

**Course Name****Series 7 - General Securities Representative Exam Jan 15, 2026 04:22 AM UTC****Results**

Score	Question Taken	Avg. Answer Time	Avg. Correct Answer Time
<b>83%</b>	<b>130 of 130</b>	<b>00:00:30</b>	<b>00:00:28</b>
Avg. Incorrect Answer Time			
<b>00:00:38</b>			

Question Id: 25437533

**Q1:** Upon arriving for work on Monday morning, you hear a voicemail message left by Peter, one of your clients, over the weekend. The message asks that at the open on Monday, you sell his 2,500 shares of ABC Industries. He asks that you phone him upon completion of the order. You should

- A. follow Peter's instructions once you verify that he has the shares in his account.
- B. check with your supervisor to be sure you are allowed to act on these instructions.
- C. notify Peter that you are unable to complete this order based on the instructions he left for you.
- D. execute Peter's order once you notify your manager about Peter's message.

✘ **Incorrect** Your Answer: A. follow Peter's instructions once you verify that he has the shares in his account.

**Correct Answer: C.**

Your clients are usually told never to leave trading instructions or other time sensitive information in a voice message, as their instructions will not be honored.

Reference: 1.3 Underwriter Activities During Registration

Question Id: 25437543

**Q2:** In the time before a registration statement becomes effective, which of the following statement is (are) true?

- I. No sales may be solicited
- II. Sales literature may not be used
- III. Unsolicited inquiries may be answered

- A. I and II only
- B. I and III only
- C. III only
- D. I, II and III

✗ Incorrect Your Answer: B. I and III only

**Correct Answer: D.**

During the cooling off period an underwriter may not solicit any sales, nor can the underwriter issue any sales literature or advertisements other than a tombstone ad. An underwriter may answer any unsolicited indications of interest expressed by potential investors.

Reference: 1.3 Underwriter Activities During Registration

Question Id: 25437553

**Q3:** An issuer recently conducted a primary offering and provided a prospectus to all investors. Subsequently, the issuer provides an additional item of information, supplementing material that was outlined in the original prospectus. This additional material is a

- A. Statement of Additional Information (SAI) and must be filed with the SEC by the date of first use.
- B. retail communication and must be filed with FINRA at least 10 days prior to first use.
- C. correspondence, and must be approved by a principal prior to first use.
- D. free-writing prospectus and must be filed with the SEC by the date of first use.

✓ Correct Your Answer: D. free-writing prospectus and must be filed with the SEC by the date of first use.

**Correct Answer: D.**

This is an example of a free-writing prospectus (FWP), which must be filed with the SEC by the date of first use. An FWP allows an issuer to provide ongoing information to investors without having to refile its registration statement or prospectus.

Reference: 1.3 Underwriter Activities During Registration

Question Id: 25437563

**Q4:** Which of the following best represents the total takedown in a municipal underwriting?

- A. Additional takedown plus underwriting fee
- B. Manager's fee plus additional takedown
- C. Additional takedown plus selling concession
- D. Manager's fee plus selling concession

✔ Correct Your Answer: C. Additional takedown plus selling concession

**Correct Answer: C.**

In a municipal underwriting, the total takedown is the additional takedown plus the selling concession.

Reference: 1.6 Corporate Underwriter Compensation

Question Id: 25437573

**Q5:** An issuer can raise up to \$75 million within a 12-month period utilizing

- A. Regulation A+ Tier 2.
- B. Regulation D Rule 506 ( c ).
- C. Rule 147A.
- D. Regulation A+ Tier 1.

✔ Correct Your Answer: A. Regulation A+ Tier 2.

**Correct Answer: A.**

There are two levels, or tiers of offerings available under Regulation A+. Tier 1 allows an issuer to raise up to \$20 million during a 12 ? month period, while Tier 2 allows for the issuance of up to \$75 million over a 12-month period. Note that the Tier 2 threshold was raised from \$50 million to \$75 million in March 2021.

Reference: 2.2 Regulation A Offering Exemptions

Question Id: 25437583

**Q6:** A six-month holding period is applicable to an investor who has purchased shares

- A. in a Rule 147 offering.
- B. of control stock in the open market as a director of her company.
- C. as a participant in a Regulation A offering.
- D. as an accredited investor in a Rule 144A transaction.

 **Incorrect** Your Answer: C. as a participant in a Regulation A offering.

**Correct Answer: A.**


A six-month holding period would be applicable to the purchaser of a Rule 147 offering, for state residents selling their shares to out of state residents. Sales of these offerings to same state residents is allowed at any time.

Reference: 2.3 Rule 147 Exempt Transactions

Question Id: 25437593

**Q7:** The private placement rule states that the person to whom the offer of securities is made must be an informed person

- A. but the person need not have access to the same type of information contained in a registration statement.
- B. who has a net worth of \$2 million.
- C. who either has access to the same type of information contained in a registration statement or is furnished such information.
- D. or a person who signs a statement testifying that he will not hold the broker-dealer responsible for any losses.

 **Correct** Your Answer: C. who either has access to the same type of information contained in a registration statement or is furnished such information.

**Correct Answer: C.**


For private placement transactions, any potential investor must have access to, or must be furnished with, the information about the issuer that would normally be available in a registration statement.

Reference: 2.4 Regulation D Offerings

Question Id: 25437603

**Q8:** HighTechInc wants to raise \$100 million in capital via a private placement. Assuming that they plan to publicly advertise the transaction, how many accredited and non-accredited investors can participate in the deal?

- A. Unlimited number of both accredited and non-accredited investors
- B. Unlimited number of accredited and a maximum of 35 non-accredited investors
- C. Unlimited number of accredited and zero non-accredited
- D. 35 accredited and 35 non-accredited

 **Incorrect** Your Answer: B. Unlimited number of accredited and a maximum of 35 non-accredited investors

**Correct Answer: C.**

In a Regulation D 506 deal in which the securities are publicly advertised, there can be an unlimited number of accredited, but zero non-accredited investors. If there was no public advertising, then there could have also been 35 non-accredited investors.

Reference: 2.4 Regulation D Offerings

Question Id: 25437613

**Q9:** Under Rule 144A, unregistered securities can be resold to qualified institutional buyers

- A. immediately.
- B. after a 3-month holding period.
- C. after a 6-month holding period.
- D. after a one-year holding period.

 **Correct** Your Answer: A. immediately.

**Correct Answer: A.**

Rule 144A allows qualified institutional buyers (QIBs) to freely trade private placements. A QIB is an institution with at least \$100 million in assets.

Reference: 2.6 Exemptions Under Rule 144A and Reg S

Question Id: 25437623

**Q10:** Broker-dealer A is a participant in an Eastern syndicate. It was originally given an allocation of 5% on a new municipal bond deal. They were successful in selling their portion of the offering but a few other broker-dealers in the syndicate were not. According to the terms of the syndicate agreement, broker-dealer A

- A. has no further sales obligation on this offering.
- B. may sell additional bonds to their clients since there are unsold bonds within the syndicate account.
- C. is responsible for 5% of the unsold bonds.
- D. should consult the syndicate manager to determine if there are any additional bonds in the deal available for sale.

✔ Correct Your Answer: C. is responsible for 5% of the unsold bonds.

**Correct Answer: C.**

In an Eastern, or undivided syndicate account, an underwriter is responsible for the unsold allocations of the other syndicate members. The amount of liability is the same as the firm's original participation level.

Reference: 3.2 Municipal Syndicates, Accounts, and Selling Groups

Question Id: 25437633

**Q11:** In an Eastern account, the broker-dealer is underwriting 200 bonds. If the firm sells its 200 bonds but other bonds remain unsold, it is liable for

- A. all of the unsold bonds.
- B. none of the unsold bonds.
- C. a maximum of 200 additional bonds.
- D. a percentage of the unsold bonds equal to its percentage participation in the original allotment.

✔ Correct Your Answer: D. a percentage of the unsold bonds equal to its percentage participation in the original allotment.

**Correct Answer: D.**

According to an Eastern account, a syndicate member is responsible for an amount of unsold bonds equal to its participation in the original allotment. This applies to any unsold bonds, regardless of the underwriter that failed to sell them in the first place. Note that if any bonds again go unsold, the process is repeated.

Reference: 3.2 Municipal Syndicates, Accounts, and Selling Groups

Question Id: 25437643

**Q12:** According to MSRB rules, one municipal dealer must notify another municipal dealer if relatives of employees of the second municipal dealer wish to open an account. Which of the following would trigger the notification requirement?

- A. Twenty-five-year-old daughter of an employee
- B. Spouse of an employee
- C. Aunt of an employee
- D. Son-in-law of an employee

✔ Correct Your Answer: B. Spouse of an employee

**Correct Answer: B.**

According to MSRB Rule G-28 a municipal securities dealer must notify a firm and send the firm duplicate confirms if an employee, or the spouse of an employee, opens an account with the dealer. Additionally, the dealer must comply with all requests of the employer.

Reference: 3.7 MSRB Rules for Employees of Member Firms

Question Id: 25437653

**Q13:** A broker-dealer is preparing a communication that will be delivered to 15 retail clients and 25 institutional investors. This communication is considered a

- A. correspondence and must be approved by a principal of the firm prior to use.
- B. correspondence and need not be approved by a principal of the firm prior to use.
- C. retail communication and must be approved by a principal of the firm prior to use.
- D. institutional communication and need not be approved by a principal of the firm prior to use.

✔ Correct Your Answer: B. correspondence and need not be approved by a principal of the firm prior to use.

**Correct Answer: B.**

Since there are fewer than 25 retail clients receiving this communication, this is considered correspondence by FINRA rules, and as such, it is not required to be approved by a principal prior to use. Correspondence must be spot-checked by the firm to ensure it is not misleading or makes incorrect statements.

Reference: 4.1 General Communications Principles and Standards

Question Id: 25437663

**Q14:** A broker-dealer is creating a sales and marketing script, to serve as the basis for an upcoming seminar to be delivered by firm personnel. At least 100 retail clients will be invited to join the seminar. According to FINRA rules, this script

- A. is considered institutional communication and must be approved by a principal prior to use.
- B. may be used without principal approval provided no specific recommendation or advice is provided during the seminar.
- C. must be filed with, and approved by, FINRA at least 10 days prior to the delivery of the seminar.
- D. is considered retail communication and must be approved by a principal prior to use.

✔ Correct Your Answer: D. is considered retail communication and must be approved by a principal prior to use.

**Correct Answer: D.**

A sales script will be considered retail communication if it is distributed or made available to more than 25 retail investors within a 30 calendar-day period.

Reference: 4.1 General Communications Principles and Standards

Question Id: 25437673

**Q15:** A registered representative sees a posting on a social media site that one of her clients has changed their job. If true, this would change some of the information in this client's account profile. The best course of action for the rep to take at this point is to

- A. continue to monitor this website and watch for any additional postings.
- B. inform her compliance department of her findings and submit a revised new account form to her team leader.
- C. confirm this information with her client directly before making any changes to the client's account profile.
- D. respond to the post asking for further information about the client's new job.

