

Practice Exam Questions



Series 65

Uniform Investment Adviser Law



EXAMAIDES

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Total Question: 628 QAs

Question No: 1

In what year was the SEC created?

- A. 1919
- B. 1929
- C. 1933
- D. 1934

Answer: D

Question No: 2

If a country exports more than it imports, it is best described as a(n):

- A. trade deficit
- B. export advantage
- C. trade surplus
- D. export imbalance

Answer: C

Explanation: If a country exports more than it imports then there would be a trade surplus. When our dollar weakens, our exports are more attractive because suddenly their strong currencies can buy lots of products or services at a better value.

Question No: 3

All of the following are examples of monetary policy to stimulate the economy EXCEPT:

- A. expansion of the money supply
- B. purchases of government securities
- C. increases in the discount rate
- D. reductions in the reserve ratio

Answer: C

Explanation: Monetary policy is a tool used by central banks to stimulate the economy. There would be decreases in the discount rate, not increases. Central banks stimulate the economy during a recession by expanding the money supply, lowering interest rates and borrowing costs, all to boost consumption and investment.

Question No: 4

Widely used coincident indicators include all of the following EXCEPT:

- A. nonagricultural employment
- B. industrial production
- C. index of consumer expectations
- D. manufacturing and trade sales in constant dollars

Answer: C

Explanation: Index of consumer expectations is a leading economic indicator, not a coincident or current indicator. A coincident, or current, indicator is an economic measurement that changes directly and simultaneously with the business cycle.

Question No: 5

Which of the following will reduce the purchasing power of the dollar and result in higher prices for goods and services?

- A. deflation
- B. a falling consumer price index
- C. inflation
- D. disintermediation

Answer: C

Explanation: Inflation will eat away at the purchasing power of the dollar and results in higher prices for goods and services. It is the result of too many dollars chasing a limited supply of goods and services.

Question No: 6

Which is not a stage of the business cycle?

- A. expansion
- B. pivotal
- C. trough
- D. peak

Answer: B

Explanation: Pivotal stage is not part of the business cycle. The business cycle has four distinct stages: expansion, peak, contraction, and trough. Periods of increasing output are always followed by periods of falling output.

Question No: 7

The balance sheet does not indicate:

- A. whether the company's business is improving or deteriorating
- B. determining a company's current value
- C. assets in order of liquidity
- D. three types of assets

Answer: A

Explanation: The balance sheet does not indicate whether the company's business is improving or deteriorating. The balance sheet gets its name from the fact that its two sides must balance. Everything that is owned minus everything that is owed is equal to the net worth of the entity.

Question No: 8

Because of the time value of money, a dollar earned in the future:

- A. will be worth more than a dollar earned today
- B. will have an unknown worth
- C. won't be worth as much as the dollar earned today
- D. will have the same worth as today

Answer: C

Explanation: The time value of money means that people would prefer to have a dollar today rather than a dollar at some time in the future. Since money can earn interest, it will make the most money the sooner it is invested. A dollar earned in the future, therefore, won't be worth as much as the dollar earned today.

Question No: 9

A balance sheet does not include a:

- A. statement of a company's assets
- B. statement of a company's liabilities
- C. statement of a company's revenue and profits
- D. statement of a company's stockholder's equity

Answer: C

Explanation: The balance sheet is a snapshot of a particular point in time, and expresses the overall health of a company. The income sheet on the other hand, reports a company's revenues and profits over a period of time. A balance sheet is said to be balanced when its assets equal its liabilities plus its owner's equity.

Question No: 10

In a set of results where there is an "outlier," statisticians prefer to use which method of central tendency?

- A. median
- B. mode
- C. mean
- D. take out the "outlier" and find the mean

Answer: A

Explanation: Statisticians prefer to use the median over the mean or mode in the case of an "outlier". When there is a set of results where one number may skew the mean, the best measure is to use the median.

