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NEW QUESTION: 1

The price of a company's stock falls several points because of the estimated costs of complying with pending regulations. For the company's stockholders, this is an example of which of the following types of risk?

A. Capital risk
B. Credit risk
C. Political risk
D. Liquidity risk

Answer: (SHOW ANSWER)

This situation is best classified as political risk, specifically regulatory risk, because the stock's decline is driven by the anticipated impact of government action-pending regulations-on the company's future profitability. Political risk includes changes in laws, rules, regulatory enforcement, tax policy, or other governmental decisions that can alter an issuer's operating environment. When a company expects higher compliance costs, investors may reduce expected earnings or cash flow projections, which commonly leads to a lower valuation and therefore a lower stock price. That cause-and-effect relationship-government-driven change leading to a market value adjustment-is the core idea of political risk.

It is not credit risk, which focuses on whether a debt issuer can meet interest and principal payments.

Stockholders are affected by equity value changes, and the prompt does not indicate an increased likelihood of default or missed payments on debt. It is not liquidity risk, which concerns the ability to sell the stock quickly at a fair price without significantly moving the market; the question does not mention thin trading, wide bid-ask spreads, or difficulty finding buyers. While capital (principal) risk broadly applies to most equity investments because market prices can decline, the question is asking for the specific type of risk causing the decline. Here, the driver is regulatory costs from pending government rules, which points directly to political risk.

This aligns with the SIE focus on identifying risk types and recognizing how external forces-especially governmental or regulatory developments-can affect securities markets and issuer valuations.

NEW QUESTION: 2

When are registered persons required to fulfill their Continuing Education (CE) Regulatory Element requirement?

A. Annually

B. Semiannually

C. After the initial three-year requirement and then every two years

D. Upon the receipt of a customer complaint

Answer: (SHOW ANSWER)

FINRA's Continuing Education (CE) requirements include the Regulatory Element, which must be completed:

* Within 120 days of the second anniversary of a registered representative's initial registration.
* Every three years thereafter (changed to every two years as of 2023).
* C is correct because registered persons must complete the CE Regulatory Element after their initial requirement and then every two years.
* A and B are incorrect because CE is not required annually or semiannually.
* D is incorrect because CE is not tied to customer complaints.

Reference: FINRA Rule 1240 (Continuing Education Requirements)

NEW QUESTION: 3

An investor is bullish on a particular stock for the long run, but he would prefer a better price than the stock's current quote. Which of the following trades should the investor enter for this stock?

A. Limit order to sell

B. Limit order to buy

C. Market order to sell

D. Market order to buy

Answer: (SHOW ANSWER)

A limit order to buy allows the investor to specify the maximum price he is willing to pay for the stock. The order will only execute if the stock price falls to or below the specified price.

* B is correct because a limit order to buy aligns with the investor's desire to secure a better price.
* A is incorrect because a limit order to sell is used when an investor wants to sell at a minimum price.
* C and D are incorrect because market orders execute at the current market price, not at a preferred price.

Reference: SIE Study Guide, Chapter 1: Trade Execution and Order Types

NEW QUESTION: 4

A bond Is callable at $1,010 and matures In 10 years at $1,000. It has a coupon of 5.00% and is trading at
$950. What Is the yield to maturity (YTM}?
A. 4.50%
B. 5.66%
C. 4.95%
D. 5.00%
Answer: (SHOW ANSWER)

NEW QUESTION: 5
Rising economic activity is most likely to increase revenues of which of the following sectors?
A. Utilities
B. Healthcare
C. Consumer staples
D. Consumer discretionary
Answer: (SHOW ANSWER)
Step by Step Explanation:
* Consumer Discretionary Sector: Includes products and services that are not essential, such as luxury items, travel, and entertainment. Revenues increase as disposable income rises during economic expansion.
* Consumer Staples and Utilities: These sectors are defensive and less impacted by economic cycles.
* Healthcare: Also less correlated with economic cycles due to its essential nature.
SEC and FINRA Guidance on Sectors: Investopedia Sector Overview.

NEW QUESTION: 6
Under SEC Regulation A, which of the following market participants, if deemed to be a bad actor, will disqualify the offering from reliance on this registration exemption?
A. Custodian
B. Underwriter
C. Transfer agent
D. Clearing corporation
Answer: (SHOW ANSWER)
SEC Regulation A provides a registration exemption for smaller public offerings but includes a "bad actor" disqualification. If certain key parties, such as the issuer, underwriter, or affiliates, have been involved in securities violations, the exemption is forfeited.
* B is correct because underwriters are considered essential participants, and their status as bad actors disqualifies the offering.
* A, C, and D are incorrect because custodians, transfer agents, and clearing corporations are not included in the "bad actor" provisions of Regulation A.
Reference: SEC Regulation A, Rule 262 (Disqualification Provisions)

NEW QUESTION: 7
Which of the following responses best describes how member firms are required to retain electronic correspondence and internal communications of associated persons?
A. In hard copy
B. On the firm's server
C. In the firm's cloud storage
D. In a non-rewriteable format
Answer: (SHOW ANSWER)
FINRA Rule 4511 requires member firms to retain records, including electronic communications, in a non- rewriteable, non-erasable format (often referred to as WORM: Write Once, Read Many). This ensures that records cannot be altered or deleted once stored.
* D is correct because firms must store records in a tamper-proof format.
* A, B, and C are incorrect because these formats do not guarantee compliance with the tamper-proof requirements set forth by FINRA and the SEC.
Reference: FINRA Rule 4511 (General Requirements for Books and Records)

NEW QUESTION: 8
Under FINRA rules, If a customer sells shares In an Investment company that Includes a contingent deferred sales charge (CDSC) on redemptions, in which of the following ways must the deferred sales charge be reported to the customer?
A. On the broker-dealer's website
B. In writing, at the time of redemption
C. On the customer's account statement
D. On the trade confirmation
Answer: (SHOW ANSWER)

NEW QUESTION: 9
Which of the following funds provides the highest liquidity for investors?
A. Hedge funds
B. Private equity funds
C. Closed-end mutual funds
D. Distressed securities funds
Answer: (SHOW ANSWER)
Among the choices, closed-end mutual funds generally provide the highest liquidity because their shares typically trade on an exchange in the secondary market, allowing investors to buy or sell during market hours at the prevailing market price. That exchange trading feature gives investors a practical "exit" mechanism that is often much more accessible than the redemption limitations found in private pooled vehicles. Therefore, C is correct.
Hedge funds (choice A) are commonly subject to lock-up periods, limited redemption windows (monthly

/quarterly), and other restrictions such as gates, so investors often cannot access their money on demand.
Private equity funds (choice B) are typically among the least liquid investments, as capital is committed for long periods (often years), with distributions occurring as investments are sold; early exit may be difficult or only possible through limited secondary markets at a discount.
Distressed securities funds (choice D) can also be illiquid because the underlying holdings may be thinly traded, complex, or subject to restructuring processes, and such funds may impose additional redemption restrictions depending on structure.
A key SIE point: "liquidity" is not only about the underlying portfolio but also about the investor's ability to sell or redeem the investment. Closed-end funds offer a market-traded mechanism that generally provides more immediate liquidity than private funds, even though closed-end funds can trade at discounts/premiums and may have varying trading volumes. Still, compared with hedge funds/private equity, closed-end fund shares are typically the most liquid option listed.

NEW QUESTION: 10
Which of the following types of securities is an equity?
A. Preferred stock
B. Commercial paper
C. Certificate of deposit (CD)
D. Exchange-traded note (ETN)
Answer: (SHOW ANSWER)
Equity securities represent ownership in a company, and preferred stock is a type of equity security that pays dividends and has priority over common stock in liquidation.
* A is correct because preferred stock is an equity security.
* B is incorrect because commercial paper is a short-term debt security.
* C is incorrect because certificates of deposit (CDs) are fixed-income banking products.
* D is incorrect because exchange-traded notes (ETNs) are unsecured debt securities.
Reference: SIE Study Guide, Chapter 5: Corporate Securities

NEW QUESTION: 11
Which of the following account registration types is subject to probate upon the death of the account owner?
A. Individual
B. Irrevocable trust
C. Transfer-on-death (TOD)
D. Joint tenants with right of survivorship (JTWROS)
Answer: (SHOW ANSWER)
Accounts held individually are subject to probate, which is the legal process of administering the decedent's estate. Probate determines the distribution of assets according to the deceased's will or state intestacy laws.
* A is correct because individual accounts require probate to transfer assets.

* B is incorrect because irrevocable trusts bypass probate.
* C is incorrect because TOD accounts allow direct transfer of assets to named beneficiaries without probate.
* D is incorrect because JTWROS accounts transfer ownership to the surviving account holder automatically.

Reference: SIE Study Guide, Chapter 9: Account Ownership and Beneficiary Designations

NEW QUESTION: 12

Zero coupon U.S. government obligations are classified as exempt securities because they are exempt from:

A. credit risk.

B. registration.

C. interest-rate risk.

D. federal income tax.

Answer: (SHOW ANSWER)

Certain U.S. government securities are considered exempt securities under federal securities laws, meaning they are exempt from registration requirements that apply to many other public offerings. That is why zero- coupon U.S. government obligations (such as STRIPS and other Treasury-derived zero-coupon instruments) are classified as exempt securities due to exemption from registration, making answer B correct.

It's important to separate "exempt from registration" from other common investor risks. Choice A is incorrect because being a U.S. government obligation does not mean the security is "exempt from credit risk" as a legal classification; rather, investors generally view U.S. Treasury obligations as having very low credit risk because they are backed by the U.S. government. That market perception is not the legal basis for the "exempt security" label. Choice C is incorrect because zero-coupon bonds can have substantial interest-rate risk-often more than comparable coupon-paying bonds-because their duration is typically higher (no periodic interest payments), making them more price-sensitive to rate changes. Choice D is incorrect because Treasury interest is generally subject to federal income tax (though often exempt from state/local tax). Zero-coupon Treasuries also raise tax considerations due to "imputed interest" (original issue discount accretion), but none of that makes them federally tax-exempt.

The SIE tests that "exempt securities" refers to registration exemptions, not "risk-free" or "tax-free." You should associate U.S. government securities with exemption from Securities Act registration requirements, while still recognizing they carry market risks like interest-rate risk.

NEW QUESTION: 13

For up to how many business days is a firm initially permitted to place a temporary hold on disbursements for a specified adult account in which the firm reasonably believes financial exploitation has occurred?

A. 3 business days

B. 5 business days

C. 10 business days
D. 15 business days
Answer: (SHOW ANSWER)
Step by Step Explanation:
* Temporary Hold Period: Under FINRA Rule 2165, a firm can initially place a hold on disbursements for up to 10 business days if financial exploitation is suspected.
* Additional Holds: The period may be extended by an additional 10 business days if warranted and allowed by state law.
* Incorrect Options:
* A & B: These are shorter than the permissible period.
* D: The initial hold period is capped at 10 business days.
FINRA Rule 2165 (Financial Exploitation of Specified Adults): FINRA Rule 2165.

NEW QUESTION: 14
A broker-dealer (BD) creates a marketing postcard that includes a statement regarding FINRA's endorsement of the BD. Which of the following responses is true?
A. The statement regarding FINRA's endorsement is not permissible.
B. The statement is permissible if a principal of the BD approves it in writing prior to use.
C. The statement is permissible if the statement is approved in writing by FINRA prior to use.
D. The statement is permissible if the postcard does not discuss specific investment opportunities.
Answer: (SHOW ANSWER)
Step by Step Explanation:
* FINRA Rule 2210: Firms are prohibited from suggesting or implying FINRA's endorsement or approval in any advertising materials.
* Approvals: Even if a principal or FINRA approves the content, such a statement remains impermissible.
* Key Point: FINRA's role is to regulate, not to endorse firms or their marketing.
FINRA Rule 2210 (Communications with the Public): FINRA Rule 2210.

NEW QUESTION: 15
Which of the following securities receives the highest priority in case of a bankruptcy?
A. Rights
B. American Depositary Receipts (ADRs)
C. Common stock
D. Preferred stock
Answer: (SHOW ANSWER)

NEW QUESTION: 16
The process in which the buying firm must pay for the securities and the selling firm must deliver the securities is known as:

A. A corporate action
B. Clearing the trade
C. The settlement of the transaction
D. A delivery versus payment (DVP) transaction
Answer: (SHOW ANSWER)
Step by Step Explanation:
* Settlement of the Transaction: Refers to the finalization of a trade, where the buyer pays for the securities, and the seller delivers them. For most securities, regular-way settlement occurs T+2 (trade date plus two business days).
* Incorrect Options:
* Clearing the Trade: Refers to matching trade details to prepare for settlement.
* DVP Transactions: A specific type of settlement involving simultaneous payment and delivery, often used for institutional clients.
* Corporate Action: Refers to events like stock splits or dividend declarations.
FINRA and SEC Guidelines on Settlement: SEC Settlement Process.

