

Pass the Test, Inc. – Pass the 6© Practice Exam 1

1. Which of the following actions would tend to stimulate the economy?
 - I. increasing government spending
 - II. decreasing taxes
 - III. cutting the discount rate
 - IV. relaxing the reserve requirement
 - A. I, III
 - B. II, III
 - C. I, II, III, IV
 - D. IV
2. All of the following represent securities typically found in the portfolio of a money market mutual fund except
 - A. bankers acceptances
 - B. commercial paper
 - C. convertible debentures
 - D. negotiable CD's
3. Which of the following represent accurate statements of investment bankers?
 - A. purchase securities from issuers and re-offer the securities to investors
 - B. raise capital for state and local governments
 - C. raise capital for corporations
 - D. all choices listed
4. Inflation generally occurs because
 - A. the FRB tightens the money supply
 - B. demand for goods and services exceeds supply
 - C. supply of goods and services exceeds demand
 - D. all choices listed
5. Advantages of owning common stock include all of the following EXCEPT:
 - A. claim on earnings
 - B. claim on dividends
 - C. safety of principal
 - D. right to vote on mergers, acquisitions
6. What is true of the difference between "BID" and "ASK"?
 - A. market makers sell at the bid, buy at the ask
 - B. market makers buy at the bid, sell at the ask
 - C. customers buy at the bid, sell at the ask
 - D. the terms are synonymous

7. An investor purchases a corporate bond on the secondary market for more than the bond's par value. Therefore
- A. the investor's nominal yield will be lower than the stated rate of return
 - B. the investor's yield to maturity will be higher than the nominal yield
 - C. the investor's yield to maturity will be lower than the current yield
 - D. the investor's current yield will be the same as the nominal yield
8. All of the following issue ratings for the creditworthiness of bond issues except
- A. S&P
 - B. Fitch
 - C. Moody's
 - D. AM Best
9. Eileen resides in Richmond, Virginia. If Eileen purchases a tax-exempt municipal bond mutual fund from Rory, an associated sales agent of an NASD member firm, which of the following accurately describes the tax implications?
- A. if Rory is licensed in Virginia, Eileen will pay no state income taxes on the investment
 - B. when Eileen receives dividend distributions, they will likely be tax-exempt from federal income taxes
 - C. when Eileen receives capital gains distributions, they will likely be tax-exempt from federal taxes
 - D. when Eileen receives dividend distributions, they will be tax-exempt from Virginia state taxes
10. Rule 17f-2 of the Securities Exchange Act of 1934 requires officers and certain employees of member firms to submit fingerprints. Which of the following is/are subject to this rule?
- I. director of a NYSE-member broker-dealer
 - II. officer of an NASD-member broker-dealer
 - III. registered representative of an NASD-member broker-dealer
 - IV. employee of an NASD-member broker-dealer not involved in sales or clearing of transactions
- A. I
 - B. I, II, III
 - C. III
 - D. I, II, III, IV
11. Who grants approval for a broker-dealer's advertising and sales literature?
- A. NASD
 - B. SEC
 - C. Principal
 - D. MSRB

12. The registration statement for an issue of securities has just been declared effective by the SEC. This means
- A. The SEC has declared the issue an effective investment opportunity for non-institutional investors.
 - B. The SEC has reviewed the registration statement and is allowing sales to commence.
 - C. The SEC has approved the securities.
 - D. The SEC has declared the issue an effective investment opportunity for institutional investors.
13. Aunt Mildred purchased 392 shares of the XLT Value Fund in 1983, with the NAV at \$9.92 and the POP at \$10. Aunt Mildred dies and wills all shares to you. On the date of death the NAV is \$12. If you redeem the shares 4 months later with the NAV at \$13.00 and the POP at \$13.25, your capital gain will be:
- A. short-term gain of \$3.00 per share
 - B. long-term gain of \$1.00 per share
 - C. short-term gain of \$3.33 per share
 - D. short-term gain of \$1.00 per share
14. Mason Myer purchased 1,000 shares of MMM on January 1st, 2004. On December 31st, 2004, Mason sells the shares for a \$300 capital gain. If the trade settles on January 4th, 2005, which of the following accurately describes the tax consequences?
- A. the gain will be considered long-term
 - B. the gain will be considered short-term
 - C. Mason will report the gain or loss for tax year 2005
 - D. the gain will be treated as dividend income
15. If an investor elects to receive dividend and capital gains distributions from a mutual fund in cash, rather than reinvesting into new shares, within a 401(k) or Traditional IRA plan, which of the following best describes the tax ramifications of this decision?
- A. the decision will have no ramifications
 - B. the dividends will be taxed as long-term capital gains
 - C. the long-term capital gains will be taxed as long-term capital gains
 - D. dividends will grow tax-deferred, but capital gains will be taxed annually
16. If the owner of a variable annuity contract dies during the accumulation phase
- A. The surrender value is maintained in the separate account in order to offset miscalculations of mortality risk on the part of the actuary.
 - B. The beneficiary receives proceeds tax-free.
 - C. The beneficiary must pay tax on the proceeds.
 - D. The beneficiary must pay tax at her ordinary income rate on the excess above cost basis.

17. Withdrawals from a Traditional IRA must begin
- A. when the individual turns 59 1/2
 - B. when the individual turns 70 1/2
 - C. on April 1st of the year that the individual turns 70 1/2
 - D. on April 1st of the year following the year that the individual turns 70 1/2
18. Heather Hardwick is a college student. Heather earned \$1,100 last year waiting tables and also earned \$500 modeling for art school classes. If Heather also received \$1,400 in T-note interest, she may contribute how much to her Roth IRA?
- A. \$3,000
 - B. \$1,100
 - C. \$1,600
 - D. \$4,500
19. You have contributed to your Traditional IRA for each of the past four years. You recently took a job with an employer paying you \$27,000 per year. If you participate in the employer's defined benefit pension plan, what is true of your IRA?
- A. It must be closed.
 - B. It may remain open, but no contributions are allowed for five years.
 - C. You may continue to make pre-tax contributions to your IRA.
 - D. You may make only after-tax contributions to your IRA.
20. Your client's 73-year-old mother passes away, with your client named as beneficiary on the IRA account. Your client may receive the proceeds:
- A. over the life expectancy of his mother
 - B. over his own life expectancy
 - C. the longer of his life expectancy or that of the account owner's
 - D. tax-free
21. Jill originally invested \$9,000 into the VanWhitman Value Fund. She has since reinvested dividend distributions of \$1,000 and capital gains distributions of \$500. If Jill currently holds 1,000 shares of the fund, her cost basis is
- A. indeterminable
 - B. \$10.50 per share
 - C. \$10.00 per share plus sales charges
 - D. \$11.50 per share plus commissions

