

Series 65

License Exam Manual

12th Edition



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INTRODUCTION

Thank you for choosing Kaplan for your educational needs, and welcome to the *Series 65 License Exam Manual (LEM)*. We understand that you are trusting us to help you advance in your securities industry career. We have written this manual and any supplemental resources you may have purchased by first collecting and clarifying exam-related content. Exam content is provided for you in an adult-learning framework that offers the tools you need to pass your exam on the first try. Some of these tools include:

- exam-focused questions and content to maximize exam preparation;
- an interactive design that integrates content with questions to increase retention; and
- integrated SecuritiesPro™ QBank exam preparation tools to sharpen test-taking skills.

Why Do I Need to Pass the Series 65?

Most states require those who give investment advice or perform related functions to pass a qualification exam. The North American Securities Administrators Association (NASAA) created the Series 65 Uniform Investment Adviser Law Exam as one of the options that may be used to meet that requirement. Most students use this examination to qualify as an investment adviser representative (IAR), a supervised person of a registered investment adviser.

Are There Any Prerequisites?

There are no prerequisite exams to pass before sitting for the Series 65 Exam. However, the exam assumes that you have a broad range of knowledge or experience with investments. Because many students don't yet have that background, this LEM attempts to cover all of the basics as well as the more advanced material tested. Those of you with an SIE, Series 6, or Series 7 registration will find these basics to be a good review that will help set the stage for the more advanced learning required.

Passing the Series 65 normally is a prerequisite to getting licensed as an investment adviser representative. However, most states will allow you to substitute one of the following certifications for passing the exam:

- CFP—Certified Financial Planner (granted by the CFP Board of Standards);
- CIC—Chartered Investment Counselor (granted by the Investment Advisor Association);
- ChFC—Chartered Financial Consultant (granted by the American College of Financial Services);
- PFS—Personal Financial Specialist (granted by the American Institute of Certified Public Accountants); and
- CFA—Chartered Financial Analyst (granted by the Chartered Financial Analyst Institute).

Applicants still have to meet other state licensing requirements, such as filing a Form U4 or Form U10 and paying fees.

What Is the Series 65 Exam Like?

The exam is delivered on a computer at Prometric Testing Centers around the country. The session begins with a tutorial on how to take the exam. The Series 65 is a 180-minute, 130-question exam (plus 10 unscored questions) prepared by NASAA and administered by the Financial Industry Regulatory Authority (FINRA). **The unscored questions are not differentiated from the other questions and are randomly distributed throughout the exam.** There is no penalty for guessing, so you should attempt to answer all items.

What Score Must I Achieve to Pass?

You need a score of at least 92 questions correct of the 130 scored on the Series 65 exam to pass and become eligible for registration as a registered investment adviser representative. After your exam, you will receive either a notification that you passed (but no score) or a failing score with a printout that identifies your performance in each function area.

Which Topics Will I See on the Exam?

The questions you will see on the Series 65 exam do not appear in any particular order. The computer is programmed to select a new, random set of questions for each exam taker according to the preset topic weighting of the exam. Each Series 65 candidate will see the same number of questions on each topic but will see a different mix of questions. The Series 65 content outline is divided into four major function areas.

Job Function #	FINRA Major Job Function Title	# of Questions	% of Exam
1	Economic Factors and Business Information	20	15%
2	Investment Vehicle Characteristics	32	25%
3	Client Investment Recommendations and Strategies	39	30%
4	Laws, Regulations, and Guidelines, Including Prohibitions on Unethical Business Practices	39	30%

How Is This Course Structured?

As professional educators, we have structured the material from the four job functions in the order that helps you best understand it. That means the program will diverge from the order listed in the previous table, but everything will be covered. The course consists of 24 units, each devoted to content that you will need to know to pass your exam. Each unit consists of one or more lessons. Each lesson corresponds to a specifically identified job function. These lessons are further divided into learning objectives (LOs) that help you focus on and retain a manageable portion of material. For students attending one of our classes, live or online, the class lecture will follow the sequence of these units.