✔ Correct Your Answer: C. confirm this information with her client directly before making any changes to the client's account profile.

**Correct Answer: C.**

In a situation like this, the best course of action for the registered representative is to verify directly with the client whether the information is in fact correct, and once it is verified, update the client's account profile accordingly. In a situation like this, the best course of action for the registered representative is to verify directly with the client whether the information is in fact correct, and once it is verified, update the client's account profile accordingly.

Reference: 4.3 FINRA Rules for Internet-Delivered Content



Question Id: 25437683

**Q16:** Sales materials for options distributed by a broker-dealer must include which of the following disclosures?

- A. "Options may not be suitable for all investors"
- B. "Options are very speculative products and should only be traded by investors who have a high risk tolerance"
- C. "Options trading can result in significant financial losses, so investors should be mindful of these important financial risks"
- D. "Options trading is best suited for high-net-worth and accredited investors"

✔ Correct Your Answer: A. "Options may not be suitable for all investors"

**Correct Answer: A.**

All options sales material must include the disclosure "Options may not be suitable for all investors".

Reference: 4.6 Special Communication Rules for Variable Products, Investment Company Products, CMOs, and Options

Question Id: 25437693

**Q17:** You have been asked to write a brief summary of collateralized mortgage obligations, which will be distributed to some of your firm's clients. Which of the following statements is not true about this item?

- A. It must include the term "Collateralized Mortgage Obligation" within its name
- B. It may not compare these products to any other investment vehicle
- C. It should state that any interest payments are subject to state and local taxes but not federal taxes
- D. It must disclose that a CMO's yield and average life will fluctuate depending on the actual rate at which mortgage holders prepay the mortgages underlying the CMO

✘ Incorrect Your Answer: D. It must disclose that a CMO's yield and average life will fluctuate depending on the actual rate at which mortgage holders prepay the mortgages underlying the CMO

**Correct Answer: C.**

The only incorrect statement here is that distributions are not subject to federal income taxes. Payouts from a collateralized mortgage obligation (CMO) are subject to federal, state, and local taxes.

Reference: 4.6 Special Communication Rules for Variable Products, Investment Company Products, CMOs, and Options

Question Id: 25437713

**Q18:** You are in the process of collecting information to open an options account for a client. Which of the following items is unnecessary for this purpose?

- A. Tax ID number
- B. Current employer
- C. Employment history
- D. Date of Birth

✔ Correct Your Answer: C. Employment history

**Correct Answer: C.**

You do not need the client's employment history to open this account. Their current employment status and financial information will be necessary, along with their current investment objectives.

Reference: 5.1 Procedures for Opening Cash, Margin, Day Trading, and Options Accounts

Question Id: 25437733

**Q19:** A registered representative holds limited power of attorney on a client's account. The registered representative is permitted to take any of the following actions except

- A. determining the number of shares to be sold from the client's holdings.
- B. effecting a wire transfer of funds between the client's brokerage account and money market account, for which the client provided the registered representative with his pin number.
- C. deciding which of five stocks in the media sector to sell short.
- D. liquidating an equity position and using the proceeds to purchase a tax-free municipal bond.

✔ Correct Your Answer: B. effecting a wire transfer of funds between the client's brokerage account and money market account, for which the client provided the registered representative with his pin number.

**Correct Answer: B.**

A limited power of attorney does not permit the registered representative to withdraw any funds from the client's account. A full power of attorney would be necessary to withdraw funds from the account. Note that this is an except question.

Reference: 5.3 Discretionary and Power of Attorney Accounts

Question Id: 25437743

**Q20:** In general, a registered representative should never place a trade for a client unless

- A. your supervisor has instructed you to do so.
- B. the client or their advisor has instructed you to enter the order.
- C. it is obvious to you that the trade is appropriate for the client.
- D. you have explicit directions from your client to enter the order.

✔ Correct Your Answer: D. you have explicit directions from your client to enter the order.

**Correct Answer: D.**

A registered representative must have the explicit permission from his or her client to place any orders for their account, unless they have discretionary authority to execute orders on their behalf.

Reference: 5.3 Discretionary and Power of Attorney Accounts

Question Id: 25437753

**Q21:** If a new client wishes to open an account at your firm using a number instead of their legal name,

- A. you may accept the request but must request a copy of their birth certificate prior to placing any trades.
- B. you may accept the request and inform them that a written statement of ownership is required.
- C. you may accept the request and inform them that all of their trades must be approved by your AML compliance officer.
- D. you may not accept this request under any condition.

✔ Correct Your Answer: B. you may accept the request and inform them that a written statement of ownership is required.

**Correct Answer: B.**

To open a numbered account for an investor, a written statement of ownership must be provided.

Reference: 5.5 Individual and Joint Account Registration

Question Id: 25437763

**Q22:** A registered representative has received notification of the death of one of his customers, a long-standing client for many years. At the time of learning of the death, the client had a pending sell limit order with the registered representative. The registered representative should now

- A. execute the order immediately and then freeze the account.
- B. cancel the order immediately and then freeze the account.
- C. notify his supervisor of the death and proceed to liquidate all open positions in the account.
- D. liquidate all open positions in the account and forward all proceeds to the trusted contact on the account.

✔ Correct Your Answer: B. cancel the order immediately and then freeze the account.

**Correct Answer: B.**

When a customer passes away, any open orders should be cancelled immediately, and the account should be frozen.

Reference: 5.5 Individual and Joint Account Registration

Question Id: 25437773

**Q23:** During the course of one year, a husband and wife have exchanged cash gifts with each other, in excess of the federal gifting limit. These gifts

- A. are subject to the federal gift tax on the amounts in excess of the gift limit.
- B. must be reported to the IRS but are exempt from the penalties applicable to violations of the gift rule.
- C. are exempt from the gift tax imposed by IRS rules.
- D. are violations of the federal gift tax and must be reported to the IRS using conventional methods.

✔ Correct Your Answer: C. are exempt from the gift tax imposed by IRS rules.

**Correct Answer: C.**

Gifts between spouses are exempt from the federal gift tax, regardless of the amount of the gifts. Spouses can exchange cash gifts with each other without any gift tax implications.

Reference: 5.6 Fiduciary Accounts

Question Id: 25437783

**Q24:** To open a securities account for a corporation, which of the following items is not required?

- A. New account form
- B. Corporate resolution
- C. Corporate charter
- D. Limited Power of Attorney

✔ Correct Your Answer: D. Limited Power of Attorney

**Correct Answer: D.**

A Power of Attorney Is not required for a corporation to open a securities account unless it is a discretionary account.

Reference: 5.7 Business Accounts

Question Id: 25437793

**Q25:** An elderly client places an order that is inconsistent with his investment objectives, and when asked by his registered representative why he wishes to make this trade, the client appears confused and unable to provide a clear reason. In this situation, the registered representative should

- A. reach out to the trusted contact person on the account if one was provided; otherwise, the matter should be discussed with the registered representative's supervisor.
- B. bring this to the attention of the compliance department of the broker-dealer.
- C. contact the client's son, who has knowledge of his father's investment goals.
- D. notify his supervisor that a case of financial exploitation is likely occurring.

✔ Correct Your Answer: A. reach out to the trusted contact person on the account if one was provided; otherwise, the matter should be discussed with the registered representative's supervisor.

**Correct Answer: A.**

The registered representative should notify the trusted contact person on the account if one has been provided. In the absence of a trusted contact person, the registered representative should notify his supervisor of the situation.

Reference: 6.2 Information Required for New Accounts

Question Id: 25437803

**Q26:** A registered representative receives an order from a retail customer to purchase a security that is not currently on the firm's recommended list. The registered representative

- A. may not accept the order, explaining that the firm does not follow the security.
- B. will accept and execute the order, marking the order memorandum "unsolicited".
- C. may accept the order but must mark the order "solicited".
- D. must receive written approval from his supervisor prior to accepting the order.

✔ Correct Your Answer: B. will accept and execute the order, marking the order memorandum "unsolicited".

**Correct Answer: B.**

A registered representative may accept this order and must mark the order "unsolicited".

Reference: 6.2 Information Required for New Accounts

Question Id: 25437823

**Q27:** A client is in the process of changing the registered representative who will handle her account at a broker-dealer. The new registered representative who will be handling this account should initially

- A. ask the prior registered representative for the investment history and risk tolerance of the client.
- B. update the client's new account form with their name and CRD number.
- C. review the account to become familiar with client's current investments and financial situation.
- D. contact the client and ask if she would like to make any trades during this time of transition.

✔ Correct Your Answer: C. review the account to become familiar with client's current investments and financial situation.

**Correct Answer: C.**

In this situation, the new registered representative should review the client's account and become familiar with the important details regarding the client's account.

Reference: 7.3 Safeguarding of Customer Funds, Securities, and Specified Adults

Question Id: 25437833

**Q28:** Fred has a significant net worth and a long history of making speculative investments. He now seems confused and disoriented and shows signs of dementia. When he places an order for a large quantity of penny stocks, you should

- A. follow his instructions, as this type of trade is consistent with his investment history.
- B. contact his family before placing the trade.
- C. ask to meet with Fred and another family member.
- D. suggest that he purchase a blue- chip stock to provide some safety to his portfolio.

✔ Correct Your Answer: C. ask to meet with Fred and another family member.

**Correct Answer: C.**

In this situation, you should tell Fred that you'd like to meet with him in person and ask him to bring along an adult member of his family.

Reference: 7.3 Safeguarding of Customer Funds, Securities, and Specified Adults

Question Id: 25437843

**Q29:** A registered representative would most likely contact the trusted contact person provided by a client when

- A. a second signature is needed to authorize the opening of an account.
- B. the client has an outstanding margin call and the rep has been unsuccessful in reaching the client about this urgent situation.
- C. the client, who is travelling out of the country, asked the rep to leave a message on his voicemail as to the best time to reach him.
- D. the client, who recently celebrated their 80th birthday, appears to be confused about a trade they are placing.

✔ Correct Your Answer: D. the client, who recently celebrated their 80th birthday, appears to be confused about a trade they are placing.

**Correct Answer: D.**

A registered representative would contact the trusted contact person of an elderly client who seems confused when placing a trade. The rep should make sure that the client is acting in their own best interests, and fully understands the actions they are taking.

Reference: 7.3 Safeguarding of Customer Funds, Securities, and Specified Adults

Question Id: 25437853

**Q30:** An individual recently retired from her publishing job will be receiving a retirement benefit of 35% of her last five years' average salary for the next 6 years. This individual is a participant in a

- A. defined benefit plan.
- B. defined contribution plan.
- C. Section 529 plan.
- D. Roth IRA.

✔ Correct Your Answer: A. defined benefit plan.

**Correct Answer: A.**

This is a defined benefit plan, which is designed to pay a specific benefit to a retiree during a specified time period.

