FINRA-SERIES-6 Q&As

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QUESTION 1

A warrant differs from a standard call option in that:

A. a standard call option generally has a longer period to expiration than a warrant.

B. when a warrant is exercised, the firm whose stock is being purchased will have an increase in cash; this is not the case when a standard call option is exercised.

C. a warrant gives the holder the right to sell shares of the underlying stock; a call option gives the holder the right to buy shares of the underlying stock.

D. when a call option is exercised, the outstanding shares of the firm whose stock is being purchased increases; this does not occur when a warrant is exercised.

Correct Answer: B

Explanation: A warrant differs from a standard call option in that when a warrant is exercised, the firm whose stock is being purchased will have an increase in cash; this is not the case when a standard call option is exercised. Both the warrant and the call option give the holder the right to purchase shares of a firm\\'s stock, but the writer (seller) of a warrant is the firm itself whereas the writer of a standard call option is simply another investor. Upon exercising a warrant, the investor buys the stock from the firm itself, which increases the firm\\'s cash account. When a call option is exercised, another investor\\'s cash account is increased. For the same reason, when a call option is exercised, nothing happens to the outstanding shares of the firm; but when a warrant is exercised, the firm\\'s outstanding shares will increase.

QUESTION 2

Which of the following statements regarding a unit investment trust (UIT) is false?

A. A UIT has a fixed number of shares.

B. UITs are actively managed.

C. Shares of UITs trade on exchange floors.

D. All UITs are established with a termination date.

Correct Answer: B

Explanation: The statement that UITs are actively managed is the false statement. All UITs are passively managed. They do have a fixed number of shares that may either be redeemed through the trust or traded on exchange floors, and all UITs are established with a termination date.

QUESTION 3

All government bonds and the majority of corporate bonds are traded:

A. on the floor of the NYSE.

B. via electronic communication networks (ECNs).

C. on regional exchanges.

D. in the over-the-counter market.

Correct Answer: D

Explanation: All government bonds and the majority of corporate bonds are traded in the over-the-counter market.

QUESTION 4

Mr. Cross wanders into your office with a $35,000 check that he has received from his recently-deceased wife\\'s insurance company and wants you to advise him how to invest it, since that is your job, as he puts it.

You ask him to fill out a standard investor profile questionnaire, but he refuses to do so. You offer to fill it out for him, based on his answers to your verbal questions, but he still refuses and calls you a “nibby-nose.” Based on this, you can:

A. allocate the $35,000 any way you choose since you have an uncooperative client.

B. advise him to invest the money in a money market mutual fund instead of holding it as cash.

C. advise him to invest the money in an SandP 500 Index fund.

D. The advice provided in either Choice B or Choice C would be appropriate.

Correct Answer: B

Explanation: If you cannot get any personal information from a client, you cannot legitimately recommend (or execute) an asset allocation for him. You can advise him to invest the money in a money market mutual fund instead of holding it as

cash since this will provide him with a small return on his money. You cannot advise him to invest the money in an SandP 500 Index fund, which would subject him to more risk.

This would be considered an unsuitable recommendation and is in violation of securities’ laws.

QUESTION 5

Any compensation earned by a broker-dealer and its registered representative on the sale of mutual fund shares must be returned to the fund\\'s underwriter if the purchaser decides to redeem his shares within:

A. 30 days.

B. 1 week.

C. 7 business days.

D. 5 business days.

Correct Answer: C

Explanation: Any compensation earned by a broker-dealer and its registered representative on the sale of mutual fund shares must be returned to the fund\\'s underwriter if the purchaser decides to redeem his shares within 7 business days.

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