

# **FINRA-SERIES-6**<sup>Q&As</sup>

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

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#### **QUESTION 1**

A general decrease in price levels in the economy is referred to as:

- A. disinflation.
- B. stagflation.
- C. recession.
- D. deflation.
- Correct Answer: D

Explanation: A general decrease in price levels in the economy is referred to as deflation. Disinflation refers to a decrease in the rate of inflation, but price levels in general are still rising. Stagflation refers to an economic condition characterized by high levels of inflation and high unemployment levels. A recession is a prolonged decline in the general economy, typically measured by a decline in the nation\\'s gross domestic product (GDP).

#### **QUESTION 2**

Which of the following statements regarding variable life insurance policies is false?

A. Policyholders have voting rights similar to those of mutual fund investors.

B. Most policies have an expense guarantee provision that establishes a firm limit on how much the insurance company can increase administrative charges.

C. Insurance companies are required to give variable life policyholders at least 24 months from the date of purchase to switch to a traditional whole life policy without having to prove insurability.

D. The surrender value of a variable life insurance policy will always be less than its cash value.

Correct Answer: D

Explanation: The false statement regarding variable life insurance policies is that the surrender value of a variable life insurance policy will always be less than its cash value. The surrender value of a variable life insurance policy is its cash value.

#### **QUESTION 3**

As her college graduation present, Jennifer\\'s grandmother gave her 200 shares of the stock of IBM. Her grandmother had purchased the shares for \$54 a share in October 2002, and the stock was selling for \$132 a share on the day of

Jennifer\\'s graduation eight years later. Eight months after her graduation,

Jennifer decides to sell the shares to get money to help with the down payment on a condo she is purchasing.

If IBM is selling for \$125 on the day of the sale, what are the tax consequences of this sale for Jennifer?

A. Jennifer will have taxable income of \$15,600, which will be taxed as long-term capital gain income at a tax-preferred



rate.

B. Jennifer will have taxable income of \$14,200, which will be taxed as long-term capital gain income at a tax-preferred rate.

C. Jennifer will have a loss of \$1,400, which will be treated as a short -term capital loss for tax purposes.

D. Jennifer will have taxable income of \$14,200, which will be taxed as long-term capital gain income at a tax-preferred rate.

Correct Answer: B

Explanation: If Jennifer\\'s grandmother gave her stock that she had purchased for \$54 a share on a day it was selling for \$132, and Jennifer then sold it eight months later for \$125, Jennifer will have taxable income of \$14,200, which will be taxed as long-term capital gain income at a tax-preferred rate. The cost basis of a gift is the price that the donor paid for it --\$54, in this case. Jennifer\\'s gain is, therefore, (\$125 - \$54) x 200 shares = \$14,200. The holding period of the donor also becomes the holding period for the gift\\'s recipient, so the \$14,200 will be treated as long-term capital gain income the stock for eight years prior to gifting it.

## **QUESTION 4**

Which of the following describes a difference between a unit investment trust (UIT) and a mutual fund?

A. UITs have a fixed number of shares; mutual funds do not.

B. UITs are not required to distribute dividends and capital gains to their shareholders as mutual funds must.

C. UITs must hold non-diversified portfolios; mutual funds may be either non-diversified or diversified.

D. All of the above describe differences between a UIT and a mutual fund.

Correct Answer: A

Explanation: The difference between a unit investment trust and a mutual fund is that UITs have a fixed number of shares; mutual funds do not. Both UITs and mutual funds are required to distribute dividends and capital gains to their shareholders and both may invest in either diversified or non -diversified portfolios.

### **QUESTION 5**

Which of the following statements regarding CMOs is false?

A. CMOs are zero-coupon bonds that are backed by real estate.

B. Relative to other bonds, CMOs are illiquid.

C. CMO investors are divided into classes, and the class determines when the investor will receive payments of principal.

D. CMOs are considered to have lower risk and, therefore, offer lower returns.

Correct Answer: A

Explanation: The false statement is that CMOs are zero-coupon bonds that are backed by real estate. CMOs are not



zero-coupon bonds; they make payments that include both interest and principal.

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