Reference: 8.1 ERISA and Employer Retirement Plan Types

Question Id: 25437863

**Q31:** Your client Paul is considering purchasing a variable annuity through his company's 401(K) plan and seeks your advice. You should tell Paul that

- A. he may not purchase the variable annuity in a tax-qualified retirement account.
- B. he will enhance his tax benefits by purchasing an annuity in a corporate sponsored retirement account.
- C. this is a common investment strategy that most financial planners support.
- D. he might consider purchasing the variable annuity in a regular brokerage account.

✘ Incorrect Your Answer: A. he may not purchase the variable annuity in a tax-qualified retirement account.

**Correct Answer: D.**

It would generally not be advisable to purchase a variable annuity in a 401(K) plan, as there will be no additional tax benefits realized. The annuity should be purchased outside of a tax-deferred account, to gain the tax benefits offered by the variable annuity.

Reference: 8.2 401(k) Plans and Features



Question Id: 25437873

**Q32:** An individual can open an IRA at a bank, keeping the funds in CDs, or at a broker-dealer, with the funds invested in securities. An IRA held at any financial institution is

- A. covered by FDIC insurance.
- B. covered by SPIC insurance.
- C. not covered by any insurance since IRAs are retirement accounts.
- D. covered by FDIC if held at a bank and by SIPC if held at a broker-dealer.

✗ Incorrect Your Answer: B. covered by SPIC insurance.

**Correct Answer: D.**

An IRA would be covered by the appropriate insurance, depending on where the account is held. FDIC covers bank accounts, and SIPC covers brokerage accounts.

Reference: 8.5 Traditional IRAs

Question Id: 25437883

**Q33:** Which of the following statements about SEP-IRAs is (are) true?

- A. They are used primarily by large corporations
- B. They are used primarily by small corporations
- C. They are set up by employees
- D. They are set up by self-employed persons

✓ Correct Your Answer: B. They are used primarily by small corporations

**Correct Answer: B.**

SEP-IRAs are set up by small corporations to allow employers to make contributions towards an employee's retirement. Small businesses prefer them because they are very easy to set-up and maintain.

Reference: 8.6 Required Minimum Distributions (RMDs), Rollovers, and Transfers

Question Id: 25437893

**Q34:** An investor is seeking to purchase shares of a company via a tender offer. During the tender period, the investor

- A. may not purchase non-convertible bonds of the company in the open market.
- B. may not purchase shares of the company in the open market.
- C. is prohibited from purchasing any securities of the same issuer in the open market.
- D. may purchase call options of the same issuer but not put options.

✔ Correct Your Answer: B. may not purchase shares of the company in the open market.

**Correct Answer: B.**

If an investor is participating in a tender offer for the common stock of a company, the investor may not purchase common shares of the same issuer in the open market during the tender period. Note that the investor would be allowed to purchase non-convertible securities of the issuer.

Reference: 9.1 Common Stock Events and Shareholder Rights

Question Id: 25437903

**Q35:** When the par value of preferred stock (\$100) is divided by the conversion price of the preferred stock, the result is the

- A. conversion ratio.
- B. conversion premium.
- C. parity value of the preferred stock.
- D. current yield of the preferred stock.

✔ Correct Your Answer: A. conversion ratio.

**Correct Answer: A.**

Par value dividend by the conversion price is the conversion ratio of the convertible preferred stock. This tells us how many shares of the common stock we will receive upon conversion.

Reference: 9.3 Preferred Stock

Question Id: 25437913

**Q36:** A maximum of \$3,000 of net capital losses may be used by an investor each year to

- A. reduce capital gains.
- B. increase tax deductions.
- C. reduce ordinary income.
- D. offset tax deductions.

✔ Correct Your Answer: C. reduce ordinary income.

**Correct Answer: C.**

An investor may use up to \$3,000 per year of net capital losses to reduce ordinary income. Note that there is no limit to the amount of capital losses than can be used to offset capital gains.

Reference: 9.4 Tax Concepts that Apply to Equity

Question Id: 25437923

**Q37:** Two weeks ago, Ethan closed a short position in ABC Inc. common stock that he'd been carrying for a few months. He realized a five- point loss on the transaction. Today, Ethan tells you he is considering another short sale, this time of ABC Inc. convertible bonds. You should tell Ethan that

- A. selling convertible bonds short is never a good idea since they are always more challenging to borrow than the common stock.
- B. you first need to check with your stock.
- C. there may be an adverse tax consequence connected to the common stock position that he closed two weeks ago if he chooses to proceed with this trade.
- D. he may incur a substantial loss if interest rates rise.

✘ Incorrect Your Answer: A. selling convertible bonds short is never a good idea since they are always more challenging to borrow than the common stock.

**Correct Answer: C.**

If Ethan proceeds with his short sale, this may be considered a wash sale, which would disallow the loss Ethan realized when he covered his short position. A wash sale occurs when a securities position is closed for a loss and that same, or substantially similar, security position is re-established within 30 days.

Reference: 9.4 Tax Concepts that Apply to Equity

Question Id: 25437933

**Q38:** As the result of a 50-basis point change in interest rates, which of the following securities would exhibit the greatest price change?

- A. Treasury bill
- B. Money market fund
- C. Treasury bond
- D. Revenue anticipation note (RAN)

✔ Correct Your Answer: C. Treasury bond

**Correct Answer: C.**

When interest rates change, the price of long-term bonds, such as a Treasury bond, would be more greatly impacted than the price of a shorter-term security.

Reference: 10.1 Debt Securities Definitions and Yield Relationships

Question Id: 25437943

**Q39:** An investor who purchases a corporate bond with a put feature

- A. will likely receive a lower coupon in return for the ability to force the issuer to purchase the bond back at par value.
- B. must wait until the maturity date of the bond to force the issuer to purchase the bond at par.
- C. must pay a premium for the bond in exchange for the put feature.
- D. can force the issuer to repurchase the bond at any time after purchase.

✔ Correct Your Answer: A. will likely receive a lower coupon in return for the ability to force the issuer to purchase the bond back at par value.

**Correct Answer: A.**

A bond with a put feature will typically carry a lower coupon (as compared to a similar bond without this feature) in return for the ability to force the issuer to redeem the bond prior to maturity, usually at par.

Reference: 10.4 Unique Features of Corporate Bonds

Question Id: 25437953

**Q40:** When it is more advantageous for an investor to convert their bond into the underlying common shares rather than redeem their bond pursuant to a call notice, the likely result is (a)

- A. risk arbitrage.
- B. forced conversion.
- C. leveraged buyout.
- D. conversion parity.

✔ Correct Your Answer: B. forced conversion.

**Correct Answer: B.**

A forced conversion will occur when the call price of the bond is less than the market value of the underlying common stock received upon conversion.

Reference: 10.4 Unique Features of Corporate Bonds

Question Id: 25437963

**Q41:** ABC Corp. has issued a 20-year bond with a put feature. The coupon that this bond will carry will likely be

- A. higher than a similar bond issued by ABC that does not have a put feature.
- B. equal to the YTM on the bond.
- C. lower than a similar bond issued by ABC that does not have a put feature.
- D. adjusted for inflation at least once each calendar year.

✔ Correct Your Answer: C. lower than a similar bond issued by ABC that does not have a put feature.

**Correct Answer: C.**

A bond with a put feature will usually carry a lower coupon as compared to a bond without this feature, as the investor can force the issuer to redeem the bond prior to its stated maturity date.

Reference: 10.4 Unique Features of Corporate Bonds

Question Id: 25437973

**Q42:** During a period of stable interest rates,

- A. corporate bond issuers are more likely to exercise the call features on their bonds.
- B. equity valuations will always surpass the returns on corporate debt.
- C. the price of a straight bond will likely be less volatile than the price of a convertible bond.
- D. the volume of IPO issuance will likely expand.

✔ **Correct** Your Answer: C. the price of a straight bond will likely be less volatile than the price of a convertible bond.

**Correct Answer: C.**

During a period of stable interest rates, the price of a convertible bond will likely be more volatile than other types of debt because their value is tied to the underlying equity.

Reference: 10.4 Unique Features of Corporate Bonds

Question Id: 25437983

**Q43:** An investor holding an equity linked CD may be least concerned with which of the following risks?

- A. Inflation risk
- B. Liquidity risk
- C. Market risk
- D. Call risk

✘ **Incorrect** Your Answer: D. Call risk

**Correct Answer: A.**

Equity linked CDs typically carry liquidity risk, which is the risk that the investor may not be able to liquidate the investment prior to maturity. There may be a very limited secondary market for these products. Additionally, if the CD is sold prior to maturity, it may be worth less than its purchase amount or face value. These products may also be called by the financial institution that issued them.

Reference: 10.5 Eurobonds, ELNs, and Money Market Securities

Question Id: 25437993

**Q44:** A client has purchased a market-linked investment. All the following are reasonable expectations of holding this investment except

- A. full recovery of original principal investment.
- B. an enhanced income stream.
- C. access to market sectors typically difficult to reach for retail investors.
- D. exposure to a particular market.

✗ Incorrect Your Answer: C. access to market sectors typically difficult to reach for retail investors.

**Correct Answer: A.**

Market-linked investments may only offer investors full downside protection only at maturity. These are securities products designed and sold typically by financial institutions, such as broker-dealers.

Reference: 10.5 Eurobonds, ELNs, and Money Market Securities

Question Id: 25438003

**Q45:** Which of these statements is true regarding equity-linked notes (ELNs)?

- A. Investors are guaranteed a minimum payout from the note
- B. They offer principal protection
- C. They are issued as common or preferred shares and trade on exchanges
- D. The value of the note is unaffected by the credit quality of the issuer

✓ Correct Your Answer: B. They offer principal protection

**Correct Answer: B.**

Equity-linked notes (ELNs) are typically issued by an investment bank in the form of a debt security. While the note offers principal protection, any payouts will be based on the performance of an underlying security or index, as well as the credit quality of the issuer.

Reference: 10.5 Eurobonds, ELNs, and Money Market Securities

Question Id: 25438013

**Q46:** A client will be making a down payment on a new home in six months and seeks the advice of her registered representative on the best way to invest funds. The registered representative is most likely to recommend a(n)

- A. hedge fund.
- B. money market fund.
- C. exchange-traded note.
- D. six-month CD.

✗ Incorrect Your Answer: B. money market fund.

**Correct Answer: D.**

The registered representative would likely recommend the six-month certificate of deposit (CD), which would return a higher yield than the money market fund. The hedge fund and exchange-traded note are not liquid investments and would not be appropriate choices for this client.

Reference: 10.5 Eurobonds, ELNs, and Money Market Securities

Question Id: 25438023

**Q47:** Which of the following securities are quoted on a discounted yield basis?

- A. Treasury bond
- B. 25-year convertible debenture
- C. 20-year public purpose municipal bond
- D. Treasury bill

✓ Correct Your Answer: D. Treasury bill

**Correct Answer: D.**

Treasury bills are a type of short-term zero-coupon security and make their only payment to investors at the time of maturity. For this reason, they are quoted on a discount yield basis, meaning the percentage discount they are trading off of face value.

Reference: 10.7 Quotations and Secondary Trading of U.S. Government Securities



Question Id: 25438033

**Q48:** All of the following issue collateralized mortgage obligations except

- A. Fannie Mae.
- B. Sallie Mae.
- C. Ginnie Mae.
- D. Freddie Mac.

