

PRACTICE EXAM 3

QUESTIONS

- 1. Monetary policy refers to actions taken by the _____ to control the money supply, often by targeting a specific rate of interest.**
 - A. Executive branch
 - B. FDIC
 - C. Federal Reserve
 - D. U.S. Treasury
- 2. On a company's balance sheet, liabilities are reported at their:**
 - A. beginning of year balance.
 - B. current outstanding balance.
 - C. end of year balance.
 - D. initial loan amount.
- 3. All but which of the following are correct regarding Treasury notes?**
 - A. They are issued by the U.S. Treasury Department.
 - B. They have maturities of 10 years or less.
 - C. They make variable interest payments on a semiannual basis.
 - D. They are taxed at the federal level only.
- 4. Which of the following determines if a security being considered for inclusion in an investor's portfolio offers an adequate expected return for the level of risk assumed?**
 - A. Capital market line
 - B. Security market line
 - C. Support line
 - D. Trendline
- 5. Which of the following is the correct method to conducting top-down investment analysis?**
 - A. First examine a specific company, then examine a specific industry, then examine a specific economy, then examine the global economy.
 - B. First examine a specific company, then examine a specific economy, then examine a specific industry, then examine the global economy.
 - C. First examine the global economy, then examine a specific industry, then examine a specific economy, then examine a specific company.
 - D. First examine the global economy, then examine a specific economy, then examine a specific industry, then examine a specific company.

Practice Exam 3

6. Which of the following investment strategies are profitable in a rising stock market?

- (1) Buying a call
 - (2) Buying a put
 - (3) Selling a put
 - (4) Selling a call
- A. (1) and (3) only
B. (1) and (4) only
C. (2) and (3) only
D. (2) and (4) only

7. Which of the following acts established a non-profit membership corporation that oversees the liquidation of member broker-dealers that close when the broker-dealer is bankrupt or in financial trouble, and customer assets are missing?

- A. Securities Investor Protection Corporation Act of 1970
- B. Securities Act Amendments of 1975
- C. Uniform Prudent Investors Act of 1994
- D. National Securities Market Improvement Act of 1996

8. An RIA firm must typically register or notice file in a state when it has more than _____ clients who are located in that state.

- A. 5
- B. 10
- C. 15
- D. 20

9. Client information must be kept confidential unless which of the following circumstances apply?

- A. The information is needed to establish an advisory or brokerage account.
- B. The information is required in response to proper legal process.
- C. The information is in connection with a civil dispute between the adviser and the client.
- D. All of the above are correct.

10. The Dow Jones Industrial Average is a/an _____ average of _____ blue chip U.S. stocks.

- A. equal-weighted, 30
- B. equal-weighted, 500
- C. price-weighted, 30
- D. price-weighted, 500

Practice Exam 3

11. Which of the following are correct regarding credits and deductions?

- (1) A deduction is more beneficial to a lower-bracket taxpayer.
- (2) A deduction is more beneficial to a higher-bracket taxpayer.
- (3) A credit is more beneficial to a lower-bracket taxpayer.
- (4) A credit is more beneficial to a higher-bracket taxpayer.

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

12. Which of the following is a type of revocable trust in which the corpus consists of bank accounts and/or bank assets? At the grantor's death, the trust becomes irrevocable and avoids probate.

- A. Marital trust
- B. Payable on death trust
- C. Totten trust
- D. Transfer on death trust

13. Which of the following is an electronic filing system that facilitates investment adviser registration, exempt reporting adviser filing, regulatory review, and the public disclosure information of registered investment adviser firms and individuals?

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

14. American Depository Receipts (ADRs) have which of the following characteristics?

- (1) Dividends paid from an ADR are first declared in the local currency.
 - (2) American Depository Receipts eliminate exchange rate risk.
- A. (1) only
 - B. (2) only
 - C. Both (1) and (2) are correct.
 - D. Neither (1) or (2) are correct.

15. A/An _____ legal opinion indicates that a bond counsel has concerns regarding one or more of the statements in the bond issue.

- A. binding
- B. enforceable
- C. qualified
- D. unqualified

Practice Exam 3

16. Which of the following is considered an indicator of market volatility based on the premiums that investors are willing to pay for the right to buy or sell a stock?

- A. AGG
- B. IWD
- C. SPY
- D. VIX

17. Which of the following is/are correct regarding capital losses?

- (1) Capital losses have a two-year carry back period.
 - (2) Capital losses have a five-year carry forward period.
- A. (1) only
 - B. (2) only
 - C. Both (1) and (2) are correct.
 - D. Neither (1) or (2) are correct.

18. All but which of the following are characteristics of a SEP IRA?

- A. It is entirely owned by the participant.
- B. Plan loans are permitted.
- C. The contribution deadline to a SEP IRA is April 15, including extensions.
- D. The account balance is 100% vested at all times.

19. A loss on the sale of securities is not deductible if a taxpayer purchases identical securities within _____ prior to or after the date of sale.

- A. 7 days
- B. 14 days
- C. 30 days
- D. 60 days

20. Which of the following are correct regarding incentive stock options (ISOs) and non-qualified stock options (NQSOs)?

- (1) Unlike an ISO, an NQSO does not have to meet any specific holding period rules.
 - (2) Unlike an NQSO, an ISO does not have to meet any specific holding period rules.
 - (3) With an ISO, the employee incurs a taxable event at the time the option is exercised.
 - (4) With an NQSO, the employee incurs a taxable event at the time the option is exercised.
- A. (1) and (3) only
 - B. (1) and (4) only
 - C. (2) and (3) only
 - D. (1), (3), and (4) only

Practice Exam 3

21. Which of the following is the formula to calculate an investment's taxable equivalent yield?

- A. Taxable equivalent yield = Tax-free yield \div (1 - Marginal tax rate)
- B. Taxable equivalent yield = Tax-free yield \div (1 + Marginal tax rate)
- C. Taxable equivalent yield = (1 - Marginal tax rate) \div Tax-free yield
- D. Taxable equivalent yield = (1 + Marginal tax rate) \div Tax-free yield

22. Which of the following is/are correct regarding a bond's interest rate and term to maturity?

- (1) The lower a bond's interest rate, the lower its relative price fluctuation.
 - (2) The longer a bond's term to maturity, the greater its relative price fluctuation.
- A. (1) only
 - B. (2) only
 - C. Both (1) and (2) are correct.
 - D. Neither (1) or (2) are correct.

For questions 23 – 25, match the economic policy with the description that follows. Use only one answer per blank. Answers may be used more than once or not at all.