Question No: 11

Which operating risk generally is caused by poor management decisions, such as failing to pay attention the success of another company?

- A. financial risk
- B. business risk
- C. market risk
- D. opportunity risk

Answer: B

Explanation: Business risk would be considered to be caused by poor management decisions. It includes the risk of competition or the "risk of obsolescence", which is the risk that a company's products/services suddenly become obsolete.

Question No: 12

The rate that the most creditworthy corporate customers pay when borrowing through unsecured loans is the:

- A. discount rate
- B. prime rate
- C. fed funds rate
- D. broker call loan rate

Answer: B

Explanation: The rate that the most creditworthy corporate customers pay is the prime rate. The discount rate is what banks pay when borrowing from the Federal Reserve. Fed funds rate is the overnight loans in

excess of \$1 million that banks pay. Broker call loan rate is what broker-dealers pay when borrowing on behalf of their margin customers.

Question No: 13

Which ratio best describes the efficiency of a company's operating cycle or its ability to turn its product into cash?

- A. quick ratio
- B. current ratio
- C. cash ratio
- D. liquid ratio

Answer: B

Explanation: The current ratio equals current assets divided by current liabilities. The higher the ratio, the more liquid the company is.

Question No: 14

Which of the following types of risks can be mitigated through diversification?

- A. unsystematic risk
- B. diversifiable risk
- C. specific risk
- D. residual risk

Answer: A

Explanation: Unsystematic risk can be minimized through portfolio diversification. Unsystematic risks are risks that are unique to the specific industry or business enterprise. Primary examples would include business risk and financial risk.

Question No: 15

A stock that provides a constant dividend and stable earnings regardless of the state of the overall stock market is what type of stock?

- A. high beta
- B. defense
- C. constant
- D. defensive

Answer: D

Explanation: A defensive stock is a low beta stock that is more stable than average and provides a safe return on an investor's money. When the stock market is weak, defensive securities tend to decline less than the overall market. This is not to be confused with a "defense stock", which refers to stock in companies which manufacture things like weapons, ammunition and fighter jets.

Question No: 16

A debt obligation of the corporation backed only by its word and general creditworthiness is which of the following?

- A. senior bond
- B. debenture
- C. subordinated bond

D. collateral trust bond

Answer: B

Explanation: A debenture is a debt obligation of the corporation backed only by its word and general creditworthiness. Debentures are written promises of the corporation to pay the principal at its due date and interest on a regular basis. Debentures are not secured by any pledge of property.

Question No: 17

A business venture designed to let investors participate directly in the cash flow and tax benefits of the underlying investment is which of the following?

- A. membership program
- B. direct participation program
- C. associated participation
- D. affiliated investment

Answer: B

Explanation: A direct participation program (DPP) is a business venture designed to let investors participate directly in the cash flow and tax benefits of the underlying investment. DPPs are generally passive investments that invest in real estate or energy-related ventures.

Question No: 18

Stock whose dividends accumulate if not paid is which of the following?

- A. noncumulative common stock
- B. cumulative preferred stock
- C. noncumulative preferred stock
- D. cumulative common stock

Answer: B

Explanation: Cumulative preferred stock is preferred stock whose dividends accumulate (accrue) if not paid. Any omitted dividends have to be paid in the future before any dividends may be paid to the holders of the common stock. Most preferred stock is cumulative.

Question No: 19

FDIC insurance covers all types of deposits received at insured banks. This includes all but which of the following?

- A. checking accounts
- B. savings accounts
- C. money market demand accounts
- D. money market mutual funds

Answer: D

Explanation: FDIC insurance covers all types of deposits received at insured banks, including: checking accounts and savings accounts; negotiable order of withdrawal (NOW) accounts; money market demand accounts (MMDAs); and time deposits such as a certificate of deposit (CD); not money market mutual funds. The standard FDIC insured amount is \$250,000 per depositor, per insured bank, for each type of account.

