



Finra Series-6 Practice Questions

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Question 1

Question Type: MultipleChoice

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:

Options:

- A- strategic asset allocation.
- B- tactical asset allocation.
- C- interactive asset allocation.
- D- dynamic asset allocation.

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 2

Question Type: MultipleChoice

Which of the following securities would be exempt from SEC registration requirements?

- i. a 15-year bond issued by the state of Colorado
- ii. an issue of preferred stock that has an aggregate par value of \$5 million
- iii. an issue of commercial paper that has a 5-month maturity

Options:

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

Answer:

C

Explanation:

Only Selections I and III are exempt from SEC registration requirements. The bond issued by Colorado is exempt because bonds issued by a government body are exempt from registration. The issue of commercial paper is exempt because securities with less than 270 days to maturity are exempt from registration.

Question 3

Question Type: MultipleChoice

The total return reported by a mutual fund:

Options:

- A- is calculated as the percentage change in the net asset value of the fund.
- B- is equal to the return it earned on the dividend and interest income it received from its investments.
- C- is equal to the annual percentage increase in the dollars invested in the fund by investors.
- D- includes both the dividend and interest income earned by the fund and any increase in the fund's net asset value.

Answer:

D

Explanation:

The total return reported by a mutual fund includes both the dividend and interest income earned by the fund and any increase in the fund's net asset value. It includes both the return on dividends and interest income and the return due to the capital appreciation of the fund's value.

Question 4

Question Type: MultipleChoice

Which of the following statements about 1035 exchanges are true?

- i. A 1035 exchange refers to the exchange of all of the shares owned in one mutual fund for shares of another mutual fund in the same family of funds.
- ii. A 1035 exchange refers to the exchange of one variable annuity contract for another variable annuity contract without the need to pay tax on any of the income or capital appreciation associated with the original contract.
- iii. A 1035 exchange refers to the exchange of a variable annuity contract for a whole life insurance policy offered by the same company with no tax consequences to the transaction.

Options:

- A- I only
- B- II only
- C- I and II only
- D- I, II, and III

Answer:

B

Explanation:

Only Selection II is true regarding 1035 exchanges. A 1035 exchange refers to the exchange of one variable annuity contract for another variable annuity contract without the need to pay tax on any of the income or capital appreciation associated with the original contract. This does not refer to the exchange of one mutual fund for another, which is a taxable event; nor does the 1035 exchange involve exchanging a variable annuity for a life insurance policy.

Question 5

Question Type: MultipleChoice

Clem Shyster is a registered representative with a family of mutual funds. A married couple in their 50s sought his advice about how they should best invest an \$80,000 profit that they had received when they sold a rental property they owned for a number of years. Their investment profile indicated to Clem that their main investment objective was capital appreciation and that they were willing to accept moderate levels of risk. Clem advised them to invest \$10,000 in eight different growth funds, each of which had a 7% front-end load.

Has Clem violated any securities laws with his recommendation?

Options:

- A- No. Growth funds invest in stocks that are selected to provide the capital appreciation that Clem's clients need, and an investment in eight such funds will provide them with maximum risk diversification.
- B- Yes. Although growth funds provide some amount of capital appreciation, Clem should have recommended that they spread their money among eight different aggressive growth funds instead, to achieve even greater capital appreciation.
- C- Yes. Clem should have advised them to invest in funds that had a deferred sales charge instead of a front-end load.
- D- Yes. There is a lot of overlap of the individual stocks in which growth funds invest, so recommending that they spread their funds among eight different growth funds has not provided them with significantly more diversification, and it has cost them more to do so, which will benefit Clem.

Answer:

D

Explanation:

Yes, Clem has violated securities laws with his recommendation that his clients spread their money among eight different load, growth funds because there is a lot of overlap in the individual stocks in which these funds invest, so this strategy has not provided them with significantly more diversification; it has just cost them more, which will benefit Clem since he gets to pocket part of that load fee himself. He has made an unsuitable recommendation and has not upheld NASD's rules involving fair dealing with customers.

Question 6

Question Type: MultipleChoice

Mr. Big of HiGrow Corporation needs more money to support the exceptional growth rate that his firm is enjoying. He meets with BigFee Investment Banker, who agrees to handle the IPO for HiGrow. Subsequently, InTheLoop Brokerage is tapped to be part of the selling group that will handle the sale of the new stock to the public. In this example, the issuer is:

Options:

- A- Mr. Big
- B- HiGrow Corporation
- C- BigFee Investment Banker
- D- InTheLoop Brokerage

Answer:

B

Explanation:

HiGrow Corporation is the issuer in this example. The issuer is the firm that is receiving the proceeds from the IPO.

Question 7

Question Type: MultipleChoice

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

Options:

- 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

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 8

Question Type: MultipleChoice

The compensation records that FINRA member firms are required to maintain must include which of the following?

- i. the names of the persons that have provided the compensation
- ii. names of the associated persons receiving the compensation
- iii. the amount of cash received
- IV. the nature and value (if known) of any non-cash compensation received

Options:

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

Answer:

D

Explanation:

The compensation records that FINRA member firms are required to maintain must include the names of the persons that have provided the compensation (the offerors), the names of the associated persons receiving the compensation, the amount of cash received, and the nature and value (if know) of any non-cash compensation received.

Question 9

Question Type: MultipleChoice

The Securities Act of 1933 did what?

Options:

- A- It established the requirement that investment advisers be registered with the SEC
- B- It established the SEC as the regulatory agency for the secondary market.
- C- It established the requirement that new securities be registered.
- D- All of the above are correct answers.

Answer:

C

Explanation:

The Securities Act of 1933 established the requirement that new securities be registered. The focus of the Securities Act of 1933 was on the primary market. This act also requires that a prospectus be supplied to all prospective investors. The Securities Exchange Act of 1934 established the SEC as the regulatory agency of the secondary market, and the Investment Advisers Act of 1940 established the registration requirement for investment advisers.

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