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 statements regarding closed-end investment companies is false?

A. A closed-end investment company may not issue preferred stock.

B. Shares of a closed-end company may sell for below the fund\\'s net asset value.

C. Closed-end companies may be either diversified or non-diversified.

D. The closed-end investment company does not pay taxes on the dividend and capital gain income it earns and distributes to its shareholders.

Correct Answer: A

Explanation: The false statement is that a closed-end investment company may not issue preferred stock. Although open-end companies (mutual funds) are prohibited from doing so, this is not a restriction governing closed-end companies. Closed-end companies shares sell on exchange floors and may trade below net asset value. Closed-end companies may be either diversified or non-diversified, and the income earned by the company and distributed to its shareholders is not taxed at the investment company level. It is taxed at the shareholder level only.

QUESTION 2

Marge is 57 and wants to retire early. Since she is not yet eligible for social security, she wants to begin tapping a variable annuity to which she has been contributing for the last 20 years.

Which of the following statements regarding her withdrawals is true?

A. There is no way that Marge can begin making withdrawals without facing a 10% penalty for early withdrawal unless she is disabled or needs the money for medical expenses.

B. Marge can begin her withdrawals tax-free and without penalty under IRS rule 72(t) as long as she does so following the specific guidelines until she turns 59 ½, at which point she will no longer have to follow the specific guidelines.

C. Marge can begin her withdrawals tax-free and without penalty under IRS rule 72(t) as long as she does so following the specific guidelines for a period of five years.

D. Marge can begin her withdrawals without penalty under IRS rule 72(t) as long as she does so following the specific guidelines for a period of five years; however, the withdrawals will be subject to taxation.

Correct Answer: D

Explanation: Since Marge is only 57, she can begin her withdrawals without penalty under IRS rule 72(t) as long as she does so following the specific guidelines for a period of 5 years, but the withdrawals will be subject to taxation. Once she starts the program outlined in rule 72(t), she must remain on it for at least five years or until she turns 59 ½, whichever comes last. This means that although she\\'s already 57 and will be turning 59 ½ in 2 ½ years, she will have to continue to follow the guidelines for a full five years, or until she turns 62, in this case.

QUESTION 3

One difference between investing in a variable annuity and in a mutual fund is that:

A. the variable annuity guarantees a minimum rate of return on your investment.

B. the premiums invested in a variable annuity grow tax-deferred.

C. the fees and charges associated with investing in a mutual fund are much higher than those associated with investing in a variable annuity contract.

D. Mutual fund investors have voting rights; owners of variable annuity contracts have no voting rights.

Correct Answer: B

Explanation: A difference between investing in a variable annuity and in a mutual fund is that the premiums invested in a variable annuity grow tax-deferred. The variable annuity contract does not guarantee a minimum rate of return on your investment, and the fees associated with a variable annuity contract are significantly higher than those associated with an investment in a mutual fund. Owners of variable annuity contracts have voting rights, just like mutual fund investors.

QUESTION 4

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 5

Anna Lyst observes that the beta of a certain stock is 0.8. This means that:

A. if the SandP 500 Index loses 10%, this stock can be expected to lose 8%.

B. the stock is 80% more volatile than the SandP 500 Index.

C. if the SandP 500 Index is up 10%, this stock can be expected to lose 8%.

D. the stock is riskier than the overall market.

Correct Answer: A

Explanation: If the beta of a stock is 0.8, it means that if the SandP 500 Index loses 10%, this stock can be expected to lose 8%. Beta is a measure of how a stock or a portfolio of stocks moves with the overall market, and the SandP 500 Index is commonly used as a proxy for the overall market. A beta of 0.8 means that the stock is less risky than the market, which has a beta of 1.0.