

Contents

ABOUT THE SERIES 6 EXAM	XV
ABOUT THIS BOOK	XIX
ABOUT THE TEST BANK	XXI
ABOUT THE SECURITIES INSTITUTE OF AMERICA	XXIII
CHAPTER 1	
EQUITY SECURITIES	1
What Is a Security?	1
Equity = Stock	2
Common Stock	2
Preferred Stock	12
Options	20
Calls	20
Puts	20
Bullish vs. Bearish	21
Characteristics of All Options	21
Exercise Price	22
Buyer vs. Seller	22
Possible Outcomes for an Option	22
Currency Risks	23

Functions of the Custodian Bank Issuing ADRs	23
Real Estate Investment Trusts (REITs)	23
Issuing Corporate Securities	24
Types of Underwriting Commitments	24
Types of Offerings	25
Awarding the Issue	26
The Underwriting Syndicate	26
Selling Group	26
Securities Markets	27
The Exchanges	28
Over the Counter/Nasdaq	28
Market Makers	29
Third Market	29
Fourth Market	29
Broker vs. Dealer	29
Pretest	31

CHAPTER 2**DEBT SECURITIES****35**

Corporate Bonds	35
Types of Bond Issuance	36
Bond Certificate	37
Bond Pricing	37
Corporate Bond Pricing	38
Bond Yields	38
Bond Maturities	41
Types of Corporate Bonds	42
Converting Bonds into Common Stock	45
Advantages of Issuing Convertible Bonds	46
Disadvantages of Issuing Convertible Bonds	46
Convertible Bonds and Stock Splits	46
The Trust Indenture Act of 1939	47

Bond Indenture	47
Ratings Considerations	47
Retiring Corporate Bonds	48
Collateralized Mortgage Obligation (CMO)	50
CMOs and Interest Rates	50
Types of CMOs	51
Private-Label CMOs	52
Exchange-Traded Notes (ETNs)	53
Pretest	55

CHAPTER 3**GOVERNMENT AND MUNICIPAL SECURITIES****59**

Series EE Bonds	59
Series HH Bonds	60
Treasury Bills, Notes, and Bonds	60
Treasury Bond and Note Pricing	61
Treasury Strips	62
Treasury Receipts	62
Treasury Inflation-Protected Securities (TIPS)	63
Agency Issues	63
Government National Mortgage Association (GNMA)	63
Federal National Mortgage Association (FNMA)	64
Federal Home Loan Mortgage Corporation (FHLMC)	64
Federal Farm Credit System (FFCS)	64
Municipal Bonds	65
Legal Opinion	66
Municipal Bond Insurance	66
Tax Equivalent Yield	67
Purchasing a Municipal Bond Issued in the State in Which the Investor Resides	67
Triple Tax-Free	68
Capital Gains	68
Pretest	69

CHAPTER 4	
THE MONEY MARKET	71
Money Market Instruments	71
Corporate Money Market Instruments	71
Government Money Market Instruments	73
Municipal Money Market Instruments	74
International Money Market Instruments	74
Interest Rates	74
Pretest	77
CHAPTER 5	
ECONOMIC FUNDAMENTALS	79
Gross Domestic Product (GDP)	79
Recession	81
Depression	81
Economic Indicators	81
Economic Policy	83
Tools of The Federal Reserve Board	83
Fiscal Policy	86
Consumer Price Index (CPI)	87
Inflation/Deflation	87
Real GDP	87
International Monetary Considerations	88
Pretest	89
CHAPTER 6	
MUTUAL FUNDS	93
Investment Company Philosophy	93
Types of Investment Companies	94
Open-End vs. Closed-End Funds	95
Diversified vs. Nondiversified	96
Investment Company Registration	97
Investment Company Components	99

Mutual Fund Distribution	101
Selling Group Member	101
Distribution of No-Load Mutual Fund Shares	102
Distribution of Mutual Fund Shares	102
Mutual Fund Prospectus	102
Characteristics of Open-End Mutual Fund Shares	103
Mutual Fund Investment Objectives	104
Other Types of Funds	106
Bond Funds	106
Valuing Mutual Fund Shares	108
Changes in the NAV	109
Sales Charges	109
Calculating a Mutual Fund's Sales Charge Percentage	111
Finding the Public Offering Price	112
Sales Charge Reductions	112
Breakpoint Schedule	113
Letter of Intent	113
Backdating a Letter of Intent	114
Breakpoint Sales	114
Rights of Accumulation	114
Automatic Reinvestment of Distributions	115
Other Mutual Fund Features	115
Cost Base of Multiple Purchases	119
Purchasing Mutual Fund Shares	120
Sales Charges	123
45-Day Free Look	123
Withdrawal Plans	123
Pretest	125
CHAPTER 7	
VARIABLE ANNUITIES AND LIFE INSURANCE	131
.....
Annuities	131
Equity Indexed Annuity	134

