

[Q129-Q151 Real Series63 dumps - Real FINRA dumps PDF in here [Oct-2024]



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Q129. An individual who represents a broker-dealer in the buying and selling of securities is called a(n):

- * underwriter
- * issuer
- * agent
- * administrator

Explanation

An individual who represents a broker-dealer in buying and selling securities is called an agent or a registered representative. An agent may also work for an issuer, which refers to the entity that is selling securities to raise money for itself. An underwriter is the entity that aids the issuer in bringing the new securities to market.

Administrator is the title many states use to refer to the official in charge of enforcing the state's securities regulations.

Q130. The trade confirmation must be received by the customer no later than

- * one week after the settlement date.

- * the settlement date.
- * the day after the trade takes place.
- * five business days after the settlement date.

Trade confirmations must be received by the customer no later than the settlement date.

Q131. Broker-dealer Small & Associates has received a complaint about one of its agents, Mr. Ari Gaunt. Small

& Associates is required to

- * keep the complaint in Mr. Gaunt's employee file as long as Mr. Gaunt remains employed with the firm.
- * immediately forward the complaint to the Administrator of any state in which Mr. Gaunt is a registered

agent.

- * call the client who complained and inform him of the disciplinary action that will be taken against Mr.

Gaunt.

- * provide the client with a written response to the complaint.

Small and Associates must provide the client a written response to the complaint about Mr.

Ari Gaunt. The broker-dealer does not need to forward the complaint immediately to the state

Administrator, nor is it required to keep the complaint in Mr. Gaunt's employee file indefinitely.

Q132. An investment adviser representative with Capital Investment Advisors, Inc. advised his client to invest

\$ 5,000 in bonds of a firm that the adviser claimed was an investment "almost as risk-free as investing in

U.S. government bonds; maybe even more so, given the magnitude of the government deficit these

days." The client paid a total of \$200 for this advice. The bonds paid interest at the rate of 6%, with

semiannual payments, and the client received \$300 in interest payments before the firm went belly-up at

the end of a year, and its bonds were deemed worthless. The client has filed suit, and its attorneys' fees

and court costs are expected to be \$1,000. When the investment is a bond, the state has recently been

assessing an interest rate equal to the interest rate paid by the security as an equitable interest payment

guideline in civil penalties. The maximum the client can expect in civil penalties is

- * \$5,900.
- * \$6,200.
- * \$5,200.
- * \$6,000.

The maximum amount the client can expect in civil penalties in this case is \$6,200. In civil

court, the client is awarded the cost of the investment plus any attorneys' fees and court costs, plus any

interest that the state deems appropriate, less any income earned on the investment. In this instance, the

only income is the interest that the client earned, which is identical to the interest that the Administrator

mandates the investment adviser pay, so that is a wash. The investment advisory fee is included as part of the investor's cost, so the client can sue for the recovery of his original investment of \$5,000 plus the \$ 200 he paid for the investment advice plus the court costs and attorneys' fees of \$1,000, or \$6,200 total.

Q133. A broker-dealer will be found guilty of churning an account if the account has a turnover ratio of

- * four.
- * five.
- * eight.
- * There is no specified turnover ratio assigned to the prohibited practice of churning.

Explanation

There is no specified turnover ratio assigned to the prohibited practice of churning since some investors are simply more frequent traders than others.

Q134. Once a broker-dealer has applied for and been granted state registration, the registration remains valid

- * until December 31st.
- * for twelve months.
- * for three years.
- * for five years.

Once a broker-dealer has been granted state registration, that registration is valid until

December 31st of that year. Registration automatically terminates annually on December 31st although

an Administrator may elect to revoke or suspend a broker-dealer's registration at any time if the

Administrator finds just cause.

Q135. Blue Sky Laws are designed to:

- * protect investors from fraud in their securities market transactions.
- * protect agents, broker-dealers, and investment advisers and their representatives from spurious

allegations of fraudulent activity.

- * enhance the tourism industry within a state.
- * favor investment in companies that engage in environmentally friendly practices.