Question No: 20

Which of the following is NOT a reason why you would include preferred stock in a client's portfolio?

- A. fixed income from dividends
- B. prior claim ahead of common stock
- C. protection against inflation
- D. convertible preferred sacrifices income in exchange for potential appreciation

Answer: C

Explanation: As a fixed income security, preferred stock has no inflation protection. This is a risk of owning preferred stock. There is also market risk, possible loss of purchasing power, and interest rate risk, among others.

Question No: 21

Which of the following statements about employee stock options (ESOs) is not accurate?

- A. ESOs carry the right to buy, but not a responsibility to buy shares in the company at a predetermined price.
- B. An ESO is a stock option granted to specified employees of a company.
- C. An ESO is the same as a regular exchange-traded option.
- D. Employees usually must wait a specified vesting period before being allowed to exercise the option.

Answer: C

Explanation: This is not accurate. An ESO is slightly different from a regular exchange-traded option. It is not generally traded on an exchange; and there is no put component.

Question No: 22

An investment company that offers a fixed, unmanaged portfolio, generally of stocks and bonds, as redeemable components to investors for a specific period of time is a(n):

- A. mutual fund
- B. closed-end fund
- C. unit investment trust
- D. living trust

Answer: C

Explanation: A unit investment trust is an investment company that offers a fixed, unmanaged portfolio, generally of stocks and bonds, as redeemable components to investors for a specific period of time. It is designed to provide capital appreciation and/or dividend income. Unit investment trusts are one of three types of investment companies; the other two are mutual funds and closed-end funds.

Question No: 23

The contract that establishes a price and time frame for the purchase or sale of a particular security is which of the following?

- A. warrant
- B. option
- C. preemptive right
- D. callable bond

Answer: B

Explanation: An option is a contract that establishes a price and time frame for the purchase or sale of a particular security. Two parties are involved in the contract: one party receives the right to exercise the contract to buy or sell the underlying security; the other is obligated to fulfill the terms of the contract.

Question No: 24

The most common oil and gas sharing arrangement is which of the following?

- A. functional allocation
- B. reversionary working interest
- C. net operation profits
- D. carried interest

Answer: A

Explanation: Functional allocation is the most common sharing arrangement. The limited partners receive the deductions for the intangible drilling costs and the general partner receives property write-offs. The revenue is shared between the limited and general partners.

Question No: 25

Which of the following is not classified as a qualified retirement plan?

- A. deferred compensation plan
- B. 401K
- C. thrift plan
- D. stock bonus plan

Answer: A

Explanation: A deferred compensation plan is a nonqualified retirement plan. Nonqualified corporate plans are funded with after-tax dollars, and the money is allowed to grow tax deferred.

Question No: 26

Which of the following characteristics is associated with a closed-end investment company as opposed to an open-end investment company?

- A. unlimited capitalization
- B. full or fractional shares
- C. must redeem shares
- D. single offering of shares

Answer: D

Explanation: A single offering of shares is the only choice characteristic of a closed-end investment company. All of the other choices are characteristics of open-end investment companies.

Question No: 27

In terms of bonds, the annual income divided by the current price of the security is known as which of the following?

- A. cash inflow ratio
- B. current yield
- C. predicted yield
- D. predicted ratio

Answer: B

Explanation: Current yield is the annual income (interest or dividends) divided by the current price of the security. This measure looks at the current price of a bond instead of its face value and represents the return an investor would expect if he or she purchased the bond and held it for a year. This measure is not an

accurate reflection of the actual return that an investor will receive in all cases because bond and stock prices are constantly changing due to market factors. It is also referred to as "bond yield", or "dividend yield" for stocks.

Question No: 28

There are two main reasons why an investor would use options. They are:

- A. to speculate and to hedge
- B. to speculate and for security
- C. for security and to hedge
- D. for growth and to hedge

Answer: A

Explanation: Speculation is the area in which the big money is made - and lost. The use of options in this manner is the reason options have the reputation of being risky. The other function of options is hedging. This involves using options to insure your investments against a downturn.