- A. Expansionary policy
- B. Contractionary policy

23. ___ Taxes increase

24. ___ Public spending increases

25. ___ Government borrowing decreases

26. Investment advisers must amend Form ADV each year by filing an annual updating amendment within how many days of the end of their fiscal year?

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

27. In a long call, the maximum gain is _____ and the maximum loss is _____.

- A. limited, unlimited
- B. the premium paid, unlimited
- C. unlimited, the premium paid
- D. unlimited, unlimited

Practice Exam 3

28. Which of the following is/are correct regarding the objectives of ERISA?

- (1) ERISA establishes criteria for investment selection for qualified retirement plans.
 - (2) ERISA establishes minimum funding, eligibility, coverage, and vesting requirements for qualified retirement plans.
- A. (1) only
 - B. (2) only
 - C. Both (1) and (2) are correct.
 - D. Neither (1) or (2) are correct.

29. Which of the following is correct regarding a bond's coupon rate?

- A. It is the stated annual interest rate that will be paid each period for the term of a bond.
- B. It is stated as a percentage of the current market price of a bond.
- C. A 5% coupon bond will pay \$50 each semiannual period for a \$1,000 bond.
- D. A bond's coupon rate is also its yield to maturity (YTM).

30. In which of the following trusts is the surviving spouse given a general power of appointment by the decedent spouse to distribute the decedent's property as the surviving spouse determines? Since the surviving spouse holds a general power of appointment, he or she may use trust assets to benefit him or herself directly.

- A. Credit shelter trust
- B. Estate trust
- C. Marital trust
- D. QTIP trust

31. Which of the following acts transferred the responsibility for rulemaking and enforcement of identity theft Red Flags Rules to the SEC and CFTC for the firms they regulate?

- A. Insider Trading and Securities Fraud Enforcement Act of 1988
- B. Patriot Act of 2001
- C. Sarbanes-Oxley Act of 2002
- D. Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

32. Interest earned from Series EE bonds may be excluded from gross income if the proceeds are used to pay for which of the following?

- A. First-time home purchase.
- B. Medical expenses exceeding 7.5% of income.
- C. Qualified higher education expenses.
- D. Tax bill owed to the IRS.

Practice Exam 3

33. Which of the following are insurance industry rating services?

- (1) A.M. Best
 - (2) Fitch
 - (3) NAIC
 - (4) Standard & Poor's
- A. (1) and (2) only
B. (1), (2), and (4) only
C. (2), (3), and (4) only
D. All of the above are correct.

34. Theta LLC provides the following information on their year-end financial statement:

Common stock	\$205,000
Retained earnings	\$230,000
Long-term debt	\$615,000
Effective tax rate	35%

What is Theta LLC's debt-to-capital ratio?

- A. 0.59
- B. 0.73
- C. 0.75
- D. 0.77

35. Which of the following is a group of underwriters who agree to purchase the shares of an IPO from an issuer and then sell the shares to investors?

- A. Registered investment advisers
- B. Regulated investment company
- C. Solicitors
- D. Syndicate

For questions 36 – 39, match the type of risk with the description that follows. Use only one answer per blank. Answers may be used more than once or not at all.

- A. Systematic risk
- B. Unsystematic risk

36. ___ Default risk

37. ___ Political risk

38. ___ Reinvestment risk

39. ___ Tax risk

Practice Exam 3

40. Which of the following is correct regarding defensive stocks?

- A. They are stocks that invest in the defense sector of the U.S. economy.
- B. They are stocks that are unaffected by general fluctuations in the economy.
- C. They are stocks that are tax efficient and therefore “defensive” for tax purposes.
- D. They are stocks that are unaffected by changes in interest rates.

41. Which of the following is correct regarding the relationship between a bond's coupon and its duration?

- A. Higher coupon = Lower duration = Lower interest rate risk
- B. Higher coupon = Higher duration = Higher interest rate risk
- C. Higher coupon = Lower duration = Higher interest rate risk
- D. Higher coupon = Higher duration = Lower interest rate risk

The following information relates to questions 42 – 43.

Alpha Corporation provides the following information for the fiscal year (in millions):

Revenue	\$51.5
Cost of goods sold	\$29.0
Other operating expenses	\$6.5
Interest expense	\$1.1
Tax expense	\$1.6
Effective tax rate	28%

42. What is Alpha Corporation's gross profit?

- A. \$6.5 million
- B. \$13.3 million
- C. \$22.5 million
- D. \$23.6 million

43. What is Alpha Corporation's net income?

- A. \$6.5 million
- B. \$13.3 million
- C. \$22.5 million
- D. \$23.6 million

44. All but which of the following are considered securities under the Uniform Securities Act?

- A. Debentures
- B. Precious metals
- C. Variable annuities
- D. Variable life insurance

Practice Exam 3

- 45. Which of the following is a type of debt issued by a national government in a foreign currency in order to finance the issuing country's growth and development?**
- A. Domestic debt
 - B. Eurodebt
 - C. Foreign debt
 - D. Sovereign debt
- 46. Which of the following is true regarding gift splitting?**
- A. A married couple can select which gifts made during the year will receive split gift treatment.
 - B. A gift made after one spouse dies can still be split.
 - C. The split gift election is commonly used with community property.
 - D. When the gift splitting election is made, gifts made by either spouse are treated as being made one-half by each spouse.
- 47. Which of the following is the FINRA committee that reviews initial decisions rendered in FINRA disciplinary and membership proceedings? It may affirm, dismiss, modify, or reverse any finding, or remand the case for further proceedings.**
- A. Board of Governors
 - B. FINRA Disciplinary Council
 - C. National Adjudicatory Council
 - D. None of the above are correct.
- 48. Assume that Zeta stock pays a constant dividend of \$4.10 per share each year. The dividend is not expected to grow. If an investor has a required rate of return of 7%, what is the value of Zeta stock?**
- A. \$4.39 per share
 - B. \$17.07 per share
 - C. \$58.57 per share
 - D. \$69.10 per share
- 49. Mary has taxable income of \$200,000 and a tax liability of \$55,000. Mike has taxable income of \$150,000 and a tax liability of \$35,000. Which of the following tax rate structures is being used to tax Mary and Mike?**
- A. Flat
 - B. Progressive
 - C. Regressive
 - D. Value added

Practice Exam 3

50. Thomas, age 53, recently quit his job. He would like to distribute money from his 401(k) but wants to avoid any penalties related to the distribution. If he waits a minimum of _____ years, his distribution will not be subject to the _____ premature distribution penalty.

