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NEW QUESTION: 1

For a customer thinking about purchasing a high-income bond mutual fund, which of the following is considered the primary risk of the underlying securities in the portfolio?

- A. Credit risk
- B. Political risk
- C. Taxability risk
- D. Purchasing power risk

Answer: (SHOW ANSWER)

High-income bond mutual funds typically invest in lower-rated (junk) bonds that offer higher yields. These bonds are exposed to significant credit risk, as issuers may default on their payments.

- * A is correct because credit risk is the primary concern with high-yield bonds.
- * B is incorrect as political risk is more relevant for international investments.
- * C is incorrect because taxability risk is not specific to bond mutual funds.
- * D is incorrect because purchasing power risk is more relevant for fixed-income investments during inflationary periods but is not the primary risk here.

Reference: SIE Study Guide, Chapter 3: Risks Associated with Bonds

NEW QUESTION: 2

An investor wants to purchase mutual fund shares, but she is concerned about the tax efficiency of the fund.

Which of the following disclosures required under industry regulations will help the investor make an informed decision?

- A. The fund's turnover ratio
- B. Sales charges and breakpoint discount opportunities
- C. The commissions that the fund pays on each transaction
- D. Projections of future dividend and capital gains distributions

Answer: (SHOW ANSWER)

Step by Step Explanation:

* Turnover Ratio: Indicates how frequently the fund manager buys and sells securities. A high turnover ratio may result in higher capital gains distributions, impacting tax efficiency.

* Incorrect Options:

* B: Sales charges affect cost but not tax efficiency.

* C: Commission details are unrelated to the fund's tax efficiency.

* D: Projections of distributions are speculative and not disclosed under regulations.

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SEC Mutual Fund Guide: SEC Mutual Funds.

NEW QUESTION: 3

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.

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

NEW QUESTION: 4

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 considered "at the money" when the current price of the underlying asset (or index level) equals the option's strike price.

* B is correct because the index level equals the strike price.

* A is incorrect because "in the money" requires the option to have intrinsic value (e.g., for a call, the index level must be above the strike price).

* C is incorrect because "out of the money" applies when the index level is below the strike price (for calls) or above it (for puts).

* D is incorrect because "at the money" options have no intrinsic value.

Reference: SIE Study Guide, Chapter 8: Options Fundamentals

NEW QUESTION: 5

Beta coefficient is a measure of:

A. The volatility of the broad stock market.

B. Only the upside participation of an individual stock.

C. The liquidity of an individual stock relative to the sector average.

D. The volatility of an individual stock relative to the broad stock market.

Answer: (SHOW ANSWER)

The beta coefficient measures the sensitivity of a stock's returns relative to the overall market (usually the S&P 500). A beta of:

* 1.0 indicates the stock moves in line with the market.

* Greater than 1.0 suggests the stock is more volatile than the market.

* Less than 1.0 suggests the stock is less volatile.

* D is correct because beta specifically compares the volatility of a stock to the market.

* A is incorrect as beta does not measure the market's volatility.

* B is incorrect as beta considers both upside and downside movements.

* C is incorrect as beta does not measure liquidity.

Reference: SIE Study Guide, Chapter 6: Portfolio Management

NEW QUESTION: 6

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: A (LEAVE A REPLY)

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: 7

A customer purchased 100 shares of Company XYZ common stock five years ago for \$20.00 per share. Over the life of her investment, the customer received cash dividends of \$2.00 per share, on which she paid total income taxes of \$0.50 per share. She recently sold the stock for \$30.00 per share. What is the customer's cost basis in each share of XYZ stock?

- A. \$20.00
- B. \$21.50
- C. \$22.00
- D. \$30.00

Answer: ([SHOW ANSWER](#))

The cost basis of a stock represents the purchase price and does not include dividends received. Taxes paid on dividends also do not affect the cost basis.

* Original purchase price per share = \$20.00.

* Dividends and taxes on dividends do not adjust the stock's cost basis.

* A is correct because the cost basis remains \$20.00.

* B, C, and D incorrectly assume that dividends or taxes change the cost basis.