✔ Correct Your Answer: B. Sallie Mae.

**Correct Answer: B.**

Sallie Mae provides loans for students for higher education.

Reference: 10.8 Non-Marketable U.S. Treasury Securities and Agency Issues

Question Id: 25438043

**Q49:** A broker-dealer holds positions in several municipal bonds, including a few private activity bonds. It would likely recommend a private activity bond to a client who

- A. is not subject to the alternative minimum tax (AMT).
- B. holds positions in high grade corporate debt only, to enhance the client's diversification.
- C. is in the highest federal tax bracket.
- D. pays estimated federal income tax on a quarterly basis.

✔ Correct Your Answer: A. is not subject to the alternative minimum tax (AMT).

**Correct Answer: A.**

Private activity bonds are best suited for investors who are not subject to the alternative minimum tax (AMT), as the interest income generated by these types of bonds is subject to the AMT. Investors who are subject to the AMT should purchase public purpose municipal bonds.

Reference: 11.1 Characteristics of General Obligation and Revenue Bonds

Question Id: 25438053

**Q50:** To fund debt services on a general obligation bond, a municipality may use

- A. Direct taxes.
- B. Special assessments.
- C. Fines.
- D. Collection of delinquent funds.

- A. I and II
- B. I, III and IV only
- C. III and IV only
- D. I, II, III and IV

✗ Incorrect Your Answer: A. I and II

**Correct Answer: B.**

Debt service on GO bonds is an obligation of the municipality and is paid with taxes, fines and other collection of funds. This is in contrast to a revenue bond which is paid with revenues from the facility constructed as a result of the bond. A special assessment is a type of tax used to redeem a special assessment bond, in which the beneficiaries from the proceeds of the bond pay the debt service.

Reference: 11.1 Characteristics of General Obligation and Revenue Bonds

Question Id: 25438063

**Q51:** An analysis of a revenue bond would include all of the following items except the

- A. engineer's report.
- B. study of overlapping debt.
- C. debt service coverage ratio.
- D. feasibility study.

✗ Incorrect Your Answer: A. engineer's report.

**Correct Answer: B.**

Overlapping debt is a metric used in the evaluation of a general obligation (GO) bond, not a revenue bond. Note that this is an "except" question.

Reference: 11.1 Characteristics of General Obligation and Revenue Bonds

Question Id: 25438073

**Q52:** A municipal bond dealer has bonds out firm to a customer for one hour with a five-minute recall. If a second customer calls the dealer within one hour to purchase these bonds,

- A. the dealer must fill the first clients' order within five minutes.
- B. the second customer must receive an execution within five minutes.
- C. the first customer will have five minutes to purchase the bonds.
- D. the customer who is willing to pay a higher price will receive an execution.

✓ Correct Your Answer: C. the first customer will have five minutes to purchase the bonds.

**Correct Answer: C.**

When a municipal bond dealer holds bonds out firm for one hour with a five minute recall, this means the dealer is willing to sell bonds to the customer at a stated price during the next hour; should a second customer contact the dealer with an interest in these bonds within that hour, the dealer must go back to the first client and give them five minutes to decide if they want the bonds. If the first client does not make the purchase within 5 minutes, the dealer can sell the bonds to the second customer.

Reference: 11.4 Municipal Bond Market Concepts

Question Id: 25438083

**Q53:** The duration of a bond will be the same as its maturity when the bond is

- A. trading at a discount.
- B. a zero-coupon bond.
- C. held to its maturity date.
- D. trading at a premium.

✓ Correct Your Answer: B. a zero-coupon bond.

**Correct Answer: B.**

Duration is a measurement of how long it will take for an investor to receive back their cash flows from a bond. A zero-coupon bond will have a duration equal to its maturity. This is because the investor does not receive any interest payment until the bond's maturity date.

Reference: 11.5 Municipal Bond Credit Ratings and Marketability

Question Id: 25438093

**Q54:** All of the following would be found in the legal opinion of a municipal revenue bond EXCEPT

- A. the statutory, constitutional and other legal authority required to issue the bonds.
- B. any call provisions.
- C. a guarantee that revenue generated will be sufficient to pay the interest when due and the principal at maturity.
- D. a description of the bonds.

✗ Incorrect Your Answer: B. any call provisions.

**Correct Answer: C.**

The legal opinion gives a brief description of the bonds, confirms their tax-exempt status, and confirms that they are a legal and binding debt of the issuer. It does not guarantee the credit, nor does it guarantee against default. The legal opinion can be found in the official statement.

Reference: 11.5 Municipal Bond Credit Ratings and Marketability

Question Id: 25438103

**Q55:** A company has annual sales of \$15,000,000, operating expenses of \$9,000,000, interest expense of \$2,000,000 and principal payments on bonds totaling \$1,000,000. What is the company's debt service ratio?

- A. 2 to 1
- B. 3 to 1
- C. 4 to 1
- D. 5 to 1

✓ Correct Your Answer: A. 2 to 1

**Correct Answer: A.**

Debt service ratio = [Earnings before Interest & Taxes (aka EBIT)]/(Principal + Interest due). Net income = \$15,000,000 in sales - \$9,000,000 in expenses = \$6,000,000. Total debt due = \$2,000,000 + \$1,000,000 = \$3,000,000. Debt service ratio = \$6.0mm/\$3.0mm = 2 to 1

Reference: 11.6 Analysis of General Obligation Bonds

Question Id: 25438113

**Q56:** A bond analyst checking a general obligation municipal bond will examine the

- A. Past performance of the payment of interest
- B. Per capita income of the citizens
- C. Population growth of the area
- D. Industrial development of the area

- A. I, II and III only
- B. I, II and IV only
- C. II, III and IV only
- D. I, II III and IV

 **Incorrect** Your Answer: A. I, II and III only

**Correct Answer: D.**

A bond analyst would look at all the listed factors with regard to a general obligation bond, the interest payment history, the per capita income, industrial development and the population growth in the area to determine the credit of the bond and how likely it would be that the municipality would repay the interest and principal on time.

Reference: 11.6 Analysis of General Obligation Bonds

Question Id: 25438123

**Q57:** Municipal bond fund X earned \$3,000 in interest income from the New York municipal bonds in its portfolio. For a New York state resident who is a shareholder of this fund, the interest income is

- A. taxable at the federal level and exempt at the state and local level.
- B. taxable at the state and local level and exempt at the federal level.
- C. tax exempt at the federal, state, and local level.
- D. taxable at the federal, state, & local level.

 **Correct** Your Answer: C. tax exempt at the federal, state, and local level.

**Correct Answer: C.**

Interest income from municipal securities is tax exempt at the federal, state, & local level for residents of the state from which the bond was issued. For out of state residents, the interest would be taxable at the state and local level only.

Reference: 11.8 Tax Concepts for Municipal Securities

Question Id: 25438133

**Q58:** A public purpose municipal bond is purchased at a discount in the secondary market at 90. The face amount is \$10,000 and the bond has ten years to maturity. The bond is sold for 97 after five years. For tax purposes the investor uses cost. What is the taxable gain?

- A. 0
- B. 200
- C. 700
- D. Capital gains on municipal bonds are not taxable.

✗ Incorrect Your Answer: B. 200

**Correct Answer: C.**

This bond was purchased in the secondary market and the investor uses cost accounting. Therefore, the discount is not accreted. The cost basis for a secondary market purchase is the purchase price of 90. Therefore, upon sale there is a taxable gain of 7 points, or \$700.

Reference: 11.8 Tax Concepts for Municipal Securities

Question Id: 25438143

**Q59:** A financial institution buys \$90,000 of 8%, 20-year revenue bonds. For book purposes, the institution uses straight-line accretion, but for tax purposes the institution uses cost. The bonds are sold after three years for \$99,000. What will be the taxable gain?

- A. 3000
- B. 5000
- C. 7500
- D. 9000

✗ Incorrect Your Answer: C. 7500

**Correct Answer: D.**

For tax purposes, the institution uses the cost basis, which is the price at which it purchased the bonds - \$90,000. Consequently, they sold the bonds for \$99,000 with a \$90,000 tax basis, yielding a taxable gain of \$9,000.

Reference: 11.8 Tax Concepts for Municipal Securities

Question Id: 25438153

**Q60:** A registered representative has a client who is a CPA, and this client is offering, for a fee, to direct some of her accounting clients to the registered representative for potential participation in an upcoming IPO the firm will be a managing underwriter on. May the broker-dealer compensate the CPA for these leads?

- A. Yes, but the CPA would need to be a FINRA registered person in order to receive any such compensation, often called a finder's fee.
- B. No, these types of compensation arrangements are prohibited by FINRA rules.
- C. Yes, but any compensation must be in the form of cash (not securities), and it should only be a flat or hourly fee, and not tied to the success of any deals.
- D. No, the broker-dealer cannot make any compensation arrangements with the CPA, as such relationships are considered conflicts of interest.

✔ Correct Your Answer: C. Yes, but any compensation must be in the form of cash (not securities), and it should only be a flat or hourly fee, and not tied to the success of any deals.

**Correct Answer: C.**

These types of compensation arrangements are known as "finders fees", and are permitted, even if the individual (the CPA in this case) is not FINRA registered. Any fees paid should be in cash only, and represent a flat or hourly fee, and not tied to the success of any deals or transactions. If the individual is FINRA registered, the fees may be commission based.

Reference: 12.1 Investment Company Overview and Mutual Fund Structure

Question Id: 25438163

**Q61:** Your clients Judy and Irwin own a life-cycle fund. This investment is characterized by

- A. regularly scheduled modifications to the fund's holdings based on recent returns in the S&P 500 Index
- B. a general shift from conservative to speculative assets in the fund's portfolio as an investor ages
- C. automatic adjustments to the fund's portfolio as an investor approaches retirement
- D. a heavy emphasis on tax-deferred investments to offset general tax liability

✔ Correct Your Answer: C. automatic adjustments to the fund's portfolio as an investor approaches retirement

**Correct Answer: C.**

A life-cycle fund is a type of asset allocation mutual fund in which the proportion of various asset classes in a fund's portfolio is automatically adjusted over the course of the fund's time horizon. Typically, the shift will be from more speculative assets to more conservative assets.

Reference: 12.4 Asset Allocation and Money Market Funds

Question Id: 25438173

**Q62:** An investor who makes transactions once a month using dollar cost averaging would

- A. buy the same dollar amount of a stock.
- B. buy the same number of shares of a stock.
- C. put 70% of the money in a bond fund and buy stocks with the rest.
- D. buy equal amounts of speculative and blue-chip securities.

✔ Correct Your Answer: A. buy the same dollar amount of a stock.

**Correct Answer: A.**

An investor using dollar cost averaging always invests the same amount of money. Depending on the market value of the security, he may buy more or less shares every time he invests.

