

PRACTICE EXAM 5

QUESTIONS

- 1. Which of the following is an offering of shares to existing stockholders on a pro-rata basis?**
 - A. Private placement
 - B. Public offering
 - C. Rights offering
 - D. Tender offering

- 2. Which of the following is correct regarding open market operations?**
 - A. It is a tool used by the Federal Reserve to implement monetary policy.
 - B. It is conducted by the Trading Desk at the Federal Reserve Bank of New York.
 - C. The authority to conduct open market operations is found in Section 14 of the Federal Reserve Act.
 - D. All of the above are correct.

- 3. All but which of the following are characteristics of REMICs?**
 - A. They have a perpetual life.
 - B. They combine the predictable cash flow of a bond with the high yield of a mortgage-backed security.
 - C. Investors receive a specified cash flow from the underlying mortgages.
 - D. They are self-liquidating.

- 4. Which of the following is an order to sell a stock at a price below the current market price?**
 - A. Sell discount order
 - B. Sell limit order
 - C. Sell market order
 - D. Sell stop order

- 5. As a cyber security measure, broker-dealers should utilize a/an _____, which means that each time a user attempts to log into an investment account through an unrecognized device, the investment firm will send a unique code to the user via email or text message. Before the user can access the account, he or she must enter the code and password.**
 - A. access control
 - B. declaration of conformity
 - C. inspection certification
 - D. two-step verification process

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- 6. Justin, age 58, contributes to his employer's 401(k). In 2024, he will contribute \$25,000 to the plan through salary deferrals, and he would like to contribute to an IRA as well. If he is single and has an income of \$250,000, the maximum IRA contribution that he can make is:**
- A. \$7,000 to a deductible IRA.
 - B. \$8,000 to a deductible IRA.
 - C. \$8,000 to a non-deductible IRA.
 - D. \$8,000 to a Roth IRA.
- 7. When an investment company puts home mortgages or other loans into a pool and then sells securities representing shares of the pool, the securities sold are referred to as which of the following?**
- A. Asset-backed securities
 - B. Dark pools
 - C. Derivative-backed securities
 - D. Unit investment trusts
- 8. If the yield curve is _____, then the spread between yields of short-term and long-term bonds is _____.**
- A. flattening, decreasing
 - B. flattening, increasing
 - C. steepening, decreasing
 - D. None of the above are correct.
- 9. Which of the following is also referred to as a "red herring?"**
- A. Omitting prospectus
 - B. Preliminary prospectus
 - C. Shelf registration
 - D. Tombstone ad
- 10. Which of the following investment strategies will expose an investor to the greatest amount of risk?**
- A. Buying a covered call
 - B. Buying a naked call
 - C. Selling a covered call
 - D. Selling a naked call
- 11. A quarterly interest rate of 3.2% is equivalent to:**
- A. 1.07% monthly or 9.60% annually.
 - B. 1.07% monthly or 12.80% annually.
 - C. 6.40% monthly or 9.60% annually.
 - D. 6.40% monthly or 12.80% annually.

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12. All but which of the following are correct regarding the Federal Reserve?

- A. It derives its authority from Congress.
- B. It operates and oversees the U.S. payment system.
- C. It operates and oversees government spending.
- D. It supervises and regulates banks.

13. All but which of the following is another name for an income statement?

- A. Statement of financial performance
- B. Statement of financial position
- C. Statement of operations
- D. Statement of profit or loss

14. Which of the following is correct regarding the relationship between an investment's real return and nominal return?

- (1) Real return is an investment's rate of return after adjusting for inflation.
 - (2) Nominal return is an investment's rate of return without adjusting for inflation.
- A. (1) only
 - B. (2) only
 - C. Both (1) and (2) are correct.
 - D. Neither (1) or (2) are correct.

15. Which of the following theories states that security prices in different markets will not differ for any significant period of time?

- A. Arbitrage pricing theory
- B. Black-scholes valuation theory
- C. Efficient market theory
- D. Modern portfolio theory

16. Which of the following are required to obtain a viatical settlement?

- (1) The insured must not be terminally ill.
 - (2) The insured must have owned the policy for at least one year.
 - (3) The current beneficiary of the policy must sign a release or waiver.
 - (4) The insured must sign a release allowing the viatical settlement provider access to his or her medical records.
- A. (1) and (2) only
 - B. (3) and (4) only
 - C. (2), (3), and (4) only
 - D. All of the above are correct.

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17. Which of the following is true regarding a qualified domestic trust (QDOT)?

- A. There must be at least one trustee who is a U.S. citizen or a qualifying domestic corporation.
- B. The surviving spouse must have the right to all income, as well as a general power of appointment over trust assets.
- C. The trust does not qualify for the marital deduction unless a special election is made by the trustee.
- D. Property in the trust is not subject to gift or estate taxes.

18. Which of the following are primary issuers of individual bonds?

- (1) Local government
- (2) U.S. government
- (3) An agency of the U.S. government
- (4) Corporations

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

The following information relates to questions 19 – 21.

Jennifer's income is \$80,000 and she is in the 25% tax bracket. While preparing to file her tax return, she expected to take an \$8,000 deduction through a government incentive program that she qualified for. However, she has discovered the deduction has been replaced with a \$4,000 tax credit.

19. Ignoring exemptions and other adjustments, if Jennifer had claimed the \$8,000 tax deduction, her total taxes owed would have been:

- A. \$14,000.
- B. \$16,000.
- C. \$18,000.
- D. \$20,000.

20. Ignoring exemptions and other adjustments, if Jennifer claims the \$4,000 tax credit, her total taxes owed will be:

- A. \$14,000.
- B. \$16,000.
- C. \$18,000.
- D. \$20,000.

