



FINRA-SERIES-6^{Q&As}

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

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QUESTION 1

The mortality guarantee of a variable annuity contract:

- A. guarantees a fixed death benefit amount will pay to your beneficiaries upon your death.
- B. guarantees that you can receive a monthly check of a specified amount as long as you live.
- C. guarantees that both you and a person you specify as your beneficiary will continue to receive payments as long as one of the two of you is alive.
- D. None of the above is a true statement about the mortality guarantee of a variable annuity contract.

Correct Answer: D

Explanation: None of the choices provided is a true statement about the mortality guarantee of a variable annuity contract. The mortality guarantee guarantees that you can receive a monthly check for as long as you live, but it does not guarantee that the check will be for a specified amount.

QUESTION 2

A new issue of common stock can be classified in which of the following categories?

- I. primary market
- II. money market
- III. secondary market
- IV. capital market

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

Correct Answer: C

Explanation: Only Selections I and IV are correct. A new issue of common stock will be sold in the primary market. It is also a capital market security since it has no maturity, and capital market securities are securities with greater than one



year to maturity.

QUESTION 3

Which of the following is exempt from registering as an investment company under the Investment Company Act of 1940?

- A. a unit investment trust
- B. a non-diversified mutual fund
- C. a company that sells its securities only to accredited investors
- D. a company that has no sales charges or management fees

Correct Answer: C

Explanation: A company that sells its securities only to accredited investors is exempt from registering as an investment company under the Investment Company Act of 1940. All the other choices describe investment companies that are required to file a registration statement with the SEC.

QUESTION 4

GoForBroke Investments has registered with the SEC to be a market maker in certain NASDAQ-listed securities. In order to be able to enter bid and ask quotes for the securities in which it is going to make a market, GoForBroke must subscribe to which level of NASDAQ?

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

Correct Answer: C

Explanation: In order to enter bid and ask quotes, GoForBroke must subscribe to NASDAQ's Level II. Level I simply allows the user to view the highest bid and lowest ask price for a security, and Level II allows the user to view all the bid and ask quotes from all the market makers in a security, but only Level III allows the subscriber to enter quotes. There is no Level IV.

QUESTION 5

Ms. Newbie is a newly-minted registered representative. Mr. Oldman saunters into her office, becomes infatuated with her, opens an account, and signs a document giving Ms. Newbie discretionary authority over the account. Mr. Oldman is 68 years old, retired, lives on a fixed income, and pays taxes at the lowest marginal tax rate available. His stated investment objectives are capital preservation and income. Ms. Newbie invests $\frac{1}{4}$ of his investment monies in a periodic-payment, deferred, variable annuity. Based on these facts:

- A. Ms. Newbie has done a remarkable job as a newly-minted representative of allocating at least a fourth of Mr.



Oldman\\'s funds appropriately.

B. Ms. Newbie may lose her license before she gets started in the business for making an unauthorized transaction.

C. Ms. Newbie has a reasonable sexual harassment case against Mr. Oldman for putting her in such a position.

D. Although Ms. Newbie\\'s asset allocation for Mr. Oldman is less than optimal, she is in no danger of losing her license or any other penalty, given that she has been given discretionary authority over the account.

Correct Answer: B

Explanation: If Ms. Newbie invests $\frac{1}{4}$ of Mr. Oldman\\'s investment monies in a periodic payment, deferred, variable annuity, given his age and his investment objectives, she may lose her license before she gets started in the business for making an unauthorized transaction. Even though she has discretionary authority over the account, she must still ensure she selects investments that are suitable for her client. A deferred, variable annuity clearly does not match Mr. Oldman\\'s investment objectives. The value of the contract fluctuates, for one thing, and for another, there will be no income from it initially since it is a deferred annuity, and it probably has a surrender charge as well.

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