Annuity Purchase Options	135
Accumulation Units	136
Annuity Units	136
Annuity Payout Options	136
Factors Affecting the Size of the Annuity Payment	138
The Assumed Interest Rate (AIR)	138
Taxation	139
Types of Withdrawals	139
Annuitizing the Contract	139
Expenses and Guarantees	140
Other Charges	140
Life Insurance	141
Premiums and Death Benefits	143
Assumed Interest Rate	144
Variable Policy Features	145
Pretest	147

CHAPTER 8
RETIREMENT PLANS **151**

Individual Plans	151
Individual Retirement Accounts (IRAs)	152
Traditional IRAs	152
Roth IRAs	153
Simplified Employee Pension IRA (SEP IRA)	154
Death of an IRA Owner	156
Educational IRA/Coverdell IRA	156
Tax-Sheltered Annuities (TSAs)/Tax-Deferred Accounts (TDAs)	158
Corporate Plans	160
Rolling Over a Pension Plan	162
Employee Retirement Income Security Act of 1974 (ERISA)	162
ERISA 404C SAFE HARBOR	164
Pretest	165

CHAPTER 9	
CUSTOMER ACCOUNTS	169
<hr/>	
Holding Securities	171
Mailing Instructions	172
Types of Accounts	172
Commingling Customer's Pledged Securities	182
Wrap Accounts	182
Regulation S-P	182
Pretest	183
CHAPTER 10	
CUSTOMER RECOMMENDATIONS, PROFESSIONAL CONDUCT, AND TAXATION	187
<hr/>	
Professional Conduct in the Securities Industry	188
Fair Dealings with Customers	188
Periodic Payment Plans	193
Mutual Fund Current Yield	193
Information Obtained from an Issuer	193
Disclosure of Client Information	194
Borrowing and Lending Money	194
Gift Rule	194
Outside Employment	195
Private Securities Transactions	195
Customer Complaints	195
Investor Information	195
NYSE/FINRA Know Your Customer	196
Investment Objectives	197
Risk vs. Reward	199
Alpha	200
Beta	201
Tax Structure	201

Investment Taxation	201
Calculating Gains and Losses	202
Cost Base of Multiple Purchases	202
Deducting Capital Losses	203
Wash Sales	203
Taxation of Interest income	204
Inherited Securities	204
Donating Securities to Charity	205
Gift Taxes	205
Estate Taxes	205
Withholding Tax	206
Corporate Dividend Exclusion	206
Alternative Minimum Tax (AMT)	206
Taxes on Foreign Securities	206
Pretest	207

CHAPTER 11**SECURITIES INDUSTRY RULES AND REGULATIONS 213**

The Securities Exchange Act of 1934	213
The Securities and Exchange Commission (SEC)	214
Extension of Credit	215
The National Association of Securities Dealers (NASD)	215
Becoming a Member of FINRA	217
Registration of Agents/Associated Persons	217
Disciplinary Actions Against a Registered Representative	218
Resignation of a Registered Representative	218
Continuing Education	219
Firm Element Continuing Education	219
Regulatory Element	220
Termination for Cause	220
Retiring Representatives/Continuing Commissions	221
State Registration	221

Registration Exemptions	221
Persons Ineligible to Register	221
Communications with the Public	222
FINRA Rule 2210 Communications with the Public	223
Broker Dealer Websites	225
Blind Recruiting Ads	226
Generic Advertising	226
Tombstone Ads	226
Testimonials	227
Free Services	227
Misleading Communication with the Public	228
Securities Investor Protection Corporation Act of 1970	228
Net Capital Requirement	228
Customer Coverage	228
Fidelity Bond	229
The Insider Trading & Securities Fraud Enforcement Act of 1988	229
Firewall	230
The Telephone Consumer Protection Act of 1991	230
Exemption from the Telephone Consumer Protection Act of 1991	231
The Role of the Principal	231
Violations and Complaints	232
Resolution of Allegations	232
Minor Rule Violation	232
Code of Arbitration	233
The Arbitration Process	233
Mediation	234
Currency Transactions	235
The Patriot Act	235
U.S. Accounts	236
Foreign Accounts	236
Annual Compliance Review	237
Business Continuity Plan	237

Sarbanes-Oxley Act	237
The Uniform Securities Act	239
Pretest	241

ANSWER KEYS **247**

GLOSSARY OF EXAM TERMS **257**

INDEX **323**

<http://www.pbookshop.com>