The main purpose of Blue Sky Laws is to protect individual investors from fraud in their

securities market transactions. Requiring the registration of new security issues and the registration of

those persons who advise individual investors as well as those involved in the purchase and sale of

securities to the public are just some of the regulations designed to do this. There are no provisions

designed to protect agents, broker-dealers, or investment advisers and their representatives in any

regard.

Q136. Trevor is currently a registered agent in the state of Connecticut where he has been employed by Connect

& Company, a broker-dealer that is registered in Connecticut and has subsidiary operations in Massachusetts, New Jersey, and New York. Trevor has moved to Massachusetts and is now associated with one of Connecticut's subsidiaries, a broker-dealer registered in the state. Trevor has applied to the Administrator of Massachusetts for registration as an agent. Can Trevor execute purchases and sales for clients while his registration is still pending?

* No. Until he is informed by the Administrator of Massachusetts that his application has been accepted,

Trevor may not effect any securities transactions in Massachusetts.

* Yes. Because Trevor is a registered agent in another state and is affiliated with a broker-dealer that is registered in the state of Massachusetts, he is not restricted from executing trades.

* Yes. Trevor can execute trades for new clients he solicits, but only for sixty days while his registration is pending.

* It depends. Trevor can execute some purchases and sales, but only for clients that he already had who

may have recently relocated to Massachusetts and only for sixty days while his registration is pending. It depends. Because he is a registered agent in another state and the broker-dealer he is

now affiliated with is registered in the state of Massachusetts, Trevor can execute purchases and sales,

but only for existing clients while his registration with the Massachusetts Administrator is still pending and

only for sixty days. This assumes, of course, Trevor has no violations that would restrict him from

registering in Massachusetts.

Q137. The trade confirmation must be received by the customer no later than

* one week after the settlement date.

* the settlement date.

* the day after the trade takes place.

* five business days after the settlement date.

Explanation

Trade confirmations must be received by the customer no later than the settlement date.

Q138. Broker-Dealer Wheeler has no offices in the state. Wheeler does, however, sell corporate bonds from his

portfolio to banks and insurance companies located in the state that purchase the bonds for their

investment portfolios. He executes about twelve of these transactions a year. Wheeler profits from the

price appreciation of the bonds during the time he held them, but receives no other form of compensation.

Based on these facts,

- * Wheeler must register as a broker-dealer in the state, but the securities do not need to be registered.
- * Wheeler need not register in the state, and the securities are also exempt from registration.
- * Wheeler must register as a broker-dealer in the state, and the securities must also be registered before

they can be sold to in-state investors.

- * Wheeler need not register in the state, but the securities must be registered before they can be sold to

in-state investors.

Since Wheeler has no offices in the state and is selling bonds from his portfolio to

institutional investors, Wheeler need not register in the state, and the securities are exempt from

registration. Broker-dealers with no physical location in a state that are doing business with other

broker-dealers or with institutional investors such as banks and insurance companies that do have offices

in that state are exempted from registering in the state. Securities sales to institutional investors are

exempt transactions, and securities sold in exempt transactions are themselves exempt from state

registration requirements.

Q139. No: 93

The net worth of a broker-dealer has fallen below the minimum net capital requirement specified by the state in which the broker-dealer is registered. This broker-dealer must notify the Administrator of this fact

- * before the beginning of the next quarter.
- * before the end of the month.
- * by the close of business on the next business day.
- * within a week's time.

Explanation

When the net worth of a broker-dealer falls below the minimum net capital requirement specified by the state, the broker-dealer must notify the Administrator of this fact by the close of business on the next business day according to the Uniform Securities Act.

Q140. Which of the following is not considered to be a security, as defined by the Uniform Securities Act (USA)?

- * a debenture
- * a certificate of deposit (CD)
- * a put option
- * an annuity contract wherein an insurance company promises to pay a fixed sum, either in a lump amount or through periodic payments.

Explanation

The Uniform Securities Act excludes annuity contracts wherein an insurance company promises either to pay a fixed sum, either in a lump amount or through periodic payments, from its definition of a security. Debentures, CDs, and option contracts are all classified as securities under the USA.

Q141. Under which of the following scenarios can a client legitimately sue a purported professional in the securities industry and expect an award for damages?

