FINRA-SERIES-6 Q&As

FINRA Investment Company and Variable Contracts Products Representative Examination (IR)

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QUESTION 1

Which of the following statements about specialists is false?

A. Specialists are market makers in assigned stocks and, as such, can profit from these investments.

B. Specialists are required to maintain a fair and orderly market in their assigned stocks, meaning that they must buy if there is an excess of sell orders and sell out of their own portfolios if there is an excess of buy orders.

C. Specialists are employees of the exchange on which they oversee trades.

D. In addition to acting as market makers, specialists also act as agents and execute limit orders placed by commission brokers for their clients if the specified price is reached.

Correct Answer: C

Explanation: The statement that specialists are employees of the exchange on which they oversee trades is false. Specialists are separate firms that are members of the exchange. Specialists are market makers in the stocks that are assigned them by the exchange and can earn profits (or losses) on these investments, just like any other market maker. They are required to maintain a fair and orderly market in their assigned stocks, however, which means they sometimes must trade against the market. They also maintain a central limit order "book" in their assigned stocks.

QUESTION 2

Upon receiving approval via a majority vote of its shareholders, a mutual fund is permitted to:

A. change from a diversified company to a non-diversified company.

B. engage in margin transactions.

C. retain any dividends and capital gains that it earned on its portfolio rather than paying them out to the shareholders.

D. issue preferred stock.

Correct Answer: A

Explanation: Upon receiving approval via a majority vote of its shareholders, a mutual fund is permitted to change from a diversified company to a non-diversified company. The fund is not allowed to engage in margin transactions, fail to make dividend and capital gain distributions, or issue preferred stock under any circumstances.

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 would not be a characteristic associated with stocks in which a growth fund might invest?

A. high earnings growth

B. high price-earnings (P/E) ratio

C. high cash dividends

D. beta > 1.0

Correct Answer: C

Explanation: The choice that would not be a characteristic of stocks in which a growth fund might invest is high cash dividends. Growth stocks offer returns in the form of capital appreciation (aka price increases.) In order to achieve this growth, the firms reinvest their earnings in their firms rather than distributing the earnings as dividends. Growth firms are those that are experiencing high earnings growth, and as a result, investors who are expecting great things from these firms are paying even higher prices, resulting in high P/E ratios. Growth firms are usually riskier than the average stock and have a beta greater than 1.0 to reflect this.

QUESTION 5

The total return reported by a mutual fund:

A. is calculated as the percentage change in the net asset value of the fund.

B. is equal to the return it earned on the dividend and interest income it received from its investments.

C. is equal to the annual percentage increase in the dollars invested in the fund by investors.

D. includes both the dividend and interest income earned by the fund and any increase in the fund\\'s net asset value.

Correct Answer: D

Explanation: The total return reported by a mutual fund includes both the dividend and interest income earned by the fund and any increase in the fund\\'s net asset value. It includes both the return on dividends and interest income and the return due to the capital appreciation of the fund\\'s value.