- A. 2, 10%
- B. 2, 15%
- C. 6, 15%
- D. 6, 20%

51. Which of the following is a self-regulatory organization (SRO)?

- A. FINRA
- B. NYSE
- C. SIPC
- D. All of the above are correct.

52. Which of the following is/are correct regarding a qualified personal residence trust (QPRT)?

- (1) A QPRT is generally appropriate for vacation homes valued over \$1 million.
- (2) A QPRT is ideal for a single parent in his or her 30s or 40s.
- (3) The grantor will have a taxable gift upon the creation of a QPRT.
- (4) After the trust term ends, the house reverts back to the grantor.

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

53. All but which of the following are correct regarding Treasury bills?

- A. They have maturities of one year or less.
- B. They are sold in minimum denominations of \$500.
- C. They are considered to be risk free of default.
- D. They are sold at a discount to par.

54. Which of the following accurately describes the difference between rights and warrants?

- (1) A warrant may be attached to new debt or preferred issues to make the issues more attractive to buyers.
- (2) Rights and warrants have different lifespans.
- (3) Warrants usually expire within a few weeks.
- (4) Rights may continue without expiring for up to several years.

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

Practice Exam 3

55. Which of the following was the self-regulatory organization for the over-the-counter market, and is now part of FINRA?

- A. NAC
- B. NASAA
- C. NASD
- D. NYSE

56. Which of the following will increase an employer's contribution to a defined benefit plan?

- (1) Lower than expected investment returns
- (2) High turnover among employees
- (3) High ratio of married to unmarried participants
- (4) Large forfeitures

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

57. Which of the following yield curves results from similar yields among Treasury notes, Treasury bonds, and Treasury bills?

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

58. Common stock is referred to as _____ because the owner of the stock is also an owner of the corporation and may participate in its capital and income growth.

- A. cumulative stock
- B. debt
- C. equity
- D. preferred stock

59. Which of the following is/are correct regarding closed-end mutual funds?

- (1) Closed-end mutual funds may issue new shares when an individual buys existing shares.
 - (2) Closed-end mutual funds may sell at a premium or discount to their net asset value.
- A. (1) only
 - B. (2) only
 - C. Both (1) and (2) are correct.
 - D. Neither (1) or (2) are correct.

Practice Exam 3

60. Which of the following is the correct reason to purchase a particular investment for a client's portfolio?

- A. Growth stocks because they pay high dividends.
- B. FNMA securities because they are backed by the full faith and credit of the U.S. government.
- C. Global fund because it provides only international exposure.
- D. Blue chip common stocks because they provide a hedge against inflation.

61. According to the Telephone Consumer Protection Act, solicitors are prohibited from calling residences before _____ and after _____ local time.

- A. 7 a.m., 10 p.m.
- B. 8 a.m., 9 p.m.
- C. 9 a.m., 5 p.m.
- D. 10 a.m., 8 p.m.

62. Which of the following accounts is most suitable to hold a zero-coupon bond?

- A. IRA
- B. Joint taxable account
- C. Payable on death account
- D. Totten trust

63. How is the original basis of a newly acquired asset calculated? Assume the asset was acquired at an arm's length transaction from a non-related party.

- A. Cost minus expenses of sale, such as sales tax paid, installation costs, freight charges, and commissions incurred in acquiring the asset.
- B. Cost plus expenses of sale, such as sales tax paid, installation costs, freight charges, and commissions incurred in acquiring the asset.
- C. Cost plus commissions incurred in acquiring the asset only.
- D. Cost minus commissions incurred in acquiring the asset only.

64. All but which of the following are characteristics of an employee stock purchase plan (ESPP)?

- A. The plan must be offered to employees on a nondiscriminatory basis.
- B. The maximum discount permitted is 15% of the greater of the market price on the date the option is granted or the date the shares were purchased.
- C. The maximum fair market value of stock that an employee has the right to purchase cannot exceed \$100,000 in any calendar year.
- D. An ESPP allows a company to sell stock to employees at a discount from the market price.

Practice Exam 3

65. Current assets ÷ Current liabilities = _____

- A. Current ratio
- B. Debt-to-equity ratio
- C. Quick ratio
- D. Return on assets

66. All but which of the following are correct regarding investment adviser representatives (IARs)?

- A. Every investment advisory firm must have at least one IAR registered to the firm.
- B. An IAR can be a dual registrant of multiple firms in some states only.
- C. There are currently no continuing education requirements for IARs.
- D. An IAR does not need to be registered to an RIA firm in order to conduct investment advisory business.

67. The holding period of inherited property is considered to be _____ in nature.

- A. always short-term
- B. always long-term
- C. sometimes short-term
- D. sometimes long-term

The following information relates to questions 68 – 70.

A convertible bond is issued with a par value of \$10,000. The bond is currently priced at \$9,500, and the underlying share price is \$200.

68. The conversion ratio of the bond is:

- A. 47.5:1.
- B. 50.0:1.
- C. 52.5:1.
- D. 55.5:1.

69. The conversion value of the bond is:

- A. \$9,500.
- B. \$9,700.
- C. \$9,800.
- D. \$10,000.

70. The conversion condition for the bond is:

- A. below parity.
- B. at parity.
- C. above parity.
- D. unknown.

Practice Exam 3

71. Which of the following determines the minimum margin requirement for investment accounts?

- A. Congress
- B. FDIC
- C. Federal Reserve
- D. SIPC

72. An investor purchased a share of Kappa stock for \$184 and sold it for \$173. If a \$4.25 dividend was paid during the holding period, what was the total return?

- A. -4.67%
- B. -4.33%
- C. -4.02%
- D. -3.67%

For questions 73 – 77, determine how basis is treated at death for the following forms of property ownership. Use only one answer per blank. Answers may be used more than once or not at all.

- A. Step-up in basis for one-half property.
- B. Full step-up in basis to the extent the property is included in the decedent's gross estate.
- C. Full step-up in basis.

73. ___ Joint tenants with rights of survivorship between spouses

74. ___ Joint tenants with rights of survivorship between non-spouses

75. ___ Tenancy by entirety

76. ___ Tenancy in common

77. ___ Community property

78. All but which of the following are correct regarding Series I bonds?

- A. They are adjusted for inflation as measured by the Consumer Price Index.
- B. They are taxed at the state level only.
- C. They are guaranteed to never lose value, even during deflationary periods.
- D. They are non-marketable bonds that cannot be bought or sold in the secondary market.