I. The securities were sold by an agent whose registration was not yet effective with the state, but who had already applied for registration.

II. The security was a variable annuity, and the sales representative neglected to reveal the details of the surrender clause to the client.

III. The security was the stock of a company, the stock had recently been registered with the state for sale, had been granted registration, and the selling agent had told his client that the security had been state-approved for sale.

* I only

* II and III only

* I and III only

* I, II, and III

Explanation

All of the selections are scenarios describing instances in which a client can legitimately sue a purported professional in the securities industry and expect an award for damages. A client can legitimately sue a purported professional in the securities industry and expect an award for damages if the agent is not yet effectively registered to effect securities transactions in the state; if the professional has neglected-intentionally or otherwise-to inform the investor of all the relevant information involving the security, such as any surrender clause involved; or if the agent has indicated that a state-registered security has in any way been approved by the state.

Q142. Which of the following entities is subject to be accused of churning?

I. investment advisers

II. investment adviser representatives

III. broker-dealers

IV. agents

* II and IV only

* I and III only

* II, III, and IV only

* I, II, III, and IV

Selections I, II, III, and IV-investment advisers, their representatives, and broker-dealers and

their agents-are subject to accusations of churning. Any activity on the part of any of these parties that

suggests that they are engaged in encouraging excessive trading on the accounts of their clients makes

them subject to allegations of churning their customers's accounts.

Q143. In which of the following scenarios will the investment adviser be subject to criminal fraud charges?

* An adviser owns the stock of TweedleDee Corporation and has issued a report recommending the

stock as a buy; without disclosing the fact that it owns the stock.

* An adviser owns the stock of TweedleDee Corporation and has issued a report recommending the

stock as a buy; disclosing the fact that it owns the stock

* An adviser sells its shares of TweedleDee Corporation after issuing a report recommending the stock

as a "buy";

* all of the above. It is considered criminal fraud for an investment adviser to make any

recommendations on a security in which it has or plans to have a position.

An adviser that sells its shares of TweedleDee Corporation after issuing a report

recommending the stock as a "buy"; is subject to criminal fraud charges for willfully deceiving its clients.

The adviser who recommends the stock as a buy without disclosing the fact that it owns the stock is

engaging in a prohibited activity for non-disclosure, but would be unlikely to face criminal fraud charges.

Q144. A-2-Z Associates is a full service brokerage and is also in the investment advisory industry, charging its

clients for investment advice for additional remuneration. Which of the following statements is true?

* A-2-Z can charge an individual client an advisory fee for its advice or a commission when it executes a

trade that the client makes based on that advice, but not both.

* A-2-Z can charge the client both an advisory fee for its advice and a commission on any trade the client

makes based on the advice. This is all laid out in the advertising brochures full service brokerage firms

like A-2-Z provide their prospective clients.

* A-2-Z can charge the client both an advisory fee for its advice and a commission for the execution of a

trade based on that advice, but it must inform the client of its potential conflict of interest in doing so and

get the client's written consent.

* A-2-Z can charge the client only an advisory fee when it is serving as an investment adviser; no

commissions may be collected.

A-2-Z can charge a client it advises an advisory fee for its advice and a commission for the

execution of a trade based on that advice, but it must inform the client of the potential conflict of interest

and get the client's written consent. It must also provide an itemized statement of all such agency cross

transactions performed for the client at least annually.

Q145. You are employed as an agent with CanDo Broker-Dealers. Your brother is software engineer with

VideoMagic. When you were talking to him on the phone the other day, he told you that he overheard a

conversation by some of the firm's executives that indicated that VideoMagic was about to take over

another software company. Which of the following would violate insider trading rules?

I. The next day, you get an unsolicited call from a client requesting that you sell his shares in Video Magic,

and you execute the trade.

II. You buy stock in Video Magic's target firm in anticipation that its stock price will rise when the information becomes public.

III. You recommend the stock of Video Magic's target firm to investors based on the fact that, on average, the stock price of target firms increases.