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- 21. Ignoring exemptions and other adjustments, a tax credit of _____ would result in the same amount of taxes owed as the \$8,000 tax deduction.**
- A. \$2,000
 - B. \$3,000
 - C. \$5,000
 - D. \$6,000
- 22. Which of the following is the formula to calculate a mutual fund's turnover rate?**
- A. Turnover rate = Gross proceeds from sale of securities ÷ NAV
 - B. Turnover rate = Gross proceeds from sale of securities – NAV
 - C. Turnover rate = Gross proceeds from sale of securities + NAV
 - D. Turnover rate = NAV ÷ Gross proceeds from sale of securities
- 23. Higher inflation = _____ interest rates = _____ bond values**
- A. higher, higher
 - B. higher, lower
 - C. lower, higher
 - D. lower, lower
- 24. If a wash sale occurs, which of the following will result?**
- A. No loss deduction is allowed, and the amount of the disallowed loss is subtracted from the cost basis of the newly acquired shares.
 - B. No loss deduction is allowed, and a gain must be realized immediately.
 - C. No loss deduction is allowed, and the amount of the disallowed loss is added to the cost basis of the newly acquired shares.
 - D. The loss can be realized.
- 25. Lisa, a single taxpayer with an AGI of \$140,000, is permitted to fully deduct her IRA contribution if she's an active participant in which of the following plans?**
- A. 401(k) plan with no match
 - B. 403(b) plan with no match
 - C. 403(b) plan with match
 - D. 457 plan
- 26. If real GDP declined the last 3 quarters, how many more consecutive quarters of decline would be needed to be classified as an economic depression?**
- A. 1 quarter
 - B. 2 quarters
 - C. 3 quarters
 - D. 4 quarters

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- 27. Which of the following is the ethical barrier that is required between different divisions of a financial institution to avoid conflicts of interest?**
- A. Checks and balance system
 - B. Chinese wall
 - C. Ethical wall
 - D. Moral barrier
- 28. Preferred stock that does not have to pay missed dividends is considered which of the following?**
- A. Convertible
 - B. Cumulative
 - C. In-kind
 - D. Noncumulative
- 29. Which of the following rules addresses the registration and resale requirements for securities issued in a merger, consolidation, acquisition of assets, or reclassification of securities?**
- A. Securities Act Rule 145
 - B. Securities Act Rule 172
 - C. Securities Act Rule 238
 - D. Securities Act Rule 405
- 30. The “cooling-off period,” which transpires between the filing of a new issue’s prospectus and the actual offering of the issue, must be a minimum of how many days?**
- A. 7 days
 - B. 10 days
 - C. 20 days
 - D. 30 days
- 31. Brady bonds are typically issued by which of the following countries?**
- A. Asian countries
 - B. European countries
 - C. Latin American countries
 - D. Middle Eastern countries
- 32. Expansionary policy is characterized by which of the following?**
- A. Decreasing transfer payments
 - B. Increasing public spending
 - C. Increasing taxes
 - D. All of the above are correct.

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33. In order to maintain a SIMPLE plan, an employer may not have more than _____ employees.
- A. 25
 - B. 50
 - C. 75
 - D. 100
34. An investment-grade bond is one that is rated _____ or higher by the Standard & Poor's bond rating service. A high-yield bond is rated _____ or lower by Standard & Poor's.
- A. BBB, BB
 - B. BBB+, BB-
 - C. BBB-, BB+
 - D. BB, BBB
35. Which of the following has the most stable cash flows and the lowest prepayment risk of any class of CMO?
- A. General obligation bond
 - B. Planned amortization class bond
 - C. Targeted amortization class bond
 - D. Zero-coupon bond
36. Blue sky laws are classified as which of the following?
- A. Federal-based laws
 - B. International-based laws
 - C. Municipal-based laws
 - D. State-based laws
37. Which of the following is used by U.S. corporations (specifically, C Corps) to report income, gains, losses, deductions, and credits, and to determine their tax liability?
- A. IRS Form 1040
 - B. IRS Form 1041
 - C. IRS Form 1065
 - D. IRS Form 1120
38. Pink sheets are to unlisted stocks as _____ are to bonds.
- A. blue sheets
 - B. green sheets
 - C. white sheets
 - D. yellow sheets

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39. Which of the following acts promotes efficiency and capital formation in the financial markets, and provides for more effective and less burdensome regulation between states and the Federal Government? It also declared that any offering of a "covered security" is exempt from state registration and review.

- A. Insider Trading and Securities Fraud Enforcement Act of 1988
- B. Uniform Prudent Investors Act of 1994
- C. National Securities Market Improvement Act of 1996
- D. Sarbanes-Oxley Act of 2002

The following information relates to questions 40 – 41.

Stephanie purchased a whole life insurance policy several years ago. She has provided the following information related to the policy.

Face amount	\$250,000
Cash value	\$87,500
Paid-up additions	\$75,000
Cash value of paid-up additions	\$50,000
Annual premium	\$4,300
Annual dividend	\$1,900

40. What is the current surrender value of Stephanie's policy?

- A. \$112,500
- B. \$137,500
- C. \$162,500
- D. \$164,400

41. If Stephanie dies, a death benefit of _____ will be paid to her beneficiary.

- A. \$250,000
- B. \$262,500
- C. \$300,000
- D. \$325,000

42. An investor purchased a call option for \$3.00. The option has a strike price of \$37.00, and the stock is currently valued at \$36.00. The call option would cost \$2.50 if purchased today. Ignoring transaction costs, what is the value of the option?

- A. -\$0.50
- B. \$0
- C. \$1.00
- D. \$2.00

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- 43. Which of the following is a graphical representation of a security's average price over a period of time?**
- A. Moving average
 - B. Support and resistance average
 - C. Technical average
 - D. Trendline average
- 44. Which of the following is/are correct regarding generation skipping transfers?**
- (1) A generation skipping transfer may only occur during a transferor's lifetime.
 - (2) The gift tax annual exclusion may only be used to offset a lifetime generation skipping transfer.
- A. (1) only
 - B. (2) only
 - C. Both (1) and (2) are correct.
 - D. Neither (1) or (2) are correct.
- 45. Which of the following is a private, non-profit organization whose primary purpose is to establish and improve generally accepted accounting principles within the U.S.?**
- A. FASB
 - B. FDIC
 - C. MSRB
 - D. NSCC
- 46. When calculating gross domestic product (GDP), all but which of the following variables are paired with the correct description?**
- A. C = Personal consumption
 - B. I = Issuance of government bonds
 - C. G = Government spending
 - D. E = Net exports
- 47. Which of the following is the correct method to conducting bottom-up 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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48. Which of the following groups may be excluded from participating in an employee stock purchase plan (ESPP)?

- A. Employees working less than 20 hours per week.
- B. Employees with less than 2 years of service.
- C. Officers of the employer.
- D. All of the above are correct.