Reference: IRS Publication 550: Investment Income and Expenses

NEW QUESTION: 8

Which of the following securities receives the highest priority in case of a bankruptcy?

- A. Common stock
- B. Rights
- C. American Depositary Receipts (ADRs)
- D. Preferred stock

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 9

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: 10

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. day trading.

B. active management.

C. passive management.

D. Index rebalancing.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 11

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: 12

Which of the following agencies publishes the list used by broker-dealers to verify that customers are not known money launderers, terrorists or others deemed ineligible to open an account at a financial institution?

A. The FBI

B. The SEC

C. The Office of Foreign Assets Control (OFAC)

D. The IRS

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 13

Shares in a private investment in public equity (PIPE) offering are priced:

A. At the current market value per share.

B. Below the current market value per share.

C. Above the current market value per share.

D. At the public offering price (POP) as determined by the underwriters.

Answer: ([SHOW ANSWER](#))

Step by Step Explanation:

* PIPE Offerings: Typically priced below the current market value to incentivize institutional investors to participate in these transactions.

* Discount: The discounted price compensates for the potential illiquidity and risk associated with PIPE offerings.

* POP/Market Value: These do not apply to private offerings structured as PIPE transactions.

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SEC PIPE Offering Guidance: SEC PIPE Offerings.

NEW QUESTION: 14

A customer owns 100 shares of ABC with a current market value of \$5.00 per share. The company undergoes a 1-for-2 reverse split of the stock. Which of the following statements is true of the customer's holdings and the price of the stock?

A. The customer will have 50 shares at \$10.00 per share.

B. The customer will have 100 shares at \$5.00 per share.

C. The customer will have 200 shares at \$2.50 per share.

D. The customer will have 1,000 shares at \$0.50 per share.

Answer: ([SHOW ANSWER](#))

Step by Step Explanation:

* Reverse Split Calculation: A 1-for-2 reverse split reduces the number of shares by half while doubling the price per share.

* Pre-Split Holdings: 100 shares at \$5.00 = \$500.

* Post-Split Holdings: 50 shares at \$10.00 = \$500.

* Incorrect Options: The total value remains unchanged; only the number of shares and price per share adjust.

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FINRA Corporate Actions Guidance: FINRA Reverse Splits.

NEW QUESTION: 15

Which of the following statements concerning nonqualified deferred compensation plans is true?

- A. They are governed by ERISA rules.
- B. Such plans must be reviewed with the IRS.
- C. The deferred compensation must be held in escrow at a bank.
- D. A failure of the business could lead to nonpayment of the deferred compensation.

Answer: (SHOW ANSWER)

Nonqualified deferred compensation (NQDC) plans allow employees to defer income until a future date.

* D is correct because NQDC funds remain part of the company's general assets, which creditors may claim if the company goes bankrupt.

* A is incorrect as NQDC plans are not subject to ERISA rules.

* B is incorrect because these plans do not require IRS review.

* C is incorrect as NQDC assets are not required to be held in escrow.

Reference: IRS Code Section 409A

NEW QUESTION: 16

Which of the following statements best describes a characteristic of 529 savings plan accounts?

- A. Earnings are taxed to the donor at the time of a qualified withdrawal.
- B. The number of contributors to the account is limited.
- C. There are no contribution limits to the account.
- D. Using funds for undergraduate or graduate studies is permissible.

Answer: (SHOW ANSWER)

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NEW QUESTION: 17

When is it permissible to exercise European-style options contracts?

- A. Only on the last business day before expiration
- B. Only on the day of expiration
- C. Only on the day after expiration
- D. Only on the third Friday of every month

Answer: (SHOW ANSWER)

Step by Step Explanation:

* European-Style Options: Can only be exercised on their expiration date, unlike American-style options, which can be exercised any time before expiration.

* Incorrect Options:

- * A: Not accurate; the exercise must occur specifically on the expiration date.
- * C: Options cannot be exercised after expiration.
- * D: The expiration date depends on the option contract, not a specific weekday.

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Options Clearing Corporation (OCC) Guidelines: OCC European Options.

NEW QUESTION: 18

A broker-dealer (BD) is required to ensure a hyperlink to BrokerCheck is Included on which of the following communications?

