FINRA-SERIES-6 Q&As

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QUESTION 1

Which of the following is not a secured debt issue?

A. a collateral trust receipt

B. a subordinated debenture

C. an equipment trust receipt

D. a mortgage bond

Correct Answer: B

Explanation: A subordinated debenture is not a secured debt issue. All the other choices are. Collateral trust receipts are back by stocks and bonds owned by the issuing firm. An equipment trust receipt is backed by specific equipment owned by the firm. A mortgage bond is backed by real estate.

QUESTION 2

The MaxFee Mutual Fund has a front-end load of 8.5%. If its net asset value (NAV) per share is currently $32, for what price can an investor buy shares of the fund? (Round your answer to the nearest cent.)

A. $29.49

B. $34.97

C. $34.72

D. $29.28

Correct Answer: B

Explanation: If the MaxFee Mutual Fund has a front-end load of 8.5% and a net asset value per share of $32, an investor can buy shares of the fund at its offer price of $34.97. Offer price = NAV/ (1 - % load) = $32/ (1 - 0.085) ? $34.97.

QUESTION 3

In mid-September, the stock of Oracle (ORCL) is selling for $25.60 a share. Ms. Hedge owns shares of Oracle and buys a put option on the stock with a strike price of $27 that expires in October for $2.20 per optioned share. Just prior to expiration, Oracle\\'s stock is selling for $29. Ms. Hedge should:

A. let her option expire worthless.

B. exercise her option and sell Oracle for $29 a share.

C. exercise her option and buy more shares of Oracle for $27 a share.

D. exercise her option and sell Oracle for $27 a share.

Correct Answer: A

Explanation: If Ms. Hedge owns a put option on Oracle with a strike price of $27 and Oracle\\'s price is $29 just prior to expiration, she should let her option expire worthless. Her put option gives her the right to sell Oracle for $27. If she wants to sell her existing shares of Oracle, she is better off doing so on the open market and receiving $29 a share for them.

QUESTION 4

Mr. A. D. Venturer owns 10,000 shares of Risky Corporation, which is currently selling for $8 a share. He is leaving shortly for an extended trip to Antarctica and will be out of communication for that time. He doesn\\'t want to liquidate his investment in Risky before he goes, but he doesn\\'t want to return to find that his $80,000 investment is worth little to nothing.

Which of the following options would make sense for Mr. Venturer?

A. buy a call option on Risky stock with an $8 strike price and an expiration date that occurs after his return

B. place a stop sell order at a price less than $8 a share-perhaps $6 or $7 a share

C. place a limit order to sell Risky at either $8 a share or a price slightly less than $8 a share

D. enter a good \\'til cancelled (GTC) market order to sell Risky

Correct Answer: B

Explanation: The option that makes sense for Mr. Venturer is to place a stop sell order at a price less than Risky\\'s current market price of $8. A stop loss order becomes a market order when the specified price is reached. If he were to place it for Risky\\'s current market price of $8, his shares would be sold immediately at the next available price. If the specified price is less than $8, the order won\\'t get executed unless the price falls to that level. A limit order specifies the lowest price at which he\\'s willing to sell the shares, so if he places a limit order for $8 or less, the order will be executed immediately at the current market price of $8. A call option would not help him-it would just enable him to buy additional shares for $8 a share. And there is no such thing as a good 'til cancelled market order. A market order is executed immediately at whatever the prevailing price is at the moment.

QUESTION 5

Sam\\'s neighbor has just inherited some bonds from his uncle. The neighbor, knowing that Sam is a registered representative with a brokerage firm, asks Sam if he would like to handle the sale of these securities. Sam agrees to do so and calls his existing clients with an offer to sell the bonds at a price that he researches to be the average "ask" price of dealers in the same bonds. In this situation:

A. Sam has engaged in the illegal practice of "front running."

B. Sam has engaged in the illegal practice of "selling away."

C. Sam has engaged in no illegal practices as long as he markets the bonds only to existing clients. This is referred to as a private placement.

D. Sam has engaged in no illegal practices since he is licensed to sell bonds and is doing so at an established "ask" price. Sam is a good neighbor.

Correct Answer: B

Explanation: If Sam sells his neighbor\\'s bonds by calling his existing clients with an offer to sell them the bond, he has engaged in the illegal practice of "selling away." This practice is defined as a broker or agent offering securities for sale that are not owned or offered by his member firm and is in violation of NASD Rule 3040.

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