FINRA-SERIES-6[Q&As]

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

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QUESTION 1

Jake\\'s Uncle Zeke gave Jake and his new bride 100 shares of the stock of Southwest Airlines (LUV) when they got married. Uncle Zeke had paid $16.60 for the stock several years earlier, but it was selling for only $12.10 on the day of the wedding. Jake and his bride are unimpressed with the stock\\'s performance a few months later and decide to sell it for $11.00, its market price at that point.

What are the tax consequences of the sale for the newly wedded couple?

A. Jake and his bride will have a long-term capital loss of $110 to offset other income.

B. Jake and his bride will have a long-term capital loss of $560 to offset other income.

C. Jake and his bride will have a short-term capital loss of $560 to offset other income.

D. Jake and his bride will have neither a taxable gain nor a capital loss to declare.

Correct Answer: A

Explanation: If Jake and his bride sell the stock of LUV for $11.00 when it was selling for $12.10 on the day that they received it, they will have a long-term capital loss of $110 to offset other income. In this situation, the relevant cost basis is the value of LUV on the day of the wedding. Therefore, the loss is calculated as ($11 - $12.10) x 100 = -$110. The holding period is based on the holding period of the donor, so the loss is considered to be a long-term capital loss. In a gift situation, there are two cost bases. In the case of an asset that has depreciated in value, as in this instance, if the recipient sells the gifted property for less than its market value on the day he received it, the cost basis is considered to be the market price on the day the gift was received. If, on the other hand, the property has appreciated in value and the gift recipient sells the gifted property for more than the cost basis of the donor, then his gain is based on the cost basis of the donor, not the price at which the property was selling on the day the gift was received. If the selling price is somewhere between the two values, there is neither a taxable gain nor a taxable loss for the gift recipient to declare.

QUESTION 2

Which of the following investor characteristics is inconsistent with an aggressive investment strategy?

I. short investment horizon

II. high risk tolerance

III.

young

A.

I and II

B.

I, II, and III

C.

I only

D.

III only

Correct Answer: C

Explanation: The investor characteristic that is inconsistent with an aggressive investment strategy is a short investment horizon. The shorter the investment horizon, the less aggressive the investment strategy should be, all else equal, because a shorter investment horizon means the investor has less opportunity to ride the up-and-down waves of the market.

QUESTION 3

Under the Investment Company Act of 1940, an investment company is:

A. required to register with the SEC.

B. any company that holds investment securities that have a value that is greater than 40% of the company\\'s total assets.

C. any issuer whose primary business involves investing, reinvesting, or trading in securities.

D. All of the above accurately describe an investment company as defined by the Investment Company Act of 1940.

Correct Answer: D

Explanation: All of the choices accurately describe an investment company as defined by the Investment Company Act of 1940.

QUESTION 4

Which of the following payout options would provide an annuity owner with the biggest monthly check?

A. joint and last survivor

B. straight life

C. life with period certain

D. unit refund life

Correct Answer: B

Explanation: The straight life payout option would provide an annuity owner with the biggest monthly check. Under this option, the annuity payments stop upon the death of the owner. All of the other options would require that the insurance

company stand ready to continue payments beyond the owner\\'s death.

This means more risk to the insurance company and, ergo, lower payments to the owner.

QUESTION 5

Which of the following statements regarding insider trading penalties is true?

A. The SEC may seek both civil and criminal penalties against an individual who is found guilty of insider trading.

B. Any contemporaneous trader who has lost money due to an illegal insider trade may sue the violator for both the amount of his losses and pain and suffering, as determined by the court.

C. A broker-dealer who is found to have provided inadequate supervision over an agent who is found guilty of insider trading is also subject to insider trading penalties.

D. Both A and C are true statements.

Correct Answer: D

Explanation: Both A and C are true statements regarding insider trading penalties. The SEC may seek both civil and criminal penalties against an individual who is found guilty of insider trading, and a broker-dealer who is found to have provided inadequate supervision over an agent who is found guilty of insider trading is also subject to insider trading penalties. Any contemporaneous trader who has lost money due to an illegal insider trade may sue the violator, but only for his losses, and not for pain and suffering.