NEW QUESTION: 17
The civil penalty for an individual who is convicted of an insider trading violation is permitted to be an amount up to how many times the profit gained or loss avoided?
A. 1 time
B. 3 times
C. 6 times
D. 10 times
Answer: (SHOW ANSWER)
Under the Insider Trading and Securities Fraud Enforcement Act of 1988, the SEC may impose a civil penalty of up to three times the profit gained or loss avoided (referred to as "treble damages") on individuals found guilty of insider trading.
* B is correct because treble damages equal three times the profit or avoided loss.
* A is incorrect because the penalty is not limited to one time the profit.
* C and D are incorrect because the penalty is capped at three times, not six or ten times.
Reference: Insider Trading and Securities Fraud Enforcement Act of 1988

NEW QUESTION: 18
Company XYZ files a registration statement for its initial public offering (IPO). XYZ is permitted to communicate all of the following information about the offering in writing to investors except that:
A. The IPO is expected to price in early February.
B. The IPO is being underwritten by Bank ABC and Bank DEF.
C. A recent industry report supports the company's valuation.
D. The road show will be held February 6-10 in New York and Boston.
Answer: (SHOW ANSWER)
During the "quiet period" after filing the registration statement, issuers are restricted in what they can communicate to the public to avoid influencing the market.
* C is correct because promotional statements, such as those supporting the company's valuation, are prohibited during this time.
* A, B, and D are factual, non-promotional statements and are permitted.
Reference: Securities Act of 1933, Section 5; SEC Regulation S-K

NEW QUESTION: 19
At which of the following prices does a 7% coupon bond have the highest current yield?
A. 92
B. 100
C. 102
D. 107
Answer: (SHOW ANSWER)
A bond's current yield is calculated as annual interest (coupon payment) divided by the bond's current market price. For a fixed-rate bond, the annual interest amount is based on the coupon rate times par value (typically
$1,000 par). With a 7% coupon, annual interest is $70 per $1,000 of par value. Since the coupon payment is fixed, the current yield becomes higher when the purchase price is lower, because you are receiving the same
$70 of annual interest while paying less for the bond.
In this question, the possible market prices are 92, 100, 102, and 107 (quoted as percentages of par). A price of 92 means the bond costs $920 per $1,000 par. The current yield at 92 is $70 ÷ $920, which is higher than
$70 ÷ $1,000 (at par), higher than $70 ÷ $1,020, and higher than $70 ÷ $1,070. Therefore, the bond has the highest current yield at the lowest price, which is 92.
This question is testing a fundamental SIE relationship: for bonds, yield and price move inversely. While
"current yield" is a simpler measure than yield to maturity (YTM) because it ignores time to maturity and any gain/loss if the bond is redeemed at par, it is still widely used as a quick comparison tool. The exam expects you to recognize that as price declines (discount), current yield rises; as price increases (premium), current yield falls-assuming the coupon rate is fixed.

The SIE outline includes debt instrument basics such as coupon, par, yield, and price/yield relationships.

NEW QUESTION: 20

Which of the following security types is frequently offered to the public as part of a package or unit that also includes a fixed income obligation?

A. Options

B. Warrants

C. Common stock

D. Preferred stock

Answer: (SHOW ANSWER)

Step by Step Explanation:

* Warrants: Are often issued alongside fixed-income securities, such as bonds, to enhance their appeal to investors. Warrants give the holder the right to purchase company stock at a specific price in the future.
* Incorrect Options:
* Options: Not typically bundled with fixed-income securities.
* Common and Preferred Stock: Usually issued separately, not as part of a package with bonds.

SEC Guide on Warrants: SEC Warrants Information.

NEW QUESTION: 21

Company ABC stock currently trades on an exchange. An ABC insider wants to sell a large number of shares of her privately held ABC stock. ABC files the necessary paperwork to register the shares, but the insider decides to wait and sell the stock at a later date. Which of the following terms best describes the type of offering that is occurring in this situation?

A. A rights offering

B. A private offering

C. An exempt offering

D. A secondary offering

Answer: (SHOW ANSWER)

Step by Step Explanation:

* Secondary Offering: Involves the sale of shares by an existing shareholder, such as an insider, rather than the company itself issuing new shares.
* Incorrect Options:
* A: Rights offerings involve giving existing shareholders the opportunity to buy additional shares.
* B: Private offerings are not registered with the SEC and involve limited investors.
* C: An exempt offering refers to securities exempt from SEC registration, such as Regulation D offerings.

SEC Guide on Secondary Offerings: SEC Secondary Offerings.

NEW QUESTION: 22

Which of the following is the primary risk of using asset allocation models without periodic rebalancing?
A. Inflation
B. Marketability
C. Overweighting
D. Interest rate risk
Answer: (SHOW ANSWER)
Step by Step Explanation:
* Rebalancing: Ensures that a portfolio remains aligned with its target allocation. Without rebalancing, outperforming assets can become overweighted, increasing exposure to specific risks.
* Incorrect Options:
* Inflation: Impacts purchasing power but isn't tied to rebalancing.
* Marketability: Refers to liquidity and isn't linked to allocation models.
* Interest Rate Risk: Relates to fixed-income investments and isn't directly addressed by allocation models.
SEC Investor Bulletin on Asset Allocation: SEC Asset Allocation.

NEW QUESTION: 23
Under which of the following circumstances, if any, is a member firm permitted to send gifts to registered representatives (RRs) of another member firm?
A. No single gift exceeds $100; no limit on the number of gifts
B. No single gift exceeds $100; maximum value of all gifts per RR per year is $200
C. Value of all gifts to an RR during a period of one year does not exceed $100
D. Under no circumstance
Answer: (SHOW ANSWER)
FINRA Rule 3220 prohibits member firms from giving gifts exceeding $100 per individual per year to ensure that gifts do not influence business conduct. The rule applies to gifts given in connection with the firm's business.
* C is correct because it adheres to FINRA's $100 annual limit.
* A is incorrect because the total value of gifts must also not exceed $100 annually.
* B is incorrect as there is no $200 limit.
* D is incorrect as gifts are allowed within the $100 limit.
Reference: FINRA Rule 3220 (Influencing or Rewarding Employees of Others)

NEW QUESTION: 24
Which of the following securities is marginable at settlement of a purchase?
A. Right
B. Warrant
C. Corporate bond
D. Money market fund

Answer: (SHOW ANSWER)
A corporate bond is generally marginable at settlement, making choice C correct. Under margin rules, many exchange-listed equities and a broad range of fixed-income securities can be purchased on margin once the trade settles, subject to firm policies, Reg T requirements, and whether the security is eligible. Corporate bonds-especially those that are widely traded and meet eligibility standards-are commonly marginable, and for SIE purposes they are a standard example of a margin-eligible security.
A right (choice A) is a short-lived privilege issued to existing shareholders to purchase additional shares, often at a subscription price, within a limited time window. Rights are not typically used as classic margin securities in the way standard listed stocks or bonds are, and their short duration and special characteristics make them a poor match for "marginable at settlement" in exam terms. A warrant (choice B) is a long-term instrument that gives the holder the right to buy stock at a stated price; warrants can trade, but they are not the standard "go-to" marginable instrument on the SIE and are often treated as special securities with firm- specific margin treatment. A money market fund (choice D) is designed to maintain a stable NAV and is frequently used as a cash equivalent; it is not typically treated as a marginable security for borrowing purposes in the same way as marginable stocks and bonds.
The SIE tests margin basics at a conceptual level: what types of securities can be financed in a margin account and when. "At settlement" language points you to the idea that margin eligibility is tied to the security and completion of the trade, not that every product is eligible immediately upon execution. The clearest correct choice here is corporate bonds.

NEW QUESTION: 25
A customer will be out of the country for the next two months on business and asks his firm to hold his mail until he returns. Which of the following statements is true regarding this request?
A. The firm is prohibited from holding the customer's mail under FINRA rules due to the personal information contained.
B. The firm must receive written instructions from the customer that include the time period for the requested mail hold.
C. The firm is permitted to hold the mail as long as the registered representative (RR) complies with the customer's oral instructions.
D. At the discretion of the RR, the firm is permitted to hold the customer's mail provided it takes reasonable actions to ensure no tampering occurs with this mail.
Answer: B (LEAVE A REPLY)
Step by Step Explanation:
* FINRA Rule 3150: Permits firms to hold customer mail only with written instructions specifying the duration, which cannot exceed three months unless there are exceptional circumstances.
* Incorrect Options:
* A: Holding mail is not prohibited if done in compliance with FINRA rules.
* C & D: Oral instructions or RR discretion are not sufficient; written authorization is mandatory.
FINRA Rule 3150 (Holding of Customer Mail): FINRA Rule 3150.

NEW QUESTION: 26

Which of the following strategies is an investor most likely to employ using options contracts?

A. Buying put options to set a definitive floor for potential losses

B. Buying put options when the market shows upward momentum

C. Selling call options to set a definitive ceiling for potential losses

D. Buying call options when the market shows downward momentum

Answer: (SHOW ANSWER)

Buying a put option gives the investor the right to sell a stock at a specific strike price, effectively setting a floor for potential losses if the stock price declines. This is a common risk-management strategy.

* A is correct because buying puts limits downside risk while retaining the potential for upside gains.
* B is incorrect as buying puts is a bearish strategy, not one used during upward momentum.
* C is incorrect because selling call options does not hedge losses; it is a speculative or income-generating strategy.
* D is incorrect because buying calls is a bullish strategy, used during upward momentum, not downward.

Reference: SIE Study Guide, Chapter 8: Options Strategies

NEW QUESTION: 27

A hypothecation agreement gives the broker-dealer the right to engage in which of the following activities?

A. Sharing customers' nonpublic personal information with nonaffiliated third parties

B. Entering trades in a customer's account without prior authorization from the customer

C. Selling a customer's securities when the customer has failed to pay for trades in a cash account

D. Using securities that a customer has bought on margin as collateral to obtain a loan from a bank

Answer: (SHOW ANSWER)

Step by Step Explanation:

* Hypothecation Agreement: Required for margin accounts, it authorizes the broker-dealer to use the customer's margin securities as collateral to secure loans for funding customer transactions.
* Incorrect Options:
* A: Sharing customer information is regulated under privacy rules (Regulation S-P).
* B: Unauthorized trading violates securities laws.
* C: Selling unpaid securities in cash accounts pertains to Regulation T, not hypothecation agreements.

FINRA Margin Account Rules: FINRA Rule 4210.

NEW QUESTION: 28

How long are unused funds permitted to remain in a Coverdell education savings account?
A. All funds must be distributed when the beneficiary's age reaches 21 years old.
B. All funds must be distributed when the beneficiary's age reaches 30 years old.
C. All funds must be distributed when the beneficiary's age reaches 59 ½ years old.
D. There is no age limit preventing funds from remaining in a beneficiary's account.
Answer: (SHOW ANSWER)
Coverdell Education Savings Accounts (ESAs) require that all funds be distributed by the time the beneficiary reaches 30 years old. If the funds are not used for qualified educational expenses, they may be subject to taxes and penalties.
* B is correct because funds must be distributed by age 30 unless transferred to another eligible family member.
* A is incorrect as age 21 is not relevant for Coverdell ESAs.
* C is incorrect because age 59 ½ applies to retirement accounts like IRAs.
* D is incorrect because there is a distribution deadline for Coverdell accounts.
Reference: IRS Publication 970: Tax Benefits for Education

NEW QUESTION: 29
A registered representative constructs a portfolio of stocks that replicates the S&P 500 Index (SPX). He then regularly buys and sells SPX options to profit off changes in implied volatility. This is an example of:
A. passive management.
B. day trading.
C. active management.
D. Index rebalancing.
Answer: C (LEAVE A REPLY)

NEW QUESTION: 30
A registered representative (RR) at a member firm is the subject of a statutory disqualification. Which of the following statements is true?

A. The RR is prohibited from soliciting business but is permitted to accept unsolicited orders.
B. The RR is prohibited from any association or employment with a member firm unless he obtains a waiver.
C. The RR is prohibited from employment by a member firm in any registered capacity but is permitted to be employed in an unregistered capacity.
D. A statutory disqualification, although reportable to CRD, does not affect employment in the securities industry.
Answer: (SHOW ANSWER)
A statutory disqualification occurs if an RR has been convicted of certain crimes, violated securities laws, or been barred by a regulatory authority. Under FINRA rules, the RR cannot associate with a member firm in any capacity unless they obtain a waiver from FINRA.
* B is correct because the disqualified person must obtain a waiver to continue employment.

* A and C are incorrect because the RR is not allowed to associate with the firm in any capacity without a waiver.
* D is incorrect because statutory disqualification directly affects the RR's employment status.
Reference: FINRA By-Laws, Article III, Section 4; FINRA Rule 9520 (Eligibility Proceedings)

NEW QUESTION: 31
If an investor is bullish on ABC, which of the following actions will he most likely take?
A. Buy ABC puts
B. Buy ABC stock
C. Sell ABC calls
D. Sell ABC stock short
Answer: (SHOW ANSWER)
Step by Step Explanation:
* Bullish Position: Buying ABC stock aligns with the expectation that the stock's price will rise, allowing the investor to profit.
* Incorrect Options:
* A: Buying puts is a bearish strategy.
* C: Selling calls benefits from stable or declining prices.
* D: Selling short is a bearish strategy anticipating a price drop.
FINRA Guidance on Market Strategies: FINRA Trading Basics.

NEW QUESTION: 32
In a rising interest rate environment, which of the following statements is true regarding the price of fixed-rate corporate bonds?
A. Their price will remain constant.
B. Their price will revert to par value.
C. Their price will appreciate in value.
D. Their price will depreciate in value.
Answer: (SHOW ANSWER)
When interest rates rise, the price of fixed-rate corporate bonds falls because the bond's coupon payments become less attractive compared to new bonds issued at higher rates.
* D is correct as bond prices move inversely to interest rates.

