FINRA-SERIES-6 Q&As

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

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QUESTION 1

Ari Gaunt was affiliated with Savvy Investments and was terminated after some of the female representatives associated with Savvy filed sexual harassment complaints against him. Mr. Gaunt believes that he is still due money for some transactions he executed prior to his termination; Savvy believes otherwise. Under FINRA\\'s Code of Arbitration:

A. Ari may either sue Savvy in a civil court of law or submit his claim to arbitration. If Ari submits his claim for arbitration and is unhappy with the panel\\'s decision, he can then sue

B. Savvy in a civil court of law.

C. Ari has six years to submit his claim to arbitration.

D. both B and C are true statements.

Correct Answer: C

Explanation: If Mr. Gaunt believes he is still due money from Savvy, and Savvy disagrees, Ari has six years to submit his claim to arbitration under FINRA\\'s Code of Arbitration. Ari cannot sue Savvy in a court of law, and the decision of the arbitration panel is final.

QUESTION 2

Ms. Newbie is a registered representative with Savvy Investments and has recently gotten married. (Her new name is Mrs. Newbie-Oldman.)Her husband has been a client of hers, and the couple now wants to put her name on the account. In this case:

A. Ms. Newbie is a registered representative with Savvy Investments and has recently gotten married. (Her new name is Mrs. Newbie-Oldman.)Her husband has been a client of hers, and the couple now wants to put her name on the account. In this case:

B. Mrs. Newbie-Oldman must obtain written authorization from Savvy Investments to put her name on the account.

C. Mrs. Newbie-Oldman\\'s husband must provide written authorization to Savvy Investments for his new bride to be included on the account.

D. Both B and C are true statements.

Correct Answer: D

Explanation: If Mrs. Newbie-Oldman and her new husband want her name on what was previously his account, she must obtain written authorization from her employer, Savvy Investments, and her new husband must provide his written authorization to Savvy. She is exempted from the proportional investment requirement as Mr. Oldman\\'s spouse, but not from the written authorization requirements under FINRA Rule 2150.

QUESTION 3

A passive asset allocation strategy that involves establishing specific targeted percentages for the various asset classes and rebalancing only as necessary to maintain those percentages as long as the investor\\'s investment objectives remain unchanged is called:

A. strategic asset allocation.

B. tactical asset allocation.

C. interactive asset allocation.

D. dynamic asset allocation.

Correct Answer: A

Explanation: A passive asset allocation strategy that involves establishing specific target percentages for the various asset classes and rebalancing only as necessary to maintain those percentages as long as the investor\\'s investment objectives remain unchanged is called strategic asset allocation. Tactical asset allocation is an active strategy that involves trying to time the market to some extent. Dynamic asset allocation is also an active strategy in which the portfolio mix is adjusted as markets rise and fall, such that the weighting is heaviest in those asset classes that can be expected to perform well under the current economy. Interactive asset allocation is a fictitious strategy.

QUESTION 4

Andy and Annie Raggedy own their own graphics art business that they operate out of their home and, happily, generate enough income to meet their current needs. The couple is planning on having children in the not too distant future,

however, and they want to start putting money aside for their children\\'s college education and also want to start saving for retirement more aggressively.

Which of the following describes one of their primary investment objectives?

A. tax-exempt income

B. preservation of capital

C. current income

D. capital appreciation

Correct Answer: D

Explanation: Since Mr. and Mrs. Raggedy\\'s stated goals are to save for their future children\\'s college education and to save for retirement, one of primary investment objectives is capital appreciation. That is, they will want to invest their monies in assets that will grow at a sufficient rate for them to be able to meet these targets. They have enough income to meet their current needs, so Choices A and C are not primary objectives, and although we'd all like to preserve capital, we need to take some risk in order to get the returns we require.

QUESTION 5

After passing the Series 6 and becoming a registered representative, you will be able to execute transactions in which of the following securities?

I. corporate stocks

II. mutual funds

III. corporate bonds

IV.

variable contracts

A.