- A. The BD's homepage intended for retail customers
- B. An email response to a complaint from a retail customer
- C. A registered representative's (RR's) outgoing email
- D. An RR's social media site that Identifies his BD employment

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 19

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: 20

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.

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FINRA Rule 4530 (Reporting Requirements): FINRA Rule 4530.

NEW QUESTION: 21

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.

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SEC Investor Bulletin on Risks: SEC Risk Guidance.

NEW QUESTION: 22

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: B (LEAVE A REPLY)

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: 23

Under SEC Regulation D, which of the following parties is considered an accredited investor?

A. A person whose joint income with their spouse exceeds \$200,000 in each of the two most recent years and who has a reasonable expectation of reaching the same income level in the current year.

B. A person whose net worth, excluding the net equity in their primary residence, exceeds \$500,000 at the time of purchase.

C. A person whose net worth, excluding the net equity in their primary residence, exceeds \$1 million at the time of purchase.

D. A charitable organization, partnership, or corporation whose assets exceed \$2.5 million.

Answer: (SHOW ANSWER)

Step by Step Explanation:

* Definition of Accredited Investor: As per SEC Regulation D, Rule 501, an accredited investor includes:

* Individuals with a net worth exceeding \$1 million (excluding primary residence equity).

* Individuals with an annual income exceeding \$200,000 (or \$300,000 jointly with a spouse) for the past two years.

* Elimination of Incorrect Answers:

* \$500,000 threshold (option B) is too low to qualify under Regulation D.

* Option D is incorrect as it requires assets of \$5 million, not \$2.5 million.

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SEC Regulation D, Rule 501 (Accredited Investor Definition): SEC Regulation D.

NEW QUESTION: 24

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.

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FINRA Guidelines on DVP/RVP Transactions: FINRA DVP Info.

NEW QUESTION: 25

What is the maximum total contribution that is permitted to be made per child within a Coverdell education savings account annually?

A. \$6,500

B. \$500

C. \$2,000

D. \$1,000

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 26

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: 27

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.

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FINRA Rule 3230 (Telemarketing): FINRA Rule 3230.

NEW QUESTION: 28

A grandfather establishes a Uniform Transfers to Minors Act (UTMA) custodial account for his grandson and appoints an attorney as custodian. Which of the following individuals owns the account?

- A. Attorney
- B. Grandfather
- C. Grandson
- D. Grandson's parent

Answer: (SHOW ANSWER)

In a UTMA account, the minor is the legal owner of the account. The custodian (in this case, the attorney) manages the account until the minor reaches the age of majority specified by state law.

- * C is correct because the grandson (the minor) is the account's legal owner.
- * A is incorrect because the attorney is the custodian, not the owner.
- * B is incorrect because the grandfather established the account but does not own it.
- * D is incorrect because the parent does not have ownership unless explicitly named as the custodian.

Reference: SIE Study Guide, Chapter 9: Custodial Accounts

NEW QUESTION: 29

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: ([SHOW ANSWER](#))

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.

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SEC Guide to Warrants and Options: SEC Warrants Information.

NEW QUESTION: 30

Which of the following activities is permitted during the cooling-off period of an initial public offering (IPO)?

- A. Distribute final prospectus
- B. Deliver securities to purchasers
- C. Conduct sales to public investors
- D. Market the new security to potential investors

Answer: ([SHOW ANSWER](#))

The cooling-off period begins after the registration statement is filed with the SEC and lasts for at least 20 days. During this time, the issuer and underwriters can market the securities but cannot finalize sales.

- * D is correct because marketing (e.g., roadshows) is permitted during the cooling-off period.
- * A is incorrect because the final prospectus is distributed after the offering is effective.
- * B and C are incorrect because sales and deliveries are prohibited until the registration becomes effective.

Reference: Securities Act of 1933, Section 5

NEW QUESTION: 31

Which of the following customers is eligible to open an institutional account at a broker-dealer?

