

# Practice Exam Questions



SIE

Securities Industry Essentials



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## Total Question: 225 QAs

Question No: 1

A registered principal or registered representative must retake the qualifying exam if his or her registration has been revoked or terminated for a period of \_\_\_\_\_ or more.

- A. 1 year
- B. 2 years
- C. 3 years
- D. 5 years

Answer: B

Explanation: A person whose registration has been terminated or revoked for a period of two years or more must retake the qualifying exam.

Question No: 2

An options contract that gives the holder the right to purchase the number of shares of the underlying security is a \_\_\_\_\_.

- A. Put
- B. Covered
- C. Uncovered
- D. Call

Answer: D

Explanation: A call is an option contract that gives the holder the right to purchase the number of shares of the underlying security. A put is an option contract that gives the holder the right to sell the number of shares of the underlying security. A covered option means that the option writer's obligation is secured by a specific deposit whereas an uncovered option means that the option writer's obligation is not secured.

Question No: 3

What are the three General Telemarketing Requirements?

- A. Time of Day Restriction, State Do-Not-Call List, and National Do-Not-Call List
- B. State Do-Not-Call List, National Do-Not-Call List, and Firm-Specific Do-Not-Call List
- C. Time of Day Restriction, Firm-Specific Do-Not-Call List, and State Do-Not-Call List
- D. Time of Day Restriction, National Do-Not-Call List, and Firm-Specific Do Not Call List

Answer: D

Explanation: The three General Telemarketing Requirements are the Time of Day Restriction, the Firm-Specific Do-Not-Call List and the National Do-Not-Call List.

Question No: 4

Excessive trading in a customer's account for no apparent reason other than to generate commissions is \_\_\_\_\_.

- A. Churning
- B. Rebalancing
- C. Market timing
- D. Front running

Answer: A

Explanation: Churning is excessive trading in a customer's account for no reason other than to generate commissions.

Question No: 5

Which of the following is not a prohibited activity?

- A. Rebalancing
- B. Commingling funds
- C. Guarantees against loss
- D. Spreading market rumors

Answer: A

Explanation: Rebalancing is not a prohibited activity, while commingling funds, guarantees against loss, and spreading market rumors are prohibited.

Question No: 6

Any material for use in any newspaper, magazine, or other public medium, or by radio, television, or telephone recording, is referred to as \_\_\_\_\_.

- A. An advertisement
- B. A market letter
- C. A research report
- D. Sales literature

Answer: A

Explanation: The term advertisement refers to any material for use in any newspaper, magazine, or other public medium, or by radio, television, or telephone recording.

Question No: 7

What is the minimum time period that may be used in material promoting past records of research recommendations in connection with purchases or sales?

- A. Six months
- B. One year
- C. Three years
- D. Five years

Answer: B

Explanation: Material promoting past records of research recommendations, in connection with purchases or sales, must cover at least a one-year time period.

Question: 8

Annual continuing education training provided by member firms is known as\_\_\_\_\_.

- A. Firm Continuing Education
- B. Compliance Training
- C. Firm Element Training
- D. Firm Regulatory Training

Answer: C

Explanation: The annual continuing education training provided by member firms is known as Firm Element

Training.

Question No: 9

Which of the following items does not need to be reported on a U-4?

- A. Bankruptcy
- B. DUI
- C. Medical condition
- D. Address change

Answer: C

Explanation: Medical conditions do not need to be reported on a U-4. A bankruptcy, DUI, and address change must be reported promptly on the registered representative's U-4.

Question No: 10

Which of the following statements are true with respect to options communications that include historical performance?

- A. A Registered Options Principal determines that the records or statistics fairly present the status of the recommendations or transactions reported upon
- B. All relevant costs, including commissions, fees, and daily margin obligations, are disclosed and reflected in the performance
- C. They must state that the results presented should not and cannot be viewed as an indicator of future performance
- D. All of the above

Answer: D

Explanation: All of the statements are true with respect to options communications that include historical performance.

Question No: 11

Which of the following is false regarding collateralized mortgage obligation (CMO) advertisements?

- A. Advertisements may not contain a comparison with any other investment vehicle.
- B. Advertisements may contain comparisons with CDs.
- C. Advertisements must include a description of the initial issue tranche.
- D. Advertisements that contain an anticipated yield must disclose the prepayment assumption used to calculate the yield.

Answer: B

Explanation: CMO advertisements may not contain comparisons with any other investment vehicle, including CDs.

Question No: 12

Which of the following items are required in a research report that contains ratings?

- A. The meaning of each rating must be defined.
- B. The percentage of all securities rated by the member to which the member would assign a "buy," "hold/neutral," or "sell" rating must be disclosed.
- C. The member must disclose the percentage of subject companies within the "buy," "hold/neutral," and "sell" ratings for whom the member has provided investment banking services within the previous 12 months.