I, II, III, and IV

B.

I, II, and IV only

C.

II and III only

D.

II and IV only

Correct Answer: D

Explanation: After passing the Series 6 and becoming a registered representative, you will be able to execute transactions in mutual funds and variable contracts only. A passing grade on the Series 6 qualifies you to be registered as a "limited representative."

QUESTION 6

The Securities Exchange Act of 1934:

I. regulates the market for new issues.

II. delineates the registration requirements for investment advisers.

III. regulates secondary market activities.

IV.

requires that officers and some other employees of member firms submit their fingerprints to the U.S. attorney general\\'s office.

A.

I and II only

B.

II and III only

C.

III and IV only

D.

I, II, III, and IV

Correct Answer: C

Explanation: Only Selections III and IV accurately describe provisions of the Securities Exchange Act of 1934. The Securities Exchange Act of 1934 provides for the regulation of secondary market activities. One section of the Act (Rule 17f-2) requires that officers and some other employees of member firms submit their fingerprints to the U.S. attorney general\\'s office. The Securities Act of 1933 regulates the market for new issues, and the Investment Advisers Act of 1940 delineates the registration requirements for investment advisers.

QUESTION 7

A fund\\'s transfer agent is responsible for:

I. calculating and distributing the capital gain and dividend income of the fund.

II. mailing shareholder account statements.

III.

paying fund expenses.

A.

I only

B.

II only

C.

I and II only

D.

I, II, and III

Correct Answer: C

Explanation: A fund\\'s transfer agent is responsible for calculating and distributing the capital gain and dividend income of the fund and mailing shareholder account statements. The fund\\'s custodian is responsible for paying fund expenses.

QUESTION 8

As her college graduation present, Jennifer\\'s grandmother gave her 200 shares of the stock of IBM. Her grandmother had purchased the shares for $54 a share in October 2002, and the stock was selling for $132 a share on the day of

Jennifer\\'s graduation eight years later. Eight months after her graduation, Jennifer decides to sell the shares to get money to help with the down payment on a condo she is purchasing.

If IBM is selling for $125 on the day of the sale, what are the tax consequences of this sale for Jennifer?

A. Jennifer will have taxable income of $15,600, which will be taxed as long-term capital gain income at a tax-preferred rate.

B. Jennifer will have taxable income of $14,200, which will be taxed as long-term capital gain income at a tax-preferred rate.

C. Jennifer will have a loss of $1,400, which will be treated as a short -term capital loss for tax purposes.

D. Jennifer will have taxable income of $14,200, which will be taxed as long-term capital gain income at a tax-preferred rate.

Correct Answer: B

Explanation: If Jennifer\\'s grandmother gave her stock that she had purchased for $54 a share on a day it was selling for $132, and Jennifer then sold it eight months later for $125, Jennifer will have taxable income of $14,200, which will be taxed as long-term capital gain income at a tax-preferred rate. The cost basis of a gift is the price that the donor paid for it --$54, in this case. Jennifer\\'s gain is, therefore, ($125 - $54) x 200 shares = $14,200. The holding period of the donor also becomes the holding period for the gift\\'s recipient, so the $14,200 will be treated as long-term capital gain income since her grandmother had owned the stock for eight years prior to gifting it.

QUESTION 9

When a broker-dealer hires a new agent, it must submit:

A. a U-4 form that includes information about the agent\\'s name, address, education, and employment history.

B. a U-5 form that includes information about the agent\\'s name, address, education, employment history, and marital status.

C. an REP form that includes information about the agent\\'s name, address, education, and employment history.

D. a U-4 form that includes information about the agent\\'s name, address, and employment history.

Correct Answer: D

Explanation: When a broker-dealer hires a new agent, it must submit a U-4 form that includes information about the agent\\'s name, address, and employment history. The form must also include information on any felony charges or securities-related misdemeanors, but it does not include anything about the agent\\'s education or marital status. The U-5 form, which is filed when an agent is terminated, would include this additional information.