- A. corporation with assets totaling \$25 million
- B. limited liability partnership with assets of \$20 million
- C. An investment club with pooled assets totaling \$1 million
- D. An Insurance company with assets of \$45 million

Answer: ([SHOW ANSWER](#))

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NEW QUESTION: 32

Which of the following types of debt securities has the highest liquidity?

- A. Treasury bonds
- B. Corporate bonds
- C. Municipal bonds
- D. Mortgage bonds

Answer: (SHOW ANSWER)

NEW QUESTION: 33

A currency devaluation impacts a country's economic activity in which of the following ways?

- A. Decreases inflation
- B. Decreases gross domestic product (GDP)
- C. Increases imports from merchandise trade countries
- D. Makes exports cost less in merchandise trade countries

Answer: (SHOW ANSWER)

Currency devaluation reduces the value of a country's currency relative to others, making its exports cheaper and more competitive internationally. This stimulates demand for the country's goods and services.

- * D is correct because devaluation reduces export costs, encouraging foreign buyers.
- * A is incorrect because devaluation can increase inflation by raising the cost of imported goods.
- * B is incorrect because GDP often rises due to increased export demand.
- * C is incorrect because imports become more expensive after devaluation, reducing demand.

Reference: SIE Study Guide, Chapter 2: International Trade and Currency

NEW QUESTION: 34

Which of the following responses accurately describes a secondary market transaction?

- A. Buying open-end mutual fund shares
- B. Buying securities directly from the issuing company
- C. Buying securities on a registered securities exchange
- D. Buying securities in a private placement from a broker-dealer

Answer: (SHOW ANSWER)

A secondary market transaction occurs when securities are bought and sold between investors, typically on an exchange.

* C is correct because securities purchased on a registered exchange are secondary market transactions.

* A is incorrect as open-end mutual fund shares are purchased directly from the issuer.

* B refers to the primary market.

* D is also incorrect as private placements occur in the primary market.

Reference: SIE Study Guide, Chapter 1: Market Structure

NEW QUESTION: 35

Which of the following securities has the greatest investment risk?

A. Blue chip stocks

B. Corporate bonds

C. Technology stocks

D. Government bonds

Answer: (SHOW ANSWER)

Technology stocks are considered high-risk investments due to their volatility and sensitivity to economic cycles, regulatory changes, and technological advancements. While they may offer significant growth potential, they carry greater risk than blue chip stocks, corporate bonds, or government bonds.

* C is correct because technology stocks are subject to high volatility and risk.

* A is incorrect because blue chip stocks are generally stable and lower-risk.

* B is incorrect because corporate bonds carry moderate risk, depending on the issuer's creditworthiness.

* D is incorrect because government bonds are considered low-risk due to the backing of the issuing government.

Reference: SIE Study Guide, Chapter 6: Investment Risks

NEW QUESTION: 36

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: B (LEAVE A REPLY)

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: 37

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: 38

A customer purchases 100 shares of stock on Thursday, August 2. This transaction must settle regular way no later than:

- A. Friday, August 3
- B. Monday, August 6
- C. Tuesday, August 7
- D. Wednesday, August 8

Answer: (SHOW ANSWER)

Step by Step Explanation:

* Regular-Way Settlement: For equity securities, settlement occurs on a T+2 basis, meaning two business days after the trade date.

* Calculation:

* Trade Date (T): Thursday, August 2.

* T+2 Settlement: Excludes weekends, so settlement falls on Monday, August 6.

* Incorrect Options:

* A: Reflects T+1, not the correct settlement cycle.

* C & D: Extend beyond the standard T+2 cycle.

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FINRA and SEC Settlement Rules: SEC Settlement Rules.

NEW QUESTION: 39

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: 40

For which of the following account types will the partial ownership pass into an estate account upon the death of one of the individuals listed on the account?

- A. Partnership
- B. Trust corporation
- C. Tenants in common
- D. Joint tenants with right of survivorship (JTWROS)

Answer: ([SHOW ANSWER](#))

In a tenants in common account, each owner has a distinct percentage of ownership. Upon the death of one owner, their share does not transfer to the surviving owner(s); instead, it becomes part of the deceased's estate.

* C is correct because ownership is divided, and the deceased's share passes to their estate.

