Free Questions for Series-6 by certsinside

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Question 1

Question Type: MultipleChoice

Fidelity Investments has two money market funds that is available to most investors. The Fidelity Cash Reserves fund (FDRXX) is currently yielding 0.10% while its Fidelity Municipal Money Market fund (FTEXX) is yielding 0.01%. One reason for this significant difference is that:

Options:

A- the Municipal Money Market fund pays interest that is free from state and local taxes.

B- the Municipal Money Market fund pays interest that is free from federal taxes.

C- interest earned on the Cash Reserves fund is subject to the alternative minimum tax.

D- the Municipal Money Market fund is insured by the FDIC, and this is not true of the Cash Reserves fund.

Answer:

B

Explanation:

One reason for the significant difference between the returns on Fidelity's Cash Reserves fund and its Municipal Money Market fund is that the Municipal Money Market fund pays interest that is free from federal taxes. The interest earned is not necessarily free from state and local taxes, and the Municipal Money Market fund is not insured by the FDIC.

Question 2

Question Type: MultipleChoice

The Slippery Fund is a high-yield bond fund, which means it invests a substantial amount of its money in:

Options:

A- investment-grade bonds.

B- high-quality bonds.

C- junk bonds.

D- bonds with an AAA rating.

Answer:

C

Explanation:

As a high-yield bond fund, Slippery invests a substantial amount of its money in junk bonds. High yield = high risk. Junk bonds have a rating below BBB.

Question 3

Question Type: **MultipleChoice**

Glamourless Fund is a value fund. As such, it invests primarily in stocks with:

Options:

A- low cash dividend yields.

B- high betas.

C- high price-earnings ratios.

D- low earnings growth rates.

Answer:

D

Explanation:

As a value fund, Glamourless invests primarily in stocks with low earnings growth rates.

Because these firms don't need as much money to support a high growth rate, they tend to have high dividend yields. Their betas are generally less than 1.0, the average stock beta. Value stocks are generally out of favor, which results in low price-earnings ratios since investors aren't clamoring to buy them.

Question 4

Question Type: MultipleChoice

You have a young client whose primary investment objective is to be able to retire early. Really early. She's thinking 40. She has more than sufficient income to meet her current needs for cash.

Which of the following types of stock funds would be most suitable for her?

Options:

A- balanced

B- value

C- growth

D- All of the above. All stock funds invest in stocks, which can be expected to appreciate in value.

Answer:

C

Explanation:

The most suitable stock fund for your young client who is targeting an early retirement is the growth fund. Growth funds are primarily invested in stocks that pay no dividends since growth firms reinvest their earnings to support their higher-than-average growth rates. Your client doesn't need dividend income and will have to pay taxes on any dividends she receives even if she reinvests them. Both balanced funds and value funds can be expected to pay higher dividends.

Question 5

Question Type: MultipleChoice

Which of the following stock funds would you expect to be the least risky?

Options:

A- growth

B- value

C- balanced

D- income

Answer:

C

Explanation:

A balanced stock fund would be expected to be the least risky of the choices listed. Balanced funds have a stated policy of investing in both stocks and bonds, making them more diversified than the other choices that primarily invest in stocks.

Question 6

Question Type: MultipleChoice

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.

Options:

A- I only

B- I and II only

C- II and III only

D- I, II, and III

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 7

Question Type: **MultipleChoice**

MoeMoney Investments is a diversified management company. This means that:

Options:

A- it is a closed-end company.

B- it is a mutual fund.

C- it may invest no more than 5% of its investment monies in one issuer.

D- it must be invested in a variety of industries and geographic regions.

Answer:

C

Explanation:

Since MoeMoney is a diversified management company, it may invest no more than 5% of its investment monies in one issuer. It may be either a closed-end or an open-end company (mutual fund), and it need not necessarily be invested in a variety of industries and geographic regions.

Question 8

Question Type: **MultipleChoice**

Your client, Mr. Whiff, knows nothing about investment companies, and you are educating him about the advantages of investing through one, rather than investing in individual stocks and bonds.