For questions 49 – 51, 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. Business risk
- B. Tax risk
- C. Financial risk
- D. Market risk
- E. Credit risk
- F. Country risk

49. ___ The risk associated with a company's decision to use debt as part of its capital structure.

50. ___ The possibility that a bond issuer will default.

51. ___ The risk inherent in company operations.

52. Which of the following government agencies are responsible for monitoring qualified retirement plan rules and eligibility?

- A. ERISA and the IRS
- B. ERISA and the PBGC
- C. IRS and the Department of Labor
- D. IRS and the PBGC

53. Which of the following is/are correct regarding probate?

- (1) If a person dies testate, his or her property is subject to probate.
- (2) If a person dies intestate, his or her property avoids probate.

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

54. All but which of the following are characteristics of defined benefit plans?

- A. Employer contributions vary.
- B. Participant benefits vary.
- C. The employer assumes the investment risk.
- D. They favor older employees.

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55. Which of the following is correct regarding non-systematic risk?

- A. It includes risks such as tax risk and financial risk.
- B. An investor who owns five growth stocks can reduce non-systematic risk by adding a value stock to her portfolio.
- C. It is the risk associated with a particular security or company.
- D. All of the above are correct.

56. Money in a Coverdell Education Savings Account (ESA) must be used by the time the beneficiary is _____ years of age.

- A. 18
- B. 21
- C. 24
- D. 30

57. Which of the following describes the rate of return calculated by the capital asset pricing model (CAPM)?

- A. The rate of return is not reliable because CAPM fails to take risk into account.
- B. The rate of return can be used in the dividend growth model for valuing common stock.
- C. The rate of return represents the stock market's overall rate of return.
- D. The rate of return is not reliable because CAPM uses beta in its formula.

58. Alpha Inc. reports the following information at its annual shareholder meeting:

Liabilities at year-end	\$500,000
Contributed capital at year-end	\$100,000
Beginning retained earnings	\$150,000
Revenue during the year	\$300,000
Expenses during the year	\$200,000
Dividends paid during the year	\$50,000

What is the value of Alpha Inc.'s total assets at year-end?

- A. \$800,000
- B. \$900,000
- C. \$1,300,000
- D. \$1,350,000

59. Regarding the money supply, which of the following is the formula for M1?

- A. M1 = Savings accounts + Short-term time deposits
- B. M1 = Coins and currency in circulation + Money held in checking accounts
- C. M1 = Long-term time deposits
- D. M1 = Coins and currency in circulation + Short-term time deposits

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60. Which of the following is/are correct regarding tax credits?

- (1) A refundable tax credit cannot reduce a taxpayer's income tax liability below zero.
 - (2) A non-refundable tax credit can reduce a taxpayer's income tax liability below zero.
- A. (1) only
 - B. (2) only
 - C. Both (1) and (2) are correct.
 - D. Neither (1) or (2) are correct.

For questions 61 – 64, match the legislation with the description that follows. Use only one answer per blank. Answers may be used more than once or not at all.

- A. Securities Act of 1933
- B. Securities Exchange Act of 1934
- C. Investment Company Act of 1940
- D. Securities Investor Protection Act of 1970

61. ___ Regulates brokerage firms.

62. ___ Regulates mutual funds.

63. ___ Regulates new securities.

64. ___ Regulates existing securities.

65. Treasury notes, Treasury bonds, and TIPS, whose interest and principal portions have been separated so they may be sold individually, are referred to as which of the following?

- A. Treasury GICs
- B. Treasury CMOs
- C. Treasury STRIPS
- D. Treasury UITs

66. Which of the following is/are correct regarding the capital structure of open-end mutual funds?

- (1) Open-end mutual funds issue new shares and redeem existing shares from shareholders.
 - (2) The price an investor pays when buying shares of an open-end mutual fund is based on supply and demand.
- A. (1) only
 - B. (2) only
 - C. Both (1) and (2) are correct.
 - D. Neither (1) or (2) are correct.

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67. Regulation A permits unregistered public offerings of up to _____ of securities in any 12-month period.
- A. \$1 million
 - B. \$5 million
 - C. \$10 million
 - D. \$20 million
68. Which of the following retirement plans require immediate vesting?
- A. Employer contributions to a 401(k) plan.
 - B. Employer contributions to a money purchase plan.
 - C. Employer contributions to a SEP.
 - D. All of the above are correct.
69. How is the net asset value (NAV) of a mutual fund calculated?
- A. NAV = (Total value of investment + Liabilities) ÷ Shares outstanding
 - B. NAV = (Total value of investment ÷ Shares outstanding) - Liabilities
 - C. NAV = (Total value of investment - Liabilities) ÷ Shares outstanding
 - D. NAV = Total value of investment ÷ Shares outstanding
70. According to the anomaly known as the “small-firm effect,” _____ companies have been shown to outperform _____ companies on a risk-adjusted basis over a period of many years.
- A. large cap, small cap
 - B. mid cap, small cap
 - C. small cap, large cap
 - D. small cap, mid cap
71. Interest earned on which of the following is a tax preference item for the alternative minimum tax (AMT)?
- A. General obligation bonds
 - B. Private activity bonds
 - C. Public purpose bonds
 - D. Revenue bonds
72. According to the Uniform Securities Act, if the Administrator issues a subpoena and the affected party fails to respond, it is referred to as which of the following?
- A. Adhesion
 - B. Contumacy
 - C. Estoppel
 - D. Rescission

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73. A research analyst provides the following economic information for Country X:

Category	Amount (\$ billions)
Consumption	11.4
Government spending	3.3
Capital consumption allowance	5.0
Gross private domestic investment	6.2
Imports	2.9
Exports	1.8

What is the gross domestic product (GDP) of Country X?

- A. \$17.9 billion
- B. \$18.6 billion
- C. \$19.8 billion
- D. \$24.8 billion

74. A corporate insider is defined as a director or senior officer of a company, as well as any person or entity that beneficially owns more than _____ of a company's voting shares.

- A. 1%
- B. 2%
- C. 5%
- D. 10%

75. Which of the following securities are backed by the full faith and credit of the U.S. government?

- A. Federal Home Loan Mortgage Corporation debentures (Freddie Macs)
- B. Federal National Mortgage Association certificates (Fannie Maes)
- C. Government National Mortgage Association certificates (Ginnie Maes)
- D. Student Loan Marketing Association notes (Sallie Maes)

76. Which of the following investments will provide tax-exempt interest if the proceeds are used to pay for qualifying education expenses?