The following is a table showing how the material is organized by job function:

FINRA Job Function	LEM Lesson or Unit	Number of Questions
Function 1: Economic Factors and Business Information	Units 6, 7, 19, and 20 (except Lessons 20.2 and 20.6)	20 (15%)
Function 2: Investment Vehicle Characteristics	Units 1–5 and 24; Lessons 20.2 and 20.6	32 (25%)
Function 3: Client Investment Recommendations and Strategies	Units 15–18 and 21–23	39 (30%)
Function 4: Laws, Regulations, and Guidelines, Including Prohibitions on Unethical Business Practices	Units 8–14	39 (30%)

PREPARING FOR THE EXAM

Using the Study Calendar

On your dashboard, you will have a Study Calendar that you can customize to your personal schedule. The Study Calendar helps you plan your use of all the other study tools you may have in your package, including the class. Set up your Study Calendar so that you will know what to do each day. The calendar gives you step-by-step details to optimize your learning experience. Think of it as a road map. If you don't take any detours or shortcuts, you will arrive safely at your destination: a passing score.

Using the LEM

The License Exam Manual (LEM) is your textbook for this course. Reading the LEM carefully will help you succeed. Reading material several times may be useful.

Sometimes, out of necessity, a term or phrase is used prior to its formal introduction in the course. If needed, you can consult the glossary for the definition or the index to locate a more complete discussion of a term.

You also may have access to a PDF copy of the LEM. If so, we strongly recommend that you download it because you can use the search function (Ctrl + F) to find specific terms quickly.

In addition to the regular text, the LEM also has some unique features designed to help with quick understanding of the material. When additional emphasis is valuable to your comprehension, the following distinctions are made:



TAKE NOTE

Each Take Note provides special information designed to amplify important points.



TEST TOPIC ALERT

Each Test Topic Alert! reviews content that is especially likely to appear on the exam.

**EXAMPLE**

Examples provide practical applications of theory. They are quick, interactive, real-world illustrations of what you just read. Examples help ensure that you understand and retain material.

**PRACTICE QUESTION**

Within each LO, there may be one or more practice questions. We've designed these questions to help you see how the topic being discussed might be presented on the exam.

**KNOWLEDGE CHECK**

After each lesson, there is an opportunity for you to measure your comprehension. These short tests reinforce the essential material covered in that lesson. Answers are at the end of each unit. Complete the Knowledge Check and review explanations for all questions, whether you answered them right or wrong.

Using Additional Study Resources

To accompany and supplement your LEM, your study package may contain additional study resources. Be sure to spend some time on your dashboard, view the best practices PDF, and understand all that is available to help you study.

Using the SecuritiesPro™ QBank

Coordinating with the LEM, the SecuritiesPro™ QBank includes a large number of questions that are similar in style and content to those on the exam. You may use the QBank to generate exams for a specific unit or combination of units (the Study Calendar will prompt you to do this). Carefully review all rationales. Use the LO number to locate additional or related information on the test topic in your LEM if needed. Do one additional test of the suggested length on any topic on which you score under 60%.

- Do not become too overwhelmed or bogged down in any one unit. You don't want to lose sight of the finish line because you're having trouble with one hurdle. Keep moving forward. It's a steady pace that wins the race.
- View rationales after each question initially, and spend time studying each rationale to learn the concepts. Later, you will want to create simulated exams in which scores and rationales should be viewed at the end of each exam.
- Perfection is not the goal during the early reading phase. While scores in the mid to high 60s are good initially, aim for at least 80% correct on simulated exams.

You will also use the QBank to create weighted simulated exams that mimic the proportional composition of the real exam. The Study Calendar specifies the ideal number of tests, but there is no upper limit on how many you can create.

One thing you should know about the QBank is that the answer choices are scrambled each time you take a test. That is, if the first time you saw a specific question the correct answer was choice A, that correct answer might be choice D the next time. Please keep this in mind if you need to contact us regarding a question.

Using Fixed Exams

Checkpoint and Midterm Exams

Each unit is followed by a checkpoint exam, and, at the approximate midpoint of your studies, there is a midterm exam. These are fixed (unchanging) exams. That is, unlike QBank exams that include randomly selected questions, the checkpoints and midterm are the same for everyone. They are designed to check your progress before advancing to the next unit. Challenging questions have been specifically selected based on their topical coverage, and they tend to match the average difficulty of the real exam. Because they are fixed exams, they may be taken only once but can be reviewed as often as desired. Be sure to take these when prompted by your Study Calendar.

