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QUESTION 1

Most publicly owned securities are:

- A. listed
- B. over-the-counter
- C. unregistered
- D. exempt from SEC registration requirements

Correct Answer: B

over-the-counter. The OTC market is much larger than any listed markets.

QUESTION 2

In a 401(k) plan, when are employee's contributions of compensation deferral vested?

- A. after 2 years
- B. immediately
- C. after 5 years
- D. the same as the employer's contributions

Correct Answer: B

immediately. The employer's contributions may be subject to a vesting schedule, but the employee's contributions are immediately vested.

QUESTION 3

Under which of the following was SIPC established?

- A. Securities Act of 1933
- B. Securities Exchange Act of 1934
- C. Securities Investor Protection Act of 1970
- D. Securities Exchange Reform Act of 1975

Correct Answer: C

Securities Investor Protection Act of 1970. SIPC was established under this act.



QUESTION 4

Bubba has been classified as a restricted person according to Rule 2790. He may purchase equity securities of an IPO except:

- A. to purchase securities to avoid dilution
- B. when the new issue of securities is purchased pursuant to a stand-by agreement
- C. when the transaction is exempt by an order of the FINRA
- D. when the new issue of securities is purchased pursuant to a best effort basis

Correct Answer: D

when the new issue of securities is purchased pursuant to a best effort basis. All the other choices are allowable under the rule "except" this one.

QUESTION 5

Bubba buys a \$4 convertible preferred with a \$50 par value that is exchangeable for common stock at 47.50. If the preferred stock is trading at 52 and the common stock at 51, Bubba determines that the preferred stock is:

- A. overpriced and will quickly decline
- B. selling at a 4% premium over conversion value
- C. underpriced and should rise quickly
- D. going to be called when the common stock price is \$52

Correct Answer: C

underpriced and should rise quickly. The parity price for the common stock is about \$49.38 - determined as: $50 / 47.50 = 1.053$ $52 / 1.053 = 49.38$ Since the common stock is trading at 51, the preferred is underpriced.

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