79. Which of the following groups may be eligible to participate in a 403(b) plan?

- A. Church employees
- B. Not-for-profit hospital employees
- C. Public school employees
- D. All of the above are correct.

Practice Exam 3

80. According to _____, when an issuer discloses material nonpublic information to certain individuals or entities, typically securities market professionals, the issuer must make public disclosure of that information, as well.

- A. Regulation BB
- B. Regulation CF
- C. Regulation FD
- D. Regulation SK

81. Which of the following describes the relationship between total risk, systematic risk, and unsystematic risk?

- A. Total risk = Systematic risk – Unsystematic risk
- B. Total risk – Systematic risk = Unsystematic risk
- C. Total risk + Unsystematic risk = Systematic risk
- D. Unsystematic risk – Total risk = Systematic risk

For questions 82 – 86, match the term with the description that follows. Use only one answer per blank. Answers may be used more than once or not at all.

- A. Call loan rate
- B. Discount rate
- C. Fed funds rate
- D. LIBOR
- E. Prime rate

82. ___ The minimum interest rate set by the Federal Reserve for lending to other banks.

83. ___ The interest rate at which depository institutions (banks and credit unions) lend reserve balances to other depository institutions overnight, on a collateralized basis.

84. ___ The short-term interest rate charged by banks on loans extended to broker-dealers, who then use the funds to make margin loans on behalf of customers.

85. ___ The interest rate that banks charge their most credit-worthy customers, typically large corporations.

86. ___ The benchmark rate that international banks charge each other for short-term loans.

87. Which of the following lists the stages of money laundering in the correct order?

- A. Layering, integration, placement
- B. Layering, placement, integration
- C. Placement, integration, layering
- D. Placement, layering, integration

Practice Exam 3

88. Information such as fee schedule, services offered, key advisory personnel, conflicts of interest, and educational background are typically included in the:
- A. ADV.
 - B. CRD.
 - C. IARD.
 - D. U4.
89. Which of the following is a value-weighted index measuring the overall performance of the U.S. stock market?
- A. Dow Jones Industrial Average
 - B. EAFE Index
 - C. Russell 2000
 - D. Wilshire 5000
90. Epsilon stock has an expected return of 7.2% and a beta of 0.95. If the risk-free rate is 2.5%, then the expected return for the market, according to the capital asset pricing model, is:
- A. 6.84%.
 - B. 7.45%.
 - C. 7.96%.
 - D. 8.02%.
91. For the substantially equal periodic payment (SEPP) exception to apply for premature distributions from a retirement plan, payments must continue for _____ or until the participant is _____, whichever is longer.
- A. 5 years, age 59 ½
 - B. 5 years, age 65
 - C. 10 years, age 59 ½
 - D. 10 years, age 65
92. Which of the following provides clearing, settlement, risk management, central counterparty services, and a guarantee of completion for certain transactions for virtually all broker-to-broker trades involving equities, corporate and municipal debt, ADRs, ETFs, and UITs?
- A. ATC
 - B. NSCC
 - C. OCC
 - D. TRACE

Practice Exam 3

93. A mutual fund with a high turnover rate will require _____ active management and will typically charge _____ expenses.

- A. less, higher
- B. less, lower
- C. more, higher
- D. more, lower

94. All but which of the following are correct regarding probate?

- A. It provides for clean title to a decedent's property.
- B. It's the process by which a state or local court validates a decedent's will.
- C. It protects the decedent from an untimely filing of claims by his or her lifetime creditors.
- D. It may be either a public or private process depending on the wishes of the decedent.

95. Monica, age 60, is listed as beneficiary of her brother's \$350,000 life insurance policy. She is single and pays 20% federal taxes and 10% state taxes. If Monica's brother were to die, how much tax would she owe?

- A. \$0
- B. \$35,000
- C. \$70,000
- D. \$105,000

96. Which of the following is correct regarding the selling price of Treasury STRIPS?

- A. They are sold at a discount from face value.
- B. They are sold at a premium to face value.
- C. They are sold at face value.
- D. They are sold at either a discount or premium to face value.

97. All but which of the following are correct regarding Electronic Communication Networks (ECNs)?

- A. They are a type of alternative trading system (ATS).
- B. They trade unlisted stocks and other non-exchange-traded products.
- C. Unlike dark pools, ECNs display orders in the consolidated quote stream.
- D. ECNs are required to register with the SEC as broker-dealers.

98. The typical grace period for a life insurance policy is:

- A. 7 days.
- B. 14 days.
- C. 30 days.
- D. 60 days.

Practice Exam 3

99. The standard deviation of an investment portfolio must be _____ the weighted average of the standard deviation of returns of the individual securities.
- A. equal to
 - B. greater than
 - C. less than
 - D. less than or equal to
100. To establish a Coverdell Education Savings Account (ESA), the beneficiary must be under age _____ unless the individual is designated as a special needs beneficiary.
- A. 14
 - B. 18
 - C. 21
 - D. 30
101. Which of the following is a fee deducted from a mutual fund's assets to pay for marketing and distribution costs associated with operating the fund?
- A. Accounting fee
 - B. Custodial fee
 - C. Transfer agent fee
 - D. 12b-1 fee
102. Which of the following type of bond is unregistered, with no record kept regarding the owner or transactions involving ownership?
- A. Bearer bond
 - B. Brady bond
 - C. Fidelity bond
 - D. Surety bond
103. According to FINRA, which of the following elements must be addressed in a firm's business continuity plan relating to an emergency or significant business disruption?
- A. Alternate physical location of employees
 - B. Communications with regulators
 - C. Data backup and recovery
 - D. All of the above are correct.
104. An investor deposited \$150 in an interest-bearing account earning 6% annually. Assuming the interest is not withdrawn, the amount of interest earned in the third year will be:
- A. \$9.00.
 - B. \$9.54.
 - C. \$10.11.
 - D. \$10.72.