D. All of the above.

Answer: D

Explanation: A research report that contains ratings must define the meaning of each rating; the percentage of all securities rated by the member to which the member would assign a "buy," "hold/neutral," or "sell" rating must be disclosed; and the member must disclose the percentage of subject companies within the "buy," "hold/neutral," and "sell" ratings for whom the member has provided investment banking services within the previous 12 months.

Question No: 13

Which of the following written communications is considered a research report?

- A. An email that includes an analysis of equity securities of individual companies
- B. A discussion of broad-based indices
- C. A commentary on economic, political, or market conditions
- D. A technical analysis concerning the demand and supply for a sector, index, or industry based on trading volume and price

Answer: A

Explanation: An email that includes an analysis of equity securities of individual companies is considered a research report. Discussions of broad-based indices, commentaries on economic, political, or market conditions, and a technical analysis concerning the demand and supply for a sector, index, or industry based on trading volume and price are specifically excluded from the definition of a research report.

Question No: 14

What is the limit of SIPC protection if a brokerage firm fails?

- A. \$100,000
- B. \$250,000
- C. \$500,000
- D. \$1,000,000

Answer: C

Explanation: SIPC protects the securities and cash in a brokerage account up to \$500,000 if a brokerage firm fails. The \$500,000 protection includes up to \$250,000 in cash in the brokerage account.

Question No: 15

If a person has made lifetime gifts totaling \$2,000,000 and dies in 2018, what is the amount that will be paid in taxes if the total remaining estate is \$10,000,000?

- A. \$2,400,000
- B. \$2,560,000
- C. \$6,400,000
- D. \$6,570,000

Answer: B

Explanation: If a person has made lifetime gifts totaling \$2,000,000 and dies in 2018, the amount that will be paid in taxes if the total remaining estate is \$10,000,000 is \$2,664,000. (\$5,600,000 - \$2,000,000 = \$3,600,000 remaining exclusion amount; \$10,000,000 - \$3,600,000 = \$6,400,000 taxable amount; \$6,400,000 x 40 percent = \$2,560,000.)

Question No: 16

What is the cost basis of securities received as an inheritance?

- A. The current market price at the time the securities are received by the heir
- B. The purchase price of the securities when they were originally bought
- C. The average of the high and the low prices on the date of death
- D. The average of the high and low prices on the date of the original purchase

Answer: C

Explanation: The cost basis of securities received as an inheritance is the average of the high and the low prices on the date of death.

Question No: 17

Which of the following securities are exempt from registration under the Securities Act of 1933?

- A. Common stock
- B. Municipal bond
- C. Corporate bond
- D. Preferred stock

Answer: B

Explanation: A municipal bond is exempt from registration under the Securities Act of 1933. Common stock, preferred stock, and corporate bonds are required to be registered.

Question No: 18

\_\_\_\_\_ has the power to register, regulate, and oversee brokerage firms, transfer agents, and clearing agencies as well as SROs.

- A. NASD
- B. FINRA
- C. SEC
- D. MSRB

Answer: C

Explanation: The SEC has the power to register, regulate, and oversee brokerage firms, transfer agents, and clearing agencies as well as SROs.

Question No: 19

Which of the following item(s) can affect an investor's risk tolerance?

- A. Age
- B. Time frame
- C. Personal experience
- D. All of the above

Answer: D

Explanation: Age, time frame, and personal experience can all affect an investor's risk tolerance.

Question No: 20

Which of the following investments would not be considered appropriate for an investor with an objective of current income?

- A. Growth stock

- B. Municipal bond
- C. Corporate bond
- D. Utility stock

Answer: A

Explanation: A growth stock would not be considered appropriate for an investor with an objective of current income.

Question No: 21

What is the tax advantage of owning municipal bonds?

- A. No federal taxes
- B. No state taxes regardless of your state of residence
- C. No state taxes if the municipality is in your state of residence
- D. Both A and C

Answer: D

Explanation: The tax advantage of owning municipal bonds is that they are not subject to federal taxes and also avoid state taxes if the municipality is in the investor's state of residence.

Question No: 22

\_\_\_\_\_ is the process of buying investment vehicles that have a high degree of uncertainty regarding their future value and expected earnings.

- A. Speculation
- B. Hedging
- C. Gambling
- D. Risk aversion

Answer: A

Explanation: Speculation is the process of buying investment vehicles that have a high degree of uncertainty regarding their future value and expected earnings.

Question No: 23

Which of the following scenarios would be considered an unsuitable recommendation?

- A. Recommending a CD purchase to an elderly risk-averse investor
- B. Recommending a common stock to a 30-year-old with a growth objective
- C. Recommending a speculative stock to a recently retired investor who is risk averse
- D. Recommending a growth stock mutual fund to a 30-year-old investor with a growth objective

Answer: C

Explanation: Recommending a speculative stock to a recently retired investor who is risk averse would be considered an unsuitable recommendation.

Question No: 24

If a registered representative receives a customer complaint, what should he or she do first?