Practice and Mastery Exams

You may also have fixed practice and mastery exams. These exams are designed to closely replicate the true exam experience, both in the degree of difficulty and topical coverage. They provide a score, diagnostic feedback, correct answers, and answer rationales. The practice and mastery exams are sound indicators of potential actual exam scores—the better you do on these exams, the more likely you are to pass your actual exam. These exams may be taken just once and must be completed in one sitting.

After completing the practice and mastery exams, be sure to review your Performance Tracker so you can identify areas of weakness. You can then create custom quizzes focused on topics as needed. Also, review your LEM and video library for additional help.

We recommend taking the practice exam shortly after a scheduled class and the mastery exam two to three days before your exam date as indicated in your Study Calendar.

Using the Video Library

You may also have access to videos on various topics in our video library. These short, engaging videos cover key topics. If you have access to our video library, please review the topics as you complete your assignments in the Study Calendar. Because many of the videos are not exam specific, you may encounter material that is not covered in your LEM. Just skip ahead until the slide shows something familiar.

Updates/Corrections Link

Don't forget to regularly check the Updates/Corrections icon (located on your dashboard). Information about rule and regulation changes and new information regarding your exam will be posted there. Information about corrections to any errors in the text will be posted there as well. Try as we may, errors are difficult to avoid in a text this large. In addition, our questions are constantly updated to stay current with the content being tested. New topics covered in the *Content Updates/Corrections* are added to the QBank and other exams.

How Much Time Should I Spend Studying?

Plan to spend approximately 60 to 120 hours following the Study Calendar. Spread your study time over the four to five weeks before the date on which you are scheduled to take the actual exam. Your time may vary depending on your reading rate, comprehension, professional background, and study environment. Educational authorities recommend

frequent study breaks. We have found that every 45 to 50 minutes is optimal. Stand up, stretch, walk around for about 10 to 15 minutes, and then get back to the task at hand.

How Well Can I Expect to Do?

The exams administered by NASAA are not easy. You must display considerable understanding and knowledge of the topics presented in this course to pass the exam and qualify for registration.

We carefully designed the questions in our QBank to simulate the actual exam. The wording of QBank and actual exam questions will vary, but if you understand the subject matter, you will be able to find the correct response when you sit for the exam.

In addition, our questions are constantly updated to stay current with the content being tested. New topics covered in the *Content Updates/Corrections* are added to the QBank and other exams.

If you study diligently, complete all sections of the course by following your Study Calendar, and consistently score at least 80% on the simulated exams, you should be well prepared to pass the exam. However, it is important for you to realize that merely knowing the answers to our questions will not enable you to pass unless you also understand the essence of the information behind the questions.

Test-Taking Tips

Passing the exam depends not only on how well you learn the subject matter but also on how well you take exams. You can develop your test-taking skills—and improve your score—by learning a few test-taking techniques.

- Read the full question.
- Avoid jumping to conclusions by watching for hedge clauses.
- Interpret the unfamiliar question.
- Look for key words and phrases.
- Identify the intent of the question.
- Memorize key points.
- Use a calculator.
- Avoid changing answers.
- Pace yourself.

Each of these techniques is explained here.

Read the Full Question

You cannot expect to answer a question correctly if you do not know what it is asking. If you see a question that seems familiar and easy, you might anticipate the answer, mark it, and move on before you finish reading it. This is a serious mistake. Be sure to read the full question before answering it. Mistakes are often made when assuming too much (or too little).

Avoid Jumping to Conclusions by Watching for Hedge Clauses

The questions on NASAA exams are often embellished with deceptive distractors as choices. To avoid being misled by seemingly obvious answers, read each question and each answer *twice* before selecting your choice.

Watch out for hedge clauses embedded in the question. (Examples of hedge clauses include the terms *if*, *not*, *all*, *none*, and *except*.) In the case of *if* statements, the question can be answered correctly only by taking into account the qualifier. If you ignore the qualifier, you will not answer correctly.

Qualifiers are sometimes combined in a question. Some pairs that you will frequently see are *all except* and *none except*. In general, when a question starts with *all* or *none* and ends with *except*, you are looking for an answer that is opposite to what the question appears to be asking.