Practice Exam 3

- 105.** Which of the following acts gives consumers the right to one free credit report each year from the credit reporting agencies? It also allows consumers to purchase, for a reasonable fee, a credit score along with information about how the credit score was calculated.
- A. Securities Act Amendments of 1975
 - B. Insider Trading and Securities Fraud Enforcement Act of 1988
 - C. FACT Act of 2003
 - D. Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
- 106.** Kappa Fund has a Treynor ratio of 4.71. If the fund's return is 11%, and the risk-free rate is 2%, what is the fund's beta?
- A. 1.75
 - B. 1.86
 - C. 1.88
 - D. 1.91
- 107.** Which of the following is a manipulative trading activity that is designed to prevent the price of a security from rising?
- A. Capping
 - B. Front running
 - C. Painting the tape
 - D. Pegging
- 108.** Which of the following are basic provisions of a universal life insurance policy?
- (1) Flexible death benefit
 - (2) Flexible premium
 - (3) Minimum guaranteed cash value
 - (4) Unbundled structure
- A. (1) and (2) only
 - B. (2) and (3) only
 - C. (1), (2), and (4) only
 - D. (1), (3), and (4) only
- 109.** Assume that an investor wants to dollar cost average into Delta mutual fund by making quarterly purchases over a two-year period. If the total amount to be invested is \$48,000, then how much will be invested each quarter if the fund's NAV increases by a total of 10% over the two-year period?
- A. \$6,000
 - B. \$6,600
 - C. \$8,000
 - D. \$8,800

Practice Exam 3

- 110.** SEC-registered advisers are not required to deliver a brochure to clients who receive only impersonal investment advice from the adviser and who will pay the adviser less than _____ per year.
- A. \$100
 - B. \$500
 - C. \$1,000
 - D. \$1,500
- 111.** Which of the following models determines the intrinsic value of a stock based on future dividends that grow at a non-changing rate?
- A. Adjustable dividend growth model
 - B. CAPM dividend growth model
 - C. Constant dividend growth model
 - D. Intrinsic dividend growth model
- 112.** A health savings account (HSA) allows the account holder to set aside money on a/an _____ basis to pay for _____ medical expenses.
- A. after-tax, qualified
 - B. after-tax, unqualified
 - C. pre-tax, qualified
 - D. pre-tax, unqualified
- 113.** Which of the following refers to a computerized system used by the NYSE to display, record, and execute orders for securities?
- A. Automated quotation system
 - B. Order management system
 - C. Super display book system
 - D. None of the above are correct.
- 114.** An investor purchased a share of Omikron stock for \$90.00 and sold it for \$95.50. If the total return was 7.50%, the dividend paid during the holding period was:
- A. \$1.20.
 - B. \$1.25.
 - C. \$1.35.
 - D. \$1.40.
- 115.** Which of the following is an order to sell a security at or above a specified price?
- A. Sell limit order
 - B. Sell market order
 - C. Sell top order
 - D. None of the above are correct.

Practice Exam 3

116. Which of the following preserves and promotes public confidence in the U.S. financial system by insuring deposits in banks by identifying, monitoring, and addressing risks to the deposit insurance funds; and by limiting the effect on the economy when a financial institution fails?
- A. FDIC
 - B. NASD
 - C. PBGC
 - D. SIPC
117. Phil has owned his company, Beta Corporation, for 15 years. He is now 52 years old and plans to retire at age 64. He has five young employees and wants to establish a retirement plan that will provide him with the highest benefit. Assuming adequate cash flow, which of the following is the most suitable plan for Beta Corporation to establish?
- A. Age-based profit sharing plan
 - B. Defined benefit plan
 - C. Money purchase plan
 - D. SIMPLE IRA
118. Which of the following is a type of debt security that repackages and directs the payments of principal and interest from a collateral pool to different types and maturities of securities?
- A. CMO
 - B. GIC
 - C. REIT
 - D. UIT
119. All companies, foreign and domestic, are required to file registration statements, periodic reports, and other forms electronically through which of the following? Consumers can then access and download this information for free.
- A. CRD
 - B. EDGAR
 - C. IARD
 - D. NSCC
120. Which of the following is/are correct regarding loan provisions in a SIMPLE plan?
- (1) Loans from a SIMPLE IRA are not permitted.
 - (2) Loans from a SIMPLE 401(k) plan are permitted.
- A. (1) only
 - B. (2) only
 - C. Both (1) and (2) are correct.
 - D. Neither (1) or (2) are correct.

Practice Exam 3

- 121.** To be considered a “qualified purchaser,” an individual must have not less than _____ in investments.
- A. \$1 million
 - B. \$2 million
 - C. \$5 million
 - D. \$10 million
- 122.** Which of the following is a type of debt that allows the lender to collect from the debtor and the debtor’s assets in the case of default, as opposed to foreclosing on a particular property or asset?
- A. Nonrecourse loan
 - B. Private annuity
 - C. Recourse loan
 - D. Self-cancelling installment note
- For questions 123 – 125, select the relationship that best describes the bond characteristics provided. Use only one answer per blank. Answers may be used more than once or not at all.
- A. Inverse relationship
 - B. Direct relationship
- 123.** ____ The coupon rate of a bond and its duration.
- 124.** ____ The maturity date of a bond and its duration.
- 125.** ____ The yield to maturity of a bond and its duration.
- 126.** Which of the following is the voice of state securities agencies responsible for efficient capital formation and grass-roots investor protection in the U.S.? Their fundamental mission is to protect consumers who purchase securities or investment advice, and their jurisdiction extends to a wide variety of issuers and intermediaries who offer and sell securities to the public.
- A. NAIC
 - B. NASAA
 - C. NASD
 - D. SIPC
- 127.** All but which of the following are correct regarding unit investment trusts (UITs)?
- A. Units may be bought or sold on the secondary market.
 - B. Upon termination of a UIT, any remaining securities in the trust will be sold and proceeds will be paid to investors.
 - C. Units are sold to investors for a minimum cost of \$100,000.
 - D. They typically have low fees and expenses.

Practice Exam 3

128. Which of the following are correct regarding Roth IRAs?

- (1) Contributions to a Roth IRA can be made at any age.
 - (2) Contributions to a Roth IRA must be made before age 70 ½.
 - (3) A Roth IRA owner is not required to take a minimum distribution during his or her lifetime.
 - (4) Roth IRA contributions may be deducted in limited circumstances.
- A. (1) and (3) only
 - B. (2) and (3) only
 - C. (1), (3), and (4) only
 - D. (2), (3), and (4) only

129. Firms must retain blotters containing all purchases and sales of securities for at least _____ years, and they must keep copies of confirmations for _____ years. For the first _____ years, these records must be kept in an easily accessible location.

- A. 3, 2, 2
- B. 4, 3, 2
- C. 5, 4, 3
- D. 6, 3, 2

130. Which of the following is correct regarding the taxation of TIPS?

- A. TIPS are taxed at the federal level only.
- B. TIPS are taxed at the state level only.
- C. TIPS are taxed at the state and federal level.
- D. TIPS are tax-free at both the state and federal level.