* A is incorrect because partnerships have different agreements governing ownership transitions.

* B is incorrect because trust corporations are governed by trust agreements, not estate processes.

* D is incorrect because JTWROS accounts pass ownership directly to the surviving account holder(s).

Reference: SIE Study Guide, Chapter 9: Account Ownership and Beneficiaries

NEW QUESTION: 41

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. Quarterly
- B. Annually
- C. Monthly
- D. Once every three years

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 42

A customer has four traditional Individual retirement accounts (IRAs): two are at banks, one is held directly at a mutual fund, and one is held in her brokerage account. In order to meet her required minimum distribution (RMD), which of the following actions is she required to take?

- A. Take a distribution from one of the bank IRAs and either the mutual fund or brokerage IRA
- B. Take a distribution from the largest account based on current value
- C. Take a distribution from the smallest account based on current value
- D. Take a distribution based on the value of all of the accounts at the previous year end

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 43

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: 44

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.

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SEC Guide to Financial Statements: SEC Financials.

NEW QUESTION: 45

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: 46

Which of the following responses describes a collateralized mortgage obligation (CMO) tranche?

A. The yield a customer should expect if the CMO is held to maturity

B. The estimated average life of the CMO expressed in years and months

C. A slice of the investment representing a coupon rate, maturity date, and credit rating

D. The method of underwriting used by the issuer to securitize the loans in the portfolio

Answer: ([SHOW ANSWER](#))

CMOs are divided into tranches, which are portions of the pool of mortgage-backed securities.

Each tranche has its own characteristics, including coupon rate, maturity date, and credit rating, tailored to meet the needs of different investors.

* C is correct because tranches represent slices of the investment with specific terms.

* A is incorrect because the yield depends on prepayment rates and interest rate changes.

* B is incorrect as average life is an estimate, not a defining characteristic of a tranche.

* D is incorrect because underwriting is unrelated to the definition of a tranche.

Reference: SIE Study Guide, Chapter 3: Collateralized Mortgage Obligations (CMOs)

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NEW QUESTION: 47

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

- A. Underwriting new shares of securities
- B. Distributing the fund's prospectus to investors
- C. Maintaining custody of the fund's securities
- D. Maintaining records of shareholder purchases and redemptions

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: 48

A customer has four traditional Individual retirement accounts (IRAs): two are at banks, one is held directly at a mutual fund, and one is held in her brokerage account. In order to meet her required minimum distribution (RMD), which of the following actions is she required to take?

- A. Take a distribution from the largest account based on current value
- B. Take a distribution from the smallest account based on current value
- C. Take a distribution based on the value of all of the accounts at the previous year end
- D. Take a distribution from one of the bank IRAs and either the mutual fund or brokerage IRA

Answer: C (LEAVE A REPLY)

NEW QUESTION: 49

Which of the following risks are associated with Treasury securities?

- A. Credit risk
- B. Liquidity risk
- C. Prepayment risk
- D. Interest rate risk

Answer: (SHOW ANSWER)

Step by Step Explanation:

* Interest Rate Risk: Treasury securities are sensitive to changes in interest rates. When rates rise, Treasury prices fall, exposing investors to price risk.

* Incorrect Options:

* Credit Risk: Virtually nonexistent for Treasuries, as they are backed by the U.S. government.

* Liquidity Risk: Treasuries are highly liquid.

* Prepayment Risk: Applies to mortgage-backed securities, not Treasuries.

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SEC Bond Risk Disclosures: SEC Treasury Risks.

NEW QUESTION: 50

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. shelf registration.

C. Rule 144 offering.

D. best efforts offering.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 51

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.

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FINRA Rule 2165 (Financial Exploitation of Specified Adults): FINRA Rule 2165.

NEW QUESTION: 52

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: 53

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: 54

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: 55

A customer purchases \$3,000 of XYZ, which settles today in a margin account. The customer has no other positions or balances. According to initial margin requirements, what is the amount of the required deposit?

- A. \$1,500
- B. \$2,000
- C. \$2,500
- D. \$3,000

Answer: (SHOW ANSWER)

Under Federal Reserve Regulation T, customers must deposit at least 50% of the purchase price for margin trades. However, the minimum deposit requirement is \$2,000, regardless of the 50% rule, if the account is below this threshold.