* A is incorrect because bond prices fluctuate with interest rate changes.
* B is incorrect because bond prices revert to par only at maturity.
* C is incorrect because prices do not appreciate when rates rise.
Reference: SIE Study Guide, Chapter 3: Interest Rates and Bond Prices

NEW QUESTION: 33
Which of the following statements is true about a corporation's balance sheet?
A. It is also called a profit and loss statement.
B. It summarizes a company's revenues and expenses for the firm's fiscal year.
C. It lists a company's assets, liabilities, and net worth on the date the statement was prepared.
D. It reports where a corporation's cash is being generated and where its cash is being spent for a specific period.
Answer: C (LEAVE A REPLY)
Step by Step Explanation:
* Balance Sheet Definition: Shows a company's financial position at a specific point in time, listing assets, liabilities, and shareholders' equity (net worth).
* Other Financial Statements:
* Profit and Loss Statement: Summarizes revenues and expenses over a period.
* Cash Flow Statement: Tracks cash inflows and outflows.
SEC Guide to Financial Statements: SEC Financials.

NEW QUESTION: 34
A weakening of the U.S. dollar versus foreign currencies will generally result in which of the following situations?
A. U.S. imports will increase.
B. U.S. exports will decrease.
C. Foreign goods will be less expensive.
D. Foreign goods will be more expensive.
Answer: (SHOW ANSWER)
If the U.S. dollar weakens relative to foreign currencies, it takes more dollars to buy the same amount of foreign currency. As a result, foreign goods become more expensive for U.S. consumers, which makes choice D correct. This is a straightforward foreign exchange relationship tested on the SIE under international economic factors and exchange rates.
To see why, imagine a product priced in euros. If the dollar weakens against the euro, each euro costs more in dollars, so that same euro-priced item costs more when converted into USD. This tends to reduce U.S.
demand for imports (not increase it), because imported goods now require more dollars to purchase. That's why choice A is generally false.
A weaker dollar often has the opposite effect on U.S. exporters: U.S. goods become cheaper to foreign buyers because foreign currencies can purchase more dollars than before. That can make U.S. products more competitive abroad, which may increase exports, not decrease them.

Therefore, choice B is also generally false. Choice C is the opposite of what happens: foreign goods become more expensive, not less.
SIE questions frequently test these directional relationships rather than requiring calculations. The key rule to remember: weaker domestic currency # imports cost more, exports tend to become more competitive (all else equal). This can affect corporate earnings, inflation pressures, and market sectors differently, which is why exchange rates are included as a foundational macroeconomic concept on the SIE outline.

NEW QUESTION: 35
In performing fundamental analysis of an equity, which of the following elements should an investor consider?
A. Chart patterns
B. Moving average
C. Financial statements
D. Resistance and support levels
Answer: (SHOW ANSWER)
Fundamental analysis focuses on evaluating a company's underlying business and financial condition to estimate its intrinsic value. The most direct and essential inputs for fundamental analysis are the company's financial statements, which is why C is correct. Financial statements-primarily the balance sheet, income statement, and cash flow statement-help an investor assess profitability, financial strength, leverage, liquidity, and cash generation. From these statements, investors can derive ratios and measures such as earnings growth, profit margins, debt-to-equity, current ratio, and operating cash flow trends, all of which help evaluate whether the stock is undervalued or overvalued relative to the company's fundamentals.
Choices A, B, and D are all technical analysis concepts, not fundamental analysis. Chart patterns (A) and resistance/support levels (D) are based on historical price behavior and market psychology. A moving average (B) is a technical indicator that smooths price data to identify trends and potential entry/exit signals. While technical tools can be used by traders, they do not analyze the company's earnings capacity, competitive position, or financial stability.
On the SIE, the distinction is commonly tested:
* Fundamental analysis = company/industry/economic factors and financial statement evaluation
* Technical analysis = price/volume patterns and indicators
If the question asks what an investor should consider for fundamental analysis, you should immediately look for items tied to the company's business performance and financial health-most directly, financial statements.

NEW QUESTION: 36
Which of the following strategies is best for mitigating the risk of a concentrated position?
A. Diversification
B. Use of leverage
C. Dollar-cost averaging

D. Dividend reinvestment
Answer: (SHOW ANSWER)
Step by Step Explanation:
* Diversification: Spreads investments across multiple securities, industries, or asset classes to reduce exposure to a single security or sector.
* Other Options:
* Use of Leverage: Increases, not decreases, portfolio risk.
* Dollar-Cost Averaging: Reduces timing risk but does not address concentration.
* Dividend Reinvestment: Enhances returns but does not mitigate concentration risk.
SEC Guidance on Diversification: SEC Diversification.

NEW QUESTION: 37
An investor generally purchases an open-end mutual fund from which of the following parties?
A. The NYSE
B. The fund's custodian
C. The fund's underwriter
D. An existing shareholder
Answer: (SHOW ANSWER)
Step by Step Explanation:
* Open-End Mutual Funds: Shares are purchased directly from the fund or its underwriter at the current Net Asset Value (NAV), plus any applicable sales charges.
* Custodian: Holds the fund's assets but does not sell shares.
* NYSE and Shareholders: Open-end funds do not trade on exchanges or between individual shareholders.
SEC Mutual Fund Basics: SEC Mutual Funds.

NEW QUESTION: 38
Which of the following statements is true of an index exchange-traded fund (ETF)?
A. It trades at its intraday intrinsic value.
B. It is redeemable for cash directly to the issuer.
C. It is priced once daily, generally at the market close.
D. It is designed to track a specific asset class, style, sector, or country.
Answer: (SHOW ANSWER)
An index ETF is designed to track a specific index-which may represent an asset class, market segment, style, sector, or country-so D is correct. Index ETFs are typically passively managed to replicate the performance of a chosen benchmark (e.g., a broad equity index, a sector index, or an international index).
This product design feature is fundamental and widely tested on the SIE.
Choice C is incorrect because ETFs are not priced once daily like open-end mutual funds. ETFs trade on an exchange throughout the day and have intraday market prices. Choice B is incorrect because typical retail investors do not redeem ETF shares for cash directly with the issuer. The

creation/redemption process is primarily for authorized participants, who transact in large blocks (creation units), usually exchanging baskets of securities. Retail investors buy and sell ETF shares in the secondary market through brokerage transactions.
Choice A is incorrect because while ETFs have an indicative intraday value (often called intraday NAV or iNAV), the ETF's market price can trade at small premiums or discounts based on supply/demand. It does not necessarily trade exactly at "intraday intrinsic value" at every moment, even though the arbitrage mechanism usually keeps deviations relatively small.
For SIE purposes, remember the core ETF distinctions: intraday trading, typically lower expense than many active mutual funds, an index-tracking objective for index ETFs, and a creation/redemption mechanism that supports price alignment with underlying value.

NEW QUESTION: 39

Which of the following assets in an account must a broker-dealer maintain physical possession or control of unless there is an exemption?

A. All securities in the account

B. The entire brokerage account

C. Fully paid-for securities in the account only

D. Fully paid-for and excess margin securities in the account

Answer: (SHOW ANSWER)

Broker-dealers are subject to customer protection requirements that include the obligation to maintain physical possession or control of certain customer securities. Specifically, firms generally must maintain possession or control of fully paid-for securities and excess margin securities (unless an exemption applies).
That is why D is correct. The concept is investor protection: ensuring that customer securities are safeguarded and readily available, rather than being improperly used by the firm or exposed to unnecessary risk.
"Fully paid-for" securities are securities that a customer has paid for in full and therefore should not be encumbered by the firm. "Excess margin" securities are those with a market value greater than what is necessary to support the customer's margin debit. Because these securities represent customer property beyond what is needed as collateral, regulators require heightened safeguards-possession or control-so the firm cannot freely rehypothecate or otherwise misuse them beyond permitted limits.
Choice A is too broad; while many securities are protected, not all securities in an account fall under the same possession-or-control requirement in the same way, especially when margin collateral rules allow certain use within limits. Choice B is nonsensical because "the entire brokerage account" is not an asset and cannot be physically possessed. Choice C is incomplete because it ignores the "excess margin securities" component, which is explicitly included in the standard phrasing of this requirement.
For SIE purposes, this is tested as part of custody/safeguarding rules, customer protection concepts, and firm obligations relating to holding customer assets.

NEW QUESTION: 40

Which of the following statements is true about a general obligation (GO) municipal bond?

A. It does not carry an attached legal opinion.

B. It carries no exemption from federal or state income taxes.

C. It is backed by the full faith and credit of the issuing jurisdiction.

D. It is payable solely from the revenues of the facility against which the bonds were issued.

Answer: C (LEAVE A REPLY)

A general obligation (GO) municipal bond is backed by the full faith and credit of the issuing municipality or governmental unit, which is why choice C is correct. In practical terms, this means the issuer pledges its general taxing power and overall resources to meet debt service-interest and principal payments. GO bonds are typically supported by the issuer's ability to levy taxes (often property taxes, subject to legal limits), making their repayment source broader than that of revenue bonds.

Choice D describes a revenue bond, which is payable only from a specific revenue stream (e.g., tolls from a bridge, fees from a water/sewer system, or revenues from an airport). Revenue bonds do not rely on the issuer' s general taxing power; instead, bondholders depend on the project's or enterprise's revenues. That is a key GO vs. revenue distinction tested heavily on the SIE.

Choice A is incorrect because municipal securities customarily include a legal opinion addressing validity and tax status, especially for tax-exempt issues; the presence of a legal opinion is not something GO bonds uniquely lack. Choice B is incorrect because many municipal bonds, including many GO bonds, are federally tax-exempt on interest (and may also be state/local tax-exempt for in-state residents), though there are exceptions such as taxable munis and AMT considerations in certain cases. The question's best, universally correct feature of a GO bond is the backing by the issuing jurisdiction's full faith and credit.

This question aligns with SIE product knowledge of municipal securities, including repayment sources and how those sources affect credit considerations.

NEW QUESTION: 41

Which of the following entities settles broker-to-broker equity, listed corporate and municipal bond, and unit investment trust (UIT) transactions in the U.S. equities markets?

A. SEC

B. FINRA

C. Federal Reserve

D. National Securities Clearing Corporation (NSCC)

Answer: (SHOW ANSWER)

Step by Step Explanation:

* National Securities Clearing Corporation (NSCC): A subsidiary of the Depository Trust & Clearing Corporation (DTCC), the NSCC handles the clearance and settlement of broker-to-broker equity, corporate bond, municipal bond, and UIT transactions.

* Incorrect Options:

* A: The SEC oversees regulatory compliance but does not settle trades.

* B: FINRA is a self-regulatory organization, not a clearing entity.
* C: The Federal Reserve manages monetary policy and banking but is not involved in securities settlement.
DTCC Overview of NSCC: DTCC NSCC.

NEW QUESTION: 42
Which of the following statements is true regarding the SEC's characterization of a registration statement that has just been made effective?
A. The SEC has approved the security being offered for sale.
B. The SEC has found the information presented to be true and accurate.
C. The SEC has determined that no material information has been omitted.
D. The SEC has not passed judgment on the merits of the security being offered for sale.
Answer: (SHOW ANSWER)
Step by Step Explanation:
* SEC Registration Statements: The SEC reviews registration statements for completeness and compliance but does not judge the merits, approve, or endorse the securities being offered.
* Other Options:
* A, B, and C: Misrepresent the SEC's role in the registration process.
SEC Bulletin on Registration Statements: SEC Registration Process.

NEW QUESTION: 43
Which of the following parties Is permitted to purchase a security in an Initial public offering (IPO)?
A. An RR of a broker-dealer (BD) not involved in the underwriting
B. A registered representative's (RR's) brother-in-law
C. A mutual fund portfolio manager buying for the fund's portfolio
D. A BD not affiliated with the syndicate for the IPO
Answer: (SHOW ANSWER)

NEW QUESTION: 44
A bond with a par value of $1,000 that is backed by the taxing power of a local government is known as:
A. A revenue bond
B. A Treasury bond
C. A corporate bond
D. A general obligation (GO) bond
Answer: (SHOW ANSWER)
Step by Step Explanation:
* General Obligation (GO) Bonds: Backed by the full faith and credit of the issuing municipality, relying on its taxing power for repayment.
* Revenue Bonds: Supported by revenues from a specific project or source.

* Treasury Bonds: Issued by the federal government.
* Corporate Bonds: Issued by corporations, not municipalities.
SEC Municipal Bond Guide: SEC GO Bonds.

NEW QUESTION: 45
Which of the following customers Is eligible to open an institutional account at a broker-dealer?
A. limited liability partnership with assets of $20 million
B. An investment club with pooled assets totaling $1 million
C. corporation with assets totaling $25 million
D. An Insurance company with assets of $45 million
Answer: (SHOW ANSWER)

NEW QUESTION: 46
Which of the following securities issued by a corporation allows the owner to vote on matters of the corporation?
A. Warrant
B. Common stock
C. Preferred stock
D. Corporate bond
Answer: (SHOW ANSWER)
Common stock typically provides the owner with voting rights on key corporate matters, making answer B correct. Common shareholders generally vote to elect the board of directors and may vote on significant corporate actions such as mergers, major reorganizations, or other proposals submitted for shareholder approval. Voting rights are a core distinguishing feature of common stock and are frequently tested on the SIE as part of understanding equity ownership and shareholder rights.
A warrant (choice A) is a derivative-like security that gives the holder the right to purchase the issuer's stock at a specified price before expiration. Warrant holders do not have voting rights unless and until they exercise the warrant and become stockholders. Preferred stock (choice C) typically has characteristics closer to a hybrid: it pays a stated dividend and often has priority over common stock in dividends and liquidation, but it usually does not carry voting rights (though preferred may gain voting rights in special situations, such as when dividends are in arrears, depending on the issue terms). A corporate bond (choice D) is debt; bondholders are creditors, not owners, and generally do not vote on corporate governance matters (though bond covenants may provide protections and certain consent rights in specific restructuring situations).
The SIE emphasizes the relationship between security type and investor rights: equity ownership (common stock) comes with participation in corporate governance through voting, while debt instruments provide contractual cash flows and creditor protections but not ownership voting rights.

