

Finance

Series-6

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Question: 1

Which two of the following statements regarding ADRs are not true?

- I. Owners have voting rights.
- II. Owners have preemptive rights.
- III. Owners have the right to dividends.
- IV. Owners are subject to currency risk.

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

Answer: C

Explanation:

ADR holders do not vote and do not have preemptive rights. The issuing bank has these rights. Holders do have the right to dividends and are subject to currency risk.

Question: 2

Member Conduct Rules state that registered reps must avoid conflicts of interest when dealing with customers. With respect to equity research reports:

- A. Written research reports are exempt from the conflict of interest rules
- B. Neither of the choices listed
- C. Both of the choices listed
- D. Electronic research reports are exempt from the conflict of interest rules

Answer: B

Explanation:

Both written and electronic research reports require that conflicts of interest be disclosed to the public.

Question: 3

When an investment representative explains mutual funds to a prospective investor, which of the following statements can he use?

- I. "Mutual fund shares are liquid, so you can switch from fund to fund without tax liability."

- II. "A fund always redeems shares at NAV so you have very little chance of a financial loss."
- III. "The redemption value of mutual fund shares fluctuates according to the value of the fund's portfolio."
- IV. "Because mutual funds must make payment within seven days of redemption, you always can receive a return of your original investment."

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

Answer: D

Explanation:

Mutual funds redemption values fluctuate according to the value of the securities in the funds portfolios. An adviser may not state that the investor could always receive a turn of the original investment which is false. The choice is also incorrect because the adviser said that mutual fund switching can be done without tax liability. Switching funds creates a tax liability and an investor is not always able receive a return of the original investment.

Question: 4

ABC declares a \$.12 dividend to shareholders of record as of Tuesday, January 15th. The stock will go ex-dividend on:

- A. Monday, January 14th
- B. Thursday, January 10th
- C. Saturday, January 12th
- D. Sunday, January 13th

Answer: A

Explanation:

The ex-dividend date for stock is one business days prior to the record date.

Question: 5

When an issuer is in the process of raising additional capital, they can do a preemptive rights offering. The advantages to the company's existing shareholders include all of the following except:

- A. Right to maintain a proportional investment in the company
- B. Right to sell existing shares back to the issuer
- C. Right to buy new shares below the CMV
- D. Right to sell the rights in the secondary market

Answer: B

Explanation:

Subscription or pre-emptive rights are an investment tool for the issuer to raise new capital from the market place. There is no advantage to either the investor or the issuer if the issuer repurchases the rights.

Question: 6

Which of the following is/are considered retail communication according to FINRA?

- A. Neither of the choices listed
- B. A password protected website
- C. Both of the choices listed
- D. A public website

Answer: C

Explanation:

Public websites and password protected sites are retail communication under FINRA Rule 2210.

Question: 7

When opening a tenants in common account at a broker dealer, which of the following needs to be signed by the customers?

- A. A joint account agreement
- B. A new account form
- C. A power of attorney
- D. A letter of intent

Answer: A

Explanation:

A joint account agreement needs to be signed by all the owners in order to open a joint account. New account forms are signed by the principal, but not the customer. A letter of intent is only needed if the customer is purchasing mutual fund shares and has not reached a breakpoint. And a power of attorney is only needed if the customer is opening a discretionary account.

Question: 8

A registered rep has created an online static blog where she writes about her thoughts on the equity market. This is an example of:

- A. A violation of the Code of Procedure
- B. Correspondence, which is exempt from principal approval
- C. Retail communication, which requires principal approval
- D. A violation of the Rules of Fair Practice

Answer: C

Explanation:

The FINRA Conduct Rules state that publicly available websites, including static blogs, are retail communication and require prior principal approval.

Question: 9

The Securities Exchange Act of 1934 regulates all of the following except:

- A. Fraud in the primary market
- B. Short sales
- C. Client accounts
- D. Net capital for broker dealers

Answer: A

Explanation:

The Securities Exchange Act of 1934 regulates all of the answers listed except fraud in the primary market. The Securities Exchange Act only regulates the secondary market.

Question: 10

A customer gives specific instructions to his registered rep to purchase a security which is clearly unsuitable in light of the customer's investment objectives. Under FINRA rules, the registered rep:

- A. Can enter the order only with the prior approval of a principal
- B. Can enter the order
- C. Cannot enter the order
- D. Can enter the order only if the customer puts his verbal instructions into written form

Answer: B

Explanation:

Under FINRA rules, the rep may execute the trade at the customer's direction. The trade ticket should indicate that the order was unsolicited.

Question: 11

In an IRA account, a person wishing to accomplish a tax-free rollover from one qualified plan to another must re-invest assets within:

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

Answer: D

Explanation:

An investor must re-invest the assets within 60 days of the distribution date.

Question: 12

An investor who is 55 years old withdraws money from a variable annuity to meet a family emergency will pay:

- A. No taxes, because the money deposited into a variable annuity are after-tax dollars
- B. Ordinary income taxes, plus a 10% penalty
- C. Ordinary income taxes only
- D. Capital gains taxes only

Answer: B

Explanation:

The investor will have to pay the ordinary income taxes on the money, as well as a 10% penalty because he is under 59 ½.

Question: 13

Which of the following is true about taxation of annuities?

- A. Contributions are made with after-tax money
- B. When the investor withdraws money from the contract, only the growth is taxed
- C. All of the choices listed
- D. The investment is allowed to grow tax deferred

Answer: C

Explanation:

All of the choices listed are true about the taxation of annuities.

Question: 14

The most important point for a registered representative to consider when recommending a mutual fund is:

- A. Whether the mutual fund's investment objective matches the investor's investment objective
- B. The fund's current yield based solely on dividends over the past year
- C. The highest sales charge charged by the fund
- D. The performance of the fund for the past 10 years, graphed vs. a broad-based index

Answer: A

Explanation:

The most important point for an agent to consider is that the investment objective of the mutual fund matches that of his prospective customer.

Question: 15

ABC, Inc. will issue new stock through a rights offering. Terms of the offering are 10 rights plus \$10 to purchase one new share of stock, with any fractional shares to be considered whole shares. ABC is currently trading at \$13. If your customer owns 85 shares of ABC and wishes to subscribe to the new offering, how many shares can he purchase at the subscription price, and how much money will be required?

- A. Eight shares, and \$80
- B. Eight shares, and \$90
- C. Nine shares, and \$80
- D. Nine shares, and \$90

Answer: D

Explanation:

Your customer is entitled to 90 rights with his current holding of 85 shares (fractional shares are rounded up). Because each share requires 10 rights and \$10, the customer can purchase 90 shares and must pay \$90.

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