FINRA-SERIES-6[Q&As]

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

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QUESTION 1

Nat Informed places a market order to buy 200 shares of Abercrombie and Fitch (ANF) on Thursday, September 16th.

When will Nat be required to pay for this Transaction?

A. by the end of the trading on September 15th.

B. on the next trading day, September 16th.

C. on Tuesday, September 21st.

D. on Friday, September 17th.

Correct Answer: C

Explanation: If Nat places an order to purchase 200 shares of Abercrombie and Fitch on Thursday, September 16th, payment will be due on Tuesday, September 21st. The settlement date for stock transactions is T + 3, which means the third business day after the trade. Saturday is not a business day.

QUESTION 2

Which of the following is not a characteristic of all auction stock exchanges in the U.S.?

A. There is a central marketplace.

B. Stocks that are traded on the exchange must meet certain listing requirements, determined by the exchange.

C. In order to conduct a trade on the exchange, a broker must be a member of the exchange or hold a license to trade on the exchange.

D. If a stock is listed on one of these exchanges, it is not permitted to be listed on any other exchange.

Correct Answer: D

Explanation: The statement that does not describe a characteristic of all U.S. auction stock exchanges is D. Dual listing is permitted. Stocks listed on one exchange may also be listed on another. In fact, most of the trading on U.S. regional exchanges is in dual-listed stocks. All of the auction exchanges do have a central marketplace, listed stocks must meet listing requirements, and brokers wishing to conduct trades on the exchange must be members of the exchange or hold a license to trade on the exchange.

QUESTION 3

Fidelity Investments has two money market funds that is available to most investors. The Fidelity Cash Reserves fund (FDRXX) is currently yielding 0.10% while its Fidelity Municipal Money Market fund (FTEXX) is yielding 0.01%. One reason for this significant difference is that:

A. the Municipal Money Market fund pays interest that is free from state and local taxes.

B. the Municipal Money Market fund pays interest that is free from federal taxes.

C. interest earned on the Cash Reserves fund is subject to the alternative minimum tax.

D. the Municipal Money Market fund is insured by the FDIC, and this is not true of the Cash Reserves fund.

Correct Answer: B

Explanation: One reason for the significant difference between the returns on Fidelity\\'s Cash Reserves fund and its Municipal Money Market fund is that the Municipal Money Market fund pays interest that is free from federal taxes. The interest earned is not necessarily free from state and local taxes, and the Municipal Money Market fund is not insured by the FDIC.

QUESTION 4

One difference between a SEP-IRA and a SIMPLE IRA is that:

A. Only employers can make contributions to a SEP-IRA; both employees and employers can contribute to a SIMPLE IRA.

B. The contributions made to a SEP-IRA are tax deductible, which is not the case with a SIMPLE IRA.

C. The SEP-IRA has a higher contribution limit than that allowed by a traditional IRA or a Roth IRA, but the SIMPLE IRA contribution limits are the same as that of a traditional IRA or a Roth IRA.

D. There is no difference; both names refer to the same type of IRA that is available to a small business or a self-employed individual.

Correct Answer: A

Explanation: The main difference between a SEP-IRA and a SIMPLE IRA is that only employers can contribute to a SEP-IRA whereas both employees and employers can contribute to a SIMPLE IRA. In fact, employers are required to contribute to a SIMPLE IRA on the employee\\'s behalf, even if the employee chooses to make no contributions. The contributions to both plans are tax deductible and both plans have higher contribution limits than those allowed by the traditional IRA and Roth IRA plans.

QUESTION 5

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

A. a U.S. government bond fund

B. a money market fund

C. a municipal bond fund

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

Correct Answer: B

Explanation: Only a money market fund is exempt from including a statement warning that the principal value of the investment will fluctuate such that the investment may be worth either more or less when redeemed than what the investor originally paid for them. The principal values of both U.S. government bond funds and municipal bond funds will fluctuate, so the warning must be present in the advertisements for those types of funds.