NEW QUESTION: 47
How does an individual acquire restricted stock?
A. By participating in an SEC Regulation D offering
B. By participating in an initial public offering (IPO)
C. By exercising publicly traded warrants
D. By exercising an option for exchange-traded calls
Answer: (SHOW ANSWER)
Restricted stock refers to securities acquired through private placements, such as those offered under Regulation D. These securities are not registered with the SEC and are subject to holding period restrictions before resale.
* A is correct because Regulation D offerings involve private placements, resulting in restricted stock.
* B is incorrect because IPOs involve publicly traded shares, not restricted stock.
* C and D are incorrect because restricted stock is not obtained through warrants or exchange-traded options.
Reference: SEC Regulation D, Rule 144 (Restricted and Control Securities)

NEW QUESTION: 48
Which of the following statements is true of an index exchange-traded fund (ETF)?
A. It has a high portfolio turnover ratio.
B. It is priced once daily, generally at the market close.
C. It offers an opportunity to outperform the index it tracks.
D. Passive ETFs will typically have lower fees than those associated with actively managed ETFs.
Answer: (SHOW ANSWER)
Passive ETFs track an index and require minimal management, leading to lower expenses compared to actively managed ETFs.
* D is correct because passive ETFs are cost-efficient and have lower fees.
* A is incorrect because index ETFs have low turnover since they replicate an index.
* B is incorrect because ETFs are priced continuously throughout the trading day.
* C is incorrect as ETFs aim to match, not outperform, the index.
Reference: SIE Study Guide, Chapter 7: Exchange-Traded Funds

NEW QUESTION: 49
Which of the following investors is permitted to purchase shares in an equity initial public offering (IPO)?
A. A portfolio manager of a bank for their own account
B. An individual that is defined as an institutional customer
C. An individual employed at a broker-dealer (BD) in a non-registered capacity
D. A registered representative at a BD that is not involved with the IPO
Answer: (SHOW ANSWER)
FINRA rules restrict allocations of shares in certain equity IPOs to prevent improper practices and conflicts of interest, especially involving industry insiders and "restricted persons." However, institutional customers are generally permitted to purchase IPO shares, subject to the firm's allocation policies and applicable restrictions. Therefore, the best answer is B.
Choice A is problematic because a bank portfolio manager purchasing "for their own account" may fall into restricted categories depending on role and affiliations; the phrasing suggests a financial industry professional acting personally, which raises restricted person concerns. Choice C is also generally restricted: persons associated with a broker-dealer (even in a non-registered role) may be considered restricted persons for IPO allocations, depending on the specifics, because the rule is designed to keep IPO shares from being funneled to industry insiders who could benefit improperly. Choice D is similarly suspicious because registered representatives at any broker-dealer may be restricted from buying IPO shares for their own accounts even if their firm is not involved in the offering; the restriction focuses on associated persons and conflicts, not just participation in the specific deal.
On the SIE, the tested concept is that IPO allocations are subject to rules designed to protect fairness and prevent "spinning" or insider favoritism. Institutional customers are generally not the prohibited category in this set of options, making them the clean permitted choice.

NEW QUESTION: 50
Which of the following disclosures is a municipal securities dealer required to provide its customers once every calendar year?

A. The firm's address
B. The firm's financial standing
C. FINRA violations of all registered representatives
D. The location and availability of the MSRB investor brochure
Answer: (SHOW ANSWER)
Step by Step Explanation:
* MSRB Rule G-10: Requires municipal securities dealers to notify customers annually about the availability of the MSRB investor brochure, which explains investor protections and complaint filing procedures.
* Incorrect Options:
* A and B: Address and financial standing are not specifically required disclosures.
* C: FINRA violations are not a required disclosure under MSRB rules.

MSRB Rule G-10 (Investor Brochure Requirement): MSRB Rule G-10.

NEW QUESTION: 51

Which of the following groups are members of NASAA?

A. Broker-dealers

B. Major stock exchanges

C. State securities regulators

D. Self-regulatory organizations (SROs)

Answer: (SHOW ANSWER)

NASAA is the North American Securities Administrators Association, and its membership is made up of state, provincial, and territorial securities regulators (in the U.S., primarily the state securities administrators).

That makes C correct. On the SIE, NASAA is tested as the umbrella organization representing state-level regulators, which are responsible for enforcing state securities laws ("blue sky" laws), registering certain securities offerings when applicable, and registering/licensing investment adviser representatives and other participants under state jurisdiction.

Choice A is incorrect because broker-dealers are regulated entities, not NASAA members. Broker-dealers register with the SEC and are members of self-regulatory organizations like FINRA, but they are not

"members of NASAA." Choice B is incorrect because stock exchanges are marketplaces and are often SROs themselves, but they are not NASAA members. Choice D is incorrect because SROs (such as FINRA or MSRB) are not NASAA members; NASAA represents state-level governmental regulators, not self- regulatory organizations.

This question reinforces an important SIE framework: U.S. securities regulation is shared among federal regulators (SEC), self-regulatory organizations (FINRA, MSRB, exchanges), and state regulators. NASAA serves as a coordinating body for state regulators, promoting uniformity through model rules, policy coordination, investor education, and cooperation among jurisdictions. Understanding NASAA's membership helps you correctly assign regulatory roles-especially when questions involve blue sky laws, state registration requirements, and state-level enforcement.

NEW QUESTION: 52

Which of the following responses best characterizes a money market mutual fund?

A. It pays a fixed rate of return.

B. Its price is fixed at $1 per share.

C. Its underlying investments are short term.

D. Its yield always exceeds a savings account rate.

Answer: (SHOW ANSWER)

Money market mutual funds invest in highly liquid, short-term debt instruments, such as Treasury bills, commercial paper, and certificates of deposit. While the funds aim to maintain a stable $1 NAV, this is not guaranteed.

* C is correct because the fund's investments are short term.

* A is incorrect because the rate of return is not fixed; it varies with market interest rates.
* B is incorrect because while the fund tries to maintain a $1 NAV, it is not guaranteed.
* D is incorrect because yields do not always exceed those of savings accounts.
Reference: SIE Study Guide, Chapter 5: Money Market Funds

NEW QUESTION: 53
A customer buys 100 ABC at $50 and at the same time sells an ABC April 50 call at $8. At expiration, ABC must be at what market price for the customer to break even?
A. $42
B. $44
C. $50
D. $58
Answer: (SHOW ANSWER)
Step by Step Explanation:
* Breakeven Calculation: For covered call writing, breakeven is the stock purchase price minus the premium received.
* Purchase Price = $50
* Premium Received = $8
* Breakeven = $50 - $8 = $42.
* Other Options:
* B, C, and D: Incorrect because they do not reflect the proper calculation of stock price minus the premium.
Options Clearing Corporation (OCC) Education: OCC Options Guidance.

NEW QUESTION: 54
Which of the following products is redeemable at net asset value (NAV)?
A. Corporate stock
B. Municipal bonds
C. Options contracts
D. Open-end mutual funds
Answer: (SHOW ANSWER)
Open-end mutual funds are redeemable securities, meaning investors can sell their shares back to the fund at the NAV.
* D is correct because mutual funds allow redemption at NAV.
* A, B, and C are not redeemable securities.
Reference: Investment Company Act of 1940, Section 2(a)(32)

NEW QUESTION: 55
A registered representative wants to open an account for himself at a different financial institution. Under FINRA rules, which of the following accounts requires prior written consent from his employing broker- dealer?

A. A 529 savings plan account established for his grandchild
B. Mutual fund accounts held directly with the fund company
C. Variable contracts registered under the Investment Company Act
D. An investment advisory account in which securities transactions are effected
Answer: (SHOW ANSWER)
Step by Step Explanation:
* FINRA Rule 3210: Requires registered representatives to obtain written consent from their employing broker-dealer before opening accounts at other financial institutions if securities transactions will occur.
* Incorrect Options:
* A, B, and C: These accounts are exempt because they do not involve direct securities transactions requiring monitoring.
FINRA Rule 3210 (Accounts at Other Institutions): FINRA Rule 3210.

NEW QUESTION: 56
Which of the following terms describes an activity associated with money laundering?
A. Hedging
B. Layering
C. Front running
D. Insider trading
Answer: (SHOW ANSWER)
Layering is one of the classic stages of money laundering, so B is correct. Money laundering generally involves moving illicit proceeds through the financial system to make the funds appear legitimate. The process is commonly described in stages: placement (introducing illegal funds into the financial system), layering (creating complex layers of transactions to obscure the source and ownership), and integration (reintroducing the funds into the economy as seemingly legitimate assets). Layering specifically refers to using multiple transactions-often rapid, complex, and sometimes across different accounts, institutions, or jurisdictions-to break the audit trail. Examples include frequent wire transfers, moving funds through multiple accounts, buying and selling financial instruments to create transactional "noise," or converting into different instruments to make tracing more difficult.
Choice A, hedging, is a legitimate investment risk management technique used to reduce exposure to market movements. Choice C, front running, is a prohibited trading practice involving trading ahead of customer orders or anticipated market-moving events for personal benefit. Choice D, insider trading, involves trading on material nonpublic information and is an anti-fraud violation. None of these are money laundering activities; they are unrelated concepts that appear elsewhere on the SIE (trading practices and prohibited activities).
On the SIE, AML questions frequently test your ability to recognize the terminology of money laundering and the role of broker-dealer AML programs, suspicious activity reporting, and red flags. "Layering" is a key vocabulary term and is strongly associated with attempts to conceal the origin of funds.

NEW QUESTION: 57

An individual investor has $300,000 in cash and $400,000 in securities held with a financially troubled SIPC member firm for which liquidation has begun. The individual investor's cash is protected for what amount?

A. $150,000

B. $250,000

C. $300,000

D. $700,000

Answer: (SHOW ANSWER)

Step by Step Explanation:

* SIPC Coverage Limits: Protects up to $500,000 per customer, including a maximum of $250,000 for cash.

* In this case, $300,000 in cash exceeds the SIPC limit, so only $250,000 is protected.

* Incorrect Options:

* A: $150,000 understates the SIPC limit for cash.

* C: The full $300,000 in cash is not protected.

* D: Total coverage exceeds SIPC limits.

SIPC Coverage Details: SIPC Protection.

NEW QUESTION: 58

A market maker quotes the market on an NMS equity security as 39.05 - 39.15 [5x10]. Which of the following orders is the market maker required to fill?

A. A sell stop order for 500 shares at $39.00

B. A sell order for 300 shares at $39.05

C. A buy order for 1,000 shares at $39.10

D. A buy order for 2,000 shares at $39.15

Answer: (SHOW ANSWER)

The quote indicates that the market maker is willing to buy 500 shares at $39.05 (bid) and sell 1,000 shares at

$39.15 (ask). Market makers are required to honor their quoted size for orders that fall within their bid/ask prices.

* D is correct because the market maker is obligated to sell at least 1,000 shares at $39.15 as it falls within the quoted size and price.

* B is incorrect because the bid is at $39.05, not $39.00.

* C is incorrect because $39.10 does not match the ask price.

* A is invalid as a stop order would not activate at $39.00.

Reference: Securities Exchange Act of 1934, Regulation NMS Rule 602

NEW QUESTION: 59

A customer writes a call for XYZ stock with a strike price of $35 and receives a premium of $7. The stock is currently trading at $40. What is the time value of this option?
A. $0
B. $2
C. $5
D. $7
Answer: (SHOW ANSWER)
An option's premium consists of intrinsic value and time value:
* Intrinsic value = Current stock price - Strike price = $40 - $35 = $5.
* Time value = Total premium - Intrinsic value = $7 - $5 = $2.
* B is correct because $2 represents the time value.
* A, C, and D are incorrect because they miscalculate the time value based on the option's total premium.
Reference: SIE Study Guide, Chapter 8: Options Pricing

NEW QUESTION: 60
A market maker displays the following ABC stock quote: 25.05 - 25.15 (7x5J.
Based upon the quote displayed, the market maker sells all the available shares of a 1,200-share market order to buy ABC stock. How many shares must be sold at the price of $25.15?

A. 700
B. 1200
C. 200
D. 500
Answer: (SHOW ANSWER)

NEW QUESTION: 61
When the index level and strike price of a listed index option are the same, the option is:
A. in the money.
B. at the money.
C. out of the money.
D. trading at intrinsic value only.
Answer: (SHOW ANSWER)
An option is at the money (ATM) when the current value of the underlying (here, the index level) is equal to the option's strike price. That definition matches the question exactly, making B correct. ATM status is one of the core "moneyness" classifications tested on the SIE along with in the money (ITM) and out of the money (OTM).
For a call option, the option is ITM when the underlying index level is above the strike price (because exercising would allow purchase at the strike below the market), and OTM when the index level is below the strike. For a put option, it's the reverse: ITM when the underlying is below the strike, and OTM when the underlying is above the strike. When the index level equals the strike, neither a call nor a put has intrinsic value based on immediate exercise, so it is ATM.

Choice A and C are incorrect because "in" and "out of the money" require the underlying to be above or below the strike, not equal. Choice D is incorrect because an option trading at "intrinsic value only" implies it has no time value and is priced exactly at intrinsic value. But ATM options have zero intrinsic value by definition; their premium (if any) is typically all time value, reflecting volatility and time remaining until expiration.
This question reinforces the SIE's options fundamentals: strike price, premium, intrinsic vs time value, and how moneyness is determined using the underlying level relative to the strike.

