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 share classes do not have front-end loads?

A. Class A

B. Class B

C. Class C

D. Neither Class B nor Class C shares have front-end loads.

Correct Answer: D

Explanation: Neither Class B nor Class C shares have front-end loads. Class B and Class C shares typically have higher 12b -1 fees, however, with Class C having the highest 12b-1 fees of the three classes.

QUESTION 2

Which of the following securities is not exempt from registration requirements?

A. private-placement variable universal life insurance

B. a revenue bond issued by the state of Florida to raise money to build an airport

C. a bond issued by the U.S. post office

D. a new issue of stock issued by a corporation that already has shares of its stock trading on the NYSE

Correct Answer: D

Explanation: A new issue of stock issued by a corporation that already has shares of its stock trading on the NYSE is not exempt from registration requirements. Private placements, municipal bonds, and bonds issued by U.S. government agencies are all exempt from registration requirements.

QUESTION 3

The Invest4U Mutual Fund is a regulated investment company under Internal Revenue Code Subchapter M. This means that:

A. Invest4U must submit an annually-updated prospectus to the IRS as well as to the SEC.

B. Invest4U does not itself have to pay taxes on any dividend or capital gain income it receives and distributes to its shareholders.

C. Invest4U is a UIT.

D. Invest4U is a non-diversified management company.

Correct Answer: B

Explanation: A regulated investment company under Internal Revenue Code Subchapter M is one that does not itself have to pay taxes on any dividend or capital gain income it receives and distributes to its shareholders. There is no requirement that it file an updated prospectus with the IRS, nor that it be a non-diversified management company. By definition, a mutual fund is not a UIT.

QUESTION 4

Which of the following formulae is used to calculate the net dividend income per share of a mutual fund?

A. Subtract operating expenses from dividend and interest income and divide the result by the number of outstanding shares.

B. Divide gross investment income by the number of outstanding shares.

C. Subtract operating expenses from the income derived from dividends, interest, and short -term capital gains earned by the fund and divide the result by the number of outstanding shares.

D. Add dividends, interest, and short-term and long-term capital gains earned by the fund; subtract operating expenses; then divide the result by the number of outstanding shares.

Correct Answer: A

Explanation: The formula that is used to calculate the net dividend income per share of a mutual fund is: Subtract operating expenses from dividend and interest income and divide the result by the number of outstanding shares. Net dividend income per share is calculated by dividing net investment income by the number of shares outstanding, and net investment income is the income (dividends and interest) generated by the fund\\'s investments minus the fund\\'s operating expenses.

QUESTION 5

Mr. A. D. Venturer owns 10,000 shares of Risky Corporation, which is currently selling for $8 a share. He is leaving shortly for an extended trip to Antarctica and will be out of communication for that time. He doesn\\'t want to liquidate his investment in Risky before he goes, but he doesn\\'t want to return to find that his $80,000 investment is worth little to nothing.

Which of the following options would make sense for Mr. Venturer?

A. buy a call option on Risky stock with an $8 strike price and an expiration date that occurs after his return

B. place a stop sell order at a price less than $8 a share-perhaps $6 or $7 a share

C. place a limit order to sell Risky at either $8 a share or a price slightly less than $8 a share

D. enter a good \\'til cancelled (GTC) market order to sell Risky

Correct Answer: B

Explanation: The option that makes sense for Mr. Venturer is to place a stop sell order at a price less than Risky\\'s current market price of $8. A stop loss order becomes a market order when the specified price is reached. If he were to place it for Risky\\'s current market price of $8, his shares would be sold immediately at the next available price. If the specified price is less than $8, the order won\\'t get executed unless the price falls to that level. A limit order specifies the lowest price at which he\\'s willing to sell the shares, so if he places a limit order for $8 or less, the order will be executed immediately at the current market price of $8. A call option would not help him-it would just enable him to buy additional shares for $8 a share. And there is no such thing as a good 'til cancelled market order. A market order is executed immediately at whatever the prevailing price is at the moment.

QUESTION 6

HiTop Investments main office is located in the state of Colorado. A registered representative of the firm sent out an e-mail to his clients, some of whom reside in other states, promoting the firm\\'s Colorado Municipal Bond Fund, which invests exclusively in bonds offered by the state and local governments of Colorado. In the e-mail, the representative states, "These bonds provide income that is free from both federal and state taxes and may also be free from local taxation, if any exists."

