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QUESTION 1

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 2

Given the same maturity, which of the following debt instruments would you expect to offer the highest yield-to-maturity?

- A. a debenture issued by Abbott Laboratories
- B. a bond issued by the Federal Home Loan Bank Board
- C. a general obligation bond issued by the state of Massachusetts
- D. a U.S. Treasury bond

Correct Answer: A

Explanation: Given the same maturity, the debenture issued by Abbott Laboratories would be expected to offer the highest yield -to-maturity. It is unsecured debt offered by a corporation and is the riskiest of the four choices. Bonds issued by the U.S. government and by U.S. government agencies are considered to be free of default-risk and would have lower yields to reflect this. The general obligation bond offered by the state of Massachusetts pays interest that is free from federal taxation and will have a lower yield because of this feature.

QUESTION 3

Which of the following statements about specialists is false?

- A. Specialists are market makers in assigned stocks and, as such, can profit from these investments.
- B. Specialists are required to maintain a fair and orderly market in their assigned stocks, meaning that they must buy if there is an excess of sell orders and sell out of their own portfolios if there is an excess of buy orders.
- C. Specialists are employees of the exchange on which they oversee trades.
- D. In addition to acting as market makers, specialists also act as agents and execute limit orders placed by commission brokers for their clients if the specified price is reached.

Correct Answer: C

Explanation: The statement that specialists are employees of the exchange on which they oversee trades is false. Specialists are separate firms that are members of the exchange. Specialists are market makers in the stocks that are assigned them by the exchange and can earn profits (or losses) on these investments, just like any other market maker. They are required to maintain a fair and orderly market in their assigned stocks, however, which means they sometimes must trade against the market. They also maintain a central limit order “book” in their assigned stocks.

QUESTION 4

Mr. Donald is the owner and CEO of Just Ducky Broker-Dealers. His wife, Ms. Daisy, handles all the ministerial duties for the firm. The firm has three other employees. Huey is the municipal bond specialist and handles client trades in municipal securities only; Dewey handles only mutual fund sales for clients; Louie handles all aspects of client trading in stocks, corporate bonds, and options.

Which of the following statements regarding the minimum FINRA registration requirements for these individuals is true?

- A. Mr. Donald, Huey, Dewey and Louie must all be registered as general securities representatives in accordance with FINRA rules.
- B. Mr. Donald, Ms. Daisy, Dewey and Louie must be registered as general securities representatives, and Huey must be registered as a limited securities representative under FINRA rules.
- C. Under FINRA rules, Mr. Donald must register as a principal, Dewey must be registered as a limited securities representative, and Louie must be registered as a general securities representative. Daisy and Huey need not be registered.
- D. Mr. Donald and Ms. Daisy must be registered as principals, and the other three must be registered as general securities representatives under FINRA rules.

Correct Answer: C

Explanation: The true statement regarding FINRA registration requirements for the individuals is that Mr. Donald must register as a principal; Dewey must be registered as a limited securities representative; and Louie must be registered as a general securities representative. Daisy and Huey need not be registered. Mr. Donald is actively involved in the management of Just Ducky and, as such, he must register as a principal. Dewey handles mutual fund sales and, at a minimum, must be licensed as a limited representative. Louie, who executes stock, bond, and option transactions, must be licensed as a general securities representative. Huey is exempt from registration requirements since he trades in municipal securities only. Daisy is exempt since she handles only the ministerial duties of the firm.

QUESTION 5

Joan is a customer of GetErDone Broker-Dealers. Her twin sister, Jean, has accompanied her to GetErDone's office and has gathered some information regarding opening an account with the firm, giving it her contact information at the same time.

Under Regulation S-P, which of the following statements regarding GetErDone's handling of Joan's and Jean's personal information is true?

- A. GetErDone must provide Joan with a notification of its privacy policies annually and provide her with information on how to mandate that it not share her nonpublic personal information with nonaffiliated third parties.
- B. GetErDone can disclose any information that Jean provided them to nonaffiliated third parties since Jean is not a customer of the broker-dealer.
- C. GetErDone is required to have provided Jean with a copy of its privacy policy when she inquired about opening an account with the broker-dealer.
- D. All of the above are true statements.

Correct Answer: A

Explanation: Since Joan is a customer of GetErDone, GetErDone must provide her with a notification of its privacy policies annually and provide her with information on how to mandate that it not share her nonpublic personal information with nonaffiliated third parties. GetErDone may not disclose any information about Jean, who is not yet a customer of the firm, unless the broker-dealer has provided Jean with its privacy policy and given her the opportunity to opt out of its ability to share her information with nonaffiliated third parties. GetErDone is not required to have provided Jean with a copy of its privacy policy when she inquired about opening an account, but it will need to provide her with one when/if she becomes a customer.

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