- A. Try to handle the customer by himself or herself
- B. Notify the branch manager or designated compliance individual
- C. Notify the Chief Compliance Officer of the broker-dealer
- D. Nothing

Answer: B

Explanation: If a registered representative (RR) receives a customer complaint, the first thing he or she should do is notify the branch manager or designated compliance individual.

Question No: 25

Which of the following investments would be most suitable for a young investor who can only invest a small amount each month?

- A. Common stock
- B. Corporate bond
- C. Options
- D. Mutual fund

Answer: D

Explanation: A mutual fund would be the most suitable investment for a young investor who can only invest a small amount each month.

Question No: 26

A corporate bond would be least suitable for which of the following investors?

- A. A 25-year-old interested in speculative investments
- B. A 25-year-old with an investment objective of growth and income
- C. A retired individual with an investment objective of growth and income
- D. A retired individual with an investment objective of income

Answer: A

Explanation: A corporate bond would be least suitable for a 25-year-old interested in speculative investments.

Question No: 27

In a community property state, how are assets divided between a husband and wife in a divorce?

- A. 100 percent belongs to the husband
- B. 100 percent belongs to the wife
- C. 50 percent belong to the husband and 50 percent belong to the wife
- D. 100 percent of the assets must remain jointly owned

Answer: C

Explanation: In a community property state, when a husband and wife divorce the assets are divided so that 50 percent belong to the husband and 50 percent belong to the wife.

Question No: 28

Which of the following documents may be used to give a third party trading authorization on an account?

- A. POA
- B. TOD
- C. Stock power
- D. Account agreement

Answer: A

Explanation: A POA (power of attorney) document may be used to give a third party trading authorization on an account.



Question No: 29

Which of the following information is not required as part of the requirement to know your customer?

- A. Occupation and employer
- B. Investment experience
- C. Legal address
- D. Level of education

Answer: D

Explanation: A customer's level of education is not required as part of the requirement to know your customer (KYC).

Question No: 30

After what event was the USA PATRIOT Act created?

- A. The attack on the World Trade Center on September 11, 2001
- B. The attack on Pearl Harbor on December 7, 1941
- C. The bombing of the World Trade Center on February 26, 1993
- D. Boston Marathon terror attack on April 15, 2013

Answer: A

Explanation: The USA PATRIOT Act was enacted after the attack on the World Trade Center on September 11, 2001.

Question No: 31

All of the following are true regarding a suspicious activity report (SAR) except:

- A. The deadline to file a SAR is 30 calendar days after becoming aware of any suspicious transaction or pattern of suspicious transactions or activities.
- B. You are protected from civil liability when you report suspicious activity.
- C. You are only required to file a SAR if you believe the activity is suspicious and involves \$2,000 or more.
- D. You must tell the person involved in the transaction that a SAR has been filed.

Answer: D

Explanation: It is illegal to tell the person involved in the transaction that a SAR has been filed. The other three statements are true. The deadline to file a SAR is 30 calendar days after becoming aware of any suspicious transaction or pattern of suspicious transactions or activities. You are protected from civil liability when you report suspicious activity. You are only required to file a SAR if you believe the activity is suspicious and involves \$2,000 or more.

Question No: 32

A type of mutual fund or unit investment trust (UIT) whose investment objective is to achieve approximately the same return as a specific market index, such as the S&P 500, is called a(n) \_\_\_\_\_.

- A. Value fund
- B. Index fund
- C. Balanced fund
- D. Growth fund

Answer: B

Explanation: A type of mutual fund or unit investment trust (UIT) whose investment objective is to achieve approximately the same return as a specific market index, such as the S&P 500, is called an index fund.

Question No: 33

Unsystematic risk is also known as \_\_\_\_\_.

- A. Market risk
- B. Purchasing power risk
- C. Credit risk
- D. Diversifiable risk

Answer: D

Explanation: Unsystematic risk is also known as diversifiable risk. It results from random events such as labor strikes or lawsuits and affects various investment vehicles differently. It is this type of risk that can be eliminated through diversification.

Question: 34

The risk that a security will be redeemed prior to its maturity date is known as \_\_\_\_\_.

- A. Market risk
- B. Call risk
- C. Event risk
- D. Systematic risk

Answer: B

Explanation: The risk that a security will be redeemed prior to its maturity date is known as call risk.

Question No: 35

What type of bonds are high-risk securities that have received low ratings and produce high yields?

- A. Junk bonds
- B. Municipal bonds
- C. Junior bonds
- D. Preferred bonds

Answer: A

Explanation: Junk bonds (also called high yield bonds) are high-risk securities that have received low ratings and produce high yields.

Question No: 36

What is another name for an unrealized gain?

- A. Paper profit
- B. Capital gain
- C. Capital loss
- D. Hypothetical gain

Answer: A

Explanation: Paper profit is another name for an unrealized gain. A capital gain is a realized gain.

Question No: 37

If a company declares a 3:2 stock split, how many additional shares will an investor with 200 shares receive?

- A. 100 shares
- B. 200 shares