

# **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.

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**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

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**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

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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

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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

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**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.

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**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**

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**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

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- 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

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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.

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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.

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**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.

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**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.

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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.

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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

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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

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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.

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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.

# **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

## Practice Exam 4

**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

Practice Exam 4

- 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

Practice Exam 4

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.

Practice Exam 4

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.

Practice Exam 4

- 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.

Practice Exam 4

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

#### Practice Exam 4

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

Practice Exam 4

- 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.

## Practice Exam 4

**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.

Practice Exam 4

**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.

## Practice Exam 4

**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.

## Practice Exam 4

**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

Practice Exam 4

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.

Practice Exam 4

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

## Practice Exam 4

**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.

Practice Exam 4

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.

Practice Exam 4

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

## Practice Exam 4

- 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.