FINRA-SERIES-6 Q&As

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

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QUESTION 1

The “statement of additional information” (SAI) that mutual funds and closed-end funds are required to produce:

A. must be provided to prospective investors whenever an offer to sell shares of these funds is made.

B. must be sent to shareholders of the fund on at least a semiannual basis.

C. usually contains some biographical information on the officers and directors of the fund.

D. Both A and B are true statements.

Correct Answer: C

Explanation: The “statement of additional information” (SAI) that mutual funds and closed-end funds are required to produce usually contains some biographical information on the officers and directors of the fund. The SAI need only be provided to prospective investors upon request, and it is not sent to shareholders of the fund. Shareholders of the fund receive annual and semiannual reports from the fund, however.

QUESTION 2

Which of the following statements regarding closed-end investment companies is false?

A. A closed-end investment company may not issue preferred stock.

B. Shares of a closed-end company may sell for below the fund\\'s net asset value.

C. Closed-end companies may be either diversified or non-diversified.

D. The closed-end investment company does not pay taxes on the dividend and capital gain income it earns and distributes to its shareholders.

Correct Answer: A

Explanation: The false statement is that a closed-end investment company may not issue preferred stock. Although open-end companies (mutual funds) are prohibited from doing so, this is not a restriction governing closed-end companies. Closed-end companies shares sell on exchange floors and may trade below net asset value. Closed-end companies may be either diversified or non-diversified, and the income earned by the company and distributed to its shareholders is not taxed at the investment company level. It is taxed at the shareholder level only.

QUESTION 3

Andy and Annie Raggedy own their own graphics art business that they operate out of their home and, happily, generate enough income to meet their current needs. The couple is planning on having children in the not too distant future,

however, and they want to start putting money aside for their children\\'s college education and also want to start saving for retirement more aggressively.

Which of the following describes one of their primary investment objectives?

A. tax-exempt income

B. preservation of capital

C. current income

D. capital appreciation

Correct Answer: D

Explanation: Since Mr. and Mrs. Raggedy\\'s stated goals are to save for their future children\\'s college education and to save for retirement, one of primary investment objectives is capital appreciation. That is, they will want to invest their monies in assets that will grow at a sufficient rate for them to be able to meet these targets. They have enough income to meet their current needs, so Choices A and C are not primary objectives, and although we'd all like to preserve capital, we need to take some risk in order to get the returns we require.

QUESTION 4

Which of the following qualifies as an insider under the definition provided by the Securities Exchange Act of 1934?

I. a member of the board of directors of a firm

II. the vice-president of marketing of a firm

III.

an investor who owns 5% of the voting stock of the firm IV. the daughter of the CEO of a firm

A.

I and II only

B.

I, II, and III only

C.

I, II, and IV only

D.

I, II, III, and IV

Correct Answer: C

Explanation: Selections I, II, and IV all describe individuals who qualify as insiders under the definition provided by the Securities Exchange Act of 1934. An insider is any director or officer of the firm or any member of their immediate family. An investor who owns 10% of the voting stock of the firm and his immediate family members are also classified as insiders; an investor who owns 5% of the voting stock does not fall within the guidelines of the definition.

QUESTION 5

The stock of Southwest Airlines (LUV) is selling for $11.77 in mid-September. An October put on the stock is selling for $1.45 and gives the owner the right to sell the stock for $13.00 prior to its expiration. In this example, the option premium is:

A. $13.00.

B. $1.23.

C. $1.45.

D. $11.77.

Correct Answer: C

Explanation: The option premium is $1.45, the cost of the option.

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