Which of the following statements could get you in trouble?

Options:

A- "In investing through an investment company you will be able to invest a small amount of money and achieve greater diversification than you could otherwise."

B- "Investing through an investment company will result in a lower tax bill than had you invested in individual stocks and bonds."

C- "An investment in an investment company gives you an undivided interest in the company, in proportion to the number of shares you own."

D- "By investing your money through an investment company, you are getting the benefit of professional management.'

Answer:

B

Explanation:

The statement that could get you in trouble is, "Investing through an investment company will result in a lower tax bill than had you invested in individual stocks and bonds." Improved tax planning is not a benefit of investing through an investment company since the fund's manager cannot make investment decisions based on the tax status of each of the fund's shareholders. An investor who actively manages his own portfolio is better able to lower his tax bill.

Question 9

Question Type: **MultipleChoice**

One difference between a unit investment trust (UIT) and a closed-end fund is that

Options:

A- shares of closed-end funds trade on the exchange floors, unlike shares of UITs.

B- unlike UITs, closed-end funds have a fixed number of shares.

C- the shares of UITs are redeemable, whereas the shares of closed-end funds are not.

D- closed-end funds are established with a termination date, unlike UITs.

Answer:

C

Explanation:

A difference between a UIT and a closed-end fund is that the shares of UITs are redeemable, whereas the shares of closed-end funds are not. Shares of UITs also trade on exchange floors, like the shares of closed-end funds. Both UITs and closed-end funds have a fixed number of shares, but UITs are established with a termination date, while closed-end funds have no termination date.

Question 10

Question Type: MultipleChoice

Which of the following statements about mutual funds is false?

Options:

A- Mutual funds may be organized as corporations, statutory trusts, or partnerships.

B- Mutual funds are organized under state law.

C- Mutual funds issue redeemable shares.

D- Mutual funds may be either actively or passively managed.

Answer:

A

Explanation:

The false statement is that mutual funds may be organized as corporations, statutory trusts, or partnerships. Mutual funds may be organized only as corporations or statutory (business) trusts.

Question 11

Question Type: **MultipleChoice**

Which of the following would not be a characteristic associated with stocks in which a growth fund might invest?

Options:

A- high earnings growth

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

C- high cash dividends

D- beta > 1.0

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 12

Question Type: MultipleChoice

Joel has a 28-year-old client who has been promoted to the elevated position of senior software engineer with a large, well-known, software company at her relatively young age. She has come to Joel for investment advice, explaining to him that she is risk-averse, having been influenced by parents who grew up in a foreign country and had little, prior to immigrating to America and working hard to achieve their dreams for themselves and their children. She has $50,000 that she wants him to invest for her, and her primary goal is to be able to have enough money, beyond what she expects to have in her employer's retirement program, to return to her home country and help others achieve their dreams. Joel explains to her that she may have to invest in riskier securities in order to achieve her goal, but his client is adamant that she wants her portfolio to be invested to target growth with the least risk exposure possible. Given the facts:

Options:

A- Joel should divide his client's monies among growth, aggressive growth, and foreign stock funds. Regardless of what she says, she has a long investment horizon and can afford to take on more risk.

B- Joel should invest his client's monies in a fund that specializes in stocks of his client's home country to avoid the exchange rate risk that she will be exposed to when she returns.

C- Joel should invest his client's monies in a U.S. government bond fund since she is risk-averse.

D- Joel should invest his client's monies in a growth fund to target her growth objective.

Answer:

D

Explanation:

Because Joel's client is adamant about being risk-averse, but also desires growth, Joel should invest his client's monies in a growth fund to target her desired objective. He should avoid the riskier aggressive growth and foreign stock funds. Although her long-term investment horizon indicates that she is able to tolerate more risk, her desires trump that. Investing in stocks of her home country doesn't make sense at this point since no one knows what the future exchange rate will be. Investing in a U.S. government bond fund has less risk, but does not target her growth objective.