Question No: 29

Each of the following is a characteristic of a U.S. Treasury bond EXCEPT:

- A. It pays semiannual interest as a percentage of the stated par value.
- B. It matures at par value.
- C. It has an intermediate maturity rate.
- D. Older bonds are usually callable at par beginning 25 years after issue.

Answer: C

Explanation: U.S. Treasury bonds have a long-term maturity, generally 10 – 30 years. U.S. Treasury notes have intermediate maturities.

Question No: 30

For investors who seek capital appreciation over time and are not seeking any current income, which of the following are investments that would achieve this goal?

- A. common stocks and collateralized mortgage obligations
- B. common stocks and common stock funds
- C. collateralized mortgage obligations
- D. money market funds and common stock funds

Answer: B

Explanation: Investors who seek capital appreciation over time want their money to grow in value and are not seeking any current income would benefit from common stocks and common stock funds. For those who seek liquidity, collateralized mortgage obligations and money market funds would be suggested.

Question No: 31

Treasury bills range in maturity from:

- A. 4 to 52 weeks
- B. 4 to 26 weeks
- C. 1 to 52 weeks
- D. 26 to 52 weeks

Answer: A

Explanation: Treasury bills range in maturity from 4 – 52 weeks. They are auctioned off by the Treasury Department through a weekly competitive auction. The Treasury awards the bills to the bidders who submitted the highest bid and works its way down to lower bids until all of the bills are sold.

Question No: 32

When the current price of a security is higher than the price that the investor paid for the security this is known as a(n):

- A. unrealized gain
- B. wash
- C. realized gain
- D. offsetting gain

Answer: A

Explanation: Unrealized gain occurs when the current price of a security is higher than the price that the investor paid for the security. Many investors calculate the current value of their investment portfolios based on unrealized values. In general, capital gains are taxed only when they become realized.

Question No: 33

Which of the following ratios would you use to determine risk of bankruptcy?

- A. acid test ratio
- B. working capital ratio
- C. current ratio
- D. debt to equity ratio

Answer: D

Explanation: The debt to equity ratio is used to determine risk of bankruptcy. A high debt to equity ratio generally means that a company has been aggressive in financing its growth with debt. This can result in volatile earnings as a result of the additional interest expense. The cost of this debt financing may outweigh the return that the company generates on the debt through investment and business activities and become too much for the company to handle. This can lead to bankruptcy, which would leave shareholders with nothing.

Question No: 34

There are certain calculations associated with variable life insurance policies. Separate account unit values are calculated how often?

- A. annually
- B. semi-annually
- C. monthly
- D. daily

Answer: C

Explanation: Separate account unit values are calculated daily in the event there is a withdrawal of cash value. Death benefits are calculated annually. Cash value is calculated monthly.

Question No: 35

When the registration of securities is made in a broker's name instead of in the buyer's name it is known as which of the following?

- A. street name
- B. alias
- C. broker name
- D. account name

Answer: A

Explanation: The street name is the registration of securities in a broker's name instead of in the buyer's name. This happens when the investor decides to leave the securities with the broker. The broker becomes the custodian of the securities, is responsible for them and sends a monthly statement of the securities that are being held in the street name to the investor.

Question No: 36

The amount of an individual's income that is left for investing or saving after taxes and personal necessities have been paid is which of the following?

- A. gross income
- B. net income
- C. discretionary income
- D. marginal income

Answer: C

Explanation: Discretionary income is the amount of an individual's income that is left for spending, investing or saving after taxes and personal necessities (such as food, shelter, and clothing) have been paid. Discretionary income includes money spent on luxury items, vacations and non-essential goods and services.

