

Series 99 Practice Test

1. An investor owns 75 shares of 7 percent preferred stock in company TRJ. What would be the annual income on this investor's investment?

- a. \$7
- b. \$5,250
- c. \$525
- d. \$52,500

2. Which of the following is NOT true of a stock dividend?

- a. stock price of an individual share will increase in order to reflect the increase in the number of outstanding shares
- b. utilized by a company that wants to provide a reward to its shareholders without consuming cash
- c. investors will receive a number of additional shares based on the number currently owned prior to the dividend
- d. overall market value is unchanged after distribution of it

3. Which of the following describes a situation that would motivate a corporation to repurchase its own shares?

- a. it would like to fund an acquisition with the shares
- b. it is seeking to retain control over the company
- c. it is making an effort to cause an increase in the company's earnings per share
- d. all of the above

4. Corporation MDS provides its shareholders with a quarterly dividend of \$1.50. Given a current market price of \$32.50, what would the current yield of this stock be?

- a. 18.5 percent
- b. 4.6 percent
- c. 21.7 percent
- d. 5.4 percent

5. An investor owns DSY 5 percent convertible preferred stock and would like to convert it into DSY common stock at a conversion price of \$5 per share. How many shares of DSY common stock will this investor receive once converted?

- a. 100
- b. 1
- c. 20
- d. none of the above

6. Which of the following is NOT true of the book value of a corporation?

- a. dividing a company's book value amount by the number of its outstanding common shares will result in a per-share book value
- b. calculated by adding a company's assets and its liabilities together
- c. defined as a company's liquidation value
- d. all of the above are true

7. Which of the following is NOT true regarding the rights of stockholders?

- a. afforded the right to the company's residual assets post-bankruptcy, in an amount that's proportional to their investment in the company
- b. afforded the right of inspection of the books and records of the company for which they own shares
- c. afforded the right to be provided with a complete list of the company's shareholders
- d. afforded the right to have access to portions of the company's confidential financial information

8. An investor owns 1,500 shares of HPE. The company will be paying a 3 percent stock dividend to all of its shareholders. How many more shares of HPE will this investor own as a result?

- a. 5
- b. 450
- c. 45
- d. unknown, need more information to determine

9. Preferred stock:

- I. has no maturity date
 - II. is always nonvoting
 - III. provides for a priority claim over common stockholders for dividend distribution
 - IV. is interest rate sensitive
- a. I. and III.
 - b. I., III., and IV.
 - c. I., II., III., and IV.
 - d. I., II., and III.

10. Which of the following are TRUE of equity?

- I. at the point of maturity, the investor will receive its investment amount back
 - II. represents ownership in the company that issues it
 - III. creates a creditor relationship between the investor and the issuing corporation
 - IV. provides a means for a corporation to raise capital
- a. II. only
 - b. III. and IV.
 - c. II. and IV.
 - d. II., III., and IV.

11. Which of the following is NOT true of callable preferred stock?

- a. shares may be called during a rate decline in order to then sell new preferred shares with a lower fixed dividend rate
- b. most often the shares are called at a premium to par
- c. call protection provides for some delay past issuance in which the shares cannot be called by the company
- d. the call feature is designed to benefit primarily the investor, not the company

12. An investor owns 250 shares of LYT at an original purchase price of \$55.50 per share. Exactly one year later, he decides to sell all 250 shares at a current market price of \$74.50. What would be the total profit that this investor would realize on this transaction?

- a. \$19.00
- b. \$4,750
- c. \$5,000
- d. \$18.50

13. All of the following are true of preferred stock EXCEPT:

- a. provides for payment of semiannual dividends
- b. represents ownership in the company
- c. dividend is set at a fixed rate
- d. company is not obligated to pay dividends to preferred stockholders

14. Stock that has been sold to investors and then purchased back by the issuing corporation is:

- a. treasury stock
- b. outstanding stock
- c. authorized stock
- d. issued stock

15. Which of the following is/are TRUE of a shareholder's preemptive right in relation to a rights offering?

- I. rights may be sold to another investor interested in buying newly offered shares
 - II. the shareholder possesses the right to purchase newly offered shares at a discount
 - III. subscription price remains fixed for 35 days
 - IV. rights to purchase may be exercised by submitting payment and rights for shares
- a. I., II., III., and IV.
 - b. I. and III.
 - c. I., II., and IV.
 - d. II. and IV.

16. Which of the following is NOT considered a type of security?

- a. bond
- b. fixed annuity
- c. mutual fund
- d. variable annuity

17. An investor owns 100 shares of 6 percent cumulative preferred stock in company RTS. The company has not paid dividends this year and for the past two years. How much is this investor owed in accumulated unpaid dividends?