- (1) FNMA funds
 - (2) Series EE bonds
 - (3) Treasury bonds
 - (4) Treasury bills
- A. (2) only
 - B. (1) and (2) only
 - C. (2), (3), and (4) only
 - D. All of the above are correct.

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77. How are the value of publicly traded stocks and bonds determined for gift and estate tax purposes?
- A. The closing price on the date of disposition.
 - B. The opening price on the date of disposition.
 - C. The mean between the highest and lowest selling price on the date of disposition.
 - D. The mean between the highest and lowest selling price on the date prior to the date of disposition.
78. Which of the following is an exchange employee who is in charge of keeping a book of public limit orders on exchanges utilizing the "market-maker" system?
- A. Designated market maker
 - B. Limit order officer
 - C. Order book official
 - D. Public order specialist
79. Employer contributions to a defined contribution plan must use either the _____ cliff vesting or _____ graded vesting schedules.
- A. 3-year, 6-year
 - B. 3-year, 7-year
 - C. 5-year, 6-year
 - D. 5-year, 7-year
80. Which of the following is a short-term obligation that is issued for temporary financing needs by a municipality?
- A. Bond anticipation note
 - B. Guaranteed investment contract
 - C. Tax anticipation note
 - D. Unit investment trust
81. Which of the following is an order to buy a stock at a price above the current market price?
- A. Buy stop order
 - B. Buy limit order
 - C. Buy market order
 - D. None of the above are correct.
82. A variable life insurance policy will pay benefits that vary according to which of the following?
- A. The flexibility of premiums paid.
 - B. The value of underlying investments.
 - C. The variability of the mortality factor.
 - D. All of the above are correct.

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83. Which of the following is correct regarding IAR registration?

- A. Individual registrations can be administered at the state level or federal level, depending on where the RIA firm is registered.
- B. All individual registrations are administered at the federal level, regardless of whether the RIA firm is registered at the SEC or state level.
- C. All individual registrations are administered at the state level, regardless of whether the RIA firm is registered at the SEC or state level.
- D. None of the above are correct.

84. Which of the following estate planning objectives can be accomplished through a will?

- A. Avoiding probate.
- B. Establishing a testamentary trust.
- C. Providing burial wishes.
- D. Providing for decisions during incapacitation.

85. An indenture agreement describes the terms and conditions of a bond, including which of the following?

- A. Call provisions
- B. Description of collateral
- C. How coupon payments are determined
- D. All of the above are correct.

86. Which of the following must be filed for each of the first three fiscal quarters of a company's fiscal year, and includes unaudited financial statements and provides a continuing view of the company's financial position during the year?

- A. Form ADV
- B. Form 8-K
- C. Form 10-K
- D. Form 10-Q

87. Which of the following is an advantage that money purchase plans have over other qualified retirement plans?

- A. Employer contributions can be omitted in certain years and must only be substantial and recurring.
- B. Forfeitures must be used to reduce future employer contributions.
- C. They are easy to explain to employees.
- D. They favor older employees.

88. A trade surplus results from which of the following?

- A. A country having a current account deficit.
- B. A country exporting more than it imports.
- C. A country exporting less than it imports.
- D. None of the above are correct.

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89. Eurodollars have which of the following characteristics?

- (1) They are foreign denominated deposits in banks located outside the U.S.
- (2) They involve deposits made at only European banks.

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

90. According to the principles of behavioral finance, which of the following terms describes an investor's tendency to look for information that supports his or her previously established decision, even if that decision was imprudent? This tendency may explain why investors are slow to sell an underperforming stock.

- A. Confirmation bias
- B. Expectation bias
- C. Hold bias
- D. Prospect bias

91. Which of the following is a computerized subscriber service that serves as a vehicle for the fourth market by permitting subscribers to display bids and offers and execute trades electronically?

- A. ECN
- B. EMMA
- C. Instinet
- D. NSCC

92. A/An _____ legal opinion means that the bond counsel has no reservations regarding the bond issue, and it is considered the most desirable for investors.

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

93. Which of the following is correct regarding certificates of deposit (CDs)?

- A. They are short-term securities that may be bought or sold in the open market at a market-determined price.
- B. They typically invest in high-quality, short-term investments, such as commercial paper, Treasury bills, and money market funds.
- C. They are known as "time deposits."
- D. The financial institution typically pays a variable rate of interest for the term of the CD.

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94. In any single life private annuity transaction, if the seller outlives his or her actuarial life expectancy, the purchaser will have paid _____ for the property. If the seller does not outlive his or her actuarial life expectancy, the _____ will have made a good financial deal.

- A. too much, purchaser
- B. too much, seller
- C. too little, purchaser
- D. too little, seller

95. The annual report on _____ provides a comprehensive overview of a company's business and financial condition and includes audited financial statements.

- A. Form 6-K
- B. Form 8-K
- C. Form 10-K
- D. Form 10-Q

96. Beta Corporation sold products to customers on April 30, 2017 for a total price of \$85,000. Payment is due in 60 days. The total cost of the products was \$67,000. What is the net change in Beta Corporation's total assets on April 30, 2017?

- A. \$0
- B. \$18,000
- C. \$67,000
- D. \$103,000

97. Which of the following is/are correct regarding cyclical stocks?

- (1) When the economy is growing, demand usually strengthens and cyclical companies are able to make large profits.
- (2) When the economy is declining, cyclical companies are hurt by decreases in demand and are less profitable.

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

98. Which of the following acts, also known as the Currency and Foreign Transactions Reporting Act, requires financial institutions to assist U.S. government agencies in detecting and preventing money laundering?

- A. Bank Secrecy Act of 1970
- B. Insider Trading and Securities Fraud Enforcement Act of 1988
- C. National Securities Market Improvement Act of 1996
- D. Sarbanes-Oxley Act of 2002

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99. Which of the following plans require immediate vesting?

- (1) Money purchase plan
- (2) SEP
- (3) 401(k) plan
- (4) 403(b) plan

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

100. All but which of the following are characteristics of a REIT?

- A. It is a publicly traded open-end investment company.
- B. A mortgage REIT is a specific type of REIT.
- C. A REIT can sell at a premium or discount to its NAV.
- D. All of the above are correct.

