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Question 1

Question Type: MultipleChoice

Which of the following statements regarding the "rights of accumulation" is true?

Options:

- A) All mutual funds that have front-end loads are required to allow their shareholders rights of accumulation.
- B) Reinvested dividends and capital gain distributions count toward reaching a breakpoint under the rights of accumulation.
- C) A breakpoint must be reached within a 13-month period, at which point the accumulation period begins anew.
- D) A letter of intent must be signed to activate the rights of accumulation.

Answer:

B

Explanation:

The true statement is that reinvested dividends and capital gain distributions count toward reaching a breakpoint under the rights of accumulation. The rights of accumulation are not something that all mutual funds with front-end loads must offer. There is no time limit on the accumulation period. The rights of accumulation and the letter of intent are two separate animals; neither has anything to do with

the other.

Question 2

Question Type: MultipleChoice

The difference between a "redemption fee" and a "rear-end load" is that:

Options:

- A)** the redemption fee is another name for a 12b-1 fee, which is an annual expense associated with the fund.
- B)** a rear-end load is used to compensate a salesperson who has sold shares of the fund; a redemption fee is charged to offset the expenses a fund incurs in processing share redemptions.
- C)** the redemption fee refers to charges incurred by the fund when it sells securities it owns; the rear-end load is a fee that is incurred by investors in the fund when they redeem their shares of the fund.
- D)** There is no difference. These are synonymous terms.

Answer:

B

Explanation:

The difference between a "redemption fee" and a "rear-end load" is that a rear-end load is used to compensate a salesperson who has sold shares of the fund, while a redemption fee is charged to offset the expenses a fund incurs in processing share redemptions.

Question 3

Question Type: MultipleChoice

Mr. Schaker hasn't been seeing a lot of clients these days with the recent market downturn-which means he hasn't been generating any commissions, and commissions are his bread and butter. So, Mr. Schaker does some Googling on his computer and notes that a prominent family of load funds has just introduced a new global fund. Scribbling the name and contact information of the fund family on his notepad, he begins calling his existing clients and promoting the new fund, encouraging his clients to redeem some shares in their existing funds to invest in this fund.

Has Mr. Schaker violated any securities laws?

Options:

A) No. In FINRA's rules regarding fair dealing with customers, the SRO clearly states that "This does not mean that legitimate sales

efforts in the securities business are to be discouraged. . . "

- B)** Yes. Mr. Schaker is recommending the fund to his existing clients to benefit himself, not them.
- C)** No. Research indicates that new funds tend to offer abnormally high returns for the first 12 months of their existence, so Mr. Schaker is doing his clients a favor even if he himself stands to profit.
- D)** D. Yes. A registered representative should always refrain from recommending shares of a load fund; trades involving load funds should always be "unsolicited."

Answer:

B

Explanation:

Yes. Mr. Schaker has violated securities laws in recommending a fund that he doesn't even seem to have researched very well to his existing clients, some of whom may not be suitable candidates for a global fund, which invests in foreign as well as domestic securities. Although FINRA's rules do indicate that it is not trying to stymie legitimate sales efforts, Mr. Schaker's actions do not fall within this category. There is no research that indicates new funds tend to offer abnormally high funds for the first 12 months of their existence, and if Mr. Schaker would have implied that, he could be up on criminal fraud charges. There is no law, however, that prohibits a registered representative from recommending a load fund to a client, as long as there is a legitimate reason for doing so.

Question 4

Question Type: MultipleChoice

Mr. Cross wanders into your office with a \$35,000 check that he has received from his recently-deceased wife's insurance company and wants you to advise him how to invest it, since that is your job, as he puts it.

You ask him to fill out a standard investor profile questionnaire, but he refuses to do so. You offer to fill it out for him, based on his answers to your verbal questions, but he still refuses and calls you a "nibby-nose." Based on this, you can:

Options:

- A) allocate the \$35,000 any way you choose since you have an uncooperative client.
- B) advise him to invest the money in a money market mutual fund instead of holding it as cash.
- C) advise him to invest the money in an S&P 500 Index fund.
- D) The advice provided in either Choice B or Choice C would be appropriate.

Answer:

B

Explanation:

If you cannot get any personal information from a client, you cannot legitimately recommend (or execute) an asset allocation for him. You can advise him to invest the money in a money market mutual fund instead of holding it as cash since this will provide him with a small return on his money. You cannot advise him to invest the money in an S&P 500 Index fund, which would subject him to more risk.

This would be considered an unsuitable recommendation and is in violation of securities' laws.

Question 5

Question Type: MultipleChoice

Which of the following does not fall under the category of "sales literature," as defined by FINRA?

Options:

- A) a research report mailed only to a fund's existing clients
- B) an announcement containing some biological information on a registered representative who has just joined the firm
- C) PowerPoint slides that have been prepared to use in a seminar
- D) Reprints of an article that appeared in a financial publication about a specific mutual fund

Answer:

B

Explanation:

An announcement containing some biological information on a registered representative who has just joined the firm does not fall under the category of "sales literature," as defined by FINRA since it does not constitute a sales solicitation. All of the other choices are regarded as "sales literature" by FINRA.

Question 6

Question Type: MultipleChoice

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

Options:

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.

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 7

Question Type: MultipleChoice

The "statement of additional information" (SAI) that mutual funds and closed-end funds are required to produce:

Options:

- A) must be provided to prospective investors whenever an offer to sell shares of these funds is made.
- B) must be sent to shareholders of the fund on at least a semiannual basis.
- C) usually contains some biographical information on the officers and directors of the fund.
- D) Both A and B are true statements.

Answer:

C

Explanation:

The "statement of additional information" (SAI) that mutual funds and closed-end funds are required to produce usually contains some biographical information on the officers and directors of the fund. The SAI need only be provided to prospective investors upon request, and it is not sent to shareholders of the fund. Shareholders of the fund receive annual and semiannual reports from the fund, however.

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