- a. \$1,200
- b. \$6,000
- c. \$1,800
- d. \$180

18. An investor owns 650 shares of corporation PPG. There is an upcoming election in which this investor will be casting his vote. The election is for two of the corporation's board members and there are five candidates running. Under the statutory method of voting, what will be this investor's distribution of votes?

- a. candidate #1: 650 votes, candidate #3: 650 votes
- b. candidate #4: 650 shares
- c. candidate #5: 1,300 shares
- d. candidate #2: 325 votes, candidate #4: 325 votes

19. Which of the following are TRUE of an option seller?

- I. income comes from the premium paid by the buyer of the option
 - II. enters into the option contract with the goal of having it exercised by the buyer
 - III. obligated to perform based on the terms of the option contract
 - IV. loses money upon expiration of the contract
- a. II. and IV.
 - b. I., II., and III.
 - c. IV. only
 - d. I. and III.

20. Which of the following types of dispute resolution does NOT always end in a final binding decision regarding the issue being disputed?

- a. simplified arbitration
- b. minor rule violation (MRV) procedure
- c. mediation
- d. arbitration

21. Which of the following are TRUE of the Securities Investor Protection Corporation (SIPC)?

- I. it will require a firm to conduct limited and very specific business upon having a trustee appointed for the purpose of liquidation
 - II. it is a private corporation
 - III. it will petition for the appointment of a trustee to liquidate the firm, should it fail to meet its minimum capital requirement
 - IV. broker-dealer membership is required if registered with the SEC
- a. III. and IV.
 - b. I. and II.
 - c. II., III., and IV.
 - d. IV. only

22. A municipal finance professional (MFP) provides a donation of \$350 to a candidate's election in which she is not eligible to vote. Which of the following is NOT a possible outcome to this situation?

- a. the donation of \$350 results in a violation of MSRB Rule G-38
- b. the MFP's firm will not be able to participate in the business of municipal securities for that issuer for one year
- c. the MFP's firm will not be able to participate in the business of municipal securities for that issuer for two years
- d. the donation to a candidate for an election in which she is ineligible to vote results in a violation of MSRB Rule G-38

Answer Key and Explanations

1. C: Given that par value of preferred stock shares is \$100:

$$\text{\$100 par value} \times \text{dividend percent} = \text{per share annual income}$$

$$\text{\$100} \times .07 = \$7 \text{ per share}$$

$$\text{per share annual income} \times \# \text{ of preferred shares owned} = \text{total annual income}$$

$$\$7 \times 75 = \$525$$

2. A: During the distribution of a stock dividend, the stock price of individual shares will DECREASE, not increase, in order to reflect the additional outstanding shares that now exist in the market. A stock dividend is utilized by a company that would like to reward their shareholders without consuming cash. Investors receive a number of additional shares based on the number currently owned prior to the dividend, and the overall market value of the stock remains unchanged after the dividend distribution.

3. D: A corporation would be motivated to repurchase its own shares as a means to fund an acquisition, retain control over the company, or increase the company's earnings per share.

4. A:

$$\text{annual income} = \text{quarterly dividend} \times 4$$

$$\text{\$1.50} \times 4 = \$6.00$$

$$\text{current yield} = \frac{\text{annual income}}{\text{current market price}}$$

$$\text{current yield} = \frac{\text{\$6.00}}{\text{\$32.50}} = .1846 = 18.5 \text{ percent}$$

5. C:

$$\# \text{ of shares after conversion} = \frac{\text{par value}}{\text{conversion price}}$$

$$\frac{\text{\$100}}{\text{\$5}} = 20 \text{ shares of DSY common stock}$$

6. B: The book value of a corporation is calculated by subtracting, NOT adding, all of its liabilities from its total assets. Additionally, it's true that dividing the total book value of a company by the number of outstanding shares will result in a per-share book value, and book value can be defined as a company's liquidation value.

7. D: Stockholders are NOT afforded the right to have access to any of the company's confidential financial information. They are, however, afforded the right to a claim on residual assets post-bankruptcy, to inspect the company's books and records, and to receive a list of the company's shareholders.

8. C:

of shares to be received = # of shares owned × percent dividend payout

$$1,500 \times 3 \text{ percent} = 1,500 \times .03 = 45 \text{ shares}$$

9. B: Preferred stock is often nonvoting, but shareholders may be provided with the right to vote in the event that several dividend payments have been missed by the company. Preferred stock has no maturity date, is sensitive to interest rates, and provides for a priority claim over common stockholders for dividend distribution.