Question No: 37

Making an investment to reduce the risk of adverse price movements is a(n):

- A. option
- B. risk
- C. hedge
- D. security

Answer: C

Explanation: A hedge is making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract. An example of a hedge would be if you owned a stock, then sold a futures contract stating that you will sell your stock at a set price, therefore avoiding market fluctuations. Investors use this strategy when they are unsure of what the market will do.

Question No: 38

For investors who have a goal of seeking tax advantages, which of the following might be recommended?

- A. municipal bonds and small cap stocks
- B. money market funds and municipal bond funds
- C. small cap stocks and money market funds
- D. municipal bonds and municipal bond funds

Answer: D

Explanation: For investors seeking tax advantages, the only two possible recommendations are municipal bonds and municipal bond funds. A municipal bond is a debt security issued by a state, municipality or

county to finance its capital expenditures. Municipal bonds are exempt from federal taxes and from most state and local taxes, especially if you live in the state in which the bond is issued.

Question No: 39

All of the following statements about an account held as joint tenants with right of survivorship (JTWROS) are accurate EXCEPT:

- A. JTWROS ownership stipulates that a deceased tenant's interest in the account passes to the surviving tenant or tenants.
- B. Upon the death of any account owners, account ownership passes to the survivors.
- C. Upon the incompetency of any account owner, a right of succession occurs and the other parties become sole owners of the account.
- D. Each JTWROS account owner has a limited ownership in the cash and securities in the account.

Answer: D

Explanation: The statement that each JTWROS account owner has a limited ownership in the cash and securities in the account is not accurate. Regardless of contributions, each JTWROS account owner has an equal and undivided interest in the cash and securities in the account

Question No: 40

The formula method of investing that attempts to maintain a fixed dollar amount in a specific asset class is which of the following?

- A. constant ratio plan
- B. constant dollar plan
- C. tactical allocation plan
- D. perpetual investment plan

Answer: B

Explanation: The formula method of investing that attempts to maintain a fixed dollar amount in a specific asset class is the constant dollar plan. Periodically, the account is reviewed and the specified asset class is either sold or purchased in order to get to the fixed dollar level.

Question No: 41

The ratios computed to analyze the financial position of a firm can be computed and interpreted from different viewpoints. The analysis of several firms in the same industry at a point in time is which of the following?

- A. maxi-analysis
- B. cross sectional analysis
- C. multi-analysis
- D. time series analysis

Answer: B

Explanation: A cross sectional analysis is an analysis of several firms in the same industry at a point in time. A time series analysis is the analysis of one firm over a period of time.

Question No: 42

Of the following choices which investment is the most liquid?

- A. money market fund

- B. real estate
- C. direct participation programs
- D. CMOs

Answer: A

Explanation: Investors who need immediate access to their money need to own liquid investments that will not fluctuate wildly in value, in case they need to use the money. Of the choices, money market funds are the most liquid; real estate is the least liquid.

Question No: 43

In terms of classification of trusts, which of the following statements is least accurate?

- A. In a testamentary trust, the settlor retains control over the assets until he or she dies.
- B. A revocable trust must be a living trust.
- C. For a trust to be considered irrevocable, the settlor must give up the majority of ownership in property transferred into the trust.
- D. An inter vivos trust is established during the maker's lifetime rather than at the maker's death.

Answer: C

Explanation: For a trust to be considered irrevocable, the settlor must give up all ownership in property transferred into the trust. Property placed in an irrevocable trust is usually not includable in the trustor's estate for federal estate tax purposes.

Question No: 44

A bond issued without the owner's name being registered is a:

- A. banker's bond
- B. anticipation note bond
- C. ratio bond
- D. bearer bond

Answer: D

Explanation: A bearer bond is a fixed-income instrument that is owned by whoever is holding it, rather than having a registered owner. Coupons representing interest payments are likely to be physically attached to the security and it is the bondholder's responsibility to submit the coupons for payment. As with registered bonds, bearer bonds are negotiable instruments with a stated maturity date and coupon interest rate.