22. Which of the following statements accurately describes the taxation of capital gains?
- A. a profit realized on a stock held for 11 months is currently taxed at the investor's ordinary income rate
 - B. a loss realized on a bond held for 13 months is treated as a long-term capital gain
 - C. commissions are subtracted from the purchase price and added to the sales price of stock to determine cost basis and proceeds
 - D. investors offset long-term gains with short-term losses, and short-term gains with long-term losses
23. Daniella contributed \$50,000 into a non-qualified variable annuity at age 51. Nine years later Daniella takes a random withdrawal of \$15,000 with the account value at \$75,000. Her tax liability on the withdrawal is
- A. none, as her contributions exceed the amount withdrawn
 - B. none, as she has held the investment longer than 12 months plus 1 day
 - C. partially subject to ordinary income rates
 - D. ordinary income rates on \$15,000
24. Which of the following statements accurately describe(s) the tax implications of insurance contracts?
- A. the policyholder may surrender the part of cash value representing net premiums paid into the contract tax-free
 - B. loans against the policy are charged interest, and both the principal and interest reduce the contract values
 - C. death benefits are not taxable to the beneficiary, but are includable in the insured's estate for purposes of estate taxes
 - D. all choices listed
25. Which of the following professionals least likely meets the definition of "investment adviser"?
- A. person providing advice on Real Estate Investment Trusts for a flat fee
 - B. person providing advice on fixed annuities for a flat fee
 - C. person providing portfolio management for 150 basis points
 - D. person selling reports on small cap equities to certain large pension funds

26. An omitting prospectus for a mutual fund containing performance data must include a legend disclosing which of the following?
- I. the performance data quoted represents past performance
 - II. past performance does not guarantee future results
 - III. the investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost
 - IV. the fund has less than a .03% chance of finishing in the top 3.0% of its peer group.

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

27. Which of the following professionals least likely meets the definition of an "investment adviser"?

- A. an individual providing advice on small cap stocks for compensation
- B. an individual providing advice on variable annuities for compensation
- C. an individual providing advice on whole life insurance for compensation
- D. an individual providing advice on large cap stocks for compensation

28. Which of the following would be associated with a 50% insufficient withdrawal penalty?

- A. Internal Rate of Return
- B. Required Minimum Distribution
- C. Substantially Equal Periodic Payments
- D. Non-qualified premature distribution

29. Which of the following investment companies is considered a management company?

- A. open-end fund
- B. closed-end fund
- C. neither choice listed
- D. both choices listed

30. Julianne held 1,000 shares of ABC for 13 months before selling them for a loss of \$1,000. If Julianne repurchases shares of ABC 23 days later, which of the following accurately describes the tax implications?

- A. Julianne can be fined by the NASD
- B. Julianne can be sued for tax fraud by the IRS and/or NASD
- C. The loss is disallowed
- D. The loss is disallowed but is added to the cost basis of the new purchase

31. All of the following offer tax deferral except
- A. non-qualified variable annuity
 - B. non-qualified fixed annuity
 - C. mutual fund
 - D. 403b
32. One of your clients calls to inquire about an equity income fund that your firm sells and requests a prospectus. Since her objectives perfectly match the objectives of the fund, you explain the risks involved and discuss the various methods of reducing the front-end sales charges on A-shares. The client invests \$3,000 in the fund. Therefore
- A. you have complied with suitability requirements
 - B. no violations have occurred, provided the client does not lose more than 10 % of her principal
 - C. a prospectus is not required for an unsolicited order such as this
 - D. you have violated prospectus delivery requirements
33. Which of the following information is found in the prospectus for a mutual fund?
- A. investment policies
 - B. fees and expenses
 - C. investment objectives
 - D. all choices listed
34. Which of the following represent(s) accurate statements concerning NASD Rule 2210?
- A. a research report is defined as sales literature
 - B. a letter to 11 prospects is concerned correspondence
 - C. a cold-calling script is defined as sales literature
 - D. all choices listed
35. All of the following information is typically found in a mutual fund prospectus except
- A. list of all portfolio holdings
 - B. dividend and capital gains distribution policy
 - C. investment policies
 - D. investment objectives
36. All of the following would be registered with the SEC except
- A. Open-end investment company shares
 - B. Shares of beneficial interest in a newly-created UIT
 - C. Municipal bond mutual fund
 - D. Commercial paper

37. Which TWO of the following are considered sales literature by the NASD?
- I. web page
 - II. letter sent to a client
 - III. group e-mail sent to 37 recipients
 - IV. computer slide show for a seminar
- A. I, II
B. III, IV
C. II, IV
D. I, III
38. Which of the following statements is true concerning sales charges and 12 b-1 fees?
- A. money market mutual funds may charge a front-end sales charge
 - B. money market mutual funds may not impose a 12b1 fee
 - C. may be used to cover management fees
 - D. money market mutual funds may impose a 12b1 fee not to exceed .25% of assets
39. A registered representative calls several clients in her book of business to interest them in an opportunity to invest in her brother-in-law's new restaurant. The investment contracts are properly registered in the state and, therefore, the registered representative offers and sells them without informing her principal. Which of the following best addresses this situation?
- A. since the security was properly registered no violation has occurred
 - B. this is a violation known as "interpolation"
 - C. this represents a "wash sale"
 - D. this is a violation of NASD conduct rules because the registered representative gave her employer no opportunity to supervise her activities
40. One of your customers would like to redeem shares of the Greenwald Growth Fund. She may redeem the shares in which of the following methods?
- A. through the Greenwald Fund Family website
 - B. by telephone
 - C. by fax
 - D. all choices listed
41. Which of the following statements is/are true concerning signature guarantees and mutual fund redemptions?
- A. the fund reserves the right to require a signature guarantee on any redemption request
 - B. funds typically require the signature guarantee if the check is to be made payable to someone other than the registered shareholder
 - C. funds typically require the signature guarantee if the check is to be sent to an address different from the address of record
 - D. all choices listed