101. Which of the following is the typical limit on the term of a loan from a qualified retirement plan?

- A. 1 year
- B. 2 years
- C. 5 years
- D. 10 years

102. Which of the following refers to taking a loss on a bond and replacing it with a substantially different bond to avoid triggering the wash sale rule?

- A. Bond conversion
- B. Bond spread
- C. Bond swap
- D. Bond yield

103. Steve sold his portfolio of ETFs and is now required to pay 15% tax on the gain. Which of the following must be true?

- (1) The ETFs were taxed at long-term capital gains rates.
- (2) Steve's marginal tax bracket was less than 25%.
- (3) Steve owned the ETFs for more than one year.
- (4) Steve's marginal tax bracket was 25% or higher.

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

Practice Exam 5

104. Which of the following will shift the Markowitz efficient frontier to the left?

- A. Taking less risk.
- B. Taking more risk.
- C. Changing the proportion of securities already invested in the portfolio.
- D. Selecting investments with lower coefficients of correlation between them.

105. Which of the following terms refers to a broker using securities in his or her possession, but owned by a customer, as collateral to raise a loan to cover a short position?

- A. Recapitalization
- B. Recollateralization
- C. Rehypothecation
- D. Securitization

106. Which of the following is the maximum prison sentence for an insider trading violation?

- A. 10 years
- B. 20 years
- C. 30 years
- D. 40 years

107. Which of the following are among the requirements for a valid S Corp election?

- (1) Only one class of stock is permitted.
 - (2) There may be no more than 75 shareholders.
 - (3) It must be a domestic corporation.
 - (4) Shareholders must be U.S. citizens or residents.
- A. (1) and (3) only
 - B. (1), (2), and (4) only
 - C. (1), (3), and (4) only
 - D. (2), (3), and (4) only

108. Which of the following are permitted investments in an IRA?

- A. A mutual fund that invests exclusively in a silver mining stock.
- B. Gold coins minted in the U.S.
- C. A real estate investment trust.
- D. All of the above are correct.

109. $(\text{Current assets} - \text{Inventory}) \div \text{Current liabilities} = \underline{\hspace{2cm}}$

- A. Current ratio
- B. Inventory turnover ratio
- C. Quick ratio
- D. Return on assets

Practice Exam 5

- 110. To calculate core inflation, which of the following categories are excluded from the calculation?**
- A. Food and energy prices
 - B. Food and utilities
 - C. Healthcare and energy prices
 - D. Technology and utilities
- 111. Investment advisers that have custody of client assets or require prepayment of advisory fees _____ or more in advance, and in excess of _____ for each client, must file an audited balance sheet with the SEC as of the end of the investment adviser's fiscal year.**
- A. 6 months, \$1,200
 - B. 6 months, \$1,500
 - C. 12 months, \$1,200
 - D. 12 months, \$1,500
- 112. Which of the following mutual fund share classes will charge investors a level load?**
- A. Class A shares
 - B. Class B shares
 - C. Class C shares
 - D. Class D shares
- 113. Investment risk is defined as which of the following?**
- A. The chance that an investment's actual return will be greater or less than its expected return.
 - B. The chance that an investment's actual return will equal its expected return.
 - C. The chance that an investment's actual return will be less than its expected return.
 - D. None of the above are correct.
- 114. All but which of the following are characteristics of sole proprietorships?**
- A. They are the simplest form of business entity.
 - B. They have no formal legal requirements.
 - C. They have a lack of continuity of business life.
 - D. They provide limited liability to owners.
- 115. Which of the following option strategies seeks to maximize an investor's profit when the price of an underlying security decreases in value?**
- A. Bear spread
 - B. Bull spread
 - C. Long straddle
 - D. Protective collar

Practice Exam 5

116. Which of the following acts allowed for the establishment of the National Association of Securities Dealers (NASD) and the U.S. domestic over-the-counter markets in securities?

- A. Maloney Act of 1938
- B. Trust Indenture Act of 1939
- C. Investment Company Act of 1940
- D. Uniform Securities Act of 1956

For questions 117 – 119, select the word that best completes the bond relationship provided. Use only one answer per blank. Answers may be used more than once or not at all.

- A. More
- B. Less

117. ___ Lower-coupon bonds are _____ affected by interest rate changes than higher-coupon bonds.

118. ___ The shorter a bond's term to maturity, the _____ its potential for relative price fluctuation.

119. ___ Long-term bonds are _____ affected by interest rate changes than short-term bonds.

120. Which of the following are correct regarding qualified personal residence trusts (QPRTs)?

- (1) A QPRT is ideal for a single parent in his 30s or 40s.
- (2) A QPRT is generally appropriate for vacation homes valued at over \$1,000,000.
- (3) After the trust term ends, the house reverts back to the grantor.
- (4) The grantor will have a taxable gift upon the creation of a QPRT.

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

121. Which of the following sections of the tax code allows individuals to make withdrawals before age 59 ½ from certain retirement accounts without penalty, as long as the SEPP (substantially equal periodic payment) regulation is met?

- A. Rule 67(e)
- B. Rule 72(t)
- C. Rule 83(b)
- D. Rule 501(r)

Practice Exam 5

122. Dawn contributed \$12,000 to a qualified retirement plan several years ago. The account balance is now \$14,500. If Dawn takes a lump sum distribution, she will owe:

- A. long-term capital gains tax on \$2,500.
- B. long-term capital gains tax on \$14,500.
- C. ordinary income tax on \$2,500.
- D. ordinary income tax on \$14,500.

123. Which of the following is required for an individual to open a health savings account (HSA)?

- A. The individual must have a high-deductible health plan (HDHP).
- B. The individual must have a low-deductible health plan (LDHP).
- C. The individual must have a flexible spending account (FSA).
- D. None of the above are required to open a health savings account.

124. Which of the following statements about property held as tenancy by entirety are correct?

- (1) The property automatically passes to the surviving co-tenant when one tenant dies.
 - (2) It is an interest in property that can be held only by spouses.
 - (3) It can be held by non-spouse business partners in an LLC.
 - (4) In most states, it is not severable by an individual tenant.
- A. (1) and (2) only
 - B. (2) and (4) only
 - C. (1), (2), and (3) only
 - D. (1), (2), and (4) only

125. Kappa Inc. provides the following information at its annual shareholder meeting:

Gross income	\$2,300,000
Net income	\$950,000
Number of shares outstanding	250,000
Price per share	\$9.10
Average total book value of equity	\$3,260,000
Total liabilities	\$2,980,000

What is Kappa Inc.'s return on equity (ROE)?

