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 is not a potential advantage associated with investing through a mutual fund?

A. lower cost associated with portfolio management

B. simplified recordkeeping

C. price discovery

D. diversification

Correct Answer: C

Explanation: Price discovery is not a potential advantage associated with investing through a mutual fund. The net asset value of the fund determines its price, not the interaction of buyers and sellers in the market. All the other choices are advantages of investing through a mutual fund.

QUESTION 2

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 3

The MaxCharge fund has a 5% front-end load and a 12b-1 fee that is 0.25% of its average net assets. Under these conditions, any rear-end load, it may have, is limited to:

A. 2.00%.

B. 4.25%.

C. 4.75%.

D. 3.25%.

Correct Answer: D

Explanation: Since the MaxCharge fund has a 5% front-end load and a 12b -1 fee that is 0.25% of its average net assets, any rear-end load, it may have, is limited to 3.25%. The maximum sales charge that is allowed is 8.5%, and this includes the front-end load, rear-end load, and 12b-1 fee. Since MaxCharge has a front-end load and a 12b-1 fee that totals 5.25%, its rear-end load is limited to 8.5% - 5.25% = 3.25%.

QUESTION 4

Which of the following activities are prohibited by FINRA when a representative is selling shares of a mutual fund?

I. recommending that a client purchase shares of a mutual fund prior to its ex-dividend date, so that the client will receive the dividends when they are distributed unless this recommendation is justified by the specific circumstances of the client

II. telling a client that a mutual fund that has only a contingent deferred sales charge is a no load fund

III. telling a client that the interest he earns on a municipal bond fund will be free from federal taxation

IV.

refraining from placing the customer\\'s order promptly in order to profit himself as a result of having done so

A.

I and III only

B.

II and IV only

C.

I, II, and IV only

D.

I, II, III, and IV

Correct Answer: C

Explanation: The activities described in Selections I, II, and IV are prohibited by the FINRA when a representative is selling shares of a mutual fund. Representatives are prohibited from recommending that a client purchase shares of a mutual fund prior to its ex-dividend date, so that the client will receive the dividends when they are distributed-a practice known as “selling dividends”-- unless this recommendation is justified by the specific circumstances of the client; they are prohibited from telling a client that a fund that has only a contingent deferred sales charge is a no load fund; and they are prohibited from withholding an order-i.e., refraining from placing a customer\\'s order promptly--in order to profit themselves as a result of having done so. There is nothing wrong with telling a client that the interest he earns on a municipal bond fund will be free from federal taxation since this is a true statement.

QUESTION 5

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.