42. Claire is an associated person of an NASD member broker-dealer. Claire sells mutual funds and variable annuities on behalf of the member firm. Recently, Claire helped a college friend launch a marketing consulting business by selling ownership stakes representing 5% in exchange for only \$10,000. Which of the following statements best addresses this situation?
- A. as long as the investors are not customers of the member firm, no violation has occurred
 - B. as long as Claire did not mention the name of her employer when speaking to investors, no violation has occurred
 - C. Claire has violated NASD rules by not informing her firm of her outside activities
 - D. as long as Claire is not also insurance licensed, no violation has occurred
43. An office of an NASD member firm is considered an "OSJ" or "Office of Supervisory Jurisdiction" if which of the following take place at that location?
- A. order execution
 - B. structuring of primary offerings of securities
 - C. maintaining custody of customer funds and/or securities
 - D. all choices listed
44. A "branch office" is defined as
- A. any location identified by any means to the public or customers as a location at which the member conducts an investment banking business
 - B. any location identified by any means to the public or customers as a location at which the member conducts a securities business
 - C. both choices listed
 - D. neither choice listed
45. Which of the following statement(s) is/are true concerning NASD Rule 3110 "Customer Complaints"?
- A. NASD member firms must maintain a separate file of all customer complaints at each OSJ and a record of the action taken
 - B. NASD member firms must maintain the correspondence connected to a customer complaint
 - C. any pre-dispute arbitration clause that the customer signs must prominently and clearly explain the nature of NASD Arbitration
 - D. all choices listed
46. Which of the following represent(s) accurate statements concerning a member firm's holding of customer mail?
- A. the firm must have written instructions from the customer in order to hold mail
 - B. if traveling domestically, the customer's mail may be held at the firm for a period of two months
 - C. if traveling abroad, the customer's mail may be held at the firm for a period of three months
 - D. all choices listed

47. When opening a customer account, an NASD member must maintain which of the following information?
- A. signature of the registered representative introducing the account
 - B. whether customer is of legal age
 - C. names of persons authorized to trade on behalf of a business entity, i.e. corporation or partnership
 - D. all choices listed
48. The principal of an NASD member firm is responsible for which of the following?
- A. supervising the sales activities of registered representatives
 - B. approving new customer accounts
 - C. approving and filing communications of the firm
 - D. all choices listed
49. Which of the following is an accurate statement concerning the outside business activities of a registered representative of an NASD member firm?
- A. as long as the representative is not paid more than \$100 in any given month, there is no duty to report the activity to the member firm
 - B. as long as the remuneration is securities-related, there is no duty to report the activity to the member firm
 - C. as long as the representative does not derive more than 20% of his/her total income from the outside activity, there is no duty to report the activity to the member firm
 - D. if the representative receives any compensation for the activity, the activity must be reported to the member firm
50. If Andrea's investment appreciates 2% during a period in which the CPI decreases 2%, her real rate of return is
- A. flat
 - B. 4%
 - C. 3%
 - D. -2%
51. If an investor inquires about the purchase of a bond mutual fund, you would identify which of the following risks to her?
- A. credit risk
 - B. interest rate risk
 - C. reinvestment risk
 - D. all choices listed
52. Which of the following mutual funds typically subjects investors to the greatest political risk?
- A. corporate bond funds
 - B. tax-exempt bond funds
 - C. conservative income funds
 - D. emerging market funds

53. Which of the following risks is reduced through dollar cost averaging?
- A. political
 - B. default
 - C. timing
 - D. market
54. Specialty funds concentrate on particular industries. In which of the following specialty funds would an investor be especially interested if she anticipated an economic downturn/recession?
- A. pharmaceuticals
 - B. communications
 - C. automotive
 - D. aerospace
55. Your client invests primarily in blue chip stocks, reinvesting all dividends. This morning, while your client is traveling abroad, you see a tombstone for a primary offering of a new ETF tracking a blue chip index. Since the ETF is offered by a low-cost provider, you purchase a small amount on the effective date. Which of the following best addresses this situation?
- A. since the investment was suitable, you acted properly
 - B. since the investment was inherently unsuitable, you acted improperly
 - C. this is an example of an unauthorized transaction, a violation of NASD conduct rules
 - D. the is a violation known as selling away
56. All of the following represent assets to an investor except
- A. market value of a home
 - B. 401(k) balance
 - C. credit card balance
 - D. variable annuity
57. Which of the following types of mutual funds probably requires that the investor be able to withstand the largest amount of price volatility?
- A. equity income
 - B. growth fund
 - C. short-term US Treasury fund
 - D. long-term corporate bond fund
58. To which of the following investors would a registered representative most likely recommend an aggressive growth fund?
- A. investor with a short time horizon
 - B. 45-year-old investor whose primary objective is income and secondary objective is growth
 - C. 47-year-old investor whose insurance needs are adequately met and who participates in a defined benefit pension plan
 - D. 45-year-old investor with a 16-year-old daughter hoping to attend private college

59. An investor is convinced that the asset allocation of his portfolio is underweighted toward equities, even though he plans to retire in two years. He would like to increase the equity allocation but has only \$3,000 to invest. Which of the following best addresses suitability in this example?
- A. an investor should never invest in equities--even a small percentage--for a period of less than 10 years
 - B. Treasury bonds are the most suitable investment for the entire portfolio
 - C. C-shares of a conservative equity income fund might be suitable
 - D. ETF's would not be suitable, due to the high management fees
60. Barb is 53 and plans to retire at age 65. She is fully vested in a defined-benefit plan but is concerned about purchasing power. Her mortgage will be paid off over the next two years, and her husband has a life insurance policy with a \$500,000 death benefit. Which of the following statements best addresses suitability for this investor?
- A. US Treasury securities are suitable for investors in Barb's age bracket
 - B. Barb should invest almost exclusively in money market mutual funds
 - C. A growth & income fund with a conservative investment approach may be suitable
 - D. Barb should open an IRA and purchase a variable annuity
61. Recently, the Japanese Yen has depreciated versus the US Dollar. Therefore, which of the following statements is accurate?
- A. American exports to Japan will be more competitive in Japanese markets
 - B. American imports from Japan will be more competitive in the American marketplace
 - C. Holders of the Toyota Motor Company's ADR will not be affected
 - D. The Yen can not fluctuate in value versus the US Dollar under the USA Patriot Act
62. An investor purchasing an emerging market equity mutual fund is least exposed to which of the following risks?
- A. liquidity
 - B. political
 - C. business
 - D. currency exchange
63. Which of the following represent(s) accurate statements concerning various share classes of mutual funds?
- A. A-shares carry front-end sales charges and lower operating expenses compared to B- and C-shares
 - B. B-shares carry no front-end sales charges but do carry a declining back-end sales charge and higher operating expenses than A-shares
 - C. C-shares are only suitable for the short-term holding period
 - D. all choices listed