NEW QUESTION: 62
Pursuant to the Securities Act of 1933, registration is required for which of the following securities?
A. Private placements
B. Municipal securities
C. U.S. government issues
D. Open-end investment companies
Answer: (SHOW ANSWER)
The Securities Act of 1933 requires securities offered to the public to be registered with the SEC unless they qualify for an exemption. Open-end investment companies (mutual funds) are not exempt and must register.
* D is correct because mutual funds are publicly offered and require registration.
* A is incorrect because private placements are exempt under Regulation D.
* B is incorrect because municipal securities are exempt under Section 3(a)(2).
* C is incorrect because U.S. government securities are also exempt under Section 3(a)(2).
Reference: Securities Act of 1933, Section 5; SIE Study Guide, Chapter 4

NEW QUESTION: 63
A customer deposits an $8,000 cashier's check in their account. Later the same day, they deposit a $2,500 money order. Which of the following actions, if any, must the firm take in response to this activity?
A. No filing required
B. File Form W-9 with the IRS
C. File a Suspicious Activity Report (SAR)

D. File a Currency Transaction Report (CTR)

Answer: A (LEAVE A REPLY)

The correct answer is A (No filing required) based on the facts provided. A Currency Transaction Report (CTR) is generally triggered by currency transactions (cash) over the applicable threshold within a single business day. In this scenario, the customer deposited a cashier's check and a money order, which are monetary instruments, not "currency" (cash). Therefore, even though the combined amount is $10,500, the deposits described are not cash deposits, so this does not automatically require a CTR.

A Suspicious Activity Report (SAR) is required when activity is suspicious and meets reporting criteria- such as transactions that appear designed to evade reporting requirements, have no apparent lawful purpose, involve potential money laundering, or otherwise raise red flags. Here, the amounts and instruments alone-$8,000 cashier's check and $2,500 money order deposited the same day-do not necessarily indicate suspicious activity. Without additional facts (e.g., patterns of structuring, inconsistent customer profile, unusual source of funds, evasive behavior, or other AML red flags), the firm is not required to file a SAR solely on this activity.

Form W-9 is used to request a taxpayer identification number and certification for certain tax-reporting purposes, but it is not a standard "required filing" triggered by these deposits as described.

The SIE tests the ability to distinguish between currency-based reporting (CTR) and suspicion-based reporting (SAR), and to recognize that not every large or same-day deposit is automatically reportable without meeting the specific rule trigger.

NEW QUESTION: 64

Which of the following statements is true of the writer of a listed equity call option?

A. They have the right to sell stock at a fixed strike price.

B. They have the right to buy stock at a fixed strike price.

C. They have the obligation to sell stock at a fixed strike price.

D. They have the obligation to buy stock at a fixed strike price.

Answer: (SHOW ANSWER)

Step by Step Explanation:

* Call Option Writer: When writing (selling) a call option, the writer has the obligation to sell the underlying stock at the strike price if the buyer exercises the option.

* Incorrect Options:

* A & B: Only the option buyer has rights, not the writer.

* D: Obligations to buy stock apply to put option writers, not call option writers.

Options Clearing Corporation (OCC) Options Education: OCC Options Education.

NEW QUESTION: 65

A Treasury bill is issued under which of the following terms?

A. At par

B. At par plus interest

C. At a discount
D. At a stated rate of interest
Answer: (SHOW ANSWER)
Treasury bills (T-bills) are short-term debt securities issued at a discount to par value. The difference between the purchase price and the par value represents the investor's interest income, which is realized when the T- bill matures.
* C is correct because T-bills are issued at a discount and mature at par.
* A is incorrect because T-bills are not sold at par value.
* B and D are incorrect because T-bills do not pay periodic interest; the return is based on the discount.
Reference: SIE Study Guide, Chapter 3: U.S. Treasury Securities

NEW QUESTION: 66
The FINRA Suitability Rule obligations apply to:
A. recommendations to hold a specific security position.
B. descriptive information about an employer-sponsored retirement or benefit plan.
C. asset allocation models that are based on generally accepted investment theories.
D. general financial and investment information, including basic investment concepts.
Answer: (SHOW ANSWER)
FINRA's suitability obligations apply when there is a recommendation-including a recommendation to hold a specific security or investment strategy-so A is correct. Suitability is triggered not by general education, but by advice that can reasonably be viewed as urging a customer to take action (buy, sell, or hold) regarding a particular security, account type, or strategy. A "hold" recommendation matters because it can influence a customer's decision to maintain exposure and forgo alternative actions; therefore, it carries the same expectation that the recommendation aligns with the customer's investment profile.
Choices B, C, and D are generally framed as non-recommendation communications when presented as purely educational or broadly informational. Descriptive information about an employer plan (choice B) can be educational and may not be a recommendation if it's factual and not individualized. Asset allocation models based on generally accepted theories (choice C) can be non-recommendation tools when generic and not tailored; however, if a model is personalized or used to steer a specific customer into specific investments, it can become a recommendation. General financial information and basic concepts (choice D) are classic examples of communications that, by themselves, do not typically trigger suitability because they do not direct a customer to a specific action or security.
On the SIE, the key test point is "what constitutes a recommendation." Once the communication crosses into recommending a specific action (including holding) tied to the customer, suitability obligations apply, including knowing the customer and ensuring the recommendation fits objectives, risk tolerance, time horizon, and liquidity needs.

NEW QUESTION: 67

Which of the following statements describes a characteristic of non-traded real estate investment trusts (REITs)?

A. They have limited liquidity.

B. They are private securities.

C. They are listed on an exchange.

D. They strike a daily net asset value (NAV).

Answer: (SHOW ANSWER)

A key characteristic of non-traded (non-exchange-listed) REITs is limited liquidity, making A correct. Unlike publicly traded REITs that trade on exchanges and can be sold during market hours, non-traded REIT shares do not have an active public secondary market. Investors often must rely on limited redemption programs (if offered) or wait for a liquidity event (such as listing, merger, or liquidation), which can take years. As a result, investors may face difficulty selling shares quickly or at a predictable price, which is the essence of liquidity risk.

Choice B is misleading because many non-traded REITs are still registered securities sold via broker-dealers;

"non-traded" does not automatically mean "private." Some non-traded REITs are registered but not exchange listed. Choice C is the opposite of non-traded: if it is listed on an exchange, it is a traded REIT. Choice D describes open-end funds that calculate a daily NAV for purchases/redemptions; non-traded REITs do not function like mutual funds with daily NAV transactions (even though some may provide periodic valuations, that is not the defining "strike daily NAV" feature tested on the SIE).

This question tests product knowledge and risk recognition: non-traded REITs may offer income potential and real estate exposure, but the trade-off is often reduced transparency, higher fees, and notably limited liquidity compared with exchange-traded REITs or ETFs.

NEW QUESTION: 68

An investor is normally subject to the greatest degree of market risk when purchasing:

A. common stock.

B. preferred stock.

C. corporate bonds.

D. U.S. government bonds.

Answer: (SHOW ANSWER)

Among the choices, common stock generally exposes an investor to the greatest market risk, so A is correct.

Market risk (systematic risk) is the risk that overall market movements-driven by economic conditions, interest rates, investor sentiment, geopolitical events, and broad factors-will cause the value of an investment to fluctuate. Common stocks typically have the most direct exposure to business performance expectations and market sentiment, and they do not have contractual cash flows or principal repayment at maturity. Because common shareholders are residual owners, their value can be highly volatile and can decline significantly in adverse markets or company-specific downturns.

Preferred stock (choice B) is generally less volatile than common stock because it has a stated dividend and a senior claim over common in dividends and liquidation, though it still carries equity risk and rate sensitivity.
Corporate bonds (choice C) are debt instruments with contractual interest payments and principal repayment at maturity; while they do have interest rate and credit risk and can fluctuate in price, they typically exhibit less market volatility than common stocks. U.S. government bonds (choice D) are generally considered to have low credit risk and often lower volatility relative to equities; their primary risk is interest rate risk rather than equity market risk, and they often behave differently than stocks during market stress.
On the SIE, this type of question tests the basic hierarchy: equities (especially common) are generally riskier and more volatile than debt, and within debt, U.S. government securities are typically viewed as having lower credit risk than corporate debt. Therefore, common stock is the best answer for greatest market risk exposure.

NEW QUESTION: 69
Which of the following responses describes a warrant?
A. An interest-paying security
B. Redemption rights for a debt instrument
C. The right to purchase a specified amount of shares
D. A fixed-income security issued by a state or municipality
Answer: C (LEAVE A REPLY)
Step by Step Explanation:
* Warrants: These are long-term options issued by a company that give the holder the right to buy shares at a specific price before expiration. They are typically attached to bond or stock offerings to make them more attractive.
* Incorrect Options:
* A: Warrants do not pay interest.
* B: Refers to callable bonds, not warrants.
* D: Describes municipal bonds, not warrants.
SEC Guide to Warrants and Options: SEC Warrants Information.

NEW QUESTION: 70
Which of the following actions typically changes the cost basis of a mutual fund position that a customer holds?

A. Transferring the mutual fund position via ACATS to another firm
B. Upward movement in the net asset value (NAV) of the mutual fund
C. The appointment of a new portfolio manager to oversee the mutual fund
D. Reinvested dividends received from the mutual fund to purchase more shares
Answer: (SHOW ANSWER)
A mutual fund investor's cost basis is generally the total amount invested in the position, adjusted for actions that add to or reduce the investor's investment in the fund. Reinvested dividends

change cost basis because the dividends are used to purchase additional shares, which increases the investor's total invested amount.
Even if the dividends are paid from the fund and immediately reinvested, the IRS treats them as distributed to the shareholder and then used to buy shares. As a result, reinvestment increases the number of shares owned and increases total basis by the amount reinvested. Therefore, D is correct.
Choice A is incorrect because transferring a position via ACATS does not change the investor's economic investment; it is simply moving the account/position between firms. The cost basis should transfer as part of the record (subject to cost basis reporting rules), but the act of transfer itself does not change basis. Choice B is incorrect because NAV movement changes market value, not what the investor paid; unrealized appreciation does not change cost basis. Choice C is incorrect because a new portfolio manager may affect future performance, but it does not alter the historical amounts the investor contributed or reinvested; thus it does not change basis.
For SIE purposes, the key relationship is: cost basis changes when the investor adds money (new purchases, dividend/cap gains reinvestments) or when basis is adjusted due to specific corporate/fund actions (like return of capital distributions in some contexts). Reinvested dividends are a standard, frequently tested basis- changing event because they affect taxable reporting and future gain/loss calculations upon redemption.

NEW QUESTION: 71
At least how often Is a firm required to provide a customer with a statement In writing as to the availability of an Investor brochure posted on the MSRB website?
(AC?)
A. Monthly
B. Annually
C. Once every three years
D. Quarterly
Answer: (SHOW ANSWER)

NEW QUESTION: 72
SEC Regulation S-P (Consumer Privacy) requires certain information to be included in privacy notices delivered to customers of broker-dealers (BDs). Which of the following information is required to be included in the privacy notice?
A. The website and telephone number of SIPC
B. The website and telephone number of the Consumer Financial Protection Bureau (CFPB)
C. The name and telephone number of the BD's chief compliance officer
D. The BD's policies and practices for protecting the customer's nonpublic personal information
Answer: (SHOW ANSWER)
Regulation S-P mandates that broker-dealers disclose how they collect, protect, and share customers' nonpublic personal information. The privacy notice must include:
* The categories of information collected.

* The firm's policies for safeguarding data.
* Opt-out rights for sharing information with unaffiliated third parties.
* D is correct because privacy notices must describe policies for protecting customer information.
* A, B, and C are incorrect because they do not relate to the required elements of Regulation S-P privacy notices.
Reference: SEC Regulation S-P (Privacy of Consumer Financial Information)

NEW QUESTION: 73
Which of the following statements characterizes the typical relationship between the market value of a municipal bond portfolio and interest rates?
A. As interest rates increase, the market value goes up.
B. As interest rates decrease, the market value goes up.
C. As the market value goes down, interest rates decrease.
D. As the market value goes up, interest rates stay constant.
Answer: (SHOW ANSWER)
Step by Step Explanation:
* Inverse Relationship: Bond prices and interest rates have an inverse relationship. When interest rates fall, existing bonds with higher coupon rates become more valuable, leading to an increase in market value.
* Incorrect Options:
* A: Market value decreases as interest rates increase.
* C: Interest rates and bond values move inversely, not in the same direction.
* D: Interest rates are not constant; they fluctuate over time.
SEC Municipal Bonds Overview: SEC Municipal Bonds.

NEW QUESTION: 74
A bullish Investor Is most likely to participate in the market using which of the following trading strategies?
A. Buying a call option
B. Selling equities short
C. Buying Treasury bonds
D. Buying a put option
Answer: (SHOW ANSWER)

NEW QUESTION: 75
Which of the following rates is subject to the most frequent changes?
A. Prime
B. Call loan
C. Discount
D. Federal funds
Answer: (SHOW ANSWER)

The federal funds rate, which is the interest rate banks charge each other for overnight loans, changes frequently due to daily fluctuations in bank reserves and market conditions.
* D is correct as it is the most sensitive to short-term market forces.
* A, B, and C change less frequently.
Reference: SIE Study Guide, Chapter 2: Interest Rates

NEW QUESTION: 76
A summary prospectus for a mutual fund must contain which of the following information?
A. Projected return
B. Investment objectives
C. Fund's portfolio holdings
D. Control persons and principal owners of the fund
Answer: (SHOW ANSWER)
Step by Step Explanation:
* Summary Prospectus Content: Must include key information such as the fund's investment objectives, risks, fees, and past performance. This helps investors make informed decisions.
* Incorrect Options:
* A: Projected returns are speculative and not included in the prospectus.
* C & D: Detailed portfolio holdings and control persons are included in the full prospectus, not the summary.
SEC Rule 498 (Summary Prospectuses): SEC Prospectus Requirements.

