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**QUESTION 1**

The essential difference between a 401(k) plan and a 403(b) plan is that:

- A. the 403(b) plan is for small businesses while the 401(k) plan is for large corporations.
- B. only employers can contribute to 403(b) plans while both employers and employees can contribute to 401(k) plans.
- C. the 403(b) plan is for employees of specific non-profit organizations whereas the 401(k) plan is for the employees of private corporations.
- D. contributions to 403(b) plans are always tax deductible, which is not the case with 401(k) plan contributions.

Correct Answer: C

Explanation: The essential difference between a 401(k) plan and a 403(b) plan is that the 403(b) plan is for employees of specific non-profit organizations whereas the 401(k) plan is for the employees of private corporations. The tax advantages and eligibility requirements of a 403(b) plan are the same as those for a 401(k) plan.

QUESTION 2

Which of the following is not included in calculating the expense ratio of a mutual fund?

- A. management fees
- B. 12b-1 fees
- C. redemption fees
- D. recordkeeping fees

Correct Answer: C

Explanation: Redemption fees are not included in calculating the expense ratio of a mutual fund. Redemption fees are incurred by the fund shareholders when they redeem their shares of the fund. All of the other expenses represent annual expenses that the fund incurs and are, therefore, included in calculating the expense ratio of a mutual fund.

QUESTION 3

On Friday, August 6th, the Board of Directors of Ecolab (ECI) announced that it would pay a dividend of \$0.155 a share to shareholders of record as of Tuesday, September 21st. The dividend checks were scheduled to be mailed on Friday, October 15th. In this scenario, the ex-dividend date is:

- A. Friday, August 6th.
- B. Friday, September 17th.
- C. Tuesday, September 21st.
- D. none of the above.



Correct Answer: B

Explanation: The ex-dividend date is Friday, September 17th in this scenario. It is two business days prior to the date of record, which is Tuesday, September 21st in this example. Saturday is not considered a business day, so the ex-dividend date is the preceding Friday.

QUESTION 4

Which of the following risks would not be a risk associated with a municipal bond fund?

- I. credit risk
 - II. reinvestment risk
 - III.
currency exchange risk
- A.
I and III only
- B.
III only
- C.
II and III only
- D.
I, II, and III

Correct Answer: B

Explanation: Currency exchange risk is the only risk listed that would not be associated with a municipal bond fund. Municipal bond funds invest only in bonds of state and local governments in the U.S., so there is no exposure to exchange rate fluctuations. Like corporate bonds, municipal bonds have varying degrees of credit risk. Investors are also exposed to reinvestment risk since interest payments received may have to be reinvested at lower interest rates if rates have been falling.

QUESTION 5

Giant Investments mass mails a single-page, glossy flyer that lists the types of mutual funds it offers, along with a general explanation of what the investment objective of each type of fund is. The flyer also prominently provides Giant's contact information. Given these facts:

- A. Giant Investments must submit a copy of this brochure within 10 days of its initial distribution date to FINRA.
- B. a principal of Giant Investments must sign (or initial) and date the brochure, giving it his official approval.
- C. the brochure will be subject to spot checks by FINRA and will need to be kept on file.



D. None of the above statements is true.

Correct Answer: D

Explanation: Given the facts about the content of the flyer, none of the statements is true. If Giant Investments mass mails a flyer that only lists the types of mutual funds it offers along with a general explanation of what the investment objective of each type of fund is and Giant's contact information, it has issued only a generic advertisement as defined by Rule 135A of the Securities Act of 1933. As such, it is not considered an offer to sell and does not have to meet the requirements to which more specific advertising material is subject.

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