64. Which of the following represents a true statement concerning a customer redemption order for a mutual fund investment?
- A. customers receive the public offering price as next computed by the fund
 - B. customers receive the Asked price as next computed by the fund
 - C. customers receive the Net Asset Value as next computed by the fund, minus any back-end sales charges and/or redemption fees
 - D. customers receive the Net Asset Value as last determined by the fund
65. Which of the following reflect(s) advantages of mutual fund investing compared to investing in common stock directly?
- I. professional portfolio management
 - II. 12b-1 fees
 - III. redemption fees
 - IV. simplified tax reporting
- A. I
 - B. I, IV
 - C. II
 - D. II, III
66. If an investor were reading a prospectus profiling all of the mutual funds offered within a mutual fund complex, she would expect to see which of the following categorized as having the highest price volatility?
- A. growth
 - B. value
 - C. balanced
 - D. growth & income
67. One of ABC's equity funds focuses on investing in the stocks of companies with long track records suffering temporary setbacks. This fund is a(an)
- A. growth fund
 - B. value fund
 - C. specialty fund
 - D. sector fund
68. All of the following represent operating expenses to a mutual fund except
- A. management fees
 - B. 12b1 asset-based distribution fees
 - C. legal and accounting services
 - D. sales charge

69. Open- and Closed-end funds share all of the following characteristics except
- A. clearly stated investment objectives
 - B. may invest in debt securities
 - C. trade on the secondary market
 - D. may be diversified
70. All of the following are associated with money market mutual funds except
- A. investors pay no sales charge
 - B. investors pay no operating expenses
 - C. commercial paper is a major component of the portfolio
 - D. stable value
71. An investor has received a prospectus for the Winthorp World-Class Equity Appreciation Fund. She notes that the fund offers both A-shares and B-shares. The main difference between the two types of shares, you would inform her, has to do with
- A. amount of the management fee
 - B. investment policies and restrictions
 - C. method of paying sales charges
 - D. number of securities represented in the portfolio
72. All of the following statements concerning life insurance are true except
- A. The death benefit paid to the beneficiary would be reduced by any outstanding loans and unpaid premiums.
 - B. The death benefit paid to the beneficiary is not subject to income taxes.
 - C. The death benefit is not included in the estate for purposes of estate taxes.
 - D. The death benefit is guaranteed on a whole life policy.
73. Which of the following fixed-income mutual funds likely has the longest average duration?
- A. short-term US Treasury fund
 - B. intermediate-term investment-grade fund
 - C. long-term tax-exempt fund
 - D. money market mutual fund
74. An investment in which of the following equity mutual funds generally requires the highest risk tolerance?
- A. small cap growth
 - B. mid-cap value
 - C. large-cap growth
 - D. large-cap value

75. All of the following represent advantages to mutual fund investing except
- A. your investment is managed by a professional investment adviser
 - B. diversification can be achieved with a small minimum investment
 - C. your investment is FDIC insured
 - D. transfer agent provides safekeeping of securities

76. All of the following statements concerning loan provisions for variable contracts are true except
- A. If an annuitant in the accumulation phase takes a loan, the number of accumulation units is reduced.
 - B. If an annuitant in the accumulation phase takes a loan, the IRS considers it a distribution.
 - C. If the policy owner takes a loan in a VLI policy, this will have no effect on cash value.
 - D. After three years, the policy owner may take loans of 75% of cash value.

77. In a variable life insurance policy, the policy owner should know that
- I. death benefit is calculated annually
 - II. death benefit is tied to AIR vs. actual performance of the separate account
 - III. minimum cash value is guaranteed by the insurance company's general account
 - IV. cash value is calculated daily

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

78. Which of the following represent accurate statements concerning variable annuity contracts?
- I. number of accumulation units is fixed
 - II. number of accumulation units varies
 - III. number of annuity units is fixed
 - IV. number of annuity units varies

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

79. Which of the following operating expenses in a variable annuity contract allow the insurance company to guarantee an income stream for life while keeping expenses level?

- I. management fee
- II. mortality risk fee
- III. expense risk fee
- IV. appraisal fee

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

80. All of the following statements are true of mutual funds except

- A. may not close off purchases to new investors unless assets under management exceed \$10 billion
- B. may impose both a sales charge and a 12b1 asset-based distribution fee
- C. must redeem shares within 7 days
- D. do not trade on the secondary market

81. Variable annuities and mutual funds would generally both offer investors:

- I. investment options including growth, value, index, fixed-income, etc.
- II. tax-deferral
- III. 1035 contract exchanges
- IV. right to vote on changes to investment policy

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

82. Dale purchased an annuity through Strunk & White Broker-Dealers and received his first payment 30 days later. Dale purchased which type of annuity?

- A. periodic payment deferred annuity
- B. single-payment immediate annuity
- C. single-payment deferred annuity
- D. periodic immediate annuity

83. Which of the following statements is/are accurate concerning fixed annuities?

- A. the insurance company guarantees a minimum rate of return
- B. the insurance company bears the investment risk
- C. a Series 6 license is not required to sell the contracts
- D. all choices listed

84. Which of the following statements are accurate of both variable annuities and variable life insurance?

- I. The insurance company bears all investment risk
- II. Net payments are allocated to the separate account
- III. The main advantage over fixed contracts is the potential protection from inflation
- IV. They must be registered as securities with the SEC

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

85. Which of the following is the major reason for purchasing variable life insurance?

- A. tax-deferral
- B. ability to protect purchasing power
- C. death benefit
- D. loan provisions

86. Mordecai has just annuitized his variable annuity contract at age 69 ½. Mordecai is assured of receiving a monthly income for the rest of his life because of which of the following contract features?

