# FINRA-SERIES-6 Q&As

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

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**QUESTION 1**

Which of the following investment companies will always be passively managed?

A. a face-amount certificate company

B. a unit investment trust

C. a mutual fund

D. a closed-end investment company

Correct Answer: B

Explanation: A unit investment trust is always passively managed. Some mutual funds, such as index funds, may also be passively managed, but not all mutual funds are passively managed.

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**QUESTION 2**

Mr. Schaker hasn\\'t been seeing a lot of clients these days with the recent market downturn-which means he hasn\\'t been generating any commissions, and commissions are his bread and butter. So, Mr. Schaker does some Googling on his computer and notes that a prominent family of load funds has just introduced a new global fund. Scribbling the name and contact information of the fund family on his notepad, he begins calling his existing clients and promoting the new fund, encouraging his clients to redeem some shares in their existing funds to invest in this fund.

Has Mr. Schaker violated any securities laws?

A. No. In FINRA\\'s rules regarding fair dealing with customers, the SRO clearly states that "This does not mean that legitimate sales efforts in the securities business are to be discouraged. . . "

B. Yes. Mr. Schaker is recommending the fund to his existing clients to benefit himself, not them.

C. No. Research indicates that new funds tend to offer abnormally high returns for the first 12 months of their existence, so Mr. Schaker is doing his clients a favor even if he himself stands to profit.

D. Yes. A registered representative should always refrain from recommending shares of a load fund; trades involving load funds should always be "unsolicited."

Correct Answer: B

Explanation: Yes. Mr. Schaker has violated securities laws in recommending a fund that he doesn\\'t even seem to have researched very well to his existing clients, some of whom may not be suitable candidates for a global fund, which invests in foreign as well as domestic securities. Although FINRA\\'s rules do indicate that it is not trying to stymie legitimate sales efforts, Mr. Schaker\\'s actions do not fall within this category. There is no research that indicates new funds tend to offer abnormally high funds for the first 12 months of their existence, and if Mr. Schaker would have implied that, he could be up on criminal fraud charges. There is no law, however, that prohibits a registered representative from recommending a load fund to a client, as long as there is a legitimate reason for doing so.

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**QUESTION 3**

Which of the following statements regarding callable bonds is false?

A. Callable bonds offer a higher yield than non-callable bonds, all else equal.

B. Investors in callable bonds are subject to prepayment risk.

C. The issuer of a callable bond is most likely to redeem the bond early when interest rates fall.

D. A callable bond protects the investor by allowing him to sell his bond back to the issuer and invest in another, similar-risk bond that pays a higher rate of interest should the investor choose to do so.

Correct Answer: D

Explanation: Statement D is the false statement. A callable bond does not protect the investor by allowing him to sell his bond back to the issuer and invest in another, similar-risk bond that pays a higher rate of interest should the investor choose to do so. The investor does not have the option to redeem or not in the case of a callable bond. It is the issuing firm that has the option. Therefore, a callable bond must offer a higher-yield than similar non-callable bonds, and the investor in a callable bond is subject to prepayment risk. The bond is most likely to be redeemed when interest rates fall, in which case the issuer will want to call it in and replace it with a bond with a lower coupon rate.

**QUESTION 4**

The stock of eBay, Inc. (EBAY) currently has a beta of 1.67. Based on this, which of the following statements are necessarily true?

I. If the market is up 5%, an investor can expect the returns on eBay to increase by 1.67 times this amount, or 8.35%.

II. eBay would be a particularly good investment for an investor with a short investment horizon.

III. The returns on eBay are more volatile than the returns on the market in general.

IV.

eBay has more unsystematic risk than the market in general.

A.

I only

B.

I and II only

C.

I and III only

D.

I, II, III, and IV

Correct Answer: C

Explanation: Only Selections I and III are necessarily true. eBay\\'s beta of 1.67 means that if the market is up 5%, an investor can expect the returns on eBay to increase by 1.67 times this amount, or 8.35%, and since eBay\\'s beta is greater than 1.0, we can say that the stock\\'s returns are more volatile than the returns on the market in general. Although eBay may have more unsystematic risk than the market in general, beta is not a measure of this. Beta is a measure of the market, or systematic, risk of the stock.

**QUESTION 5**

Which of the following statements about hedge funds is true?

A. They are fairly low risk since the portfolio managers use investment strategies designed to “hedge their bets.”

B. They are not regulated by the Investment Company Act of 1940.

C. They are considered to be very liquid investments.

D. They have low management fees, like index funds.

Correct Answer: B

Explanation: The true statement about hedge funds is that they are not regulated by the Investment Company Act of 1940. They are very risky, are illiquid-investors may only make contributions and withdrawals at specified times-and they have extremely high management fees.