NEW QUESTION: 77
Which of the following company details is included on a balance sheet?
A. Revenues and expenses
B. Earnings at a specific point in time
C. Assets, debts and number of investors
D. Assets, debts and the amount invested in the company
Answer: (SHOW ANSWER)
A balance sheet provides a snapshot of a company's financial position at a specific point in time by showing what the company owns and owes, and the residual value attributable to owners. The

core balance sheet equation is Assets = Liabilities + Shareholders' Equity. That is why the best description among the choices is
"assets, debts, and the amount invested in the company"-assets correspond to resources owned, debts correspond to liabilities owed, and the "amount invested" corresponds to equity (often including paid-in capital and retained earnings). This aligns with how fundamental analysis uses financial statements to evaluate issuer health, leverage, and capitalization.
Choice A (revenues and expenses) describes an income statement, which measures operating performance over a period of time (e.g., a quarter or a year), not a point-in-time snapshot. Choice B is misleading: while a balance sheet is indeed "at a specific point in time," it does not show "earnings" at a point in time. Earnings are generated over a period and appear on the income statement; the balance sheet may reflect accumulated earnings through retained earnings, but it is not an earnings statement. Choice C is incorrect because the balance sheet does not include the "number of investors" as a standard line item. Public companies disclose shares outstanding elsewhere, but investor count is not a balance sheet category.
For SIE purposes, the key is recognizing which statement answers which question: balance sheet = financial position (assets, liabilities, equity), income statement = profitability (revenue, expenses, net income), and cash flow statement = sources/uses of cash.

NEW QUESTION: 78
The provision that allows a bond issuer to purchase bonds from customers prior to the maturity date on the bond is known as a:
A. Put
B. Call
C. Conversion
D. Defeasement
Answer: (SHOW ANSWER)
Step by Step Explanation:
* Call Provision: This allows the issuer to redeem bonds before their maturity date, usually at a premium to the par value, which benefits the issuer in a declining interest rate environment.
* Put Provision: Allows bondholders, not issuers, to sell the bond back to the issuer.
* Conversion: Relates to convertible bonds that can be converted into equity.
* Defeasement: Refers to the removal of a bond issuer's obligation by setting aside cash or securities to cover the debt.
SEC Guide on Callable Bonds: SEC Callable Bonds.

NEW QUESTION: 79
At a prospecting event, a registered representative (RR) provides cards for attendees to write down their contact information if they want to have a follow-up meeting with her. Which of the following actions should the RR take in this situation to comply with telemarketing rules?
A. Obtain the broker-dealer's approval before making a call
B. Limit contact with prospects to between 9 a.m. and 9 p.m.

C. Contact the prospects at will since they provided express written consent
D. Prior to contacting the prospects, check all of the names on the cards to make sure they are not on the National Do Not Call Registry
Answer: (SHOW ANSWER)
Step by Step Explanation:
* Telemarketing Rules (FINRA Rule 3230): Require firms to check the National Do Not Call Registry before contacting individuals, even if those individuals provide their contact information voluntarily.
* Incorrect Options:
* A: Approval isn't required for individual follow-ups; compliance with the registry is.
* B: While calls must be limited to appropriate hours, the registry check is still mandatory.
* C: Written consent does not override the registry requirement.
FINRA Rule 3230 (Telemarketing): FINRA Rule 3230.

NEW QUESTION: 80
Which of the following statements best describes the permissibility of a borrowing arrangement between a registered representative (RR) and a customer who is also the RR's grandfather?

A. It is permissible subject to FINRA approval.
B. It is permissible if the grandfather agrees in writing.
C. It is permissible if the loan was made on commercially reasonable terms.
D. It is permissible provided that the loan was made in accordance with the firm's policies.
Answer: (SHOW ANSWER)
Step by Step Explanation:
* FINRA Rule 3240: Permits borrowing or lending arrangements between RRs and customers under specific conditions, including familial relationships, provided the arrangement complies with the firm's policies.
* Incorrect Options:
* A: FINRA approval is not required; firm approval is.
* B: A written agreement alone is insufficient without firm approval.
* C: Commercially reasonable terms are not the sole criterion for permissibility.
FINRA Rule 3240 (Borrowing from or Lending to Customers): FINRA Rule 3240.

NEW QUESTION: 81
Which of the following entitles is primarily responsible for providing Internal settlement, accounting and tax support services for securities owned by an investment company?
A. Broker-dealer
B. Fund manager
C. Custodian
D. Market maker
Answer: (SHOW ANSWER)

NEW QUESTION: 82

Under FINRA rules, which of the following activities is not considered an outside business activity (OBA)?

A. Selling real estate

B. Selling health insurance

C. Professionally refereeing athletic events

D. Passively investing in a multifamily house for rental purposes

Answer: (SHOW ANSWER)

Step by Step Explanation:

* Outside Business Activity Definition: Per FINRA Rule 3270, an OBA involves compensated business activities outside the scope of the RR's role at their firm. Passive investments are excluded because they do not require active involvement.

* Incorrect Options:

* A, B, and C: Selling real estate, selling insurance, and refereeing are considered OBAs as they involve active participation and compensation.

FINRA Rule 3270 (Outside Business Activities): FINRA Rule 3270.

NEW QUESTION: 83

A registered representative (RR) opens a new account for a customer whose investment objectives are growth and income. She makes an initial deposit of $5,500 using a series of money orders drawn from different sources, and she makes no investments for the first 30 days the account is open. At the end of that time, the customer asks to have the funds wired to an account at a different firm as her needs have changed. The RR's first course of action should be to:

A. Deny the request.

B. Freeze the account.

C. Report internally as a suspicious activity.

D. Accept the instructions and wire the funds.

Answer: (SHOW ANSWER)

Step by Step Explanation:

* Suspicious Activity: The use of multiple money orders, lack of investment activity, and request to wire funds to another firm raise red flags for potential money laundering.

* FINRA Rules: The RR should escalate the issue by reporting internally and potentially filing a Suspicious Activity Report (SAR).

* Incorrect Options:

* A: Denying the request without investigation may violate customer instructions.

* B: Freezing the account requires a valid legal or regulatory basis.

* D: Processing the request without investigation could facilitate illegal activity.

FINRA Anti-Money Laundering (AML) Guidance: FINRA AML Rules.

NEW QUESTION: 84

Assuming yields are held constant, which of the following statements describes what will occur as a discount bond reaches maturity?

A. Its price increases.

B. Its price decreases.

C. Its par value increases.

D. Its par value decreases.

Answer: A (LEAVE A REPLY)

Step by Step Explanation:

* Discount Bonds: These are issued or traded below par value. Over time, their price moves closer to par as they approach maturity, assuming yields remain constant.

* Other Options:

* Par Value Changes: The par value of a bond does not change over time; only its price fluctuates.

SEC and FINRA Bond Basics: SEC Discount Bonds.

NEW QUESTION: 85

An investor sells shares of a closed-end fund at the market. Which of the following responses best describes the net proceeds to be received?

A. Net asset value (NAV)

B. NAV less any redemption fee

C. Bid price less any commission

D. Public offering price (POP) less any redemption fee

Answer: (SHOW ANSWER)

Step by Step Explanation:

* Closed-End Funds: Trade on exchanges like stocks, and the investor receives the bid price (market price) minus any applicable commissions.

* Incorrect Options:

* A & B: NAV applies to open-end mutual funds, not closed-end funds.

* D: POP applies to initial sales of mutual fund shares.

SEC Guidance on Closed-End Funds: SEC Closed-End Funds.

NEW QUESTION: 86

A registered representative (RR) receives a mutual fund order from a customer at 4:10 p.m. ET. Which of the following statements is true regarding this order?

A. It must be executed at the next closing price.

B. It must be executed at the next day's opening price.

C. It must be accepted as an "as/of" trade for today's price.

D. It is not permitted to be accepted as it was received after the market close.

Answer: (SHOW ANSWER)

Mutual funds are traded based on forward pricing. Orders received after the market closes are executed at the NAV calculated at the next market close.

* A is correct because it aligns with forward pricing rules.
* B, C, and D are incorrect as they do not follow mutual fund trade practices.
Reference: Investment Company Act of 1940, Section 22

NEW QUESTION: 87
The financial risk that a given security is not readily tradable in the market without impacting the market price is known as:
A. Credit risk
B. Market risk
C. Liquidity risk
D. Prepayment risk
Answer: (SHOW ANSWER)
Step by Step Explanation:
* Liquidity Risk: Refers to the difficulty of selling a security quickly without significantly affecting its price. This is common in thinly traded securities or complex instruments.
* Other Risks:
* Credit Risk: Relates to the possibility of default by the issuer.
* Market Risk: Pertains to overall price changes due to market conditions.
* Prepayment Risk: Associated with mortgage-backed securities and early repayment of loans.
SEC Investor Bulletin on Risks: SEC Risk Guidance.

NEW QUESTION: 88
An investor buys 100 shares of a stock at $50.00 per share. The company declares a 10% stock dividend.
What will the investor's cost basis per share be following the payment of the dividend?
A. $45.00
B. $45.45
C. $50.00
D. $50.50
Answer: (SHOW ANSWER)
A stock dividend increases the number of shares owned without affecting the total cost basis. The new cost basis per share is calculated by dividing the original total investment by the new number of shares:
* Original total investment = 100 shares × $50.00 = $5,000
* After a 10% stock dividend, the investor owns 110 shares.
* New cost basis = $5,000 ÷ 110 shares = $45.45 per share.
* B is correct because it reflects the adjusted cost basis per share.
Reference: IRS Publication 550: Investment Income and Expenses

NEW QUESTION: 89

An investor who lives on a fixed income and is concerned about inflation is most exposed to which of the following risks?

A. Market risk

B. Economic risk

C. Interest rate risk

D. Purchasing power risk

Answer: (SHOW ANSWER)

Purchasing power risk, also known as inflation risk, occurs when inflation reduces the real value of a fixed- income stream. Fixed payments (e.g., bond interest or annuity payments) lose buying power as inflation rises.

* D is correct because inflation directly affects fixed income by eroding purchasing power.
* A is incorrect because market risk relates to fluctuations in market prices, not inflation.
* B is incorrect because economic risk generally refers to broader economic downturns.
* C is incorrect because interest rate risk involves changes in bond prices due to interest rate movements, not inflation.

Reference: SIE Study Guide, Chapter 3: Risks of Fixed-Income Investments

NEW QUESTION: 90

The Investment Company Act of 1940 requires that a minimum percentage of a fund's board members are
"uninterested persons." This requirement is best described as an attempt to:

A. include a diverse set of professional experiences on the board.

B. expand the board's expertise beyond knowledge of investments.

C. ensure that regulations are followed consistently across fund companies.

D. ensure that board members have no material business relationship with the fund's advisers.

Answer: (SHOW ANSWER)

The Investment Company Act of 1940 emphasizes shareholder protection through governance standards, including requirements that a fund's board include a minimum percentage of "uninterested" (independent) persons. The purpose is to reduce adviser dominance and mitigate conflicts that can arise when the fund's adviser or affiliated parties effectively control oversight. "Uninterested" generally means the director has no material business relationship with the fund's adviser, principal underwriter, or key affiliates that would compromise independent judgment. Therefore, the best description is D.

Choices A and B are plausible-sounding governance benefits, but they are not the regulatory intent being tested. The rule is not primarily about diversity of professional experience or broadening expertise; it is about independence from adviser influence. Choice C is too general and doesn't capture the targeted problem: the Act's board independence provisions are designed to ensure the board can objectively evaluate matters that directly affect shareholders, such as advisory contracts, fee arrangements, compliance oversight, and potential self-dealing.

On the SIE, this ties directly to the theme of conflicts of interest in investment companies. Mutual fund advisers are paid fees based on assets under management, creating incentives that might not always align with shareholders. Independent directors are intended to serve as a check by reviewing and approving key arrangements and providing meaningful oversight. The exam often connects this governance concept to broader investor protections: disclosure, fiduciary oversight, limitations on affiliated transactions, and the idea that fund boards should represent shareholder interests rather than adviser interests.

NEW QUESTION: 91

A registered representative of Firm ABC plans to give a gift to the treasurer of Company XYZ as a thank you for recent transactions. If no other gifts were given to the treasurer during the year, which of the following gifts would violate FINRA rules?

A. $75 bottle of wine
B. $90 concert ticket
C. $100 sports event ticket
D. $125 store gift card

Answer: (SHOW ANSWER)

FINRA's gifts rule (commonly tested as the $100 per person per year limit) restricts the value of gifts that a member or associated person may give to any one person where the gift is in relation to the recipient's business. The key test concept is: gifts tied to business cannot exceed $100 annually per recipient (with certain distinctions for bona fide personal gifts and "ordinary and usual business entertainment"). In this question, the gifts are explicitly "as a thank you for recent transactions," so the business-related gift limit applies. A $125 store gift card exceeds $100, making choice D the violation.

Choices A ($75), B ($90), and C ($100) are at or below the typical annual limit, so they would not violate the
$100 threshold (assuming they are gifts-not entertainment-and there are no other gifts to that recipient in the year). The $100 sports event ticket is right at the limit and is generally permissible as a gift under the cap, again assuming no other gifts and treating it as a gift rather than business entertainment.