- A. payout guarantee
- B. mortality guarantee
- C. death benefit
- D. expense guarantee

87. All of the following statements concerning the insurance company's separate account are true EXCEPT:

- A. if the insurance company goes bankrupt, creditors can attach the assets
- B. must be registered under the Investment Company Act of 1940
- C. usually comprised of various subaccounts representing different investment options
- D. other than a fixed-rate subaccount, the insurance company does not guarantee a rate of return

88. Heather is 49 years old. Having purchased a single-payment deferred annuity two years ago, Heather would now like to surrender the contract. Heather will most likely pay:

- A. surrender charges to the insurance company
- B. ordinary income tax on the excess over cost basis
- C. 10% penalty tax on the excess over cost basis
- D. all choices listed

89. According to the Federal Reserve Board's Regulation T, in order to purchase shares of stock trading on NASDAQ, the customer in a new margin account must deposit
- A. at least 10% of the current market value
 - B. 50% of the current market value
 - C. 35% of the current market value
 - D. 100% of the current market value
90. Under the NASD's Code of Arbitration Procedure, which of the following statements accurately describes the ramifications of a member's refusal to honor an arbitration award?
- A. this represents a felony subject to a mandatory 5 years in prison
 - B. this is a matter for civil courts and not a violation of NASD rules
 - C. this is considered conduct inconsistent with just and equitable principles of trade and, therefore, a violation of NASD Rule 2110
 - D. payment would be required upon court order
91. Which of the following customer requests would be considered a discretionary order?
- A. Buy 250 shares of MSFT this afternoon.
 - B. Sell 1,000 shares of ORCL this afternoon
 - C. Buy 200 shares of a software company today
 - D. Buy 1,000 shares of JDSU at the best price you think we can get today
92. Which of the following would protect an investor against missing assets due to the failure of her broker-dealer firm?
- A. FDIC
 - B. CBOE
 - C. NASD
 - D. SIPC
93. Julio Gamboa has a special cash account with \$380,000 in securities and \$115,000 in cash. He and his wife, Maria, also have a JTWROS account with securities worth \$450,000 and \$60,000 cash. What is the total SIPC coverage for these accounts?
- A. \$995,000
 - B. \$1,000,000
 - C. \$500,000
 - D. \$980,000

94. In which of the following cases must a member firm file a currency transaction report to FinCEN?
- A. a customer deposits \$2,000 in cash
 - B. a customer deposits \$50,000 in bearer bonds
 - C. a customer purchases \$12,000 of stock with cash
 - D. a customer writes a check for \$12,000 to a mutual fund company
95. A client deposits \$6,000 at 10 AM. If the client deposits \$5,000 at 4:00 PM, your firm would file
- A. no report at this time
 - B. a currency transaction report
 - C. a suspicious activity report
 - D. a Reg T extension request
96. Which of the following account types is typically for very short-term investing?
- A. trust
 - B. UGMA
 - C. estate
 - D. corporate
97. If a customer refuses to provide a social security or tax identification number, which of the following best explains the ramifications?
- A. the account may not be opened
 - B. a backup withholding may result
 - C. the customer must be audited by a CPA
 - D. the customer must pay a 10% penalty/excise tax
98. A Currency Transaction Report must be filed with FinCEN for any cash transaction exceeding
- A. \$2,000
 - B. \$3,000
 - C. \$5,000
 - D. \$10,000
99. The NASD requires members who belong to SIPC to maintain fidelity bonds. Fidelity bonds protect against
- A. lost, misplaced securities
 - B. forgery
 - C. fraudulent trading
 - D. all choices listed

100. All of the following statements are accurate concerning UGMA accounts except

- A. the minor's social security number is listed
- B. income may be subject to taxation in the year received
- C. if the minor dies, assets pass to the parents
- D. gifts are irrevocable and indefeasible

101. Under NASD Rule 2370, if a registered representative would like to borrow money from a customer, a loan from which of the following customers would the member firm least likely approve?

- A. former college roommate living rent-free with the registered rep while in between jobs
- B. registered representative's mother-in-law
- C. registered representative's grandfather
- D. a customer who the registered rep discovers owns a local dry cleaning shop with excess cash flow

1. ANSWER: C

WHY: if the federal government spends money buying computers, airplanes, etc., those companies hire more workers and increase their output. If they cut taxes consumers spend more \$--both actions stimulate the economy and represent "fiscal policy." The two choices concerning monetary policy would also give the economy a boost: if banks can borrow lower (discount rate) they can lower the interest rates they charge consumers and businesses. And, if they can lock up less of their money in reserve, there is more money in supply. Whenever supply rises faster than demand, prices fall. The price of money is called the "interest rate."

2. ANSWER: C

WHY: money market = short-term debt. A bond/debenture is a long-term obligation.

3. ANSWER: D

WHY: look for the internal logic of the question--because the first choice is true, so are the other two. Investment bankers raise capital for issuers by purchasing their securities and re-offering them to investors on the primary/capital market.

4. ANSWER: B

WHY: when the demand for something grows faster than its supply, prices rise. When a hurricane knocks out the refineries that turn oil into gas, the demand for gas is still high, but since the supply is tight, you're suddenly paying \$3 or \$4 per gallon.

5. ANSWER: C

WHY: if you buy common stock, let's hope you aren't afraid of watching your initial investment go down, say, 35-50% really fast. If you are, buy something else, anything but common stock.

6. ANSWER: B

WHY: there is a market for a particular stock because a market maker will let you sell at one price and let you buy at the higher price. The customer can sell at the bid price because the market maker will buy their stock at that price. But, the market maker will sell at the ask-ing price if the customer is willing to pay it.

7. ANSWER: C

WHY: if the price is up, the yields are down. So, when a bond is purchased above par, the current and yield to maturity both go down. The nominal yield is the fixed rate of interest paid by the bond, and it never changes. If it's a 5% bond, it pays 5% of par every year, end of story. The current yield and yield to maturity fluctuate with interest rates, but the nominal yield is fixed. Just like a fixed-rate mortgage, the borrower has locked in a rate over the life of the loan.

8. ANSWER: D

WHY: AM Best rates the strength of insurance companies; the other three rate bonds issued by corporations and municipalities.

9. ANSWER: B

WHY: dividends paid from bond mutual funds come from the interest payments on the bonds. If it's a tax-exempt bond fund, the dividends are treated just like the interest paid on the municipal bonds--tax-exempt at the federal level.