ANSWER KEY

1. C

Monetary policy refers to actions taken by the Federal Reserve to control the money supply, often by targeting a specific rate of interest.

2. B

On a company's balance sheet, liabilities are reported at their current outstanding balance.

3. C

Treasury notes are issued by the U.S. Treasury Department and have maturities of 10 years or less. They have fixed interest payments that are made semiannually to maturity, and they are taxed at the federal level only.

4. B

The security market line determines if a security being considered for inclusion in an investor's portfolio offers an adequate expected return for the level of risk assumed.

5. D

To conduct top-down investment analysis, first examine the global economy, then examine a specific economy, then examine a specific industry, then examine a specific company.

6. A

Buying a call and selling a put are bullish strategies. Investors choose these options when they expect the stock market to rise.

7. A

The Securities Investor Protection Corporation Act of 1970 established a non-profit membership corporation that oversees the liquidation of member broker-dealers that close when the broker-dealer is bankrupt or in financial trouble, and customer assets are missing.

8. A

An RIA firm must typically register or notice file in a state when it has more than 5 clients who are located in that state.

9. D

Client information must be kept confidential unless the information is needed to establish an advisory or brokerage account, the information is required in response to proper legal process, or the information is in connection with a civil dispute between the adviser and the client.

10. C

The Dow Jones Industrial Average is a price-weighted average of 30 blue chip U.S. stocks.

Practice Exam 3

11. C

A deduction is more beneficial to a higher-bracket taxpayer, and a credit is more beneficial to a lower-bracket taxpayer.

12. C

A Totten trust is a type of revocable trust in which the corpus consists of bank accounts and/or bank assets. At the grantor's death, the trust becomes irrevocable and avoids probate.

13. D

The IARD is an electronic filing system that facilitates investment adviser registration, exempt reporting adviser filing, regulatory review, and the public disclosure information of registered investment adviser firms and individuals.

14. A

Dividends paid from an ADR are first declared in the local currency, so exchange rate risk will exist.

15. C

A qualified legal opinion indicates that a bond counsel has concerns regarding one or more of the statements in the bond issue.

16. D

The VIX is considered an indicator of market volatility based on the premiums that investors are willing to pay for the right to buy or sell a stock.

17. B

Capital losses have a three-year carry back period and a five-year carry forward period.

18. B

A SEP IRA is entirely owned by the participant, and the account balance is 100% vested at all times. The contribution deadline to a SEP IRA is April 15, including extensions. Plan loans are not permitted from a SEP IRA.

19. C

A loss on the sale of securities is not deductible if a taxpayer purchases identical securities within 30 days prior to or after the date of sale. This is referred to as the wash sale rule.

20. B

Unlike an ISO, an NQSO does not have to meet any specific holding period rules. With an NQSO, the employee incurs a taxable event at the time the option is exercised.

21. A

Taxable equivalent yield = Tax-free yield \div (1 – Marginal tax rate)

22. B

The lower a bond's interest rate, the greater its relative price fluctuation. The longer a bond's term to maturity, the greater its relative price fluctuation.

Practice Exam 3

23. B

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

24. A

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

25. B

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

26. C

Investment advisers must amend Form ADV each year by filing an annual updating amendment within 90 days of the end of their fiscal year.

27. C

In a long call, the maximum gain is unlimited and the maximum loss is the premium paid.

28. B

ERISA establishes minimum funding, eligibility, coverage, and vesting requirements for qualified retirement plans.

29. A

A bond's coupon rate is the stated annual interest rate that will be paid each period for the term of a bond. It is stated as a percentage of the face value of the bond.

30. C

In a marital trust, the surviving spouse is given a general power of appointment by the decedent spouse to distribute the decedent's property as the surviving spouse determines. Since the surviving spouse holds a general power of appointment, he or she may use trust assets to benefit him or herself directly.

31. D

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 transferred the responsibility for rulemaking and enforcement of identity theft Red Flags Rules to the SEC and CFTC for the firms they regulate.

32. C

Interest earned from Series EE bonds may be excluded from gross income if the proceeds are used to pay for qualified higher education expenses.

33. B

The insurance industry rating services listed are A.M. Best, Fitch, and Standard & Poor's. The NAIC is the National Association of Insurance Commissioners, and it is not an industry rating service.

Practice Exam 3

34. A

Debt-to-capital ratio = Total debt ÷ (Total debt + Shareholders' equity)

$$\text{Debt-to-capital ratio} = \$615,000 ÷ (\$615,000 + \$205,000 + \$230,000) = 0.59$$

35. D

A syndicate is a group of underwriters who agree to purchase the shares of an IPO from an issuer and then sell the shares to investors.

36. B

Default risk is a type of unsystematic risk.

37. B

Political risk is a type of unsystematic risk.

38. A

Reinvestment risk is a type of systematic risk.

39. B

Tax risk is a type of unsystematic risk.

40. B

Defensive stocks are unaffected by general fluctuations in the economy. They include food, tobacco, and oil stocks.

41. A

Higher coupon = Lower duration = Lower interest rate risk

42. C

Gross profit = Revenue - Cost of goods sold

$$\text{Gross profit} = \$51.5 \text{ million} - \$29.0 \text{ million} = \$22.5 \text{ million}$$

43. B

Net income = Revenue - Expenses

$$\text{Net income} = \$51.5 \text{ million} - \$29.0 \text{ million} - \$6.5 \text{ million} - \$1.1 \text{ million} - \$1.6 \text{ million}$$

$$\text{Net income} = \$13.3 \text{ million}$$

44. B

Debentures, variable annuities, and variable life insurance are considered securities under the Uniform Securities Act. Precious metals are not considered securities.

45. D

Sovereign debt is issued by a national government in a foreign currency in order to finance the issuing country's growth and development.

46. D

When the gift splitting election is made, gifts made by either spouse are treated as being made one-half by each spouse, and all gifts must be split for that particular year.

Practice Exam 3

47. C

The National Adjudicatory Council (NAC) is the FINRA committee that reviews initial decisions rendered in FINRA disciplinary and membership proceedings. It may affirm, dismiss, modify, or reverse any finding, or remand the case for further proceedings.

48. C

Value of Zeta stock = $(\$4.10 \div 0.07) = \58.57 per share

49. B

A progressive tax rate structure is being used to tax Mary and Mike because the tax rate increases as the taxable income increases.

50. A

55 years - 53 years = 2 years

Distributions from a 401(k) following separation from service after age 55 are not subject to the 10% premature distribution penalty.