- A. 27.72%
- B. 29.14%
- C. 31.88%
- D. 33.59%

Practice Exam 5

For questions 126 – 129, match the hedging technique with the description that follows. Use only one answer per blank. Answers may be used more than once or not at all.

- A. Collar
- B. Spread
- C. Straddle
- D. Protective put

126. Purchasing a call option and selling a call option on the same stock at the same time.

127. Purchasing a put option and selling a call option on the same stock at the same time.

128. Purchasing a put option while holding shares of the underlying stock from a previous purchase.

129. Purchasing a call option and a put option on the same stock at the same time.

130. Which of the following is the official repository for information on virtually all municipal bonds, and provides free access to official disclosures, trade data, and other information about the municipal securities market?

- A. EMMA
- B. FAST
- C. MSRB
- D. TRACE

ANSWER KEY

1. C

A rights offering is an offering of shares to existing stockholders on a pro-rata basis.

2. D

Open market operations is a tool used by the Federal Reserve to implement monetary policy. It is conducted by the Trading Desk at the Federal Reserve Bank of New York, and the authority to conduct open market operations is found in Section 14 of the Federal Reserve Act.

3. A

With REMICs (real estate mortgage investment conduits), investors receive a specified cash flow from the underlying mortgages. They combine the predictable cash flow of a bond with the high yield of a mortgage-backed security. REMICs are self-liquidating and have a limited life that terminates when the underlying mortgages are repaid.

4. D

A sell stop order is an order to sell a stock at a price below the current market price.

5. D

As a cyber security measure, broker-dealers should utilize a two-step verification process, which means that each time a user attempts to log into an investment account through an unrecognized device, the investment firm will send a unique code to the user via email or text message. Before the user can access the account, he or she must enter the code and password.

6. C

Because Justin is an active participant in an employer-sponsored retirement plan, he is subject to an AGI phaseout of \$77,000 to \$87,000 in 2024. Because his income is above the phaseout range, he is not eligible to make a deductible IRA contribution. His AGI is too high to contribute to a Roth IRA, as well. The Roth IRA AGI phaseout is \$146,000 to \$161,000 in 2024.

7. A

When an investment company puts home mortgages or other loans into a pool and then sells securities representing shares of the pool, the securities sold are referred to as asset-backed securities.

8. A

If the yield curve is flattening, then the spread between yields of short-term and long-term bonds is decreasing.

9. B

The preliminary prospectus is also referred to as a “red herring.”

10. D

Selling a naked call will expose an investor to the greatest amount of risk.

Practice Exam 5

11. B

Monthly interest rate = $3.2\% \div 3 \text{ months} = 1.07\%$

Annual interest rate = $3.2\% \times 4 \text{ quarters} = 12.80\%$

12. C

The Federal Reserve supervises and regulates banks, and operates and oversees the U.S. payment system. It derives its authority from Congress.

13. B

An income statement is also referred to as a statement of financial performance, statement of operations, and statement of profit or loss. A statement of financial position is another name for a balance sheet.

14. C

Real return is an investment's rate of return after adjusting for inflation. Nominal return is an investment's rate of return without adjusting for inflation.

15. A

According to the arbitrage pricing theory, security prices in different markets will not differ for any significant period of time.

16. B

In order to obtain a viatical settlement, the insured must be terminally ill and must have owned the policy for at least two years. The current beneficiary of the policy must sign a release or waiver, and the insured must sign a release allowing the viatical settlement provider access to his or her medical records.

17. A

A qualified domestic trust (QDOT) allows property to pass to a non-U.S. citizen spouse and still qualify for the marital deduction. In order for a QDOT to be valid, there must be at least one trustee who is a U.S. citizen or a qualifying domestic corporation.

18. D

The primary issuers of individual bonds are local government, state government, U.S. government, an agency of the U.S. government, and corporations.

19. C

Taxes owed from tax deduction = $(\$80,000 - \$8,000) \times 0.25 = \$18,000$

20. B

Taxes owed from tax credit = $(\$80,000 \times 0.25) - \$4,000 = \$16,000$

21. A

Step 1: Taxes owed from tax deduction = $(\$80,000 - \$8,000) \times 0.25 = \$18,000$

Step 2: Equivalent tax credit = $(\$80,000 \times 0.25) - \$18,000 = \$2,000$

22. A

Mutual fund turnover rate = Gross proceeds from sale of securities ÷ NAV

Practice Exam 5

23. B

Higher inflation = higher interest rates = lower bond values

24. C

If a wash sale occurs, no loss deduction is allowed, and the amount of the disallowed loss is added to the cost basis of the newly acquired shares.

25. D

Regardless of income, participating in a 457 plan does not affect the deductibility of Lisa's IRA contribution. Participating in a 401(k) or 403(b) would eliminate Lisa's ability to deduct her IRA contribution because her income is over the threshold.

26. C

6 quarters – 3 quarters = 3 quarters

An economic depression is defined as a decline in real GDP for 6 or more consecutive quarters.

27. B

A Chinese wall is the ethical barrier that is required between different divisions of a financial institution to avoid conflicts of interest.

28. D

Preferred stock that does not have to pay missed dividends is considered noncumulative.

29. A

Securities Act Rule 145 addresses the registration and resale requirements for securities issued in a merger, consolidation, acquisition of assets, or reclassification of securities.

30. C

The "cooling-off period," which transpires between the filing of a new issue's prospectus and the actual offering of the issue, must be a minimum of 20 days.

31. C

Brady bonds are typically issued by Latin American countries.

32. B

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

33. D

In order to maintain a SIMPLE plan, an employer may not have more than 100 employees.

34. C

An investment-grade bond is one that is rated BBB- or higher by the Standard & Poor's bond rating service. A high-yield bond is rated BB+ or lower by Standard & Poor's.

35. B

A planned amortization class (PAC) bond has the most stable cash flows and the lowest prepayment risk of any class of CMO (collateralized mortgage obligation).

Practice Exam 5

36. D

Blue sky laws are classified as state-based laws.

37. D

IRS Form 1120 is used by U.S. corporations (specifically, C Corps) to report their income, gains, losses, deductions, and credits, and to determine their tax liability.