Now, the state can tax you on municipal bond interest, unless you buy the bonds your state won't tax--the ones issued by them or a municipality in that state. So, a Maryland resident needs to buy a Maryland Tax-Exempt Bond Fund to escape both federal and state taxation of the dividends. Capital gains are simply taxable, period.

10. ANSWER: B

WHY: only the people selling and dealing with customers' money/assets need to be fingerprinted. They, and their principals/supervisors/higher-ups, that is.

11. ANSWER: C

WHY: don't miss easy questions like this one. If you did, drop and give us 25 push-ups.

12. ANSWER: B

WHY: since we insist that you read at least 3 mutual fund prospectuses, you can start by looking at the disclaimer on the front cover--that tells you how the SEC feels about the securities registered with the SEC.

No value judgments of any kind--the security has been properly registered, end of story.

13. ANSWER: B

WHY: don't assume the IRS is always out to get us. They let you inherit securities and sell them for a long-term capital gain, no matter how quickly you sell them. The person who died probably held them long-term before dying, and chances are they didn't off themselves just to drop your tax rate. Either way, the cost basis is the fair market value on the date of death, and the gains are long-term, regardless of how long the estate/heirs hold the stock. So, if Grandma bought the stock at \$10 and it's worth \$50 when you inherit it, you could sell it the next day for \$50 and realize no gain whatsoever. If you sell this stock for \$60 two months later, it is a \$10 capital gain, but still a long-term gain, taxed at the lower rate.

14. ANSWER: B

WHY: is there any way that you could hold a stock for one year plus one day if you bought and sold it in the same calendar year? Not even on Star Trek, right? The holding period stops when you sell the stock and includes that day, too.

15. ANSWER: A

WHY: the money would stay in the tax-deferred account, so there would be no tax ramifications. The investor could either automatically reinvest into more shares, or let the money accumulate until she's ready to buy whatever the heck she wants to buy with the dividends that have built up nicely over the past year or so. Either way, it all stays inside the protective layer of the tax-deferred account.

16. ANSWER: D

WHY: it's not necessarily taxable or tax-free, but if the beneficiary receives more than the contract owner put in, that excess is taxed as ordinary income.

17. ANSWER: D

WHY: memorize this.

18. ANSWER: C

WHY: it has to be EARNED income, not bond interest, dividends from stock, or rental income.

19. ANSWER: C

WHY: you would have to be making a lot more money before you'd have a problem making your maximum pre-tax contribution to your IRA.

20. ANSWER: C

WHY: something else to memorize.

21. ANSWER: B

WHY: she has invested \$10,500 into the fund. Divided by 1,000 shares = \$10.50 per share. The IRS already collected taxes on all that money, so that is her cost basis.

22. ANSWER: A

WHY: please tell me you didn't turn a loss into a gain or match up long-term with short-term. Use good process of elimination to avoid the clearly wrong answers. At least get it down to 50-50 with a little careful analysis.

23. ANSWER: D

WHY: there are earnings here of \$25,000, so all money coming out is treated as part of that \$25,000 "excess over basis." This \$15,000 and the next \$10,000 will all be considered the earnings, taxable as ordinary income. After that's been taxed, the rest is treated as a return of her cost basis.

24. ANSWER: D

WHY: three good things to know about insurance.

25. ANSWER: B

WHY: the advice has to be on securities--a fixed annuity is not a security, and neither is whole life insurance or a commodity futures contract.

26. ANSWER: C

WHY: doesn't that fourth choice just look a little goofy? Less than a 0.3% chance of finishing in the top 3% of its peer group? I thought projections weren't allowed. They aren't, so eliminate anything with a "IV" in it. I is in every answer, so don't even worry about that one. If you can find something to eliminate the other two choices, I don't see what it is. You've actually heard these words on radio ads for mutual funds, and you'll see these disclaimers on any print ad for a specific fund.

27. ANSWER: C

WHY: an investment adviser gives advice on securities. Whole life is not a security.

28. ANSWER: B

WHY: what else would we call it? You're required to take a minimum distribution from your IRA soon after you turn 70. Otherwise, we'll remind you by hitting you with a 50% penalty.

29. ANSWER: D

WHY: there are three types of investment companies under the Investment Company Act of 1940: UIT, face-amount, management company. Management companies are either open- or closed-end funds. Memorize that, please.

30. ANSWER: D

WHY: memorize this, as I expect at least one question on "wash sales".

31. ANSWER: C

WHY: if you want tax deferral, you need a retirement plan, annuity, or insurance. Mutual funds offer no tax-deferral in and of themselves. I think the Series 6 will be very pleased if you know that.

32. ANSWER: D

WHY: how's come you wouldn't give the investor a prospectus? Don't you like working in the financial services industry?

33. ANSWER: D

WHY: even if you refuse to *read* a mutual fund prospectus, please promise yourself you'll at least look at the front cover, with the SEC disclaimer and the table of contents. You need to know what's in a mutual fund prospectus, and if you were very familiar with what's in it, your chances of success just improved greatly.

34. ANSWER: D

WHY: get the NASD exam outline and read any rule mentioned under NASD Manual, same website.

35. ANSWER: A

WHY: there is no way to have an accurate list of portfolio holdings. The portfolio gets jostled and traded all the time. The prospectus gets updated every year, so any list would almost immediately be irrelevant. You'll get maybe the top 5 or 10 holdings and a pie chart showing allocation by industry space, but the prospectus won't have the list of holdings. Of course, that's not what I'm teaching you here--I'm teaching you that the other three are in a prospectus and, hopefully, tempting you to get a few yourself and read them.

36. ANSWER: D

WHY: short-term debt securities (commercial paper, bankers acceptance) are generally exempt from the Securities Act of 1933's registration requirements. Which is cool, since you're trying to borrow at current short-term interest rates. If you had to go through the registration process, who knows where rates will even be at that point?

37. ANSWER: B

WHY: make sure you know how the communications of the firm are labeled. A website would be advertising. A letter to a client would be correspondence.

38. ANSWER: D

WHY: money market mutual funds can not have a sales charge and have to meet the definition of "no load," which means the 12b1 fee can't exceed .25% of average net assets. See, if it exceeds that, then it's really a "load" whether you charge it upfront or a little bit every year. Keep it down to .25%, and that's not high enough to be a "load" on the investor. Management fees are separated from 12b1, as anyone who has taken my advice and read a few prospectuses already knows.