Interpret the Unfamiliar Question

Do not be surprised if some questions on the exam seem unfamiliar at first. If you have studied your material, you will have the information to answer all the questions correctly. The challenge may be a matter of understanding what the question is asking.

Very often, questions present information indirectly. You may have to interpret the meaning of certain elements before you can answer the question. Be aware that the exam will approach a concept from different angles.

Look for Key Words and Phrases

Look for words that are tip-offs to the situation presented. For example, if you see the word *prospectus* in the question, you know the question is about a new issue. Sometimes a question will even supply you with the answer if you can recognize the key words it contains. Few questions provide blatant clues, but many do offer key words that can guide you to selecting the correct answer if you pay attention. Be sure to read all instructional phrases carefully. Take time to identify the key words to answer this type of question correctly.

Identify the Intent of the Question

Many questions on NASAA exams supply so much information that you lose track of what is being asked. This is often the case in story problems. Learn to separate the story from the question.

Take the time to isolate what the question is asking. Of course, your ability to do so assumes you have studied sufficiently. There is no method for correctly answering questions if you don't know the material.

Memorize Key Points

Reasoning and logic will help you answer many questions, but you will have to memorize a good deal of information first. Some memorization will be automatic as you go over the material and answer questions; some you will simply have to do systematically.

Use a Calculator

Any math required to answer a question will be simple: add, subtract, multiply, and divide. We recommend using a calculator for math. You may ask for a calculator or ask if you can use your own. If using your own, only simple math functions are allowed (add, subtract, multiply, and divide).

Avoid Changing Answers

If you are unsure of an answer, your first hunch is the one most likely to be correct. Do not change answers on the exam without good reason. In general, change an answer only if you:

- discover that you did not read the question correctly, or
- find new or additional helpful information in another question.

Pace Yourself

Some people will finish the exam early and some will not have time to finish all the questions. Watch the time remaining carefully (it will be displayed on your computer screen) and pace yourself through the exam. In most cases, the questions are delivered on a bell curve of difficulty. That means the test starts and ends with easy questions. The middle 50% or so of the test contains more difficult questions than the first 25% and last 25%.

Do not waste time dwelling on a question if you simply do not know the answer. Make the best guess you can, mark the question for *Record for Review*, and return to the question if time allows. Make sure that you have time to read all the questions so that you can record the answers you do know.

THE EXAM

How Do I Enroll in the Exam?

To obtain admission to a NASAA exam, you or your firm must electronically apply and pay a fee to FINRA through its Central Registration Depository (CRD), better known as the Web CRD®. To take the exam, you must make an appointment with a testing center as far in advance as possible to get the date you would like to sit for the exam. Prometric Testing Centers proctor FINRA exams:

www.prometric.com

800.578.6273

You may schedule your appointment 24 hours a day, 7 days a week, on the Prometric website. You may also reschedule or cancel your exam, locate a test center, and get a printed confirmation of your appointment.

You must have your CRD number available when scheduling your exam. This unique personal identification number should be provided to you by your employing member firm. On a cautionary note, failure to show up for an examination is recorded on your examination history on the Web CRD.

What Should I Take to the Exam?

Take one form of government-issued personal identification with your signature and photograph. No personal items, food, or drinks (including coffee and water) are permitted inside the testing room. Personal items include, but are not limited to, pens, pagers, cell phones, watches, hats, nonmedical electronic devices, outerwear, purses, and wallets. Personal items must be kept in your assigned locker or returned to your car before the start of your exam. As the testing vendor is not responsible for any personal items, they encourage you to bring only your identification into the center.

If you need additional note boards or pens, please alert your proctor. The note boards and pens must be returned at the end of your exam session. Bathroom breaks are permitted, but the clock will continue to run. Do not be surprised if a proctor accompanies you and “sweeps the room clean” before you enter. FINRA and NASAA take test security seriously.

If you need a calculator for your testing session, please see the test center administrator. You will be provided with a nonprogrammable, nonprinting calculator.

Exam Results and Reports

At the end of the exam, you will receive immediate notice of your success or failure. If your attempt was not successful, the feedback will let you know and your score will be displayed. Those passing the exam are not provided a score.