- * I, II and III
- * I and II only
- * I and III only
- * II and III only

Only selections II and III are violations of insider trading rules. If you receive an unsolicited call from a client requesting a sale (or purchase) of that firm's stock, it is not considered to be an insider transaction. If you have insider information from your brother about the merger of VideoMagic with another firm, you cannot buy stock yourself in the target firm in anticipation of a rise in price, nor can you recommend the stock to customers based on your expectation of a stock price increase.

Q146. Which of the following trades is illegal?

- * a short sale
- * a margin transaction
- * a market-not-held order
- * the sale of a mutual fund if the purchaser hasn't received a prospectus

Explanation

It is illegal to sell a mutual fund if the purchaser hasn't received a prospectus. The purchaser must receive this no later than the date on which the trade confirmation is due. Short sales, margin transactions, and market-not-held orders are all legitimate.

Q147. The current yield on a bond fund refers to

- * the percentage increase in the fund's net asset value.
- * the return that the fund earned because of the capital appreciation of the securities in the fund.
- * the total return that the fund has earned over the most recent 12 month period.
- * the return that the fund earned based only on the interest income it received

The current yield on a bond fund is the return that the fund earned from interest income only.

The return from interest income plus the return due to the capital appreciation of the securities make up the total return earned by the fund. The investor's total return is equal to the return on the income received from the fund plus any change in the net asset value of the fund.

Q148. Which of the following would not appear on an order ticket?

- * the stock symbol
- * the account number of the client buying or selling the security
- * the settlement date

* the agent's commission

The agent's commission does not appear on an order ticket. It does appear on the trade

confirmation, however, which the client receives.

Q149. A bond issue has recently been registered with the state Administrator.

Which of the following statements are true?

- * An investor can feel secure in buying the bond because it has recently been registered, which means that the state Administrator finds it to be of sound quality at this point in time.
- * The bond may now be offered for sale in the state.
- * The issuer may now offer this bond for sale, and any other bonds that the issuer may want to offer for sale in the future will be able to be sold after the issuer executes a notice filing.
- * Both A and B are true statements.

Explanation

When a bond issue has been effectively registered with the state Administrator, it can be offered for sale in the state. The bond's acceptance by the Administrator simply means that the issuer has supplied enough information in order for an investor to judge the quality of the bond for himself; it in no way implies that the bond is of sound quality. It could, in fact, be a very risky security and still have met the registration requirements.

Q150. In its prospectus, the YourMoney Mutual Fund provides charts and tables of its average annual return

over the past year, three years, five years, and ten years. The fund's return has indeed been phenomenal

over this time period, beating the S&P 500 Index by at least 15%. The prospectus states that this is

because the fund invests in securities that are riskier and that, therefore, an investor can expect the fund

to continue earning a return higher than the S&P 500 Index. Is YourMoney guilty of any security

violations?

* No. YourMoney properly revealed to prospective investors the fact that its higher than average returns

are the result of its investment in riskier securities.

* Yes. There is no way the fund could have beaten the S&P 500 Index by at least 15% over the past ten

years. The fund is obviously misstating its returns.

* Yes. YourMoney is guilty of fraud in claiming that an investor can expect the fund to continue earning

a return higher than the S&P 500 Index. Past performance is no indication of future performance.

* No. Regulations require only that the mutual fund provide charts and tables of its average annual

returns, with a statement comparing the fund performance with a relevant market index. YourMoney has

done this and more.

Yes. YourMoney is guilty of fraud in its claim that an investor can expect the fund to

continue earning a return higher than the S&P 500 Index. Past performance is no indication of future

performance, and this statement is clearly a misstatement of a material fact. In fact, because the securities the fund invests in are riskier than average, the fund returns can be expected to fall harder than the S&P 500 Index in a market downturn.

Q151. If a person has had its license revoked by the Administrator of the state and has appealed the decision to a court of law, that person

- * can continue business as usual pending the resolution of the appeal.
- * must notify the Administrator of the state that it has appealed the decision.
- * is considered to have a revoked license until the courts rule otherwise.
- * Both B and C are true statements.

Explanation

If a person has had its license revoked by the Administrator of the state and has appealed the decision to a court of law, that person must notify the Administrator of the state that it has appealed the decision, but that person is considered to have a revoked license until the courts rule otherwise and may not continue business as usual.

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