Question No: 45

If an investor donates securities to a charity, he will receive a tax deduction equal to the value of the securities. How many months must the investor hold the securities so as to not owe any taxes on the appreciation?

- A. 6 months
- B. 9 months
- C. 12 months
- D. 18 months

Answer: C

Explanation: If the investor has an unrealized gain and has held the securities for more than 12 months, the investor will not owe any taxes on the appreciation. If the securities were held less than 12 months, the investor will be responsible for taxes on the appreciation. The recipient's cost base will be equal to the value

of the securities on the day they received the gift.

Question No: 46

When a donor makes a gift of securities, the cost basis to the recipient is known by which of the following terms?

- A. gift basis
- B. donor's basis
- C. carryover basis
- D. average basis

Answer: C

Explanation: When a donor makes a gift of securities, the cost basis to the recipient is called the carryover basis. The carryover basis is the same as the donor's cost basis.

Question No: 47

The part of the Federal Reserve that establishes and executes monetary policy is which of the following?

- A. district bank
- B. Federal Open Market Committee
- C. SEC
- D. Board of Governors

Answer: B

Explanation: The Federal Open Market Committee is the part of the Federal Reserve that establishes and executes monetary policy. It has control over open market operations. The committee consists of the seven members of the Board of Governors and five presidents of the district banks.

Question No: 48

Treasury stock exists when a company buys back its own shares of stock without reissuing them or canceling them. When a company repurchases its own stock, it results in which of the following for net assets and stockholders' equity?

- A. a fluctuation
- B. a decrease
- C. an increase
- D. no change

Answer: B

Explanation: When a company repurchases its own stock, net assets and stockholders' equity decrease because the company used assets, generally cash, to repurchase the stock.

Question No: 49

The difference between what somebody owns and what he owes is known as his:

- A. assets
- B. liabilities
- C. net worth
- D. reserved earnings

Answer: C

Explanation: The difference between what somebody owns and what he owes is known as his net worth. Assets would include home, automobiles, personal possession, investments, savings, and checking accounts. Liabilities would include mortgages and other loan balance.

Question No: 50

Investors who have been accumulating shares through multiple purchases must determine their cost base at the time of sale through all but which of the following methods?

- A. wash sale
- B. FIFO
- C. share identification
- D. average cost

Answer: A

Explanation: A wash sale is not a method of determining the cost base of shares obtained through multiple purchases, as are the other three choices. A wash sale is the sale of a security at a loss and the subsequent repurchase of that security or of a security that is substantially the same within 30 days of the sale. The repurchase disallows the claim of the loss for tax purposes.

Question No: 51

Which of the following statements about gift taxes is not accurate?

- A. If a gift is in excess of the limit (\$14,000 for 2105), the donor owes gift tax.
- B. The donor's cost base will transfer to the recipient for tax purposes.
- C. Individuals may give gifts up to a certain amount (\$14,000 for 2015) without incurring any tax liability.
- D. If a gift is in excess of the limit (\$14,000 for 2105), the donor owes gift tax. When gifts are made to family members or other individuals, the donor receives a tax deduction.

Answer:

If a gift is in excess of the limit (\$14,000 for 2105), the donor owes gift tax. When gifts are made to family members or other individuals, the donor receives a tax deduction.

Explanation: This is not accurate. When gifts are made to family members or other individuals, the donor does not receive a tax deduction. A husband and wife may give up to double the limit (\$28,000 in 2015) per year per donee. The IRS considers half of the gift to be coming from each spouse.

Question No: 52

When an account is held as tenants in common, if one party dies, what happens to the assets of that deceased party?

- A. they become the property of the other tenant.
- B. They are held in escrow.
- C. They go to the deceased party's estate.
- D. They go to the immediate family of the deceased.

Answer: C

Explanation: In a joint account that is established as tenants in common, If one party dies, all the assets of the tenant who has died become the property of the decedent's estate. They do not become the property of the surviving tenant.

Question No: 53