A common SIE nuance: business entertainment (like taking a client to a game where the RR is present) is often treated differently from a "gift" because it is not simply handing something over-however, a ticket given without the RR attending can be treated as a gift. This question is testing the straightforward dollar cap, not the entertainment distinction. Because the only option that clearly breaches the cap is $125, that is the correct answer.

The broader compliance theme is managing conflicts and improper influence: the gifts rule helps prevent business decisions from being swayed by excessive personal benefit.

NEW QUESTION: 92
A broker-dealer (BD) is considering employing a nonregistered person to assist its sales staff in servicing customers. Which of the following activities are nonregistered persons permitted to perform?
A. Taking unsolicited orders from customers
B. Assisting sales staff in tracing and tabulating commissions
C. Contacting current customers to determine if they are satisfied with their existing investments
D. Contacting prospective investors to discuss a BD educational seminar regarding the BD's proprietary mutual fund
Answer: (SHOW ANSWER)
Nonregistered persons may perform clerical, ministerial, and administrative functions that do not involve securities recommendations, solicitation, or order taking. Assisting sales staff in tracing and tabulating commissions is a classic back-office/administrative task and is permitted for nonregistered personnel, making B correct. This type of activity supports operations but does not involve engaging in securities business that requires registration.
Choice A is not permitted because even taking unsolicited orders can be considered participating in securities transactions and can cross into activity reserved for registered persons, depending on the specifics. The SIE expects you to treat order taking as a registered activity unless it is clearly limited to purely clerical receipt and immediate routing under strict supervision-most exam questions treat "taking orders" as requiring registration.
Choice C is also problematic because contacting customers about whether they are satisfied with their investments can easily become a discussion about performance, holdings, or recommendations. While customer service calls may be allowed if strictly scripted and non-securities related, the wording "satisfied with their existing investments" suggests an investment discussion that can cross into solicitation or advice, which a nonregistered person should not do.
Choice D is not permitted because contacting prospective investors about a seminar tied to the BD's proprietary mutual fund is effectively marketing/sales-related outreach that can be viewed as solicitation.
Even if framed as "educational," it is connected to a specific product and prospecting activity, which generally requires registration.
The SIE tests the boundary: nonregistered = administrative support; registered = solicitation, recommendations, and securities business communications.

NEW QUESTION: 93
A retail investor owns shares of Mutual Fund ABC that paid a $0.25 dividend on September 1 and closed at
$10.00. What is the opening price once this fund trades on the ex-dividend date?

A. $9.25
B. $9.75
C. $10.00
D. $10.25
Answer: (SHOW ANSWER)
Step by Step Explanation:
* Ex-Dividend Date Pricing: On the ex-dividend date, the mutual fund's price is adjusted downward by the amount of the dividend.
* Closing Price: $10.00
* Dividend: $0.25
* Adjusted Opening Price: $10.00 - $0.25 = $9.75.
* Incorrect Options:
* A: $9.25 subtracts more than the dividend amount.
* C: $10.00 does not reflect the dividend adjustment.
* D: $10.25 adds to the price rather than subtracting the dividend.
SEC Guidance on Mutual Fund Pricing: SEC Mutual Funds.

NEW QUESTION: 94
Which of the following is considered nonpublic information?
A. Customer's name
B. Customer's address
C. Customer's net worth
D. Customer's telephone number
Answer: (SHOW ANSWER)
Step by Step Explanation:
* Nonpublic Information: A customer's net worth is nonpublic personal information that requires confidentiality under Regulation S-P.
* Incorrect Options:
* A, B, and D: Names, addresses, and phone numbers may be public unless linked to specific financial or personal details.
SEC Regulation S-P (Privacy of Consumer Financial Information): SEC Regulation S-P.

NEW QUESTION: 95
Which of the following transactions gives a U.S. citizen the most efficient means to invest in the stock of an overseas corporation that trades only on a foreign exchange?
A. Purchase an ETF on the foreign exchange
B. Purchase an option on the stock on a domestic exchange
C. Purchase a U.S.-based mutual fund that invests in foreign stocks
D. Purchase an American Depositary Receipt (ADR) on a domestic exchange
Answer: (SHOW ANSWER)

American Depositary Receipts (ADRs) allow U.S. investors to efficiently invest in foreign corporations without the need to trade on foreign exchanges. ADRs are traded on U.S. exchanges and represent shares of foreign companies.
* D is correct because ADRs are designed for this purpose, simplifying currency exchange and reporting requirements for U.S. investors.
* A is incorrect because directly purchasing an ETF on a foreign exchange requires additional steps, such as foreign account setup.
* B is incorrect because options are derivative products, not direct investments in the stock.
* C is less efficient because mutual funds may not provide direct exposure to the specific corporation.
Reference: SIE Study Guide, Chapter 7: ADRs

NEW QUESTION: 96
Which of the following statements is true of the comparison between penny stocks and blue-chip stocks?
A. Penny stocks are generally less liquid than blue-chip stocks.
B. Penny stocks are more likely to pay dividends than blue-chip stocks.
C. Penny stock prices are generally more stable than blue-chip stock prices.
D. Penny stock issuers are generally better capitalized than issuers of blue-chip stocks.
Answer: (SHOW ANSWER)
Step by Step Explanation:
* Penny Stocks: These are low-priced, highly speculative stocks often issued by small or distressed companies. They generally have low liquidity, meaning they can be difficult to buy or sell without significantly impacting the price.
* Incorrect Options:
* Dividends: Penny stocks rarely pay dividends, unlike blue-chip stocks.
* Price Stability: Penny stocks are highly volatile compared to blue-chip stocks.
* Capitalization: Blue-chip companies are far better capitalized.
SEC Bulletin on Penny Stocks: SEC Penny Stocks.

NEW QUESTION: 97
Which of the following listed securities carries voting rights?
A. Common stock
B. Preferred stock
C. Corporate bond
D. Convertible bond
Answer: (SHOW ANSWER)
Step by Step Explanation:
* Common Stock: Holders of common stock typically have voting rights, which allow them to participate in decisions like electing the board of directors or approving major corporate actions.
* Other Securities:

* Preferred Stock: Usually does not carry voting rights.
* Corporate and Convertible Bonds: Debt instruments, so they do not confer voting rights.
SEC Guide on Stock Voting Rights: SEC Voting Rights.

NEW QUESTION: 98

Executing trades using the delivery versus payment (DVP) settlement process requires the buyer to make a cash payment by which of the following deadlines?

A. On the 5th business day after execution

B. Before or at the same time as securities being delivered

C. No later than 3 days after the securities are delivered

D. By the agreed-upon settlement date with the issuer

Answer: (SHOW ANSWER)

Step by Step Explanation:
* DVP Process: Ensures that payment occurs simultaneously with the delivery of securities, mitigating counterparty risk. Cash payment is made before or at the time of delivery.
* Incorrect Options:
* A: The T+5 timeline is not standard for DVP.
* C: Payment must occur at delivery, not after.
* D: Settlement date agreements with the issuer are irrelevant for DVP.
FINRA Guidelines on DVP/RVP Transactions: FINRA DVP Info.

NEW QUESTION: 99

Under which of the following circumstances, if any, is it permissible for an individual without a Power of Attorney (POA) to sign a customer's name on their behalf?

A. Upon approval by a firm principal

B. Upon receipt of verbal authorization provided that written authorization is subsequently provided

C. When accounts are fully discretionary

D. Never permissible to sign a customer's name on their behalf

Answer: (SHOW ANSWER)

Step by Step Explanation:
* Prohibition on Signing Customer Names: It is never permissible to sign a customer's name without written authorization (POA) due to legal and ethical concerns. Unauthorized signing constitutes forgery and violates FINRA rules.
* Incorrect Options:
* A: Firm principal approval does not override this prohibition.
* B: Verbal authorization is insufficient.
* C: Discretionary authority does not allow unauthorized signing.
FINRA Rule 4512 (Customer Account Information): FINRA Rule 4512.

NEW QUESTION: 100

Which of the following statements is true regarding the ownership of investment company shares held as tenants in common?

A. All tenants must sign redemption requests.

B. Any income is distributed evenly among the tenants.

C. Each tenant has a fractional interest in the investment.

D. Upon the death of a tenant, all shares in the account are taxable in the estate of the deceased.

Answer: (SHOW ANSWER)

Step by Step Explanation:

* Tenants in Common: In this arrangement, each tenant owns a fractional interest in the account's assets, which can be unequal depending on the agreement.
* Income Distribution: Income is distributed based on ownership percentage, not necessarily equally.
* Redemption Requests: Only the owner of the fractional interest has authority to request redemption for their portion.
* Estate Taxation: Upon the death of a tenant, only their fractional interest is taxable in their estate.

FINRA Guidelines on Joint Accounts: FINRA Joint Accounts.

NEW QUESTION: 101

Which of the following activities is a responsibility of a mutual fund transfer agent?

A. Maintaining records of shareholder purchases and redemptions

B. Distributing the fund's prospectus to investors

C. Underwriting new shares of securities

D. Maintaining custody of the fund's securities

Answer: (SHOW ANSWER)

A transfer agent is responsible for maintaining accurate records of shareholder purchases, redemptions, and account balances. They also handle the issuance and cancellation of shares and ensure shareholders receive appropriate distributions.

* D is correct because maintaining shareholder records is a core duty of a transfer agent.
* A is incorrect because underwriting is the responsibility of a broker-dealer.
* B is incorrect because distributing the prospectus is handled by the fund's distributor.
* C is incorrect because custody of securities is the role of a custodian, not the transfer agent.

Reference: SIE Study Guide, Chapter 5: Investment Companies

NEW QUESTION: 102

An associated person at a member firm receives a complaint from a customer involving allegations of forgery.

Once the complaint is received, which of the following actions is required?

A. The member firm must report the event promptly to FINRA.

B. The member firm is not required to report the event to FINRA but must maintain a file of the complaint for four years.

C. The member firm must complete arbitration to resolve the complaint with the customer before filing a report with FINRA.
D. The member firm must have a principal review the complaint and determine if the forgery occurred before filing a report with FINRA.
Answer: (SHOW ANSWER)
Step by Step Explanation:
* FINRA Rule 4530: Requires member firms to report certain events, including allegations of forgery, to FINRA promptly.
* Incorrect Options:
* Option B: Maintaining a record does not substitute for required reporting.
* Option C: Arbitration isn't required before reporting.
* Option D: Reporting is mandatory irrespective of internal investigations.
FINRA Rule 4530 (Reporting Requirements): FINRA Rule 4530.

NEW QUESTION: 103
The cash value of a variable life insurance policy is affected by which of the following factors?
A. Changes in the beneficiary
B. Changes in the death benefit
C. Fluctuating market conditions
D. Contingent deferred sales charges
Answer: (SHOW ANSWER)
Step by Step Explanation:
* Variable Life Insurance: The cash value depends on the performance of the underlying investment options.
* Fluctuating Market Conditions: Since the cash value is linked to market performance, fluctuations directly impact its value.
* Beneficiary/Death Benefit Changes: These do not directly impact the cash value unless they involve additional costs or changes to premiums.
SEC Bulletin on Variable Life Insurance: SEC Variable Insurance.

NEW QUESTION: 104
Which of the following information is typically contained in the preliminary prospectus for a company conducting an initial public offering (IPO)?
A. Ownership structure
B. Anticipated trading volume
C. SEC approval of the merits of the offering
D. FINRA determination that the preliminary prospectus is accurate
Answer: (SHOW ANSWER)
A preliminary prospectus (often called a "red herring") is used in a registered public offering-such as an IPO-before the final offering price and certain final terms are set. It typically contains extensive information about the issuer, including its business description, risk factors, intended

use of proceeds, management, capitalization, and importantly, details about ownership and shareholdings (e.g., principal shareholders, insiders, and how ownership may change post-offering). That makes A (Ownership structure) the correct answer.
Choice B is incorrect because "anticipated trading volume" is not a standard required disclosure item in a preliminary prospectus. While a prospectus may discuss market and listing information, projected trading volume is speculative and generally not presented as a typical disclosure item.
Choice C is incorrect because the SEC does not approve the merits of an offering; securities regulation is rooted in disclosure, not merit review. The SEC's role is to require that material information is disclosed so investors can make informed decisions-not to judge whether the investment is "good." Choice D is incorrect because FINRA does not
"determine" a preliminary prospectus is accurate in that way; FINRA's corporate financing review is focused on underwriting terms and arrangements for fairness/reasonableness under applicable rules, not certifying accuracy of issuer disclosures.
This question targets core SIE offering concepts: what a prospectus contains, what "red herring" means, and the principle that regulators require full and fair disclosure rather than guaranteeing investment quality.