51. D

FINRA, NYSE, and SIPC are self-regulatory organizations (SROs).

52. B

A qualified personal residence trust (QPRT) is generally appropriate for vacation homes valued over \$1 million. The grantor will have a taxable gift upon the creation of a QPRT.

53. B

Treasury bills are sold at a discount to par and have maturities of one year or less. They are considered to be risk free of default and are sold in minimum denominations of \$1,000.

54. B

A warrant may be attached to new debt or preferred issues to make the issues more attractive to buyers. A difference between rights and warrants is their lifespan. Rights usually expire within a few weeks, and warrants may continue without expiring for up to several years.

55. C

The NASD (National Association of Securities Dealers) was the self-regulatory organization for the over-the-counter market and is now part of FINRA.

56. B

An employer's annual contributions to a defined benefit plan will increase when the investment returns are lower than expected. A high ratio of married to unmarried participants will also increase employer contributions because pre-retirement death benefits are required for married participants, but not for unmarried participants. High turnover among employees will reduce employer contributions, especially if it leads to large forfeitures. Large forfeitures will provide more funds to pay benefits, resulting in less employer contributions.

57. A

A flat yield curve results from similar yields among Treasury notes, Treasury bonds, and Treasury bills.

Practice Exam 3

58. C

Common stock is referred to as equity because the owner of the stock is also an owner of the corporation and may participate in its capital and income growth.

59. B

Closed-end mutual funds may sell at a premium or discount to their net asset value. Only open-end mutual funds may issue new shares when an individual buys existing shares.

60. D

Blue chip common stocks provide a hedge against inflation. Growth stocks typically reinvest their earnings back into the company rather than pay dividends to shareholders. GNMA securities, not FNMA, are backed by the U.S. government. Global funds invest in both U.S. and international companies.

61. B

According to the Telephone Consumer Protection Act, solicitors are prohibited from calling residences before 8 a.m. and after 9 p.m. local time.

62. A

Of the choices provided, an IRA is the most suitable account to hold a zero-coupon bond because the interest would be tax-deferred. If a zero-coupon bond were held in a taxable account, then tax would be due on the interest earned each year, even though no interest was paid to the bondholder.

63. B

The original basis of a newly acquired asset is equal to the cost plus expenses of sale, such as sales tax paid, installation costs, freight charges, and commissions incurred in acquiring the asset.

64. C

An employee stock purchase plan (ESPP) allows a company to sell stock to employees at a discount from the market price. The plan must be offered to employees on a nondiscriminatory basis, and the maximum discount permitted is 15% of the greater of the market price on the date the option is granted or the date the shares were purchased. The maximum fair market value of stock that an employee has the right to purchase through an ESPP cannot exceed \$25,000 in any calendar year.

65. A

$\text{Current assets} \div \text{Current liabilities} = \text{Current ratio}$

66. D

In order to conduct investment advisory business, an investment adviser representative (IAR) must be registered to an RIA firm, and every investment advisory firm must have at least one IAR. An IAR can be a dual registrant of multiple firms in some states only. There are currently no continuing education requirements for IARs.

67. B

The holding period of inherited property is considered to be always long-term in nature.

Practice Exam 3

68. B

Conversion ratio = Par value ÷ Underlying share price

Conversion ratio = $\$10,000 \div \$200 = 50:1$

69. D

Conversion value = Underlying share price × Conversion ratio

Conversion value = $\$200 \times 50 = \$10,000$

70. C

Because the current price of the convertible bond is \$9,500, the conversion value is greater than the bond's price, or above parity.

71. C

The Federal Reserve determines the minimum margin requirement for investment accounts.

72. D

$$R_t = (P_t - P_{t-1} + D_t) \div P_{t-1}$$

$$R_t = (\$173 - \$184 + \$4.25) \div \$184 = -0.0367 = -3.67\%$$

73. A

Joint tenants with rights of survivorship between spouses: Step-up in basis for one-half property.

74. B

Joint tenants with rights of survivorship between non-spouses: Full step-up in basis to the extent the property is included in the decedent's gross estate.

75. A

Tenancy by entirety: Step-up in basis for one-half property.

76. C

Tenancy in common: Full step-up in basis.

77. C

Community property: Full step-up in basis.

78. B

Series I bonds are adjusted for inflation as measured by the Consumer Price Index, and are guaranteed to never lose value, even during deflationary periods. They are non-marketable bonds that cannot be bought or sold in the secondary market, and they are taxed at the federal level only.

79. D

403(b) plan participants may include church employees, not-for-profit hospital employees, and public school employees.

80. C

According to Regulation FD, when an issuer discloses material nonpublic information to certain individuals or entities, typically securities market professionals, the issuer must make public disclosure of that information, as well.

Practice Exam 3

81. B

Total risk = Systematic risk + Unsystematic risk.

This formula can be rewritten as: Total risk – Systematic risk = Unsystematic risk.

82. B

The discount rate is the minimum interest rate set by the Federal Reserve for lending to other banks.

83. C

The Fed funds rate is the interest rate at which depository institutions (banks and credit unions) lend reserve balances to other depository institutions overnight, on a collateralized basis.

84. A

The call loan rate is the short-term interest rate charged by banks on loans extended to broker-dealers, who then use the funds to make margin loans on behalf of customers.

85. E

The prime rate is the interest rate that banks charge their most credit-worthy customers, typically large corporations.

86. D

LIBOR is the benchmark rate that international banks charge each other for short-term loans.

87. D

The stages of money laundering, in the correct order, are placement, layering, integration.

88. A

Information such as fee schedule, services offered, key advisory personnel, conflicts of interest, and educational background are typically included in the ADV.

89. D

The Wilshire 5000 is a value-weighted index measuring the overall performance of the U.S. stock market.

90. B

$$E(R_i) = R_f + \beta_i [E(R_m) - R_f]$$

$$7.2\% = 2.5\% + 0.95[E(R_m) - 2.5\%]$$

$$E(R_m) = 7.45\%$$

91. A

For the substantially equal periodic payment (SEPP) exception to apply for premature distributions from a retirement plan, payments must continue for 5 years or until the participant is age 59 ½, whichever is longer.

Practice Exam 3

92. B

The NSCC (National Securities Clearing Corporation) provides clearing, settlement, risk management, central counterparty services, and a guarantee of completion for certain transactions for virtually all broker-to-broker trades involving equities, corporate and municipal debt, ADRs, ETFs, and UITs.

93. C

A mutual fund with a high turnover rate will require more active management and will typically charge higher expenses.

