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QUESTION 1

In June, Bubba bought 100 shares of XYZ at \$35. In November, he bought a listed put in XYZ with a \$35 strike price and a July expiration for a premium of \$600. If the option expires without being exercised, how is the premium expense treated by Bubba?

- A. as a \$600 capital loss
- B. as a \$600 capital gain
- C. \$600 is added to his acquisition cost for the stock
- D. \$600 is held in abeyance until the stock is eventually sold

Correct Answer: A

a \$600 capital loss. The amount of premium paid is the cost and the recovery is zero, resulting in a \$600 capital loss.

QUESTION 2

Which of the following is not an investment company within the terms of the Investment Company Act of 1940?

- A. a holding company dealing in mineral leaseholds
- B. a face-amount certificate company
- C. a unit investment trust company
- D. a management company

Correct Answer: A

a holding company dealing in mineral leaseholds. The other choices are the three classifications of investment companies under the 1940 act.

QUESTION 3

What percentage of maintenance charges and debt service are covered by the rate covenant of a revenue bond issued to finance a municipal toll road?

- A. 75%
- B. 100%
- C. 120%
- D. 150%

Correct Answer: C

120%. The toll facility usually sets rates to cover 120% of maintenance and debt service.

QUESTION 4

Bubba's margin account has securities valued at \$20,000 and an \$8,000 credit balance. What is the equity in Bubba's account?

- A. \$8,080
- B. \$12,800
- C. \$20,000
- D. \$28,000

Correct Answer: D

\$28,000. The equity is the market value plus the credit balance.

QUESTION 5

Under which of the following conditions may a registered representative of a firm that is an underwriter of a new offering of common stock send to a client a copy of the firm's research report on that stock?

- A. if it is accompanied by a red herring
- B. if he has permission of his employer
- C. if his firm is not the managing underwriter
- D. under no circumstances

Correct Answer: D

under no circumstances. The representative may send the red herring but not a research report of his firm.

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