* 50% of \$3,000 = \$1,500.

* Since \$1,500 is less than the \$2,000 minimum, the customer must deposit the full \$2,000.

* B is correct because \$2,000 is the required minimum deposit.

* A is incorrect because the \$1,500 calculation does not meet the minimum.

* C and D are incorrect because they exceed the minimum deposit requirement.

Reference: Federal Reserve Regulation T; SIE Study Guide, Chapter 4: Margin Accounts

NEW QUESTION: 56

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: 57

Which of the following statements best describes a characteristic of 529 savings plan accounts?

- A. There are no contribution limits to the account.
- B. The number of contributors to the account is limited.
- C. Using funds for undergraduate or graduate studies is permissible.
- D. Earnings are taxed to the donor at the time of a qualified withdrawal.

Answer: (SHOW ANSWER)

Step by Step Explanation:

* 529 Savings Plans: These plans allow tax-advantaged savings for education expenses. They can be used for both undergraduate and graduate studies, as well as certain K-12 expenses.

* Contribution Limits: Contributions are subject to gift tax limits but have no specific statutory maximum under federal law.

* Tax Treatment: Earnings grow tax-deferred and are tax-free if used for qualified education expenses.

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IRS Section 529 Guidance: IRS 529 Plans.

NEW QUESTION: 58

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: 59

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: D (LEAVE A REPLY)

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: 60

Before an affiliate of an issuer is permitted to sell 10,000 shares of restricted securities, which of the following conditions must be met?

A. The affiliate must have a holding period of six months.

B. The company must be traded on a listed stock exchange.

C. The issuer must notify FINRA of the proposed sale by submitting a Form 144.

D. The shares to be sold must be less than 10% of the average daily trading volume (ADTV) of the security.

Answer: (SHOW ANSWER)

Step by Step Explanation:

* Rule 144 Holding Period: Restricted securities held by affiliates require a six-month holding period before sale, provided the issuer is subject to SEC reporting requirements.

* Other Options:

* Notification to FINRA (C) is incorrect; Form 144 is submitted to the SEC, not FINRA.

* The 10% ADTV limitation (D) applies to the volume of shares sold, not the conditions for sale.

:

SEC Rule 144 (Selling Restricted Securities): SEC Rule 144.

NEW QUESTION: 61

A confirmation indicates a 100-share purchase of Company ABC at \$11. According to SEC rules, which of the following information is required to be stated on the confirmation?

A. The firm's cost basis in the security

B. The firm's inventory level at the time of trade execution

C. That the firm did not act as a market maker in the security

D. The capacity in which the firm acted when executing the trade

Answer: (SHOW ANSWER)

Step by Step Explanation:

* SEC Rule 10b-10: Requires trade confirmations to disclose the capacity in which the firm acted (e.g., as agent or principal) and details like trade price, quantity, and commissions.

* Incorrect Options:

* A: Cost basis is not disclosed on trade confirmations.

* B: Inventory levels are not part of the required disclosures.

* C: Market maker status is not explicitly required in the confirmation.

:

SEC Rule 10b-10 (Confirmation Requirements): SEC Rule 10b-10.

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NEW QUESTION: 62

Under which of the following circumstances, if any, is a registered representative (RR) permitted to share in the profits and losses of security interests that the RR has purchased jointly with a customer?

- A. Only when the customer is an accredited investor
- B. Only if the RR's firm is also a participant in the sharing arrangement
- C. When the profits and losses are proportionate to the amount contributed by the RR
- D. Under no circumstances

Answer: (SHOW ANSWER)

Under FINRA Rule 2150, registered representatives may share in profits and losses in a customer's account if:

- * The customer provides written consent.
- * The arrangement is approved by the RR's firm.
- * The sharing is proportional to the RR's financial contribution.
- * C is correct because it aligns with FINRA requirements.
- * A, B, and D are incorrect because they do not meet the necessary conditions for sharing.

