FINRA-SERIES-6 Q&As

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

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QUESTION 1

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:

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.

Correct 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.

QUESTION 2

Which of the following statements regarding a letter of intent is true?

A. An investor has 12 months in which to invest the amount stipulated in the letter.

B. Reinvested dividends and capital gain distributions count toward the amount stipulated in the letter of intent.

C. An investor who signs a letter of intent and does not invest the amount stipulated must make up the difference between the sales charge he paid and what he should have paid, plus interest.

D. A letter of intent may be backdated up to 90 days so that any purchases made during that prior time period will count toward making a breakpoint.

Correct Answer: D

Explanation: The true statement is that a letter of intent may be backdated up to 90 days so that any purchases made during that prior time period will count toward making a breakpoint. An investor has 13 months in which to invest the amount stipulated in the letter. The invested funds must consist of new money; reinvested dividends and capital gain distributions don\\'t count. If the amount stipulated in the letter of intent is not invested during the 13 months, the investor must only make up the difference between the sales charge he paid and what he should have paid, given that he didn\\'t qualify for the breakpoint. No interest is charged on the difference.

QUESTION 3

Ms. Scatty is a registered representative with a well-known family of mutual funds. When selling one of the funds, she forgets to give her buyer a prospectus.

Which of the following statements is true?

A. Ms. Scatty can be held civilly liable under the Securities Act of 1933.

B. Ms. Scatty can be held criminally liable under the Securities Act of 1933.

C. Since mutual funds are not covered under the Securities Act of 1933, there is no liability in this instance.

D. Both A and B are true statements.

Correct Answer: A

Explanation: If Ms. Scatty forgets to give her buyer a prospectus when selling one of the funds, she can be held civilly liable under the Securities Act of 1933. Unless there was an intent to defraud, she is not subject to criminal penalties. The purchase and sale of mutual fund shares fall under the Securities Act of 1933.

QUESTION 4

On Monday, August 2nd, the Board of Directors of Baldor Electric (BEZ) announced that the firm would pay a dividend of $0.17 a share. Payment will be made on Friday, October 8th to shareholders of record as of Friday, September 17th. In order to receive this dividend check, an investor would have to purchase shares of Baldor Electric before which day?

A. Monday, August 2nd.

B. Wednesday, September 15th.

C. Friday, September 17th.

D. Friday, October 8th.

Correct Answer: B

Explanation: In order to receive the dividend check, an investor would have to purchase shares of Baldor Electric before Wednesday, September 15th, the ex-dividend date. The ex-dividend date of a stock is two business days prior to the date of record.

QUESTION 5

A brochure advertising the Stocks4U Mutual Fund contains an example illustrating how much an investor who had invested $10,000 with the fund ten years ago would have in his account today, using the fund\\'s historical return data, to illustrate the principle of compound interest. An example of this nature:

A. is expressly in violation of FINRA rules.

B. may be used only if there actually was such an investor on record.

C. may be used as long as there is a clear statement that the illustration in no way predicts or projects what an investor who invests $10,000 today would have in his account in ten years.

D. may be used only if the fund is expecting to be able to duplicate these returns over the next decade.

Correct Answer: C

Explanation: The brochure may contain an example illustrating how much an investor who had invested $10,000 with the fund ten years ago would have in his account today as long as there is a clear statement that the illustration in no way predicts or projects what an investor who invests $10,000 today would have in his account in ten years. Hypothetical illustrations are permitted.