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Investment Advisers Law Examination



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Question: 1

A Keogh plan is available for all of the following except:

- A. A nurse at a local doctor's office
- B. An independent coffee shop owner
- C. A janitor at a local college
- D. A lawyer

Answer: C

Explanation:

The janitor at a local college is not self-employed nor do they work for someone who is self-employed.

Question: 2

Which of the following measures risk adjusted returns?

- A. Standard deviation
- B. Sharpe ratio
- C. Beta
- D. Duration

Answer: B

Explanation:

The Sharpe ratio measures an investor's risk adjusted returns.

Question: 3

What is the major risk involved in owning common stock?

- A. A company may decide to pay very small dividends, but it must pay some amount to its stockholders
- B. A company may decide not to pay dividends
- C. The stock may fall in value
- D. A common stockholder is the last person to get paid if the company is liquidated

Answer: C

Explanation:

The greatest risk is that the investor will lose some or all of his money if the stock falls in value or if the company fails.

Question: 4

In which of the following cases would the Administrator most likely cancel a person's registration?

- A. The individual can not be located
- B. The individual lied on a renewal application
- C. It is in the public interest to do so
- D. The individual lied on an initial application

Answer: A

Explanation:

The Administrative orders to deny, suspend, revoke, or cease & desist are all issued because they are "in the public interest and provide necessary protection to investors." In other words, somebody apparently did something wrong, like lying on their registration/application, or sticking elderly investors into deferred annuities. But "cancel" just means the person is no longer in business, appears to have moved, or has died.

Question: 5

The penalty for an excess contribution to a Keogh plan is:

- A. 10.0%
- B. 8.0%
- C. 20.0%
- D. 6.0%

Answer: A

Explanation:

The penalty for an excess Keogh contribution is 10%.

Question: 6

The PPC Company is currently paying a \$1.25 quarterly dividend to its shareholders. The stock is currently trading at \$75 a share. What is its dividend yield?

- A. 67.00%

- B. 1.60%
- C. 6.70%
- D. 16.00%

Answer: C

Explanation:

Current market price (\$75) divided into the annual income (\$1.25 X 4= \$5.00) is 6.7%.

Question: 7

If the net capital of an adviser dips below the level that is required:

- A. An administrator can act only if they are registered in their state and the adviser has custody of clients' cash and securities
- B. An administrator can act only if they are registered in their state and the SEC acts first
- C. An administrator can act only if they are registered in their state
- D. An administrator can act only if they are registered in their state and FINRA acts first

Answer: C

Explanation:

If an adviser becomes insolvent the administrator can act and cancel the adviser's registration if the firm (adviser) is registered in their state.

Question: 8

All of the following could be examples of stock price manipulation except for which of the following actions?

- A. Matched purchases
- B. Pegging
- C. Providing a customer with an inaccurate price quote in order to charge a larger commission or markup
- D. Capping

Answer: C

Explanation:

Providing a customer with an inaccurate price quote in order to charge a larger commission or markup on a security would be an example of an excessive markup or commission on a security, and not an example of stock price manipulation.

Question: 9

What must an investment adviser established as a partnership do if one or more members are admitted to the partnership?

- A. Sign a waiver of noncompliance
- B. Incorporate
- C. Notify all institutional clients promptly
- D. Notify all clients promptly

Answer: D

Explanation:

Who the partners are may be material to your decision to let the firm manage your assets.

Question: 10

Why do variable annuities contain more risk?

- A. Because they invest in stocks, bonds, and mutual funds, which contain inherent risk
- B. Because the number of accumulation units is fixed
- C. Because the money may be invested either directly or indirectly
- D. Because they are considered both a security and an insurance company product

Answer: A

Explanation:

Variable annuities contain more risk because the funds are invested in stocks, bonds, and mutual funds, which may increase or decrease in value.

Question: 11

The Federal Reserve Board wants to stimulate the economy. Which of the following are they least likely to do?

- A. Change the reserve requirement
- B. Change the discount rate
- C. Purchase bonds in the secondary market
- D. Change the margin requirement

Answer: A

Explanation:

Of all the answers listed the Fed would be least likely to change the reserve requirement for banks. It would also be very unlikely that they would change the margin requirement for securities purchases.

Question: 12

Which of the following are funded with after tax dollars?

- I. TDA
- II. Roth IRA
- III. TSA
- IV. Tax deferred Annuity

A. III and IV

B. II and IV

C. I and III

D. I and II

Answer: B

Explanation:

A Roth IRA and a tax deferred annuity are funded with after tax dollars.

Question: 13

Renewal of an agent's license is accomplished by:

- A. Publishing an announcement of renewal in a newspaper published in the state
- B. Paying a fee
- C. Passing an examination
- D. Completing continuing education courses

Answer: B

Explanation:

Fee must be paid annually to get your registration current.

Question: 14

Depreciation is not:

- I. Accumulated to a liability.

- II. Recovery of the cost of an asset.
- III. Included as an entry on the income statement.
- IV. Accumulated to an asset.

- A. I only
- B. I, II and III
- C. II only
- D. I and II

Answer: A

Explanation:

Choice I. is the only answer that is not true about depreciation.

Question: 15

A registered broker dealer who is a syndicate member may do which of the following during the cooling off period?

- I. Run a tombstone ad
- II. Gather interest
- III. Send out the final prospectus
- IV. Send out retail communication

- A. II and III
- B. II only
- C. I and II
- D. I and IV

Answer: C

Explanation:

A syndicate member may only run a tombstone ad announcing the issue, and gather indications of interest during the cooling off period.

Question: 16

In order for a representative to join a new firm, the old member must fill out and submit a:

- A. U-4
- B. U-5
- C. U-6
- D. Uniform registration transfer

Answer: B

Explanation:

In order to terminate a representative's association with a member, that member must fill out and submit a U-5 to FINRA

Question: 17

Economics involves all of the following except:

- A. The theory that as demand rises, price tends to rise
- B. The theory that as supply rises, prices tend to rise
- C. The theory that as supply rises, price tends to fall
- D. The study of supply and demand

Answer: B

Explanation:

The main theory of economics is one of supply and demand; if the supply outpaces the demand for goods, the price of the goods will fall.

Question: 18

Which of the following is a characteristic of a penny stock?

- I. Exchange traded
- II. Quoted on NASDAQ
- III. Priced under \$5
- IV. Non NASDAQ

- A. III and IV
- B. II and IV
- C. I and III
- D. I and II

Answer: A

Explanation:

Penny stocks must be non NASDAQ and under \$5 per share.

Question: 19

Treasury stock has been issued and repurchased by a corporation for which of the following reasons?

- A. Create a sinking fund
- B. Increase earnings per share
- C. Add to outstanding shares
- D. Raise new capital

Answer: B

Explanation:

A corporation can increase its earning per share or EPS without increasing income by repurchasing outstanding shares from the public.

Question: 20

Which of the following cannot appear on the firm's website?

- A. The State Administrator approves our practices
- B. Goals of the institution
- C. Amount of money they control
- D. FINRA logo

Answer: A

Explanation:

An firm may never state that any regulator approves or endorses the firm or its agents. All of the other choices may be placed on the firm's website. If the FINRA logo is used there must be a hyper link near the FINRA logo to the FINRA website.

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