Reference: FINRA Rule 2150 (Sharing in Accounts; Prohibitions)

NEW QUESTION: 63

Which of the following functions is a responsibility of the IRS?

- A. Approve securities regulations
- B. Regulate brokerage accounts
- C. Administer tax laws
- D. Pass tax laws

Answer: (SHOW ANSWER)

NEW QUESTION: 64

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 financial health and potential for growth by analyzing its financial statements, such as the income statement, balance sheet, and cash flow statement.

- * C is correct because financial statements provide the data necessary for fundamental analysis.
- * A and B are incorrect because chart patterns and moving averages are tools of technical analysis, not fundamental analysis.
- * D is incorrect because resistance and support levels are also part of technical analysis.

Reference: SIE Study Guide, Chapter 6: Fundamental Analysis

NEW QUESTION: 65

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: 66

Which of the following statements is true regarding 529 savings plans?

- A. 529 contributions are tax deductible in all states.
- B. There are income limitations for contributing to a 529 savings plan.
- C. The account beneficiary has control over the assets in a 529 savings plan.
- D. Assets are transferable to another 529 savings plan tax-free if the new beneficiary is a family member of the current beneficiary.

Answer: (SHOW ANSWER)

529 savings plans are state-sponsored education savings accounts that offer tax-advantaged growth. Key features include:

- * Contributions are not federally tax deductible (some states offer state-level deductions).
- * No income limitations for contributions.
- * The account owner, not the beneficiary, controls the plan.
- * Assets can be transferred tax-free to another family member's 529 plan.
- * D is correct because tax-free rollovers are allowed for family members of the current beneficiary.
- * A is incorrect as contributions are not universally tax deductible.
- * B is incorrect as there are no income limitations for contributing.
- * C is incorrect because the account owner, not the beneficiary, controls the assets.

Reference: IRS Publication 970: Tax Benefits for Education

NEW QUESTION: 67

An investor owns 100 shares of a company's stock and is very interested in electing a particular individual to the board of directors of the corporation. There are 20 individuals running to fill 10 board seats. If the corporation uses the cumulative voting method, what is the maximum number of votes the investor is permitted to cast for this particular director?

- A. 50 votes
- B. 100 votes
- C. 1,000 votes
- D. 2,000 votes

Answer: (SHOW ANSWER)

In cumulative voting, shareholders can allocate all their votes to a single candidate. The total number of votes is calculated by multiplying the number of shares owned by the number of seats available:

- * Total votes = 100 shares × 10 seats = 1,000 votes.
- * The investor can allocate all votes to one candidate.
- * C is correct because cumulative voting allows all votes to be concentrated.

Reference: SIE Study Guide, Chapter 5: Corporate Governance

NEW QUESTION: 68

A customer purchases 100 shares of stock. The customer fears a decline in the share price and would like to protect his investment and minimize loss. Which of the following strategies should the customer employ to lock in his profit?

- A. Sell a put
- B. Sell a call
- C. Purchase a put
- D. Purchase a call

Answer: (SHOW ANSWER)

Purchasing a put option allows the customer to sell the stock at a predetermined price (the strike price) if the share price declines. This strategy protects against downside risk while maintaining upside potential.

* C is correct because a put acts as insurance, locking in a minimum sale price.

* A is incorrect because selling a put exposes the investor to additional risk if the stock declines.

* B is incorrect because selling a call generates income but does not protect against downside risk.

* D is incorrect because purchasing a call is a bullish strategy unrelated to protecting existing positions.

Reference: SIE Study Guide, Chapter 8: Protective Put Strategies

NEW QUESTION: 69

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: (SHOW ANSWER)

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: 70

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: 71

Under FINRA rules, which of the following events does not require a registered representative to update her Form U4 disclosure?

A. Any resolution of customer complaints involving payment of \$15,000 or more

B. Regulatory disciplinary actions

C. Receipt of a deficiency letter after an internal compliance audit

D. Felony convictions

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 72

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: 73

Which of the following entities 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: 74

When making a mutual fund recommendation to a customer, a registered representative must consider all of the following factors except:

- A. the fund's independent ranking
- B. the tax status of the customer.
- C. the investment objective of the fund.
- D. the age of the customer.