Reference: 12.7 Sales Charge Discounts, Purchase, and Withdrawal Plans

Question Id: 25438183

**Q63:** An individual has holdings in three different fund families. A purchase of shares in a fourth family may

- A. be aggregated with the holdings of the three existing positions to qualify for breakpoints.
- B. only be executed under a 13-month letter of intent.
- C. may not be combined with the holdings of the three existing funds for breakpoint considerations.
- D. qualify for breakpoint consideration if the individual signs a backdated letter of intent.

✔ Correct Your Answer: C. may not be combined with the holdings of the three existing funds for breakpoint considerations.

**Correct Answer: C.**

Investors may not use their holdings in different fund families to qualify for breakpoints in other funds.

Reference: 12.7 Sales Charge Discounts, Purchase, and Withdrawal Plans



Question Id: 25438193

**Q64:** An investor purchasing 1,000 shares of a certain mutual fund that has a maximum sales charge of 8.5% and a NAV of \$10.30 at the time of purchase will pay a total sales charge of (rounding to the nearest dollar)

- A. 88
- B. 96
- C. 875
- D. 957

✔ Correct Your Answer: D. 957

**Correct Answer: D.**

$POP = (NAV / 100\% - SC\%) = \$10.30 / .915 = \$11.26$   
 $SC = POP - NAV = .957$   
Total Sales Charge =  $.957 \times 1000 \text{ shares} = \$957$

Reference: 12.7 Sales Charge Discounts, Purchase, and Withdrawal Plans

Question Id: 25438203

**Q65:** Preferential tax treatment does not apply in which of these instances?

- A. Company X owns the preferred shares of Company Y and receives a \$35,000 cash dividend from Y
- B. Jerry purchased 2,000 shares of Company K on May 1, 75 days prior to the ex-dividend date for the next common share distribution for which Jerry received \$.20 per share
- C. Ben took a distribution of \$12,500 from his Section 529 Plan to cover his daughter's next tuition payment at her community college
- D. Abigail received a distribution of \$2,500 from her real estate investment trust which she has owned for three years

✔ Correct Your Answer: D. Abigail received a distribution of \$2,500 from her real estate investment trust which she has owned for three years

**Correct Answer: D.**

Distributions from a Real Estate Investment Trust are subject to regular income tax, unlike ordinary cash dividends from common or preferred shares, which may be subject to regular tax liability depending on the length of time the shares were held surrounding the ex-dividend date. If the shares were held for at least 61 of the 121-day period surrounding the ex-dividend date, any dividends received would be taxable at a preferred rate. Distributions from a Section 529 plan are not taxed if used for qualified educational expenses. Dividends paid to a corporation are taxed at a preferred rate depending on the level of ownership the company has in the business.

Reference: 12.8 Taxation of Investment Companies and Distributions to Shareholders

Question Id: 25438213

**Q66:** A client interested in capital preservation would be least likely to purchase a(n)

- A. income bond.
- B. Treasury bill.
- C. banker's Acceptance.
- D. AAA-rated ABC Inc. debenture.

✔ Correct Your Answer: A. income bond.

**Correct Answer: A.**

An investor with a goal of capital preservation would not be interested in purchasing an Income Bond. These bonds are issued by companies experiencing challenging financial conditions; these funds may be needed to avoid bankruptcy or to otherwise stay in business.

Reference: 12.10 Unit Investment Trust Overview

Question Id: 25438223

**Q67:** Mark has a diversified equity portfolio. In order to hedge his portfolio, you would suggest that Mark

- A. buy calls on the SPX.
- B. sell calls on the SPX.
- C. buy a straddle on the SPX.
- D. buy a put on the SPX.

✔ Correct Your Answer: D. buy a put on the SPX.

**Correct Answer: D.**

To protect his long portfolio, Mark should purchase put options. If the portfolio loses value, the put options would gain value. Buying puts is a better hedge than selling SPX calls, which only provides protection for the amount of the premiums earned.

Reference: 12.10 Unit Investment Trust Overview

Question Id: 25438233

**Q68:** Sally considers herself a buy- and-hold investor with an intermediate term time horizon. Which of the following securities would be least suitable for Sally?

- A. A leveraged ETF
- B. A 20-year zero coupon bond
- C. A 15-year general obligation bond
- D. 200 shares of XYZ Inc., a blue-chip stock

✔ Correct Your Answer: A. A leveraged ETF

**Correct Answer: A.**

An individual with these goals would not be interested in a leveraged ETF, which has very short-term trading objectives.

Reference: 12.11 Exchange-Traded Funds Overview

Question Id: 25438243

**Q69:** A company that is highly leveraged has as the smallest portion of its capitalization

- A. preferred stock.
- B. common stock.
- C. debentures.
- D. convertible debentures.

✔ Correct Your Answer: B. common stock.

**Correct Answer: B.**

A highly leveraged company means that the company has taken on lots of debt and raises the smallest portion of capital from its equity, or common stock.

Reference: 12.11 Exchange-Traded Funds Overview

Question Id: 25438253

**Q70:** Client Smith invested \$50,000 in a 2X Inverse ETF. The market declines 5% on Day 1 and rises 2% on Day 2. What is the current value of the ETF?

- A. 48450
- B. 52800
- C. 58200
- D. 49500

✓ Correct Your Answer: B. 52800

**Correct Answer: B.**

An inverse exchange-traded fund (ETF) is designed to deliver the opposite performance of an underlying index or other benchmark. Some ETFs use leverage to generate their results, which may be double or triple the performance of the benchmark they track. In this example, since the market declined by 5% on Day 1, this ETF would have risen by 10%, or \$5,000, bringing its value at the end of Day 1 to \$55,000. On Day 2, the market increased by 2%, causing this ETF to decline by 4%, or \$2,200, bringing its value at the end of Day 2 to \$52,800. Note that the Day 2 change is based on the resulting change from Day 1. Thus, we must subtract \$2,200 from \$55,000 to arrive at the closing value on Day 2.

Reference: 12.11 Exchange-Traded Funds Overview

Question Id: 25438263

**Q71:** Leveraged and inverse ETFs are designed to achieve their stated objectives

- A. on a daily basis.
- B. every 30 days.
- C. on a weekly basis.
- D. every calendar quarter.

✓ Correct Your Answer: A. on a daily basis.

**Correct Answer: A.**

Inverse and leveraged exchange funds are designed to achieve their stated investment objectives on a daily basis, making them suitable for investors who have very short- term trading objectives. These products would not be appropriate for a buy- and -hold investor.

Reference: 12.11 Exchange-Traded Funds Overview

Question Id: 25438273

**Q72:** An individual has received a death benefit from the life insurance policy of her mother. This death benefit

- A. is not taxable when paid to the named beneficiary.
- B. would be taxable if the cash value of the policy exceeded the premiums paid.
- C. is included in the deceased's estate for probate purposes.
- D. must be declared to the State Insurance Dept upon receipt.

✓ Correct Your Answer: A. is not taxable when paid to the named beneficiary.

**Correct Answer: A.**

The death benefit of a life insurance policy is not taxable when paid to a named beneficiary.

Reference: 13.2 Variable Life Insurance Product Features and Taxation

Question Id: 25438293

**Q73:** Which of the following statements about variable annuities is false?

- A. The rate of return is determined by the value of the underlying portfolio
- B. These annuities are designed to combat inflation risk
- C. The AIR guarantees a minimum rate of return
- D. The number of annuity units becomes fixed when the contract is annuitized

✓ Correct Your Answer: C. The AIR guarantees a minimum rate of return

**Correct Answer: C.**

The rate of return on a variable annuity is determined by the value of the underlying securities, generally mutual funds. The assumed interest rate is the expected interest rate for a specific annuity but does not guarantee a minimum return as the portfolio may perform below the AIR, thus lowering the monthly distribution.

Reference: 13.3 Types of Annuities

Question Id: 25438303

**Q74:** Holders of variable annuities receive the largest monthly payments under which of the following payout options?

- A. Life annuity
- B. Life annuity with period certain
- C. Joint and last survivor annuity
- D. All of the above

✔ Correct Your Answer: A. Life annuity

**Correct Answer: A.**

The life annuity provides distributions for the shortest period of time and therefore offers the greatest monthly cash flow.

Reference: 13.4 Accumulation and Annuitization Phases of Variable Annuities

Question Id: 25438313

**Q75:** A variable annuity contract held by an investor is set to annuitize in the next 30 days. When this occurs,

- A. accumulation units will be converted into a fixed number of annuity units.
- B. accumulation units will be converted into a variable number of annuity units.
- C. annuity units will be converted into a fixed number of accumulation units.
- D. annuity units will be converted into a variable number of accumulation units.

✔ Correct Your Answer: A. accumulation units will be converted into a fixed number of annuity units.

**Correct Answer: A.**

When a variable annuity contract is annuitized, the accumulation units are converted in a fixed number of annuity units. The value of these annuity units will fluctuate from month to month, providing the investor with the 'variable' return which is typical of these products.

Reference: 13.4 Accumulation and Annuitization Phases of Variable Annuities

Question Id: 25438333

**Q76:** Susan Jones buys one ABC Oct 50 call at 3. She exercises the option to buy 100 shares when the market is at 60. What is the cost basis of the 100 shares?

- A. 5000
- B. 5300
- C. 6000
- D. 6300

✔ Correct Your Answer: B. 5300

**Correct Answer: B.**

When exercising a call option, the cost basis for the shares equals the strike price at which the shares were purchased, plus the premium paid per share to buy the call option. Cost basis =  $50 + 3 = 53 \times 100$  shares purchased = \$5,300.

Reference: 14.1 Option Contracts Overview

Question Id: 25438343

**Q77:** Mario has written a put option. When this put option expires

- A. the holder of the option contract realizes a short-term capital gain.
- B. the open interest will increase.
- C. Mario is under no further obligation to purchase the underlying security.
- D. Mario will receive an assignment notice.

✔ Correct Your Answer: C. Mario is under no further obligation to purchase the underlying security.

**Correct Answer: C.**

When a put option expires, Mario will retain the premium and bears no additional obligation to purchase the underlying securities.

Reference: 14.1 Option Contracts Overview

Question Id: 25438353

**Q78:** When ABC is trading at 43, Adam purchases 10 ABC May 45 calls for 2.5. If Adam exercises his calls when ABC is trading at 49.50, the cost basis per share would be

- A. \$43
- B. 4\$5
- C. \$47.50
- D. \$49.50

✓ Correct Your Answer: C. \$47.50

**Correct Answer: C.**

When a call option is exercised, the cost basis per share is the strike price of the call option plus the premium of the call option.

Reference: 14.2 Long and Short Call Definitions and Examples

Question Id: 25438363

**Q79:** Mary sold 10 ABC May 40 puts @ 5. Upon expiration of these puts, Mary will have a

- A. long term capital gain of \$5,000.
- B. short term capital loss of \$500.
- C. short term capital gain of \$5,000.
- D. long term capital loss of \$500.

✓ Correct Your Answer: C. short term capital gain of \$5,000.

**Correct Answer: C.**

When a regular option contract expires, the result is a short-term capital loss to the buyer and a short-term capital gain to the writer.