NEW QUESTION: 105
Which of the following events requires reporting on a Form U4?
A. A misdemeanor speeding ticket
B. A felony conviction for drunk driving
C. A bench warrant for missing a court date
D. A gross-misdemeanor domestic assault conviction
Answer: (SHOW ANSWER)
Form U4 (Uniform Application for Securities Industry Registration or Transfer) requires disclosure of any felony convictions, regardless of whether they are securities-related. A felony conviction for drunk driving falls under this requirement.
* B is correct because a felony conviction must be reported on Form U4.
* A is incorrect as misdemeanor speeding tickets do not require disclosure unless they involve fraud, theft, or dishonesty.
* C is incorrect as bench warrants are not reportable unless they lead to a conviction.
* D is incorrect because gross misdemeanors (except those involving fraud or dishonesty) do not require reporting.
Reference: FINRA By-Laws, Article V, Section 2; Form U4 Instructions

NEW QUESTION: 106
Which of the following security types may contain convertible features allowing the holders to exchange the securities for other issues of the company?
A. Common stock
B. Preferred stock
C. Commercial paper

D. An exchange-traded fund (ETF)
Answer: (SHOW ANSWER)
Preferred stock may include convertible features that allow holders to exchange the preferred shares for another security of the issuing company-most commonly common stock-at a specified conversion ratio.
That is why choice B is correct. Convertible preferred combines characteristics of equity income (a stated dividend) with the potential upside participation of common stock through the conversion privilege. The conversion feature is set by the issuer and described in the security's terms at issuance.
Choice A is not the best answer because "common stock" itself is not typically described as "convertible" into other company issues; conversion features are commonly attached to preferred stock or bonds (convertible debentures), not standard common shares. Choice C, commercial paper, is a short-term unsecured corporate money market instrument; it is not typically issued with conversion features-its hallmark is short maturity and credit quality, not embedded equity options. Choice D, an ETF, is an investment company product whose shares represent an interest in a portfolio; ETFs are not typically "convertible" into other issues of the company in the way convertible preferred is.
This is a product-knowledge question aimed at understanding embedded features and how issuers structure securities. For SIE purposes, remember: convertibility is most commonly associated with preferred stock and certain corporate bonds, and it provides investors with an option-like feature that can change the security's risk
/return profile (income plus potential appreciation).

NEW QUESTION: 107
Publicly traded limited partnership interests are typically considered:
A. Mutual funds
B. Equity securities
C. Fixed-income securities
D. Derivative investments
Answer: (SHOW ANSWER)
Step by Step Explanation:

* Publicly Traded Limited Partnerships (PTPs): Represent ownership stakes, which categorize them as equity securities. PTPs often involve sectors like real estate or energy.
* Incorrect Options:
* A: Mutual funds are pooled investment vehicles, not partnerships.
* C: Fixed-income securities are debt instruments like bonds.
* D: Derivatives include options or futures, not ownership stakes.
SEC Guidance on Publicly Traded Partnerships: SEC PTPs.

NEW QUESTION: 108
A city has appointed Broker-dealer XYZ to act as lead underwriter for its upcoming issuance of municipal bonds. This is an example of which of the following types of offering?
A. A follow-on offering
B. A negotiated offering
C. A competitive offering
D. A best-efforts offering
Answer: (SHOW ANSWER)
Step by Step Explanation:
* Negotiated Offering: Occurs when the issuer directly selects an underwriter and negotiates terms.
Common in municipal bond issuances.
* Incorrect Options:
* A: Follow-on offerings apply to subsequent issuances of equity securities.
* C: Competitive offerings involve multiple underwriters submitting bids.
* D: Best-efforts offerings do not guarantee the sale of all securities.
MSRB Overview of Municipal Offerings: MSRB Offerings.

NEW QUESTION: 109
Which of the following responses describes the purpose for a financial institution to provide a privacy policy to customers?
A. To regulate the collection and protection of customers' public information
B. To provide transparency regarding the potential use of customers' nonpublic personal information
C. To acquire additional information about customers' assets and holdings for future solicitation and investing
D. To automatically remove any state law provision to the opt-in or opt-out feature regarding customers' nonpublic information
Answer: (SHOW ANSWER)
The primary purpose of delivering a privacy policy is to provide customers with clear disclosure about how a financial institution may collect, use, share, and safeguard nonpublic personal information (NPI) and what choices customers may have regarding sharing. That makes B correct. Under privacy requirements such as Regulation S-P (commonly tested on the SIE), firms

must inform customers about their privacy practices and provide required notices so customers understand how their personal information is handled.
Choice A is incorrect because privacy policies are not primarily about "public information"; the regulatory focus is on nonpublic personal information, such as account numbers, balances, transaction history, social security numbers, and other sensitive data. Choice C is incorrect because the purpose is not to gather more information for marketing or solicitation; it's to disclose practices and protect customer information. Choice D is incorrect because privacy policies do not automatically override state laws; privacy regulation involves both federal requirements and, in some cases, state provisions, and firms must comply with applicable laws rather than "removing" them.
On the SIE, you should connect privacy policy delivery to three ideas: (1) disclosure of information-sharing practices, (2) customer rights (such as opt-out where applicable), and (3) safeguards-the firm's obligation to protect confidential customer information. This aligns with broader customer protection standards and the regulatory framework governing broker-dealer handling of client data.

NEW QUESTION: 110
Which of the following terms is used to describe a measure of the price volatility or correlation of a security in relation to movements in the overall market?

A. Beta
B. Alpha
C. Sharpe ratio
D. Price-to-earnings (P/E) ratio
Answer: A (LEAVE A REPLY)
Beta measures how sensitive a security's returns are to movements in a broader market index (often described as the security's volatility relative to the market). That makes choice A correct. Conceptually, beta estimates the degree to which a stock tends to move when the overall market moves. A beta of 1.0 suggests the security tends to move in line with the market. A beta greater than 1.0 indicates the security has historically been more volatile than the market (tending to rise more in up markets and fall more in down markets). A beta less than
1.0 indicates lower relative volatility. A negative beta (rare) indicates the security tends to move opposite the market.
Alpha, in contrast (choice B), is typically discussed as a measure of risk-adjusted excess return versus a benchmark-how much a manager or security outperformed/underperformed after accounting for market risk.
The Sharpe ratio (choice C) measures risk-adjusted return using total volatility (standard deviation) and compares return above a risk-free rate per unit of risk; it is not a correlation-to-market measure. The P/E ratio (choice D) is a valuation metric (price per share divided by earnings per share) and does not measure volatility or correlation.

On the SIE, beta is most commonly tested as a systematic (market) risk concept. It relates to how much of a security's risk is tied to broad market movements versus diversifiable company-specific factors.
Understanding beta helps in portfolio construction and in explaining why some stocks are considered more aggressive or more defensive relative to market swings.

NEW QUESTION: 111
Which of the following statements is permissible for a registered representative (RR) to say to their customer?
A. "This stock has a beta coefficient of 2.0; therefore, it will outperform the market."
B. "Based on the firm's most recent 'Buy' recommendation, the firm will reimburse you in the unlikely event of a loss."
C. "Having considered your risk tolerance, investment objectives and liquidity needs, I believe that an investment in Company XYZ is the best choice for you at this time."
D. "Since your investment objective is preservation of capital, you should look at low-risk investments to minimize the chances of losing money. Considering the low-risk nature of investing in Company ABC, my firm has decided that it will guarantee against any downside, which makes this the best choice for you at this time."
Answer: (SHOW ANSWER)
The permissible statement is C because it reflects a suitability-style recommendation that is grounded in the customer's investment profile-risk tolerance, objectives, and liquidity needs- without making improper guarantees or misleading claims. FINRA standards for communications and conduct require that recommendations be based on a reasonable basis and customer-specific suitability considerations. Statement C is framed as a professional recommendation after considering relevant customer factors, which is consistent with expected RR behavior.
Statement A is not permissible as written because it makes a misleading inference: a beta of 2.0 indicates higher volatility relative to the market, not guaranteed outperformance. Beta measures sensitivity to market movements; it does not promise superior returns. Claiming it "therefore will outperform" is unjustified and could be misleading.
Statement B is impermissible because it promises reimbursement in the event of a loss-this is effectively a guarantee against loss, which is prohibited. Broker-dealers and associated persons cannot guarantee investment results or reimburse losses as part of sales communications.
Statement D is also impermissible because it contains an explicit guarantee against any downside and implies that a particular investment is "low-risk" in a way that can be misleading. Guarantees against loss (outside of very limited contexts like certain insurance guarantees within the contract terms of specific products) are prohibited in broker-dealer sales practice communications.
On the SIE, this is tested under communications with the public, prohibited practices, and ethical standards:
RRs must avoid guarantees and misleading performance assertions, while basing recommendations on customer needs and suitability considerations.

NEW QUESTION: 112

Which of the following statements describes a characteristic of Treasury securities?

A. They are liquid.

B. They are callable.

C. They are FDIC-insured.

D. They are issued by the U.S. government with a high amount of default risk.

Answer: (SHOW ANSWER)

Treasury securities are among the most liquid investments, as they are backed by the U.S. government and trade actively in large volumes.

* A is correct because Treasuries are highly liquid, making them easy to buy and sell.
* B is incorrect because most Treasury securities are not callable.
* C is incorrect because FDIC insurance applies to bank deposits, not Treasuries.
* D is incorrect because U.S. government securities have negligible default risk.

Reference: SIE Study Guide, Chapter 3: U.S. Government Securities

NEW QUESTION: 113

Which of the following statements describes a characteristic of exchange-traded funds (ETFs)?

A. ETFs are offered with front-end or back-end loads.

B. ETFs are not permitted to be purchased on margin.

C. ETFs are purchased and sold daily at net asset value (NAV).

D. ETF expense ratios are generally lower than those of mutual funds.

Answer: (SHOW ANSWER)

Step by Step Explanation:

* ETF Expense Ratios: ETFs generally have lower expense ratios compared to mutual funds due to their passive management style.
* Incorrect Options:
* A: ETFs do not have sales loads; they are traded like stocks.
* B: ETFs can be purchased on margin, like other equities.
* C: ETFs are traded throughout the day at market prices, not NAV.

SEC ETF Fact Sheet: SEC ETF Info.

NEW QUESTION: 114

A company files a registration statement with the SEC to register a new Issue of securities. The company does not plan to sell all the registered shares at this time and instead plans to gradually sell new shares over a three- year period. This registration is called a:

A. SEC Regulation S offering.

B. best efforts offering.

C. shelf registration.

D. Rule 144 offering.

Answer: (SHOW ANSWER)

NEW QUESTION: 115

A lien was filed against the property of a registered representative (RR) for their failure to pay a contractor for home remodeling work. Which of the following items is the RR's broker-dealer (BD) required to file to reflect the lien, and within how many days of learning about the lien must the BD file?

A. Form U4 within 30 days

B. Form BD within 60 days

C. A new fingerprint card within 20 days

D. The FINRA Rule 4530 complaint report within 45 days

Answer: A (LEAVE A REPLY)

A lien against a registered person is a reportable financial event that must be disclosed on the individual's registration record. The mechanism for updating that record is an amended Form U4, and firms are required to update Form U4 disclosures promptly (commonly tested as within 30 days after the firm learns of the event).

Therefore, the correct answer is A. Form U4 is the Uniform Application for Securities Industry Registration or Transfer and is used not only for initial registration but also for ongoing updates to disclosure items, including certain financial matters such as liens, judgments, and bankruptcies when required.

Choice B is incorrect because Form BD is the broker-dealer's registration form (the firm's registration), used for firm-level changes and disclosures. A lien filed against an individual RR is not handled by updating the broker-dealer's Form BD. Choice C is incorrect because fingerprinting requirements relate to identity
/background checks and are not the reporting mechanism for financial liens. Choice D is incorrect because FINRA Rule 4530 generally concerns reporting of certain events such as regulatory actions, violations, and specified misconduct; a personal lien is addressed through the representative's disclosure updates rather than being a "customer complaint report" filing. (Also, the question's "complaint report" phrasing is a distractor- liens are not customer complaints.) On the SIE, the point is recognizing where disclosures live (Form U4 for associated persons) and the expectation that firms supervise and update registration records when reportable events occur.

NEW QUESTION: 116

On settlement date, a customer is unable to pay for a purchase in his cash account. His position is liquidated.

Which of the following statements is true according to Federal Reserve Regulation T?

A. Only closing transactions are permitted.

B. The customer is barred from trading for 30 days.

C. The customer's account is frozen for 90 days.

D. All related accounts are frozen for 90 days.

Answer: (SHOW ANSWER)

Federal Reserve Regulation T mandates that customers must pay for purchases in a cash account within two business days of settlement (T+4). If payment is not made, the brokerage firm must liquidate the securities and place the account on a 90-day restriction.
* C is correct because the customer's account is frozen for 90 days, during which all trades must be paid for in advance.
* A is incorrect as closing transactions are still permitted but require prepayment.
* B is incorrect because the restriction lasts for 90 days, not 30.
* D is incorrect as only the delinquent account, not related accounts, is frozen.
Reference: Federal Reserve Regulation T

NEW QUESTION: 117
Which of the following statements best describes the market maker system of trading and execution?
A. One market maker is responsible for maintaining a fair and orderly market for all market participants.
B. Multiple market makers compete with each other in displaying bids and offers to the general marketplace.
C. Individual market participants negotiate with each other to execute orders through a designated market maker.
D. All orders are transmitted to a designated market maker for review before being displayed to the broader market.
Answer: (SHOW ANSWER)
A market maker system is best described as multiple market makers competing by displaying bids and offers, which makes choice B correct. Market makers are firms (or participants) that stand ready to buy and sell a security on a regular and continuous basis by quoting two-sided markets-bid (what they will pay) and ask
/offer (what they will sell for). In many market structures, multiple market makers post competing quotes, and the best displayed prices help form the national best bid and offer (NBBO) and promote liquidity and price discovery.
Choice A is closer to the concept of a single designated liquidity provider (like a specialist model historically), but even where "designated market makers" exist, modern systems typically still involve competition and additional liquidity providers. Choice C is incorrect because negotiation between individual participants through a designated market maker is not the defining mechanism of a market maker system; market makers post continuous quotes rather than serving as a negotiation channel for each trade. Choice D is also incorrect because orders are not generally sent to one market maker "for review" before being displayed; orders can be routed to various venues, displayed in order books, or executed against quotes depending on market structure.
For the SIE, the key takeaway is that market makers support liquidity by committing capital and quoting markets, and that competition among multiple market makers improves execution quality through tighter spreads and more robust depth. Understanding how bids/asks are displayed and

how market participants interact with liquidity providers is central to market structure and trading knowledge.