Is this e-mail in violation of any securities' laws?

A. No. Since the fund invests exclusively in bonds offered by the state and local governments of Colorado, the representative\\'s statement contains no misstatement of fact.

B. Yes. Advertisements referring to a specific fund may not be distributed by electronic means.

C. Yes. A fund that invests only in bonds offered by state and local governments of one state may not be sold to investors who reside in other states.

D. Yes. The representative\\'s statement that the" bonds provide income that is free from both federal and state taxes and may also be free from local taxation, if any exists," is untrue.

Correct Answer: D

Explanation: Yes, the e-mail is in violation of the Securities Act of 1933 because the representative\\'s statement that the "bonds provide income that is free from both federal and state taxes and may also be free from local taxation, if any exists," is an untrue statement of a material fact. Although the income will be free from federal taxation, residents of states other than Colorado will likely be required to pay state and local income taxes on the interest earned. It is not illegal to sell municipal bonds to investors in other states or to distribute advertisements by electronic means.

QUESTION 7

Mr. Donald is the owner and CEO of Just Ducky Broker-Dealers. His wife, Ms. Daisy, handles all the ministerial duties for the firm. The firm has three other employees. Huey is the municipal bond specialist and handles client trades in municipal securities only; Dewey handles only mutual fund sales for clients; Louie handles all aspects of client trading in stocks, corporate bonds, and options.

Which of the following statements regarding the minimum FINRA registration requirements for these individuals is true?

A. Mr. Donald, Huey, Dewey and Louie must all be registered as general securities representative s in accordance with FINRA rules.

B. Mr. Donald, Ms. Daisy, Dewey and Louie must be registered as general securities representatives, and Huey must be registered as a limited securities representative under FINRA rules.

C. Under FINRA rules, Mr. Donald must register as a principal, Dewey must be registered as a limited securities representative, and Louie must be registered as a general securities representative. Daisy and Huey need not be registered.

D. Mr. Donald and Ms. Daisy must be registered as principals, and the other three must be registered as general securities representatives under FINRA rules.

Correct Answer: C

Explanation: The true statement regarding FINRA registration requirements for the individuals is that Mr. Donald must register as a principal; Dewey must be registered as a limited securities representative; and Louie must be registered as a general securities representative. Daisy and Huey need not be registered. Mr. Donald is actively involved in the management of Just Ducky and, as such, he must register as a principal. Dewey handles mutual fund sales and, at a minimum, must be licensed as a limited representative. Louie, who executes stock, bond, and option transactions, must be licensed as a general securities representative. Huey is exempt from registration requirements since he trades in municipal securities only. Daisy is exempt since she handles only the ministerial duties of the firm.

QUESTION 8

Asset allocation involves:

A. selecting the investments that are expected to offer the highest return over your client\\'s investment horizon.

B. determining the percentages that your client should be investing in various types of investments (e.g., stocks, bonds) based on his investment objectives.

C. selecting the investments that will expose your client to the least amount of risk.

D. determining the specific stocks and bonds in which your client should invest his funds.

Correct Answer: B

Explanation: Asset allocation involves determining the percentages that your client should be investing in various types of investments (e.g., stocks, bonds) based on his investment objectives. You should not necessarily select investments that are expected to offer the highest return for a risk-averse client because higher returns entail more risk exposure. Nor should you necessarily select investments that will expose your client to the least amount of risk. These may not offer the client the return he needs to achieve his investment goals. Asset allocation refers only to determining the types of investments, not the specific investments within each category. Specific investment selection is the next step after the asset allocation decision is made.

QUESTION 9

Chandler is a registered representative with GetErDone Broker-Dealers, a FINRA member-firm. His friend, Phoebe, is employed by FlyByNight Investments, which is not a member of FINRA, or any other securities association for that matter. Given these facts:

A. If Chandler executes any transactions for Phoebe, he is required to charge her the same commission that he charges any member of the general public.

B. Chandler is prohibited from engaging in any financial transactions with Phoebe.

C. Chandler is prohibited from splitting any commissions with Phoebe.

D. Both A and C are true.

Correct Answer: D

Explanation: Given that Chandler is a representative with a member firm while Phoebe\\'s employer is not a member of any known securities association, he is required to charge Phoebe the same commission that he charges any member of the general public when executing a transaction for her and is prohibited from splitting commissions with her. He is not prohibited from engaging in any financial transactions with her; he simply must do so “for the same commissions or fees, and on the same terms and conditions as are. . .accorded to the general public,” according to FINRA.