38. D

Pink sheets are to unlisted stocks as yellow sheets are to bonds.

39. C

The National Securities Market Improvement Act of 1996 promotes efficiency and capital formation in the financial markets, and provides for more effective and less burdensome regulation between states and the Federal Government. It also declared that any offering of a "covered security" (as defined within the Act) is exempt from state registration and review.

40. B

Surrender value = \$87,500 + \$50,000 = \$137,500

41. D

Death benefit = \$250,000 + \$75,000 = \$325,000

42. B

The call option is out-of-the-money because the strike price (\$37.00) exceeds the market price (\$36.00). Therefore, the value of the option is \$0.

43. A

The moving average is a graphical representation of a security's average price over a period of time.

44. B

A generation skipping transfer may occur during the transferor's lifetime or at the transferor's death. The gift tax annual exclusion may only be used to offset a lifetime generation skipping transfer.

45. A

The FASB (Financial Accounting Standards Board) is a private, non-profit organization whose primary purpose is to establish and improve generally accepted accounting principles within the U.S.

46. B

Gross Domestic Product (GDP) = C + I + G + E

C = Personal consumption

I = Gross private domestic investment

G = Government spending

E = Net exports

Practice Exam 5

47. A

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

48. D

All of the groups listed may be excluded from participating in an employee stock purchase plan (ESPP). These include employees working less than 20 hours per week, employees with less than 2 years of service, and officers of the employer.

49. C

Financial risk is the risk associated with a company's decision to use debt as part of its capital structure.

50. E

Credit risk is the possibility that a bond issuer will default.

51. A

Business risk is the risk inherent in company operations.

52. C

The two government agencies responsible for monitoring qualified retirement plan rules and eligibility are the IRS and the Department of Labor.

53. A

If a person dies testate or intestate, his or her property will be subject to probate.

54. B

In a defined benefit plan, employer contributions can vary but participant benefits are fixed. The employer assumes the investment risk, and they tend to favor older employees.

55. D

Non-systematic risk is the risk associated with a particular security or company. It includes risks such as tax risk and financial risk. An investor who owns five growth stocks can reduce non-systematic risk by adding a value stock to her portfolio.

56. D

Money in a Coverdell Education Savings Account (ESA) must be used by the time the beneficiary is 30 years of age.

57. B

The capital asset pricing model (CAPM) calculates the required rate of return for a stock based on its beta and the stock market's overall rate of return. That rate of return can then be used in the dividend growth model to value common stock.

58. A

Total assets = Liabilities at year-end + Contributed capital at year-end + Beginning retained earnings + Revenues - Expenses - Dividends

Total assets = \$500,000 + \$100,000 + \$150,000 + 300,000 - \$200,000 - \$50,000

Total assets = \$800,000

Practice Exam 5

59. B

M1 = Coins and currency in circulation + Money held in checking accounts

60. D

A refundable tax credit can reduce a taxpayer's income tax liability below zero. A non-refundable tax credit cannot reduce a taxpayer's income tax liability below zero.

61. D

The Securities Investor Protection Act of 1970 regulates brokerage firms.

62. C

The Investment Company Act of 1940 regulates mutual funds.

63. A

The Securities Act of 1933 regulates new securities.

64. B

The Securities Exchange Act of 1934 regulates existing securities.

65. C

Treasury notes, Treasury bonds, and TIPS, whose interest and principal portions have been separated so they may be sold individually, are referred to as Treasury STRIPS.

66. A

Open-end mutual funds issue new shares and redeem existing shares from shareholders. The price an investor pays when buying shares of an open-end mutual fund is based on the fund's net asset value (NAV).

67. B

Regulation A permits unregistered public offerings of up to \$5 million of securities in any 12-month period.

68. C

Employer contributions to a SEP require immediate vesting. A 401(k) plan and money purchase plan may use alternate vesting schedules for employer contributions.

69. C

NAV = (Total value of investment - Liabilities) ÷ Shares outstanding

70. C

According to the anomaly known as the small-firm effect, small cap companies have been shown to outperform large cap companies on a risk-adjusted basis over a period of many years.

71. B

Interest earned on private activity bonds is a tax preference item for alternative minimum tax (AMT).

72. B

According to the Uniform Securities Act, if the Administrator issues a subpoena and the affected party fails to respond, it is referred to as contumacy.

Practice Exam 5

73. C

$$GDP = C + I + G + (X - M)$$

$$GDP = \$11.4 + \$6.2 + \$3.3 + (\$1.8 - \$2.9) = \$19.8 \text{ billion}$$

74. D

A corporate insider is defined as a director or senior officer of a company, as well as any person or entity that beneficially owns more than 10% of a company's voting shares.

75. C

Only Government National Mortgage Association certificates (Ginnie Maes) are backed by the full faith and credit of the U.S. government.

76. A

Series EE bonds provide tax-exempt interest if the proceeds are used to pay for qualifying education expenses.

77. C

The value of publicly traded stocks and bonds is the mean between the highest and lowest quoted selling price on the date of disposition for gift and estate tax purposes.

78. C

An order book official (OBO) is an exchange employee who is in charge of keeping a book of public limit orders on exchanges utilizing the "market-maker" system.

79. A

Employer contributions to a defined contribution plan must use either the 3-year cliff vesting or 6-year graded vesting schedules.

80. A

A bond anticipation note (BAN) is a short-term obligation that is issued for temporary financing needs by a municipality.

81. A

A buy stop order is an order to buy a stock at a price above the current market price.

82. B

A variable life insurance policy will pay benefits that vary according to the value of the underlying investments.

83. C

Regarding IAR registration, all individual registrations are administered at the state level, regardless of whether the RIA firm is registered at the SEC or state level.

84. B

Wills do not avoid probate. Planning for incapacity is addressed through powers of attorney, not through the will. The will is often read after the decedent's funeral, therefore burial wishes should not be included. A will can be used to establish a testamentary trust.

Practice Exam 5

85. D

An indenture agreement describes the terms and conditions of a bond, including call provisions, description of collateral, and how coupon payments are determined.

86. D

Form 10-Q must be filed for each of the first three fiscal quarters of a company's fiscal year. It includes unaudited financial statements and provides a continuing view of the company's financial position during the year.