39. ANSWER: D

WHY: textbook example of "selling away." Let your firm know about the crazy stuff you were thinking about doing so that you can both wipe your foreheads and say, "Gee, I'm glad we nipped that in the bud." I just read about an agent in my state who was barred by the NASD and whose license was revoked by the State because he was selling securities without letting his firm know. I'm sure he enjoyed the extra income; trouble is, his career is now over. So, great short-term strategy. Not so profitable in the long-term.

40. ANSWER: D

WHY: more stuff to memorize.

41. ANSWER: D

WHY: just three things to know about signature guarantees and mutual fund redemptions.

42. ANSWER: C

WHY: a good test taker would know exactly what he/she is supposed to say about Claire's activities here. Try to think in terms of what the regulators want you to prove that you know before turning you loose with a license, a cell phone, and good knows what sort of intentions.

43. ANSWER: D

WHY: you can get the exact definition from the NASD Manual at www.nasd.com.

44. ANSWER: C

WHY: remember that a broker-dealer is either involved with investment banking (primary market), executing trades (secondary market), or--usually--both.

45. ANSWER: D

WHY: three good things to know about NASD Arbitration.

46. ANSWER: D

WHY: this is just something else you can get by reading the relevant sections of the NASD Manual. If it's mentioned on the exam outline--read that section of the Manual. Seriously.

47. ANSWER: D

WHY: again, know thy NASD Manual.

48. ANSWER: D

WHY: the definition of "principal" is in the NASD Manual I keep trying to get you to read.

49. ANSWER: D

WHY: a good test-taker knows which answer to pick on a regulatory exam.

50. ANSWER: B

WHY: now that's a tough question. The word "real" means "above inflation." How much did the investment advance compared to inflation? It went up 2%, and inflation went down 2% . . . for a total of 4% above inflation.

51. ANSWER: D

WHY: read the prospectus for a bond fund--all of these risks are mentioned toward the beginning in the risk/return summary.

52. ANSWER: D

WHY: if the market is still emerging, chances are the social/political environment is just a little shaky. Tip--if you see crowds burning American flags and hanging rag dolls that look like our President on CNN with regularity, an investment in that country could be just a little, um, volatile.

53. ANSWER: C

WHY: you don't want to end up buying all your stock or mutual fund at one price, since that could turn out being the highest price it reaches in 10 years. If you put in a fixed dollar amount regularly, you will avoid timing risk. Your average cost per share will be better than if you had purchased all at once or purchased equal numbers of shares each time.

54. ANSWER: A

WHY: which industry would weather the storm of a recession the best? In other words, if times were tight, which of the following could you put off the longest: brand new SUV, or a refill for you daughter's asthma medicine?

55. ANSWER: C

WHY: doesn't that just look like an unauthorized transaction? I mean, it was a transaction, and I don't see any authorization for it, so . . .

56. ANSWER: C

WHY: if you thought your credit card balance was an asset, you are in good company, as most Americans have a credit card balance bigger than the equity in the home they keep using in a vain attempt to knock down a major LIABILITY known as credit card debt.

57. ANSWER: B

WHY: if you decided that US Treasuries are more volatile than growth stocks, you have never invested and never looked at any sales literature for a mutual fund. If you chose equity income funds as being more volatile than growth, please remember that when a security provides consistent income, that takes a lot of the wildness out of the wild ride. A growth investment is all speculation, often for decades. One day it looks great, the next it looks scary, but you're getting NOTHING you can spend at the store in the meantime.

58. ANSWER: C

WHY: use process of elimination. Growth funds require investors to have long time horizons. If income is the objective, put them in an equity income (or bond) fund. If the daughter is two years away from college, that is a very short time-horizon. Buy a 2-year T-note, or--if they prefer paying sales charges and expenses--put them in a short-term US Treasury fund and call it a day.

59. ANSWER: C

WHY: this is about the only nice thing I can think to say about C-shares. If you have just a little bit of time and a little bit of money and you simply have to have this investment, buy the C-shares. Whenever the investor has a long time horizon and plenty of money to invest, put him in the A-shares.

60. ANSWER: C

WHY: if you chose "buy an annuity inside an IRA" please drop and give us 25 push-ups. The NASD hates that sort of thing. Now, she says she's worried about purchasing power, so she has to buy stock. Money market and Treasury securities are for wimps looking for income. Eliminate those two and you're done.

61. ANSWER: B

WHY: the stuff we make is priced in dollars; the stuff they make is priced in Yen. If their Yen goes down in value, our dollars can buy more of their stuff, and their Yen can buy less of our stuff. Or, just close your eyes and hope for the best.

62. ANSWER: A

WHY: if you own a mutual fund, your investment is redeemable at the NAV whenever you get tired of holding it, so there is no liquidity risk on a mutual fund investment . . . unless you're one of those weirdo's buying a principal protected fund or a "fund of hedge funds."

63. ANSWER: D

WHY: this would all be crystal clear to anyone who has read an American Funds mutual fund prospectus, or any other family that has A, B, and C shares.

64. ANSWER: C

WHY: mutual funds don't really have an "Ask" price, but they do have something pretty close, called the public offering price. Either way, that would represent what a customer pays, not what a customer receives when selling. Use forward pricing--the price next computed by the fund--unless you want to get the regulators hopping mad.

65. ANSWER: B

WHY: 12b1 fees and redemption fees are not advantages--they are the price you pay for getting benefits such as diversification, professional management, and one 1099 DIV that makes it more convenient to do taxes compared to receiving dividends from 20 different companies and keeping 20 different 1099's straight.

66. ANSWER: A

WHY: maybe I'm obsessed with American Funds' "A Portfolio for Every Investor," but I love the way they place the growth funds in the highest-volatility category and even use the color RED (as in WARNING!) for those funds. Growth & Income funds are less volatile, as this catalog illustrates, with Equity Income lower still, then bonds, then money market.

67. ANSWER: B

WHY: I don't care what people are saying about the price of Wal-Mart stock right now--it's a great company with a stock trading on the cheap. Talk about a VALUE opportunity. If you think I'm nuts for buying Wal-Mart common stock, which is down maybe 15% this year, you must think they're headed for bankruptcy. I'm about as

worried about Wal-Mart going bankrupt as I am worried that a spaceship might land on my back yard today after I went ahead and put down fertilizer. Could happen--but, chances are, I'll still be sleeping soundly tonight.