10. C: Equity represents ownership in the company that issues it and provides a means for a corporation to raise capital. At the point of maturity, DEBT, not equity, will allow for an investor to receive his investment amount back. Additionally, debt instruments, not equity, create a creditor relationship between those who invest and the corporation of issuance.

11. D: The call feature is designed to benefit the company, NOT the investor. By calling back preferred shares, the company may be either eliminating its obligation to pay a fixed dividend payment altogether, or benefitting from a reduced rate of dividend payment on newly issued shares that have a lower rate than those previously sold. Callable preferred shares may be called during a rate decline in order to then sell new preferred shares with a lower fixed dividend rate. They are most often called at a premium to par, and their call protection provides for some delay past issuance in which the shares cannot be called by the company.

12. B:

per share profit = current market share price – purchase share price

$$\$74.50 - \$55.50 = \$19.00 \text{ per share profit}$$

total profit = per share profit × # of shares sold

$$\$19.00 \times 250 = \$4,750.00 \text{ total profit}$$

13. D: A company is obligated to pay dividends to its preferred stockholders. Additionally, preferred stock represents ownership in the company and provides for payment of semiannual dividends that are set at a fixed rate.

14. A: Stock that has been sold to investors and then purchased back by the issuing corporation is known as treasury stock. Outstanding stock is sold stock that still remains with investors. Authorized stock is the largest amount of stock that an issuing corporation may sell to investors. Issued stock is the authorized stock that has actually been sold to investors.

15. C: A shareholder's preemptive right in a rights offering may be sold to another investor interested in buying the newly offered shares, or exercised by submitting payment and the rights in return for the shares. The rights afford the stockholder the opportunity to purchase the newly offered shares at a discount; however, the subscription price remains fixed for 45 days, NOT 35.

16. B: All of the above can be considered securities EXCEPT the fixed annuity. In order for an investment product to be considered a security, it must be transferable AND the owner of it must take on the risk of loss of some portion or all of her invested amount. Bonds, mutual funds, and variable annuities all meet those requirements. A fixed annuity is an insurance contract that

provides for GUARANTEED fixed payments and thus presents no risk to the investor regarding any loss of his investment.

17. C: Given that par value of preferred stock shares is \$100:

$$\text{\$100 par value} \times \text{dividend percent} = \text{per share annual income}$$

$$\text{\$100} \times .06 = \text{\$6 per share}$$

$$\text{per share annual income} \times \text{\# of preferred shares owned} = \text{total annual income}$$

$$\text{\$6} \times 100 = \text{\$600}$$

The company is in arrears for the current year plus two, so the total years in arrears is three. Therefore:

$$3 \times \text{\$600} = \text{\$1,800}$$

The company owes this investor \$1,800 in accumulated unpaid dividends for the current year, plus two.

18. A: Given that this investor owns 650 shares of PPG and there are two board members to be elected, the number of votes she is allowed to cast is as follows:

$$\text{total votes to cast} = \text{\# of owned shares} \times \text{\# of individuals to be elected}$$

$$650 \times 2 = 1,300 \text{ votes}$$

The statutory method of voting involves having the voter cast an equal number of votes for each of the candidates she would like to vote for. With two candidates to be elected, this investor would split her 1,300 votes and cast them in an equal amount of 650 for each candidate.

19. D: An option seller receives his income from the premium paid to him by the buyer of the option. Further, he is obligated under the terms of the option contract to perform, given the buyer chooses to exercise her rights under the contract. An option seller will NOT want the option to be exercised and instead would prefer it expire unexercised, so as to not be obligated to perform under the contract AND to profit simply from the premium income he received. Accordingly, upon expiration of the contract, the seller does NOT lose money and in fact that is where his income is made.

20. C: Mediation is the type of dispute resolution that does NOT always end in a final binding decision regarding the issue being disputed. The mediation process can produce one of three possible outcomes: an agreement between the parties may result; either the mediator or one of the parties withdraws from the process; or the mediator sees no potential for resolution and declares an impasse. Given that, the potential for no binding decision being reached at the end of the mediation process is entirely possible. Simplified arbitration is for disputes involving \$50,000 or less and concludes with a decision handed down by an arbitrator. Arbitration for disputes of a larger amount is submitted to a panel of arbitrators who then provide a decision on the matter. In a minor rules violation (MRV) procedure, the outcome can be censure, a fine of \$2,500, or a formal hearing resulting in a variety of potential penalties being imposed.

21. A: The Securities Investor Protection Corporation (SIPC) was established for the protection of customers. SIPC will petition for the appointment of a trustee to liquidate a firm should it fail to