94. D

Probate is the process by which a state or local court validates a decedent's will. It provides for clean title to a decedent's property and protects a decedent from an untimely filing of claims by his or her lifetime creditors. Probate is a public process.

95. A

Monica would not owe any tax because the death benefit from a life insurance policy is not taxable income.

96. A

Treasury STRIPS are sold at a discount from face value.

97. B

Electronic Communication Networks (ECNs) are a type of alternative trading system (ATS) that trades listed stocks and other exchange-traded products. Unlike dark pools, ECNs display orders in the consolidated quote stream. ECNs are required to register with the SEC as broker-dealers.

98. C

The typical grace period for a life insurance policy is 30 days.

99. D

The standard deviation of an investment portfolio must be less than or equal to the weighted average of the standard deviation of returns of the individual securities. If the securities in a portfolio are perfectly correlated, then the standard deviation of the portfolio will be equal to the weighted average of the standard deviations of the individual securities within the portfolio. If the securities in a portfolio are not perfectly correlated, then the standard deviation of the portfolio will be less than the weighted average of the standard deviations of the individual securities making up the portfolio. By adding additional securities, the standard deviation of the portfolio can never increase.

100. B

To establish a Coverdell Education Savings Account (ESA), the beneficiary must be under age 18 unless the individual is designated as a special needs beneficiary.

101. D

The 12b-1 fee is deducted from a mutual fund's assets to pay for marketing and distribution costs associated with operating the fund.

Practice Exam 3

102. A

A bearer bond is a type of bond that is unregistered, with no record kept regarding the owner or transactions involving ownership.

103. D

According to FINRA, a firm's business continuity plan must address the following relating to an emergency or significant business disruption: An alternate physical location of employees, communications with regulators, and data backup and recovery.

104. C

Step 1: Year 1 value = $\$150.00 \times 1.06 = \159.00

Step 2: Year 2 value = $\$159.00 \times 1.06 = \168.54

Step 3: Year 3 value = $\$168.54 \times 1.06 = \178.65

Step 4: Interest earned in third year = $\$178.65 - \$168.54 = \$10.11$

105. C

The FACT Act (Fair and Accurate Credit Transactions Act) gives consumers the right to one free credit report each year from the credit reporting agencies. It also allows consumers to purchase, for a reasonable fee, a credit score along with information about how the credit score was calculated.

106. D

$$\text{Treynor} = (R_p - R_f) \div \beta_p$$

$$4.71 = (11\% - 2\%) \div \beta_p$$

$$\beta_p = 1.91$$

107. A

Capping is a manipulative trading activity that is designed to prevent the price of a security from rising.

108. C

Universal life insurance policies have a flexible premium and death benefit, and are said to have an "unbundled structure." They do not have a minimum guaranteed cash value.

109. A

$$\$48,000 \div 8 \text{ quarters} = \$6,000 \text{ per quarter}$$

With dollar cost averaging, a flat dollar amount is invested each period regardless of the underlying investment's performance.

110. B

SEC-registered advisers are not required to deliver a brochure to clients who receive only impersonal investment advice from the adviser and who will pay the adviser less than \$500 per year.

111. C

The constant dividend growth model determines the intrinsic value of a stock based on future dividends that grow at a non-changing rate.

112. C

A health savings account (HSA) allows the account holder to set aside money on a pre-tax basis to pay for qualified medical expenses.

Practice Exam 3

113. C

The super display book system is a computerized system used by the NYSE to display, record, and execute orders for securities.

114. B

$$R_t = (P_t - P_{t-1} + D_t) \div P_{t-1}$$

$$0.075 = (\$95.50 - \$90.00 + D_t) \div \$90.00$$

$$D_t = \$1.25$$

115. A

A sell limit order is an order to sell a security at or above a specified price.

116. A

The FDIC preserves and promotes public confidence in the U.S. financial system by insuring deposits in banks by identifying, monitoring, and addressing risks to the deposit insurance funds; and by limiting the effect on the economy when a financial institution fails.

117. B

The defined benefit plan would provide the greatest benefit to Phil because he has five younger employees, and defined benefit plans favor older owner/employees. Of the other options listed, the age-based profit sharing plan is a valid consideration. However, the question says to assume adequate cash flow in the business. Profit sharing plans would benefit from unstable cash flow because contributions must only be substantial and recurring. The best answer is the defined benefit plan.

118. A

A CMO (collateralized mortgage obligation) is a type of debt security that repackages and directs the payments of principal and interest from a collateral pool to different types and maturities of securities.

119. B

All companies, foreign and domestic, are required to file registration statements, periodic reports, and other forms electronically through EDGAR (Electronic Data Gathering, Analysis, and Retrieval). Consumers can then access and download this information for free.

120. C

Loans from a SIMPLE IRA are not permitted, but loans from a SIMPLE 401(k) plan are permitted.

121. C

To be considered a “qualified purchaser,” an individual must have not less than \$5 million in investments.

122. C

A recourse loan is a type of debt that allows the lender to collect from the debtor and the debtor's assets in the case of default, as opposed to foreclosing on a particular property or asset.

123. A

There is an inverse relationship between the coupon rate of a bond and its duration. Therefore, the lower the coupon rate, the greater the bond's duration.

Practice Exam 3

124. B

There is a direct relationship between the maturity date of a bond and its duration. Therefore, the longer the term to maturity, the greater the bond's duration.

125. A

There is an inverse relationship between the yield to maturity of a bond and its duration. Therefore, the lower the yield to maturity, the greater the bond's duration.

126. B

The NASAA (North American Securities Administrators Association) is the voice of state securities agencies responsible for efficient capital formation and grass-roots investor protection in the U.S. Their fundamental mission is to protect consumers who purchase securities or investment advice, and their jurisdiction extends to a wide variety of issuers and intermediaries who offer and sell securities to the public.

127. C

Unit investment trusts (UITs) are sold to investors for a typical cost of \$1,000. Units may be bought or sold on the secondary market, and upon termination of a UIT, any remaining securities in the trust will be sold and proceeds will be paid to investors. They typically have low fees and expenses.

128 A

Contributions to a Roth IRA can be made at any age and are never deductible. A Roth IRA owner is not required to take a minimum distribution during his or her lifetime.

129. D

Firms must retain blotters containing all purchases and sales of securities for at least 6 years, and they must keep copies of confirmations for 3 years. For the first 2 years, these records must be kept in an easily accessible location.

130. A

TIPS (Treasury inflation-protected securities) are taxed at the federal level only.