68. ANSWER: D

WHY: any mutual fund prospectus for a fund charging a sales charge will show that a sales charge is deducted from the investor's check when she buys (A shares) or when she sells (B shares). Operating expenses are in a different table, a whole different ball of wax. Whether a fund has a sales charge or not, it will have operating expenses, end of story.

69. ANSWER: C

WHY: the main thing that separates the open-end and closed-end fund is that you redeem your open-end fund to the company, who pays you the NAV, while you have to trade your shares of your closed-end fund exactly as you would trade shares of GE, Wal-Mart, Microsoft, etc.

70. ANSWER: B

WHY: as a "no-load fund," the money market fund can charge a 12b1 fee up to .25%, which is why they charge up to .25%, not .24 or .23%. There are also other expenses (management fee, other fees) that can easily take the expense ratio of a money market mutual fund to about .75%. Which is great when short-term interest rates are offering you, say, 2%.

71. ANSWER: C

WHY: the management fees would be the same. The difference is that the A-shares charge a front-end load, while the B-shares charge a back-end load. The 12b1 fees would also be much higher on the B-shares.

72. ANSWER: C

WHY: the death benefit IS included in the value of the estate, as is the value of an annuity.

73. ANSWER: C

WHY: long-term = high/long duration. I am confident that the test would not go any deeper than that, unless it did.

74. ANSWER: A

WHY: growth is the most volatile objective, and the smaller the "cap," the higher the risk.

75. ANSWER: C

WHY: open up a mutual fund prospectus and you'll quickly see the bold-letter warning that your investment is not a bank product backed up by FDIC insurance. It is an investment that could--theoretically--become totally worthless, which is, of course, what makes investing so much fun in the first place.

76. ANSWER: C

WHY: if you take a loan against the value of your insurance policy, guess what happens to the value of your insurance policy?

77. ANSWER: C

WHY: read carefully--there is a minimum DEATH BENEFIT, but not a minimum cash value on a variable life policy. What if the individual wants a minimum guaranteed cash value? Sell him some whole life and call it a day.

78. ANSWER: C

WHY: some variation of this question will be on the Series 6. Promise yourself you'll get it right.

79. ANSWER: D

WHY: these are often called "M & E" by the tragically hip in the industry. The mortality guarantee means that you'll get a check as long as you're alive. The expense guarantee means they'll keep their expenses level. But, like most things offered by an insurance company, these things come with little fees attached. They're a business; they like fees.

80. ANSWER: A

WHY: mutual funds often close off purchases to new investors. Eventually, they end up with a good problem on their hands--too much money and not enough good places to put it.

81. ANSWER: C

WHY: mutual funds offer no tax advantages, really, so just eliminate the two choices talking about tax advantages.

82. ANSWER: B

WHY: let's see, Dale made a single payment and immediately started receiving annuity payments. What in the world do they call those annuities that pay out immediately after the investor makes a single payment. Shoot--I thought I knew this one.

83. ANSWER: D

WHY: a fixed annuity is not a "security." It's just a contract with an insurance company.

84. ANSWER: C

WHY: if the investment goes into the separate account, that means, by definition, it's not guaranteed by the insurance company's general account.

85. ANSWER: C

WHY: no matter how cool it is to allocate net premiums to various subaccounts (growth, growth & income, value, etc.) the main reason to buy a life insurance policy is for the death benefit.

86. ANSWER: B

WHY: as long as he is a mortal, he'll receive a monthly check.

87. ANSWER: A

WHY: creditors could attach the assets of the GENERAL account, because those are the insurance company's assets. The separate account is--get this--separate from the general account. These assets belong to customers, and you can't have 'em, nah-nah-nah-nah.

88. ANSWER: D

WHY: three good reasons why Miss Heather oughta' rethink her little decision to surrender the contract early.

89. ANSWER: B

WHY: memorize this, as I expect 1 or 2 questions about Reg T, or even Reg U.

90. ANSWER: C

WHY: if you don't play by the Arbitration Code, the NASD would be happy to give you a little seminar on the painful process called Code of Procedure.

91. ANSWER: C

WHY: which order allows the rep to make a big decision--the one that leaves the particular stock up to the rep, right? Think of it this way--if you let me choose a "software company," I could end up purchasing Microsoft, or I could end up purchasing Silicon Graphics, which is worth about 6.8 cents today and headed for bankruptcy. You sure you want to give me that much DISCRETION over your account?

92. ANSWER: D

WHY: take a quick visit to www.sipc.org and you'll know for sure what SIPC is all about.

93. ANSWER: D

WHY: for some reason, most people hate these questions. Just remember that the coverage stops at 500K total, and no more than 100K of that can be "cash". So, the first account is covered up to \$480,000, and the second stops at \$500,000, as always. Add them together and move on with your life.

94. ANSWER: C

WHY: transactions of cash > 10K are reported on CTR's (Currency Transaction Reports).

95. ANSWER: B

WHY: cash transactions > \$10,000 in one day require a Currency Transaction Report (CTR).

96. ANSWER: C

WHY: an estate is usually open for 6 months, maybe 2 years. Very short time horizon—recommend money market securities, including T-bills, and maybe a 2-year T-note.

97. ANSWER: B

WHY: no idea why the customer won't give the tax ID number, but something tells me he'll end up providing it once he sees how much money is now in the hands of the IRS.

98. ANSWER: D

WHY: just something else to memorize.

99. ANSWER: D

WHY: three more things to know for your exam, just in case they show up.

100. ANSWER: C

WHY: actually, if the child--God forbid--dies, the assets go to the child's estate, not the parents. Memorize the other three very likely testable points about UGMA accounts.

101. ANSWER: D

WHY: hope you didn't expect a 100-question exam to have, like, 100 questions. In any case, I don't like the idea of a registered rep finding out the customer has a business and then asking the dude to, like, spot the rep some money. Two of the other choices were in the rep's immediate family, so we'll have a policy that will tell the rep whether we need to know about that or not, and anybody that the rep is providing material support to falls in this category, even the deadbeat roommate still riding his skateboard to and from the nearest liquor store at age 32.