87. C

Money purchase plans are easy to explain to employees because contributions are based on a flat percentage of compensation. Money purchase plans tend to favor younger employees, and forfeitures can be reallocated to remaining employees. Contributions cannot be omitted in certain years. The "substantial and recurring" rule only applies to profit sharing plans.

88. B

A trade surplus results from a country exporting more than it imports.

89. D

Eurodollars are U.S. dollar denominated deposits in banks located outside the U.S. They do not involve deposits at only European banks.

90. A

Confirmation bias describes an investor's tendency to look for information that supports his or her previously established decision, even if that decision was imprudent. It may explain why investors are slow to sell an underperforming stock.

91. C

The Instinet is a computerized subscriber service that serves as a vehicle for the fourth market by permitting subscribers to display bids and offers and execute trades electronically.

92. D

An unqualified legal opinion means that the bond counsel has no reservations regarding the bond issue, and it is considered the most desirable for investors.

93. C

Certificates of deposit (CDs) are known as "time deposits." They are deposits made with a bank for a specified period of time.

94. A

In any single life private annuity transaction, if the seller outlives his or her actuarial life expectancy, the purchaser will have paid too much for the property. If the seller does not outlive his or her actuarial life expectancy, the purchaser will have made a good financial deal.

95. C

The annual report on Form 10-K provides a comprehensive overview of a company's business and financial condition and includes audited financial statements.

Practice Exam 5

96. B

$$\$85,000 - \$67,000 = \$18,000.$$

Accounts receivable (an asset) increases by \$85,000. The balance in inventory (an asset) decreases by \$67,000. The net increase in assets is \$18,000.

97. C

Cyclical stocks tend to prosper in growing and expanding economies, and do poorly during down business cycles.

98. A

The Bank Secrecy Act of 1970, also known as the Currency and Foreign Transactions Reporting Act, requires financial institutions to assist U.S. government agencies in detecting and preventing money laundering.

99. A

A SEP requires immediate vesting. A money purchase plan, 401(k) plan, and 403(b) plan may use alternate vesting schedules.

100. A

REITs are publicly traded closed-end investment companies that can sell at a premium or discount to its NAV. A mortgage REIT is a specific type of REIT.

101. C

The typical limit on the term of a loan from a qualified retirement plan is 5 years.

102. C

A bond swap refers to taking a loss on a bond and replacing it with a substantially different bond to avoid triggering the wash sale rule.

103. D

For the 15% capital gains rate to apply, Steve must be in a marginal tax bracket of 25% or higher. To qualify for long-term capital gains, assets must be held for more than one year.

104. D

Taking more or less risk will move the investor's position along the efficient frontier, but will not shift it. The same is true of changing the proportion of securities already invested in the portfolio. However, by selecting investments with lower coefficients of correlation, the risk will be reduced and the efficient frontier will shift upward and to the left.

105. C

Rehypothecation refers to a broker using securities in his or her possession, but owned by a customer, as collateral to raise a loan to cover a short position.

106. B

The maximum prison sentence for an insider trading violation is 20 years.

107. C

An S Corp must be a domestic corporation and may have up to 100 shareholders. All shareholders must be U.S. citizens or residents. Only one class of stock is permitted with an S Corp.

Practice Exam 5

108. D

All of the items listed are permitted investments in an IRA. These include a mutual fund that invests exclusively in a silver mining stock, gold coins minted in the U.S., and a real estate investment trust (REIT).

109. C

$(\text{Current assets} - \text{Inventory}) \div \text{Current liabilities} = \text{Quick ratio}$

110. A

To calculate core inflation, food and energy prices are excluded from the calculation.

111. A

Investment advisers that have custody of client assets or require prepayment of advisory fees 6 months or more in advance, and in excess of \$1200 for each client, must file an audited balance sheet with the SEC as of the end of the investment adviser's fiscal year.

112. C

Class C mutual fund shares charge a level load.

113. C

Investment risk is the chance that an investment's actual return will be less than its expected return.

114. D

Sole proprietorships are the simplest form of business entity, and they have no formal legal requirements. They have a lack of continuity of business life and provide unlimited liability to owners.

115. A

A bear spread seeks to maximize an investor's profit when the price of an underlying security decreases in value.

116. A

The Maloney Act of 1938 allowed for the establishment of the National Association of Securities Dealers (NASD) and the U.S. domestic over-the-counter markets in securities.

117. A

Lower-coupon bonds are more affected by interest rate changes than higher-coupon bonds. Lower-coupon bonds have more price volatility.

118. B

The shorter a bond's term to maturity, the less its potential for relative price fluctuation. Long-term bonds have more price volatility.

119. A

Long-term bonds are more affected by interest rate changes than short-term bonds. Long-term bonds have more price volatility.

Practice Exam 5

120. C

Qualified personal residence trusts (QPRTs) are commonly used for vacation homes, and homes valued over \$1,000,000. The grantor will have a taxable gift upon the creation of a QPRT.

121. B

Rule 72(t) of the tax code allows individuals to make withdrawals before age 59 ½ from certain retirement accounts without penalty, as long as the SEPP (substantially equal periodic payment) regulation is met.

122. D

Because Dawn contributed to a qualified retirement plan, the entire amount that she withdraws will be taxed as ordinary income.

123. A

To open a health savings account (HSA), an individual must have a high-deductible health plan (HDHP).

124. D

Tenancy by entirety is a form of joint tenancy allowed for married couples. It is severable only by both spouses, and the property automatically passes to the surviving spouse when the first spouse dies.

125. B

$$ROE_t = NI_t \div \text{Average BVE}_t$$

$$ROE_t = \$950,000 \div \$3,260,000 = 0.2914 = 29.14\%$$

126. B

A spread is the simultaneous purchase of one option and the sale of another option on the same side or position within the market. For example, purchasing a call option and selling a call option on the same stock at the same time is a spread.

127. A

A collar is a technique used to protect an investor's gain in a long position of stock. Specifically, an investor purchases a put option to protect against a decline in the value of an underlying stock, and sells a call option to generate premium income to cover the cost of the put option premium.

128. D

In a protective put, an investor purchases a put option while holding shares of an underlying stock from a previous purchase.

129. C

A straddle is the simultaneous purchase of a call option and a put option on the same stock at the same time.

130. A

EMMA (Electronic Municipal Market Access System) is the official repository for information on virtually all municipal bonds, and provides free access to official disclosures, trade data, and other information about the municipal securities market.