QUESTION 10

Main Street Capital Corporation (MAIN) is registered as a non-diversified investment company under the Investment Company Act of 1940.Based on this, which of the following statements regarding MAIN are true?

I. MAIN may not invest more than 5% of its investment monies in any single issuer.

II. The net asset value of MAIN\\'s shares is likely to fluctuate more than that of a diversified investment company.

III.

MAIN\\'s returns are more likely to be affected by any single, specific economic occurrence or regulatory change.

A.

I only

B.

I and II only

C.

II and III only

D.

I, II, and III

Correct Answer: C

Explanation: Only Selections II and III are true. Because MAIN is a non-diversified investment company, it may invest more than 5% of its investment monies in a single issuer. This results in less risk diversification, so its net asset value is likely to fluctuate more than that of a diversified investment company. In addition, this means its returns are more likely to be affected by any single, specific economic occurrence or regulatory change.

QUESTION 11

Mandatory guidelines for the prospectuses of which of the following are dictated by the Investment Company Act of 1940?

I. mutual funds

II. closed-end investment companies

III. unit investment trusts

IV.

variable contracts

A.

I and II only

B.

II only

C.

I, II, and III only

D.

I, II, III, and IV

Correct Answer: D

Explanation: Mandatory guidelines for the prospectuses of all of the selections are dictated by the Investment Company Act of 1940.

QUESTION 12

Which of the following would not constitute a “public appearance,” as defined by FINRA?

A. A registered representative gives a free seminar on the topic of asset allocation to members of her church.

B. A registered representative starts a blog that discusses the pros and cons of various types of investments.

C. The investment adviser of a tech fund that has had phenomenal returns in the past 12 months responds to some questions from a business newscaster via a remote monitor.

D. All of the above constitute public appearances as defined by FINRA.

Correct Answer: D

Explanation: All of the choices constitute public appearances as defined by FINRA.A public appearance is defined by FINRA as “participation in a seminar, forum (including an interactive electronic forum), radio or television interview, or other public appearance or public speaking activity.”

QUESTION 13

Any person who willfully acts in violation of the Securities Act of 1933, or any SEC rule, is subject to a penalty of:

A. 10 years in prison or a $10,000 fine, or both.

B. 5 years in prison or a $10,000 fine, or both.

C. 10 years in prison or a $25,000 fine, or both.

D. 5 years in prison or a $5,000 fine, or both.

Correct Answer: B

Explanation: Any person who willfully acts in violation of the Securities Act of 1933, or any SEC rule, is subject to a penalty of 5 years in prison or a $10,000 fine, or both.

QUESTION 14

Which of the following qualifies as an insider under the definition provided by the Securities Exchange Act of 1934?

I. a member of the board of directors of a firm

II. the vice-president of marketing of a firm

III.

an investor who owns 5% of the voting stock of the firm IV. the daughter of the CEO of a firm

A.

I and II only

B.

I, II, and III only

C.

I, II, and IV only

D.

I, II, III, and IV

Correct Answer: C

Explanation: Selections I, II, and IV all describe individuals who qualify as insiders under the definition provided by the Securities Exchange Act of 1934. An insider is any director or officer of the firm or any member of their immediate family. An investor who owns 10% of the voting stock of the firm and his immediate family members are also classified as insiders; an investor who owns 5% of the voting stock does not fall within the guidelines of the definition.

QUESTION 15

Jack purchased a new bond of the Candlestick Corporation for its face value of $1,000. The bond has a coupon rate of 3.5%, makes semiannual interest payments, and matures in fifteen years. A year after purchasing the bond, Jack needs to sell the bond to offset some major expenses he incurred when his home caught on fire. Interest rates in the economy at this time have fallen to 3.0%.

Given this scenario, when Jack sells the bond, he can expect to receive which of the following?

A. more than what he originally paid for the bond.

B. less than what he originally paid for the bond.

C. exactly what he paid for the bond.

D. $965, which is what he paid for the bond less the $35 in interest he received during his year of owning the bond.

Correct Answer: A

Explanation: Since interest rates in the economy have decreased, Jack can expect to receive more than what he originally paid for the bond. Bond prices move inversely with interest rate changes, all else equal.