FINRA-SERIES-6 Q&As

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

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QUESTION 1

Ken has a variable life policy and recently learned that he can borrow against its cash value to help pay for some of the expenses he\\'s incurring while pursuing a graduate degree.

Which of the following statements about the loan he can get is true?

A. Ken can borrow at most only 50% of the cash value, and only as long as he\\'s had the policy for at least three years.

B. Since Ken is essentially borrowing his own money; the loan is interest-free.

C. Ken never has to repay the loan, but if he chooses not to do so, his wife, Barbie, won\\'t get as much when he dies.

D. Ken has been misinformed. He cannot borrow against the cash value of a variable life policy because the cash values of these policies fluctuate constantly.

Correct Answer: C

Explanation: The true statement is that Ken never has to repay the loan, but if he chooses not to do so, his wife, Barbie, won\\'t get as much when he dies. He can borrow up to at least 75% of the cash value, but there is interest charged on the loan. (In essence, he\\'s paying interest to himself, though.)

QUESTION 2

Which of the following would offer an investor the most protection against purchasing power risk?

A. a stock mutual fund

B. a government bond fund

C. a high-yield bond fund

D. a money market fund

Correct Answer: A

Explanation: A stock mutual fund would offer an investor the most protection against purchasing power risk. Purchasing power risk is the risk that the money received from the investment won\\'t buy as much because of inflation. Stock funds offer higher returns that have historically exceeded the annual rate of inflation, on average. The majority of the return from bond funds is from the fixed interest payment, which does not change regardless of the inflation rate, so the return earned by the investor may end up being less than the inflation rate in any given year. Likewise, money market funds offer very low returns that, in some years, are less than the rate of inflation.

QUESTION 3

Ralph has a traditional IRA from which he has yet to make any withdrawals. Ralph will be turning 70 ½ in June, 2011.According to the required minimum distribution rule associated with traditional IRAs, Ralph is required to start withdrawing funds from this account:

A. no later than the day after he turns 70 ½.

B. on April 15, 2011.

C. on April 1, 2012.

D. on April 15, 2012.

Correct Answer: C

Explanation: According to the required minimum distribution rule associated with traditional IRAs, Ralph is required to start withdrawing funds from this account on April 1, 2012. The rule states that he must begin making withdrawals on April 1st of the year following the year in which he turns 70 ½.

QUESTION 4

Rank the following entities with regard to the priority of their claims on a firm-from the highest priority to the lowest priority-in the event of bankruptcy.

I. common shareholders

II. preferred shareholders

III. secured bondholders

IV.

debenture holders

A.

III, II, IV, I

B.

II, III, I, IV

C.

III, IV, II, I

D.

IV, III, II, I

Correct Answer: C

Explanation: Choice C correctly ranks the entities with regard to the priority of their claims on the firm in the event of bankruptcy, from the highest priority to the lowest priority. Secured bondholders get paid first, then debenture (unsecured bond) holders, followed by preferred shareholders. Common shareholders come in last.

QUESTION 5

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.

Correct Answer: C

Explanation: 12b-1 fees are fees that some mutual funds charge to pay for certain of its marketing expenses.