QUESTION 10

Doc purchased shares of the MedTech Fund at its net asset value of $9.66 a share at the beginning of the year. The fund distributed dividends of $0.12 a share and capital gains of $0.10 a share during the year.

The net asset value at the end of the year was $12.00. The fund\\'s total return was:

A. 21.3%.

B. 26.5%.

C. 25.5%.

D. 10.1%.

Correct Answer: B

Explanation: The fund\\'s beginning NAV was $9.66, its ending NAV was $12.00, and its distributions during the year totaled $0.22 a share, so the total return on the MedTech Fund over this period was 26.5%. Total return can be calculated as: [(ending NAV + distributions) - beginning NAV]/beginning NAV = [($12.00 + $0.22) -$9.66]/$9.66 = 26.5%.

QUESTION 11

Tex Payor bought 1,500 shares of the Bonds4U Mutual Fund, a no load fund, on June 12th for $28 a share and sold the shares the following year on June 11th for $40 a share.

This will result in which of the following tax consequences for Tex?

A. Tex will have to pay tax on $18,000, taxed as ordinary income at his marginal tax rate.

B. Tex will have to pay tax on $40,000, taxed as ordinary income at his marginal tax rate.

C. Tex will have to pay tax on $18,000 of capital gain income, taxed at the preferential rate for long-term capital gains.

D. Tex will have to pay tax on $40,000 of capital gain income, taxed at the preferential rate for long-term capital gains.

Correct Answer: A

Explanation: If Tex bought 1,500 shares of Bonds4U at $28 on June 12th and sold the shares on June 11th the following year for $40 a share, Tex will have to pay tax on $18,000, taxed as ordinary income at his marginal tax rate. He is taxed on his gain of $40 - $28 = $12 a share times 1,500 shares = $18,000. For tax purposes, his holding period begins the day after his purchase, or June 13th in this example, and ends the day on which sells the shares, or June 11th of the following year, in this case. Since this is less than 12 months, the gain on the sale is considered to be a short -term capital gain, which is taxed as ordinary income.

QUESTION 12

Under the Investment Company Act of 1940, an investment company is:

A. required to register with the SEC.

B. any company that holds investment securities that have a value that is greater than 40% of the company\\'s total assets.

C. any issuer whose primary business involves investing, reinvesting, or trading in securities.

D. All of the above accurately describe an investment company as defined by the Investment Company Act of 1940.

Correct Answer: D

Explanation: All of the choices accurately describe an investment company as defined by the Investment Company Act of 1940.

QUESTION 13

Connie Serve placed an order to purchase five, $1,000 Treasury bonds in the secondary market on Tuesday, October 12th. Connie will be required to pay for this purchase on which day?

A. Tuesday, October 12th.

B. Wednesday, October 13th.

C. Thursday, October 14th.

D. Friday, October 15th.

Correct Answer: B

Explanation: Connie will be required to pay for this purchase on Wednesday, October 13th. The settlement date for Treasury securities and exchange-listed options is one business day after the trade date, or T + 1.

QUESTION 14

Which of the following steps in the underwriting process will occur last?

A. The underwriting syndicate is formed.

B. The selling group is organized.

C. The public offering price is set.

D. A red herring prospectus is circulated to the public.

Correct Answer: C

Explanation: The public offering price is set at the latest possible minute. The underwriters want to have the most current information available when setting the price, especially since they will experience the loss if the securities fail to sell for at least that price.

QUESTION 15

Nat Informed places a market order to buy 200 shares of Abercrombie and Fitch (ANF) on Thursday, September 16th.

When will Nat be required to pay for this Transaction?

A. by the end of the trading on September 15th.

B. on the next trading day, September 16th.

C. on Tuesday, September 21st.

D. on Friday, September 17th.

Correct Answer: C

Explanation: If Nat places an order to purchase 200 shares of Abercrombie and Fitch on Thursday, September 16th, payment will be due on Tuesday, September 21st. The settlement date for stock transactions is T + 3, which means the third business day after the trade. Saturday is not a business day.