Reference: 14.2 Long and Short Call Definitions and Examples



Question Id: 25438373

**Q80:** All of the following are factors in determining option premiums EXCEPT

- A. price of the underlying stock.
- B. length of time to expiration.
- C. number of shares outstanding.
- D. volatility of the underlying stock.

✔ Correct Your Answer: C. number of shares outstanding.

**Correct Answer: C.**

The number of shares outstanding for a common stock does not determine whether or not the option will be in the money. The value of the option is determined by the relationship between the strike price and the market value of the stock. Additionally, the longer until expiration the greater chance of the option coming into the money.

Reference: 14.5 Hedging with Long Call and Long Puts

Question Id: 25438383

**Q81:** All of the following are suitable objectives for a covered call writer EXCEPT

- A. hedging a long stock position.
- B. increasing return on a long stock position.
- C. speculating that a stock will not rise in price.
- D. buying stock below the market.

✔ Correct Your Answer: D. buying stock below the market.

**Correct Answer: D.**

When an investor sells a call and it is exercised, the investor will have the stock called away i.e. the investor will be forced to sell the stock. Selling a call option will never give an investor the opportunity to buy stock below the market.

Reference: 14.6 Covered Writing Strategies

Question Id: 25438393

**Q82:** Jenny has purchased an XYZ June 30 call and sold an XYZ June 35 call. Jenny has created a

- A. bull call debit spread.
- B. bull put credit spread.
- C. bear call credit spread.
- D. bear put debit spread.

✔ Correct Your Answer: A. bull call debit spread.

**Correct Answer: A.**

This is how a bull call debit spread can be structured.

Reference: 15.1 Spread Concepts and Calculations

Question Id: 25438403

**Q83:** In July a customer creates a horizontal spread by purchasing 10 XYZ OCT 50 calls and by selling 10 XYZ August 50 calls. Which of the following statements is true concerning this strategy?

- A. This is a dollar spread
- B. This is a calendar spread
- C. This is a straddle
- D. This is a combination

✔ Correct Your Answer: B. This is a calendar spread

**Correct Answer: B.**

This is a calendar spread because the strike prices are the same and only the expiration dates are different.

Reference: 15.1 Spread Concepts and Calculations

Question Id: 25438413

**Q84:** If a credit spread widens,

- A. a profit will be realized.
- B. the investor will breakeven.
- C. a loss will be realized.
- D. both contracts will expire.

✔ Correct Your Answer: C. a loss will be realized.

**Correct Answer: C.**

In option spreads, the investor wants a debit spread to widen and a credit spread to narrow. If the opposite happens, a loss may be realized.

Reference: 15.1 Spread Concepts and Calculations

Question Id: 25438423

**Q85:** James would like to create a credit spread. He begins by purchasing an ABC Oct 50 Put. Which additional position should James execute?

- A. Purchase ABC Oct 50 Call
- B. Short ABC Oct 45 Put
- C. Sell ABC Sept 50 Put
- D. Sell ABC Oct 60 Put

✘ Incorrect Your Answer: B. Short ABC Oct 45 Put

**Correct Answer: D.**

In a credit spread, the contract sold will have a higher premium than the contract purchased. James should sell a put with a higher strike price compared to the one he purchased. This will result in a net credit to the account. If James wished to sell a put with the same 50 strike price and enter a credit put spread, the option would have to expire after Oct, e.g. an ABC Dec 50 put.

Reference: 15.1 Spread Concepts and Calculations

Question Id: 25438433

**Q86:** Which of the following options positions is not a bullish strategy?

- A. Long XYZ May 50 Put, Short XYZ May 60 Put
- B. Short MNO June 80 Call, Long MNO June 70 Call
- C. Long ABC Dec 45 Call, Short ABC Dec 45 Put
- D. Short RST Oct 30 Call, Long RST Oct 40 Call

✔ Correct Your Answer: D. Short RST Oct 30 Call, Long RST Oct 40 Call

**Correct Answer: D.**

Since the lower strike price is being sold and the higher strike price is being purchased, this is an example of a bear call credit spread. The other positions will benefit when the market rises.

Reference: 15.1 Spread Concepts and Calculations

Question Id: 25438443

**Q87:** Miss Jones is bullish on the market. In December she buys 1 Jul 490 call on the XMI. Which of the following options might she write to create a debit spread?

- A. Jan 485 call
- B. Jan 490 call
- C. July 500 call
- D. July 505 call

- A. I
- B. I and II
- C. III or IV
- D. II or III or IV

✔ Correct Your Answer: D. II or III or IV

**Correct Answer: D.**

To create a debit spread the long call must be the dominant position, meaning it will have the higher premium. The Jul 490 call would have a higher premium than the Jan 490 call because there is more time value, and it would have a higher premium than both the July 500 and the July 505 because of the lower strike price. It will have a lower premium than the Jan 485 call because the Jan 485 call would come into the money first due to the lower strike price.

Reference: 15.1 Spread Concepts and Calculations

Question Id: 25438453

**Q88:** Mrs. Jones purchases 2 XYZ Jul 30 calls at 2 and 2 XYZ Jul 30 puts at 2.50. She will break even when the price of the underlying stock is

- A. 25.50.
- B. 27.50.
- C. 32.
- D. 34.50

- A. I and IV
- B. II and III
- C. III
- D. IV

✔ Correct Your Answer: A. I and IV

**Correct Answer: A.**

Ms. Jones has purchased a straddle by simultaneously buying a call and put. Long straddles have two breakevens, the strike price plus total premium and strike price minus total premium, so the breakevens are 34.50 and 25.50.

Reference: 15.2 Straddles, Combinations, and Collars

Question Id: 25438463

**Q89:** ADM issues a news release that your customer believes will strongly affect the market price of ADM stock. Your customer is not, however, sure whether the effect will be positive or negative. In this situation, which of the following strategies would be best?

- A. Buy a call
- B. Write a call
- C. Write a straddle
- D. Buy a straddle

✔ Correct Your Answer: D. Buy a straddle

**Correct Answer: D.**

If the investor believes the stock will either increase or decrease, but is not sure which direction, the investor should buy a straddle. Investors that purchase straddles have a volatile investment attitude. The investor will profit if the security either goes up or down.

Reference: 15.2 Straddles, Combinations, and Collars

Question Id: 25438473

**Q90:** The writer of a straddle believes

- A. The price of the underlying will change frequently over the next three months
- B. The CEO of the company may soon be replaced
- C. Litigation may be soon be filed against the company
- D. The price of the underlying will stay within a certain range

✔ Correct Your Answer: D. The price of the underlying will stay within a certain range

**Correct Answer: D.**

The writer of a straddle believes the price of the underlying security will remain neutral in the near term.

Reference: 15.2 Straddles, Combinations, and Collars

Question Id: 25438483

**Q91:** Following a period of extraordinary volatility, markets have returned to a more conservative posture, with equities now trading in a very narrow range, a trend expected to continue for the next few months. An investor seeking to enhance the yield of his portfolio at this time might enter into a

- A. debit spread.
- B. long straddle.
- C. short Put.
- D. short Straddle.

✔ Correct Your Answer: D. short Straddle.

**Correct Answer: D.**

This investor might benefit from selling a straddle. If markets now remain stable, this would be a beneficial position to have as the two option contracts would be more likely to expire, resulting in a gain to the investor.

Reference: 15.2 Straddles, Combinations, and Collars

Question Id: 25438493

**Q92:** Steve has written 20 JKL June 25 puts. To complete the combination, Steve should also

- A. purchase 20 JKL July 25 puts.
- B. sell 20 JKL June 25 calls.
- C. purchase 20 JKL June 25 puts.
- D. sell 20 JKL July 25 calls.

✔ Correct Your Answer: D. sell 20 JKL July 25 calls.

**Correct Answer: D.**

To create a combination, Steve must sell both puts and calls on the same security. Options of a different series must be used, thus either the strike price and/ or expiration month of the two contracts must be different.

Reference: 15.2 Straddles, Combinations, and Collars

Question Id: 25438503

**Q93:** Ken has sold 1 EUR May 145 call and purchased 1 EUR May 135 call. Which of the following statements is correct?

- A. Ken has executed a long straddle and is seeking volatility in the EUR
- B. Ken has executed a credit spread and is bearish on the EUR
- C. Ken has sold a straddle and is expecting little change in the value of the EUR
- D. Ken has executed a debit spread and is bullish on the EUR

✔ Correct Your Answer: D. Ken has executed a debit spread and is bullish on the EUR

**Correct Answer: D.**

Ken has executed a debit spread on the EUR and thus is taking a bullish position on the EUR.

Reference: 15.6 Foreign Currency Options

Question Id: 25438513

**Q94:** Sally Smith sells 1 XYZ Oct 60 call at 3 when the market value is 50. Assuming the market value increases to 75 and the option is exercised, what are her proceeds from the sale for tax purposes?

- A. 5000
- B. 6000
- C. 6300
- D. 7500

✓ Correct Your Answer: C. 6300

**Correct Answer: C.**

For an investor who sells a call option, the proceeds is the strike price plus the premium. Therefore, her proceeds is \$63 per share x 100 shares.

Reference: 15.7 Margin and Tax Concepts for Options

Question Id: 25438523

**Q95:** On January 1st, an investor buys 1 XYZ Apr 50 call at 4 and 1 XYZ Apr 50 put at 2 1/2. Both options expire unexercised. What are the tax consequences for the investor?

- A. \$150 net capital gain
- B. \$150 net capital loss
- C. \$400 gain on the call, \$250 gain on the put
- D. \$400 loss on the call, \$250 loss on the put

✓ Correct Your Answer: D. \$400 loss on the call, \$250 loss on the put

**Correct Answer: D.**

When an investor purchases an option and it expires unexercised the investor loses the premiums. Therefore, there is a \$400 loss on the call and a \$250 loss on the put.

Reference: 15.7 Margin and Tax Concepts for Options



Question Id: 25438533

**Q96:** Which of the following investment vehicles passes through gains but not losses to investors?

- A. Unit investment trust (UIT)
- B. Master limited partnership (MLP)
- C. Real estate investment trust (REIT)
- D. Collateralized mortgage obligation (CMO)

✔ Correct Your Answer: C. Real estate investment trust (REIT)

**Correct Answer: C.**

A real estate investment trust will pass through investment gains, but not losses, to investors.

Reference: 16.1 Real Estate Investment Trusts

Question Id: 25438543

**Q97:** The value of a REIT will increase if

- A. Property values rise, and occupancy rates fall
- B. Millage rates increase, and assessments decrease
- C. Property values rise, and occupancy rates increase
- D. Assessed values increase, and mortgage applications decline

✔ Correct Your Answer: C. Property values rise, and occupancy rates increase

**Correct Answer: C.**

REIT values will increase when property values rise, and occupancy rates increase.

Reference: 16.1 Real Estate Investment Trusts

Question Id: 25438553

**Q98:** Your firm is distributing units of a direct participation program (DPP) to several high net worth clients. Fred maintains a discretionary account with you. You may purchase these units for Fred's account

- A. with prior written permission from your supervisor.
- B. once you have established that these securities are suitable for him.
- C. after receiving his written consent.
- D. after informing him that he needs to send in his payment within three business days.