Answer: A ([LEAVE A REPLY](#))

NEW QUESTION: 75

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: 76

Under the Investment Company Act of 1940, which of the following products are considered redeemable securities?

- A. Short-term paper
- B. Master limited partnerships
- C. Shares issued by a closed-end investment company
- D. Shares of unit investment trusts (UITs) purchased through a public offering

Answer: ([SHOW ANSWER](#))

Redeemable securities are those that can be sold back to the issuer.

- * D is correct because unit investment trusts (UITs) issue redeemable securities.
- * C is incorrect because closed-end fund shares are traded on secondary markets, not redeemable.

* A and B do not meet the definition of redeemable securities.

Reference: Investment Company Act of 1940, Section 2(a)(32)

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NEW QUESTION: 77

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: 78

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: 79

When exercised, an option written on which of the following items must be settled in cash?

- A. Equity index
- B. Preferred stock
- C. Master limited partnership
- D. Exchange-traded funds (ETFs)

Answer: (SHOW ANSWER)

Step by Step Explanation:

- * Equity Index Options: These are cash-settled because the underlying asset is not a physical security but a theoretical value representing the index.
- * Incorrect Options:
 - * Preferred Stock, Master Limited Partnerships, and ETFs: These involve physical delivery of the underlying asset upon exercise.

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Options Clearing Corporation (OCC) Guidelines: OCC Cash-Settled Options.

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.

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FINRA Rule 3240 (Borrowing from or Lending to Customers): FINRA Rule 3240.

NEW QUESTION: 81

Which of the following types of accounts permits an investor to borrow money from a broker-dealer to help pay for a trade?

- A. Cash
- B. Margin
- C. An individual retirement account (IRA)
- D. Delivery versus payment (DVP) / receive versus payment (RVP)

Answer: (SHOW ANSWER)

Step by Step Explanation:

* Margin Accounts: Allow investors to borrow funds to purchase securities, with the securities serving as collateral for the loan.

* Cash Accounts: Require full payment for securities purchased.

* IRAs: Do not permit borrowing due to their tax-advantaged status.

* DVP/RVP: Settlement mechanisms, not account types for borrowing.

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FINRA Rule 4210 (Margin Requirements): FINRA Rule 4210.

NEW QUESTION: 82

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.

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

NEW QUESTION: 83

Which of the following activities engaged in by a registered person is considered a private securities transaction?

- A. Soliciting donations to a charity
- B. Helping a friend raise money for a startup company they founded
- C. Working for an insurance company selling term life insurance policies
- D. Investing personal money in shares of a listed security in a brokerage account

Answer: (SHOW ANSWER)

A private securities transaction involves the sale of securities outside the scope of a registered representative's employment with their member firm. Such transactions must be disclosed to and approved by the firm under FINRA Rule 3280.

* B is correct because raising money for a startup involves the sale of securities and must be reported as a private securities transaction.

* A is incorrect because soliciting charitable donations does not involve securities.

* C is incorrect because selling term life insurance policies is not a securities transaction.

* D is incorrect because investing personal money does not involve soliciting or selling securities to others.

Reference: FINRA Rule 3280 (Private Securities Transactions)

NEW QUESTION: 84

SIPC provides investor protection for its members' customers in which of the following situations?

- A. Failure of a brokerage firm in the event of insolvency
- B. Failure of a brokerage firm to meet customers' investment expectations
- C. Losses greater than 10% due to systemic market decline
- D. Losses incurred on futures contracts due to fraud or negligence

Answer: (SHOW ANSWER)

The Securities Investor Protection Corporation (SIPC) protects customers if a broker-dealer fails due to insolvency. Coverage applies to cash and securities in customer accounts, up to \$500,000 total, including \$250,000 for cash.

* A is correct because SIPC's purpose is to protect against losses arising from a broker-dealer's insolvency.

* B is incorrect because SIPC does not guarantee investment performance.

* C is incorrect because SIPC does not cover market losses.

* D is incorrect because futures contracts are not covered under SIPC.

Reference: Securities Investor Protection Act of 1970; SIPC FAQs

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