

Investment Company and Variable Contracts Representative

1. Lana is registered as a limited representative and is employed by Everything Investments. Her duties include selling mutual funds and variable contracts products to the firm's clients. She has been particularly successful in selling variable contracts offered by OneLife insurance company. As a "thank you" for her hard work, OneLife has offered her a ticket to an upcoming play at a local dinner theatre.

Given this scenario, which of the following statements applies?

A. Lana will have to pass on the offer. Lana is prohibited from receiving compensation from anyone other than Everything Investments.

B. Lana can accept the offer as long as Everything agrees to it and as long as it is not an ongoing thing and/or preconditioned on her achieving a specified sales target.

C. Lana can accept the offer without Everything's approval in this instance since the offer does not involve cash.

D. Lana will have to pass on the offer. She is permitted to receive only cash compensation in an amount not to exceed \$100 from an entity other than Everything, and then only with Everything's approval.

Answer(s): B

2. 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

Answer(s): C

3. Which of the following activities are prohibited by FINRA when a representative is selling shares of a mutual fund?

I). recommending that a client purchase shares of a mutual fund prior to its ex-dividend date, so that the client will receive the dividends when they are distributed unless this recommendation is justified by the specific circumstances of the client

II). telling a client that a mutual fund that has only a contingent deferred sales charge is a no load fund

III). telling a client that the interest he earns on a municipal bond fund will be free from federal taxation

IV). refraining from placing the customer's order promptly in order to profit himself as a result of having done so

A. I and III only

B. II and IV only

C. I, II, and IV only

D. I, II, III, and IV

Answer(s): C

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

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(s): C

5. An advertisement that provides performance data for which of the following mutual funds would not need to include a statement warning that the principal value of the investment will fluctuate such that the investor's shares may be worth either more or less when redeemed than what the investor originally paid for them?

A. a U.S. government bond fund

B. a money market fund

C. a municipal bond fund

D. Neither choices A nor B would need to include the stated warning.

Answer(s): B

6. 12b-1 fees refer to:

A. the front-end or back-end load that a mutual fund charges.

B. the management fees of a mutual fund.

C. fees that some mutual funds charge to pay for certain of its marketing expenses.

D. fees that mutual funds pay the broker-dealers that execute their trades.

Answer(s): C

7. Steel Dynamics (STLD) has a convertible bond issue that matures in four years. The bond has a face value of \$1,000 and pays a coupon of 5.125%, with interest paid semiannually. The conversion ratio is 56.9801. If the stock of Steel Dynamics is currently priced at \$15 a share, what is the conversion value of this bond, to the nearest cent?

A. \$854.70

B. \$569.80

C. \$175.50

D. Until it matures, the conversion value of the bond is equal to its face value of \$1,000

Answer(s): A

8. Which of the following is not an auction market?

A. NASDAQ

B. NYSE

C. CHX

D. All of the above are auction markets

Answer(s): A

9. Which of the following plans does not have the requirement that its participants must begin withdrawing funds from the plan by April 1st of the year after they turn 70 ½?

I). SIMPLE IRA

II). 401(k)

III). Roth IRA

IV). profit-sharing plan

A. I and III only

B. I, III and IV only

C. III only

D. All of the above have a mandatory distribution requirement.

Answer(s): C

10. Patty Planner has been contributing a sum to a non-qualified variable annuity each month for the last fifteen years in order to reach her ultimate goal of an early retirement. Now that she has turned 60, Patty has decided to retire. Her annuity is now worth \$69,000, and her total contributions were \$36,000. Patty decides to withdraw \$15,000 of her accumulation as a lump sum to fund an extended vacation to Europe that she has always promised herself. Which of the following statements applies to Patty's situation?

A. Her \$15,000 withdrawal will be taxed as capital gain income, at a preferential rate, but she will also have to pay a 10% penalty for withdrawing the funds prior to turning 62.

B. Her \$15,000 withdrawal will be taxed as ordinary income to her at her marginal tax rate.

C. Her \$15,000 withdrawal is not taxable since it is less than the amount of her total contributions to the plan, but she will be subject to a 10% penalty for early withdrawal.