 **Incorrect** Your Answer: B. once you have established that these securities are suitable for him.

**Correct Answer: C.**


A registered representative may not use standing discretion to purchase non-traditional instruments in a customer account. Because of the heightened suitability standards applicable to products such as a direct participation programs, the client must provide advance written consent when purchasing these products.

Reference: 16.2 Direct Participation Programs Overview and Structure

Question Id: 25438563

**Q99:** A customer is primarily concerned about maintaining a portfolio of liquid investments. In this case, you would be least likely to recommend which of the following products?

- A. Real estate investment trust
- B. Real estate limited partnership
- C. Open-end investment company
- D. Exchange-traded fund

 **Correct** Your Answer: B. Real estate limited partnership

**Correct Answer: B.**

Of these choices, the real estate limited partnership would be the least liquid. Of these choices, the real estate limited partnership would be the least liquid.

Reference: 16.3 Limited Partnerships

Question Id: 25438573

**Q100:** Upon the execution of the subscription agreement, an individual will be

- A. qualified to subscribe to units of a unit investment trust.
- B. accepted as a limited partner in a limited partnership.
- C. authorized to execute partnership democracy provisions.
- D. eligible to purchase shares in a master limited partnership (MLP).

✔ Correct Your Answer: B. accepted as a limited partner in a limited partnership.

**Correct Answer: B.**

The subscription agreement is the document an individual must sign and have approved in order to be granted status as a limited partner in a limited partnership.

Reference: 16.3 Limited Partnerships

Question Id: 25438583

**Q101:** In order to form a limited partnership, the tax ID and signature of which of the following parties is required?

- A. Limited partners
- B. General counsel
- C. General partners and all limited partners
- D. General partners

✘ Incorrect Your Answer: C. General partners and all limited partners

**Correct Answer: D.**

In order to form a limited partnership, the tax ID numbers and signatures of all general partners will be required.

Reference: 16.3 Limited Partnerships

Question Id: 25438593

**Q102:** Which of the following is not a characteristic of a business development company (BDC)?

- A. Typically organized as a closed-end investment company
- B. They must pay out at least 50% of their taxable income to investors to avoid federal taxation.
- C. They take equity positions in financially troubled businesses
- D. They provide the platform for non-accredited investors to invest in emerging businesses

✔ Correct Your Answer: B. They must pay out at least 50% of their taxable income to investors to avoid federal taxation.

**Correct Answer: B.**

Business development companies are required to pay out at least 90% of their taxable income to investors in order to avoid paying federal income taxes. Note that this question is asking for which statement is "not" accurate.

Reference: 16.4 Business Development Companies, Private Equity Funds, and Hedge Funds

Question Id: 25438603

**Q103:** An individual seeking to purchase a home in the next 6 - 9 months would be least likely to invest in a

- A. open-end investment company.
- B. hedge fund.
- C. money market fund.
- D. intermediate corporate bond fund.

✔ Correct Your Answer: B. hedge fund.

**Correct Answer: B.**

This individual will want to keep his investment funds as liquid as possible, while still earning some return. Of these alternatives, the hedge fund is the least liquid choice for this investor, as many such funds will have provisions requiring investors to retain their funds in the investment for at least one year. These are called "lock-up" provisions.

Reference: 16.4 Business Development Companies, Private Equity Funds, and Hedge Funds

Question Id: 25438613

**Q104:** Which of the following statements best describes a business development company?

- A. It is an entity typically organized as an open-end investment company.
- B. It is an investment vehicle that takes positions in mature companies with a strong record of earnings and dividends.
- C. It is usually organized as a closed-end investment company that takes positions in small and mid-sized companies.
- D. It is an investing entity that purchases interests in companies that recently declared bankruptcy and proceeds to sell these businesses out of their portfolios at substantial profits and distribute the cash flows from these sales to investors.

✔ Correct Your Answer: C. It is usually organized as a closed-end investment company that takes positions in small and mid-sized companies.

**Correct Answer: C.**

A business development company is typically organized as a closed-end investment company, with shares that are publicly traded. They invest in small and mid-sized businesses, by either taking equity positions or providing loans. Like traditional investment companies, they must pay out at least 90% of taxable income to investors to avoid taxation, and they usually pay dividends to shareholders either monthly or quarterly.

Reference: 16.4 Business Development Companies, Private Equity Funds, and Hedge Funds

Question Id: 25438623

**Q105:** As compared to agency CMOs, private label CMOs will generally have

- A. lower credit quality and higher yields.
- B. greater prepayment risk and lower extension risk.
- C. lower prepayment risk and greater extension risk.
- D. higher credit quality and lower yields

✔ Correct Your Answer: A. lower credit quality and higher yields.

**Correct Answer: A.**

Private label CMOs will generally have a lower credit quality and therefore higher yields when compared to agency CMOs.

Reference: 16.5 Mortgage-backed Securities and Collateralized Debt Obligations

Question Id: 25438633

**Q106:** Regarding CMOs, which of the following statements is correct?

- A. The interest payment on an agency CMO is taxable at federal, state, and local level, whereas the interest payment on a private label CMO is taxable at the federal level only.
- B. The yields on private label CMOs can be higher than the yields on agency CMOs owing to the characteristics of the underlying collateral
- C. All CMOs are backed by the federal government.
- D. CMOs carry no interest rate risk if they are backed by U.S. government agency securities

✔ Correct Your Answer: B. The yields on private label CMOs can be higher than the yields on agency CMOs owing to the characteristics of the underlying collateral

**Correct Answer: B.**

The yields on private label, or non-agency CMOs, can be higher than the yields on agency CMOs, as the underlying collateral will be more speculative, or less secure, than a government agency guarantee.

Reference: 16.5 Mortgage-backed Securities and Collateralized Debt Obligations

Question Id: 25438643

**Q107:** In the context of explaining mortgage backed securities to a client, a registered rep could make all of the following statements EXCEPT

- A. the expected maturity will fluctuate substantially based on refinancing activity.
- B. when interest rates increase, the duration of the bond will also increase, resulting in a large decline in market value.
- C. when interest rates decrease, the duration of the bond will increase, resulting in a large increase in market value.
- D. interest earned will be taxed at the federal, state and local levels.

✘ Incorrect Your Answer: B. when interest rates increase, the duration of the bond will also increase, resulting in a large decline in market value.

**Correct Answer: C.**

When interest rates fall, homeowners are likely to prepay their mortgages. This will have the impact of shortening the average life of the bond, leading to a shorter duration. Shorter duration bonds are less sensitive to fluctuating interest rates, so it is likely that this scenario will lead to only a small increase in market value.

Reference: 16.5 Mortgage-backed Securities and Collateralized Debt Obligations

Question Id: 25438653

**Q108:** An investor has purchased ten bonds that will mature one year after the next. As one bond matures, the proceeds are reinvested in a ten-year bond. This is an example of a

- A. serial bond structure.
- B. laddered portfolio.
- C. balloon maturity.
- D. positive yield curve.

✔ Correct Your Answer: B. laddered portfolio.

**Correct Answer: B.**

This is an example of a laddered bond portfolio. This strategy is often employed to minimize interest-rate risk and to increase liquidity. If interest rates rise, you are able to reinvest the proceeds from the maturing bonds into higher yielding bonds. If interest rates fall, there is protection against reinvestment risk from the longer-maturity bonds at the top of the ladder. These bonds will also appreciate in market value.

Reference: 17.3 Investment Risks

Question Id: 25438663

**Q109:** Tim has expressed concerns to you regarding issuer credit quality, liquidity, and interest rate fluctuations. In attempting to address Tim's concerns, you might suggest that he

- A. Diversify his portfolio with a significant investment in a small cap fund
- B. Consider creating a bond ladder
- C. Take a position in Eurodollar bonds and ADRs for international exposure
- D. Choose an asset allocation fund with a prominent emphasis on emerging growth stocks

✔ Correct Your Answer: B. Consider creating a bond ladder

**Correct Answer: B.**

Tim's concerns can be addressed by creating a bond ladder. A laddered portfolio is one containing a group of bonds having different maturity dates, thereby providing a continuous stream of funds from maturing bonds. The cash received from these maturing bonds can then be reinvested in a new bond on the back end of the ladder, at the current interest rate level. This structure also alleviates Tim's concerns regarding credit risk, as only a portion of the overall portfolio is exposed to the risk of default of an issuer.

Reference: 17.3 Investment Risks

Question Id: 25438683

**Q110:** You have a 25-year-old client seeking a strong mix of growth-oriented investments. How would you advise your client to proceed?

- A. 75% GNMA Fund, 25% Large Cap Stocks
- B. 50% Money Market Fund, 50% AAA Corporate Bonds
- C. 50% Large Cap Stocks, 25% Sector Funds, 15% Utility stocks, 10% Treasury bonds
- D. 50% AA Debentures, 25% REITs, 25% Asset allocation funds

✓ Correct Your Answer: C. 50% Large Cap Stocks, 25% Sector Funds, 15% Utility stocks, 10% Treasury bonds

**Correct Answer: C.**

This client should be invested in equity-oriented products. Large cap stocks, sector funds, and utilities are a good blend for this client. Maintaining a small portion of the investment in safe government bonds does not materially change the growth orientation of the portfolio and is a more appropriate allocation than any of the other choices which all skew too heavily towards debt.

Reference: 17.4 Investment Timeframes and Stage of Life Considerations

Question Id: 25438693

**Q111:** A branch manager of a retail location is reviewing a registered rep's suggested portfolio consisting of 60% AA+ Debentures, 25% AAA municipals, and 15% CMOs. This portfolio allocation is most suitable for which of these investors?

- A. 30 year old tech entrepreneur
- B. Moderately aggressive growth investor
- C. 55 year old school teacher
- D. An accredited investor

✓ Correct Your Answer: C. 55 year old school teacher

**Correct Answer: C.**

This portfolio is most appropriate for an investor looking for income without a substantial amount of risk. A middle age professional in a stable career considering retirement in the next few years might find a good balance with this allocation. The tech entrepreneur will be interested in stocks, as will the growth investor. The accredited investor may look for something more speculative.

Reference: 17.4 Investment Timeframes and Stage of Life Considerations



Question Id: 25438703

**Q112:** A company has been experiencing increased earnings but has kept its dividend payments constant. Due solely to this, the company's balance sheet would reflect

- A. decreased net working capital
- B. decreased net worth
- C. decreased retained earnings
- D. increased shareholder's equity

✔ Correct Your Answer: D. increased shareholder's equity

**Correct Answer: D.**

When a company experiences increased earnings while keeping dividend payments constant, it is retaining more of its income, which will increase retained earnings, a component of shareholders' equity, which would also increase.

Reference: 18.1 Fundamental Analysis and Balance Sheets

Question Id: 25438713

**Q113:** On the XYZ balance sheet, current liabilities have increased, causing a decline in working capital. The event that has caused this to happen is

- A. the payment of a cash dividend.
- B. the declaration of a cash dividend.
- C. a forward stock split
- D. a tender offer

✔ Correct Your Answer: B. the declaration of a cash dividend.

