FINRA, and, typically, only broker-dealers and certain institutional traders are permitted to become ECN subscribers. An execution occurs when the price of a buy order and the price of a sell order intersect on the ECN.

122. D

The two main types of mutual fund prospectuses are the statutory prospectus and the summary prospectus.

123. D

The OCC (Options Clearing Corporation) is the world's largest equity derivatives clearing organization. By acting as guarantor, they ensure that the obligations of the contracts that they clear are fulfilled.

124. C

An IAR (investment adviser representative) is a person who, for compensation, makes recommendations regarding securities, manages client accounts, and determines which advice regarding securities should be given.

Practice Exam 4

125. B

Pharmaceutical companies are defensive stocks.

126. A

Automobiles are cyclical stocks.

127. A

Airlines are cyclical stocks.

128. A

Railroads are cyclical stocks.

129. B

The activity ratios are the inventory turnover ratio, average collection period, and fixed asset turnover ratio.

130. D

A profit sharing plan is a type of defined contribution plan other than a pension plan. Contributions must be substantial and recurring, but are not required annually.