D. Her \$15,000 withdrawal will be taxable as ordinary income to her at her marginal tax rate, and she will also be subject to a 10% penalty for early withdrawal.

Answer(s): B

11. Simple Simon owns 1,000 shares in the Pasty Pie Corporation, which has just declared a stock dividend of 5%. Just prior to this announcement, Pasty Pie was selling for \$10 a share. This announcement will:

A. increase Pasty's shares outstanding and reduce Simple's proportionate ownership in the firm.

B. increase the number of shares that Simple owns to 1,050, which will increase the market value of the shares that he owns from \$10,000 to \$10,500.

C. increase the number of shares that Simple owns to 1,050, but this will not affect the market value of Simple's holdings.

D. increase Simple's cash by the amount of the dividend paid: $0.05 \times \$10 = \$0.50 \times 1,000 \text{ shares} = \500 .

Answer(s): C

12. Ms. Newbie's client, Mr. Nomad, has decided that he wants to go on an extended backpack trip through the Amazon. Since he'll be out of touch, he has given a friend of his limited power attorney to act on his behalf. Based on this, Mr. Nomad's friend can:

- I). present Ms. Newbie with an order to purchase securities on Mr. Nomad's behalf.
- II). present Ms. Newbie with an order to sell securities on Mr. Nomad's behalf.
- III). request a check be issued to him so that he can send Mr. Nomad some money.

A. I only

B. I and II only

C. I, II, and III

D. none of the above. Only a relative can hold a power of attorney to engage in financial transactions for the grantor.

Answer(s): B

13. Which of the following statements regarding callable bonds is false?

A. Callable bonds offer a higher yield than non-callable bonds, all else equal.

B. Investors in callable bonds are subject to prepayment risk.

C. The issuer of a callable bond is most likely to redeem the bond early when interest rates fall.

D. A callable bond protects the investor by allowing him to sell his bond back to the issuer and invest in another, similar-risk bond that pays a higher rate of interest should the investor choose to do so.

Answer(s): D

14. Which of the following represents a secondary market transaction?

A. An investor buys Treasury bills in the regular Monday auction.

B. An investor buys 300 shares of Electromed (ELMD) at its IPO offer price of \$4.00 a share.

C. An investor sells her shares of Sunvalley Solar, Inc. (SSOL), which sells on the OTC Bulletin Board for \$0.059 a share.

D. A home buyer obtains a mortgage through his savings and loan.

Answer(s): C

15. 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.

Answer(s): B

16. Which of the following is not a cost associated with an investment in a variable annuity contract?

A. mortality and expense risk fee

B. investment management fee

C. state premium tax

D. All of the above are costs associated with an investment in a variable annuity contract.

Answer(s): D

17. 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

A. I only

B. III only

C. I and III only

D. I and II only

Answer(s): C

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

A. growth

B. value

C. balanced

D. income

Answer(s): C

19. Your client has recently heard about "principal-protected funds" and has asked your advice. You should tell her that:

- I). the majority of principal-protected funds guarantee the investor's initial investment, less any front-end load, even if the stock market falls.
- II). it would not be a good investment if she thinks she will need the money within the next five to ten years.
- III). it will beat the returns she could earn on an S&P 500 Index fund in most years.
- IV). if she sells her shares at any time other than the maturity date specified, she could lose money if the price per share has fallen.

A. I only

B. I and II only

C. I and III only

D. I, II, and IV only

Answer(s): D

20. A load mutual fund offers reduced load charges when an investor invests over \$25,000 in the fund.

Which of the following can combine their funds in order to meet that breakpoint and get the reduced sales charge?

I). Mr. and Mrs. Smith

II). Mrs. Smith and her 8-year-old daughter, Susie

III). Mr. Smith and his brother, Darwin

IV). The Smithereen Investment Club, of which Mr. and Mrs. Smith are co-chairpersons

A. I only

B. I and II only

C. I, II, and IV only

D. I, II, and III only

Answer(s): B
