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### QUESTION 1

Main Street Capital Corporation (MAIN) is registered as a non-diversified investment company under the Investment Company Act of 1940. Based on this, which of the following statements regarding MAIN are true?

- I. MAIN may not invest more than 5% of its investment monies in any single issuer.
  - II. The net asset value of MAIN's shares is likely to fluctuate more than that of a diversified investment company.
  - III. MAIN's returns are more likely to be affected by any single, specific economic occurrence or regulatory change.
- A.  
I only
- B.  
I and II only
- C.  
II and III only
- D.  
I, II, and III

Correct Answer: C

Explanation: Only Selections II and III are true. Because MAIN is a non-diversified investment company, it may invest more than 5% of its investment monies in a single issuer. This results in less risk diversification, so its net asset value is likely to fluctuate more than that of a diversified investment company. In addition, this means its returns are more likely to be affected by any single, specific economic occurrence or regulatory change.

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### QUESTION 2

Which of the following correctly describes a difference between closed-end and open-end investment companies?

- A. Open-end investment companies have a fixed number of shares; closed-end companies can create new shares if there are more buyers than sellers.
- B. Open-end investment company shares will never be offered at a price below the net asset value per share of the fund; this is not true of closed-end companies.
- C. Open-end companies may invest in non-diversified portfolios; closed-end companies are required to invest only in diversified portfolios.
- D. Shares of open-end companies sell on exchange floors; shares of closed-end companies are bought and sold through the company itself.

Correct Answer: B



Explanation: A difference between closed-end and open-end investment companies is that open-end investment company shares will never be offered at a price below the net asset value of the fund; this is not true of closed-end companies.

The shares of open-end investment companies (mutual funds) are bought (and sold) through the company itself at net asset value or net asset value plus a load charge.

Therefore, the offer price will always be greater than or equal to the fund's net asset value per share.

Closed-end company shares are bought and sold on exchange floors, and the price is set by supply and demand, so closed-end shares may sell for less than the net asset value of the fund. Closed-end companies have a fixed number of

shares. Open-end companies can create new shares if there are more buyers than sellers. Both types of management companies can be either diversified or non-diversified in their holdings.

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### QUESTION 3

Which of the following correctly describes how the holding period of a security is calculated when determining whether its sale will result in a short-term or a long-term capital gain?

- A. The holding period begins the day after the buy order is submitted and ends the day the sell order is submitted.
- B. The holding period begins on the settlement day of the purchase and ends on the settlement day associated with the sale.
- C. The holding period begins on the settlement day of the purchase and ends on the day the sell order is submitted.
- D. The holding period begins on the settlement day of the purchase and ends on the day the sell order is submitted.

Correct Answer: A

Explanation: In determining whether its sale will result in a short-term or long-term capital gain, the holding period of a security begins the day after the buy order is submitted and ends the day the sell order is submitted.

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### QUESTION 4

On Monday, August 2nd, the Board of Directors of Baldor Electric (BEZ) announced that the firm would pay a dividend of \$0.17 a share. Payment will be made on Friday, October 8th to shareholders of record as of Friday, September 17th. In order to receive this dividend check, an investor would have to purchase shares of Baldor Electric before which day?

- A. Monday, August 2nd.
- B. Wednesday, September 15th.
- C. Friday, September 17th.
- D. Friday, October 8th.

Correct Answer: B

Explanation: In order to receive the dividend check, an investor would have to purchase shares of Baldor Electric before Wednesday, September 15th, the ex-dividend date. The ex-dividend date of a stock is two business days prior to the date of record.

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### QUESTION 5

Which of the following would offer an investor the most protection against purchasing power risk?

- A. a stock mutual fund
- B. a government bond fund
- C. a high-yield bond fund
- D. a money market fund

Correct Answer: A

Explanation: A stock mutual fund would offer an investor the most protection against purchasing power risk. Purchasing power risk is the risk that the money received from the investment won't buy as much because of inflation. Stock funds offer higher returns that have historically exceeded the annual rate of inflation, on average. The majority of the return from bond funds is from the fixed interest payment, which does not change regardless of the inflation rate, so the return earned by the investor may end up being less than the inflation rate in any given year. Likewise, money market funds offer very low returns that, in some years, are less than the rate of inflation.

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