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 formulae is used to calculate the net dividend income per share of a mutual fund?

A. Subtract operating expenses from dividend and interest income and divide the result by the number of outstanding shares.

B. Divide gross investment income by the number of outstanding shares.

C. Subtract operating expenses from the income derived from dividends, interest, and short -term capital gains earned by the fund and divide the result by the number of outstanding shares.

D. Add dividends, interest, and short-term and long-term capital gains earned by the fund; subtract operating expenses; then divide the result by the number of outstanding shares.

Correct Answer: A

Explanation: The formula that is used to calculate the net dividend income per share of a mutual fund is: Subtract operating expenses from dividend and interest income and divide the result by the number of outstanding shares. Net dividend income per share is calculated by dividing net investment income by the number of shares outstanding, and net investment income is the income (dividends and interest) generated by the fund\\'s investments minus the fund\\'s operating expenses.

QUESTION 2

A settlement option associated with a variable life policy in which the insurance company guarantees that the beneficiary will receive equal payments over a specific length of time is known as a:

A. fixed-amount settlement.

B. fixed-period settlement.

C. life-income settlement.

D. guaranteed-payment settlement.

Correct Answer: B

Explanation: A settlement option associated with a variable life policy in which the insurance company guarantees that the beneficiary will receive equal payments over a specific length of time is known as a fixed-period settlement. The amount that will be paid is uncertain, but the payments will continue for the period specified. With a life-income settlement option, the beneficiary will receive guaranteed payments for the rest of his life, but “the rest of his life” is not a specific length of time.

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

Tex Payor owns 500 shares of Amazon.com, Inc. that he bought seven years ago when the stock price was $18 a share, at which time he paid a commission of $12.95 to purchase the stock. At the beginning of this year, Amazon was selling for $89 a share. Today, December 31st, Amazon\\'s stock closed at $152 a share.

Based on this information, what must Tex include on this year\\'s tax return as taxable income from his investment in Amazon?

A. only the capital appreciation on the stock this year: $63 a share x 500 shares = $31,500

B. the value of the stock on December 31st minus the price he paid for it, which includes the commission he paid, divided by the 7 years he has owned the stock: $152 - ($18 + $12.95) x 500 shares = $60,525 ÷ 7 = $8,646

C. the capital appreciation on the stock this year minus the commission he originally paid to purchase the stock:($63 - $12.95) x 500 = $25,025

D. none of the above

Correct Answer: D

Explanation: None of the selections is the amount that Tex must include as taxable income on this year\\'s tax return from his investment in Amazon. Until Tex sells his shares of Amazon.com, he has earned only unrealized capital gains, which are not subject to taxation. When Tex sells his shares, he will then have realized capital gains and must pay tax on those gains.

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.