**Correct Answer: B.**

When a company declares a cash dividend, its current liabilities increase, and its stockholder's equity is reduced. As there is no change to its cash position at this time, its working capital is reduced.

Reference: 18.1 Fundamental Analysis and Balance Sheets

Question Id: 25438723

**Q114:** HMK Industries is paying a cash dividend to stockholders of record on May 20. Which of the following is not true?

- A. Current liabilities decline
- B. Net worth declines
- C. Retained earnings are unchanged
- D. Current assets decline

✔ Correct Your Answer: B. Net worth declines

**Correct Answer: B.**

When a corporation pays a cash dividend, both assets & liabilities decline, meaning there is no change to net worth. Dividends payable is a current liability that will decline once the dividend is paid. Cash is a current asset, and upon paying the dividend, cash and therefore, current assets, will also decline. The firm's net worth is unchanged.

Reference: 18.1 Fundamental Analysis and Balance Sheets

Question Id: 25438733

**Q115:** An investor who is bearish on the equity markets might deploy which of the following investment strategies?

- A. Call debit spread
- B. Long VIX call option
- C. Short straddle
- D. Long S & P 500 call option

✔ Correct Your Answer: B. Long VIX call option

**Correct Answer: B.**

The VIX is a tool used to measure market expectations of near-term volatility, based on S&P 500 Index option prices. Investors who are bearish generally believe there will be an increased level of volatility and would be likely to buy call options on the VIX.

Reference: 18.3 Market Indicators

Question Id: 25438743

**Q116:** An investor holds an equity position that outperforms the market when the overall market advances but underperforms the market when the overall market declines. Which of the following statements are true?

- A. The equity position has an alpha greater than 1.
- B. The equity position has a beta greater than 1.
- C. The equity position has an alpha less than 1.
- D. The equity position has a beta less than 1.

✔ Correct Your Answer: B. The equity position has a beta greater than 1.

**Correct Answer: B.**

A security, or portfolio with a beta greater than 1 will likely experience higher highs (outperform the market) and lower lows (underperform the market). Beta is a measurement of the volatility of an asset relative to the general market.

Reference: 18.3 Market Indicators

Question Id: 25438753

**Q117:** Upon receiving transfer instructions, a broker-dealer has

- A. one business day to verify the account and then one additional business day to transfer and ship the securities to the new broker-dealer.
- B. one business day to verify the account and then three additional business days to transfer and ship the securities to the new broker-dealer.
- C. three business days to verify the account and one business day to transfer and ship the securities to the new broker-dealer.
- D. three business days to verify the account and four business days to transfer and ship the securities to the new broker-dealer.

✔ Correct Your Answer: B. one business day to verify the account and then three additional business days to transfer and ship the securities to the new broker-dealer.

**Correct Answer: B.**

Upon receipt of a transfer instruction, the carrying firm has one business day to validate the account and then three more business days to transfer and ship the securities to the new broker-dealer.

Reference: 18.5 Customer Trade Confirmations and Disclosures

Question Id: 25438763

**Q118:** Which of the following statements about the "5% Policy" is true?

- A. It is a rule which broker-dealers must adhere to when selling any security to a customer
- B. Regular charges to a customer of 4% are always considered reasonable
- C. It applies to trades in listed and unlisted securities
- D. The percentage of mark-up generally increases as the price of the security increases

✓ Correct Your Answer: C. It applies to trades in listed and unlisted securities

**Correct Answer: C.**

The 5% Policy applies to trades in both listed and unlisted securities, across a wide spectrum of investment products. It is not a hard and fast rule, but a guideline to be used by a broker-dealer. Many factors are considered in assessing whether a given charge to a customer is fair and reasonable. In general, the percentage of mark-up will increase as the price of the security decreases. Stated another way, the percentage of mark-up decreases as the price of the security increases.

Reference: 18.5 Customer Trade Confirmations and Disclosures

Question Id: 25438773

**Q119:** An investor who purchases 200 shares of XYZ at "18.50 net"

- A. paid 18.50 for the stock which included all transactions costs.
- B. paid 18.50 plus a commission of up to 5%, per the FINRA policy.
- C. received 18.50 as the final net sales proceeds for their trade.
- D. paid 18.50 less appropriate transaction costs.

✓ Correct Your Answer: A. paid 18.50 for the stock which included all transactions costs.

**Correct Answer: A.**

Trades effected on a "net basis" include all commissions/fees in the final "net" price.

Reference: 18.5 Customer Trade Confirmations and Disclosures

Question Id: 25438783

**Q120:** A customer has requested that her market order to buy ABC stock be routed to an exchange which is not currently publishing the best national price. The firm receiving this instruction must

- A. route the order to the exchange specified by the customer.
- B. reject the order.
- C. advise the customer that they are unable to route an order to any exchange not currently publishing the best national price.
- D. first attempt to execute the order in house prior to making any routing decisions.

✔ Correct Your Answer: A. route the order to the exchange specified by the customer.

**Correct Answer: A.**

In general, broker-dealers are required to route customer orders to the market center providing the best price, but a customer may specify that they want their order routed to a particular exchange. The firm must honor such a request.

Reference: 19.7 Order Tickets and Application Forms

Question Id: 25438793

**Q121:** The main objective of Regulation SHO is to ensure that

- A. all short sales are profitable.
- B. broker-dealers will be able to borrow the security that a client wishes to sell short.
- C. short sales are executed in margin accounts.
- D. the seller has sufficient equity in his account prior to the short sale.

✔ Correct Your Answer: B. broker-dealers will be able to borrow the security that a client wishes to sell short.

**Correct Answer: B.**

Regulation SHO is an SEC rule requiring broker-dealers to make sure they can borrow a security and be able to make a timely delivery of that security, prior to a client effecting a short sale in that security

Reference: 19.7 Order Tickets and Application Forms

Question Id: 25438803

**Q122:** Which of the following is NOT reasonable cause to believe that the seller can make delivery of securities?

- A. The customer is long the stock
- B. The customer has a written agreement to borrow the stock
- C. The securities are not on a "hard-to-borrow" list
- D. The securities are on the "available securities" list

✗ Incorrect Your Answer: B. The customer has a written agreement to borrow the stock

**Correct Answer: C.**

If an investor sells stock short, Reg SHO requires the customer to locate the securities. The customer can locate by either borrowing the securities, or by relying on the available securities list. Absence from a "hard-to-borrow" list, is not sufficient to satisfy the locate requirement.

Reference: 19.7 Order Tickets and Application Forms

Question Id: 25438813

**Q123:** Regulation NMS is intended to assure that investors

- A. have long positions in the securities they place orders to sell.
- B. do not trade on material non-public information.
- C. receive audited financial statements from their broker-dealers each year.
- D. receive the best price executions for their orders by encouraging market competition.

✓ Correct Your Answer: D. receive the best price executions for their orders by encouraging market competition.

**Correct Answer: D.**

This is the primary objective of Regulation NMS. NMS means National Market System. It was established in 2005 to foster competition among markets and among individual client orders.

Reference: 19.8 Best Execution, Reporting, and Other Trading Rules

Question Id: 25438823

**Q124:** When stock held in a margin account appreciates, which of the following increase(s)?

- I. Current market value
- II. Debit balance
- III. Equity

- A. I only
- B. I and III only
- C. II only
- D. I, II and III

✓ Correct Your Answer: B. I and III only

**Correct Answer: B.**

When stock held in a margin account appreciates in value, the current market value in the account increases as the market value reflects the value of the stock. Additionally, the equity, or ownership in the account increases. The debit balance represents the total loan from the broker dealer and only changes by customer action. A change in the value of securities in the account does not change the debit balance.

Reference: 20.1 Margin Accounts, Reg T, and SRO Requirements

Question Id: 25438833

**Q125:** Betty has a margin account with the following: XYZ long position: \$175,000 ABC short position: 65,000 Debit balance: 70,000 Credit balance: 90,000 The total equity balance in Betty's account is

- A. 50000
- B. 80000
- C. 90000
- D. 130000

✓ Correct Your Answer: D. 130000

**Correct Answer: D.**

The total equity position in Betty's account is \$130,000. This is found by taking the long market value (\$175,000) and adding the credit balance (\$90,000), then subtracting the short market value (\$65,000) and the debit balance (\$70,000).

Reference: 20.3 Long Margin Accounting

Question Id: 25438843

**Q126:** While preparing an order memorandum, Mary placed the wrong account number on the form. No transaction was executed. What should Mary do?

- A. Send an email to her compliance officer
- B. Complete a new order memorandum and discard the first one
- C. Notify her supervisor before making any changes
- D. Notify her customer

✔ Correct Your Answer: C. Notify her supervisor before making any changes

**Correct Answer: C.**

When this situation occurs, an RR should notify their supervisor immediately, who may instruct the RR to discard the original memorandum and create a new one. This is an example of a 'cancel and re-bill'.

Reference: 21.1 Settlement of Securities Transactions

Question Id: 25438853

**Q127:** Jack has entered the wrong account number on an order memorandum. Jack should

- A. notify FINRA.
- B. place the order in the error account.
- C. notify his supervisor.
- D. notify the customer.

✔ Correct Your Answer: C. notify his supervisor.

**Correct Answer: C.**

In this situation, Jack should notify his supervisor of the mistake. He is not authorized to access the error account on his own.

Reference: 21.3 Customer Account Errors



Question Id: 25438863

**Q128:** Mr. Jones buys 200 shares of ABC at 34.50. Later the same day his broker tells him that the report he received was in error and, in fact, the shares were bought for 34.75. Mr. Jones

- A. must pay 34.50 per share.
- B. must pay 34.75 per share.
- C. may cancel the order.
- D. may require that his broker pay the difference.

✔ Correct Your Answer: B. must pay 34.75 per share.

**Correct Answer: B.**

When a registered rep quotes a client the incorrect price at which a transaction is made, the client is still responsible for the actual price where the trade was executed.

Reference: 21.3 Customer Account Errors

Question Id: 25438873

**Q129:** A FINRA member firm must retain customer complaints

- A. at the main office of the firm for three years.
- B. for four years, the first two years in an easily accessible location.
- C. for six years, the last three years in an easily accessible location.
- D. in an easily accessible location for four years.

✔ Correct Your Answer: B. for four years, the first two years in an easily accessible location.

**Correct Answer: B.**

Customer complaints must be maintained by a FINRA member firm for four years, the first two years in an easily accessible location.

Reference: 21.4 Customer Complaints

Question Id: 25400413

**Q130:** A type of fraud that targets a specific group of people only is known as a

- A. pump and dump scheme.
- B. pre-IPO investment scams.
- C. pyramid schemes.
- D. affinity fraud.

✔ Correct Your Answer: D. affinity fraud.

**Correct Answer: D.**

While all the activities are fraudulent, affinity fraud targets a specific group of people to swindle.

Reference: 1.9 Fraudulent Practices Related to Securities Offerings