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Series-66

Uniform Combined State Law Exam

Questions And Answers PDF Format:

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Question: 1

An agent knowingly sells an unregistered exempt security to a number of non-accredited investors. According to the USA, which of the following is/are TRUE?
I. The agent must offer rescission
II. The agent has engaged in a pattern of unethical practices
III. The agent does not have to offer rescission
IV. The agent could be held both civilly and criminally liable for their actions

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

Answer: C

Explanation:
The agent sold an exempt security to investors. Exempt securities by definition are exempt from the registration process and are therefore unregistered. An example of an exempt security would be a municipal bond or a treasury bond.

Question: 2

An annuity has an AIR of 4%. The separate account earns 5% in April and 7% in May. If the separate account earns 4% in June, the payment to annuitants in July will be:

A. Higher than the payment in June
B. The same as the payment in June
C. Lower than the payment in May
D. Lower than the payment in June

Answer: B

Explanation:
The separate account's performance equals the AIR, so the payment will remain the same as the payment in June.

Question: 3

Cost push inflation is best measured by:

A. CPI
B. PPI
C. Net Worth
D. GDP

Answer: B

Explanation:
PPI is the Producer Price Index, which shows how much raw materials are costing producers. When the cost of raw materials rises, producers pass it on to consumers, which is why we call this "cost-push inflation."

Question: 4

The best way to handle potential conflict-of-interest situations is to:

A. Disclose this conflict of interest to the customer
B. Report this situation to the SEC
C. Notify a supervisor of the conflict to protect yourself
D. Avoid any conflict-of-interest situation entirely

Answer: A

Explanation:
When advisers have to choose between what is best for them or their firm and what is best for the client, they must take the correct legal and ethical path and base their decision on what is in the client's best interest. In the event advisers find themselves in conflict-of-interest situations, they must disclose this to the customer.

Question: 5

A decline in the GDP must last at least how long to be considered a recession?

A. An investment fund
B. A UIT
C. An open-end investment company
D. A closed-end investment company

Answer: B

Explanation:

If the separate account invests indirectly, it buys mutual funds. The separate account would have to be registered as a UIT.

Question: 6

Which of the following is TRUE regarding the Consumer Price Index?

A. It measures the average change in prices for specific goods and services
B. None of the choices listed are true
C. It measures the average prices paid by U.S. consumers over a six-month period
D. It measures the average level of food and utility prices over a given period

Answer: A

Explanation:
The Consumer Price Index (CPI) measures the average change in prices for selected goods and services purchased by consumers in certain cities. The CPI measures the change from a previous base period and is computed monthly.

Question: 7

ABC Investment Advisors charges their clients 1 1/2% of their assets as an advisory fee. Mr. Jones, a large client, notices that the fee being deducted from his account each quarter seems to rise and fall with the value of his account. Which of the following is TRUE?

A. ABC's fee is fluctuating based on the investment results, a perfectly normal occurrence
B. ABC is sharing in the profits of clients' accounts
C. ABC's fee is fluctuating based on the investment results, a violation of the USA
D. This type of fluctuating fee is strictly prohibited

Answer: A

Explanation:
As the value of the client's account changes, so will the dollar amount of the fee. The fee as a percentage of the customer's assets, however, does not change.

Question: 8

Which of the following options would provide the highest monthly payout on an Immediate Annuity?

A. Lump Sum
B. Life with 10 Year Period Certain

C. Life with 20 Year Period Certain
D. Straight Life Annuity

Answer: D

Explanation:
A Straight Life Annuity always has the highest monthly pay out of the options, with a life contingency. With the Straight Life Option, the monthly payments end when the annuitant dies, which lowers the risk to the company, and results in a higher monthly pay out to the annuitant. With the Period Certain Options, there could be a longer pay out to a beneficiary based on the time period selected. Because of the potentially longer time period than the life of the annuitant, there is a higher risk to the company. Because of this increased risk, the monthly payments will be lower. The Lump Sum Option is only a one-time payment, not a monthly payment.

Question: 9

Which of the following is FALSE regarding qualified retirement plans?

A. All plans must be approved by the IRS
B. All eligible employees must be allowed to participate
C. Excess over cost basis is taxes upon withdrawal
D. Contributions are currently tax deductible

Answer: C

Explanation:
With a qualified plan, there is no cost base so that all the money is taxed when it is taken out.

Question: 10

$100,000 in future value would have a lower net present value with:
I. High interest rates
II. Short compounding period
III. Low interest rates
IV. Long compounding period

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

Answer: D

Explanation:
The present value of a future sum of money will be lower when interest rates are high and with a long compounding period.

Question: 11

Which types of investments have historically shown a great deal of exposure to regulatory risk?

A. Corporate bonds
B. Common stocks
C. Limited partnerships
D. Variable annuities

Answer: C

Explanation:
Regulatory risk is the possibility that changes in the law or regulations can have an adverse impact on the value of investments. Although all kinds of investments can be subject to regulatory risk, limited partnerships have historically been particularly vulnerable. For example, adverse changes in the tax laws in 1986 caused the value of many limited partnerships to drop.

Question: 12

If a registered investment adviser recommends a wrap fee program of a third-party adviser and the recommending adviser receives compensation based on the client's participation, the SEC requires that the wrap fee brochure reveals all of the following EXCEPT:

A. That the adviser may have a financial incentive for recommending the program over other programs
B. That the wrap fee and compensation might be more than the amount the client would pay if the client paid separately for the services
C. That the person recommending the program will be compensated
D. The amount of compensation the person will receive

Answer: D

Explanation:
SEC rules require that if an adviser receives compensation based on a client's participation in a recommended wrap fee program, it must be disclosed; the person recommending the program will be compensated; the amount of compensation may be more than the adviser would receive if the client participated in other programs; and the adviser then has a financial incentive to recommend the program over other programs and services. The specific amount of compensation does not have to be disclosed.

Question: 13

A variable life insurance policyholder cancels her contract after the first year. She has paid $1,500 in premiums and she has $810 in cash value. $450 went towards sales charges and $340 went towards fees and the cost of insurance. What will she receive from the company when she cancels the contract?

A. $1,010
B. $1,500
C. $1,050
D. $810

Answer: D

Explanation:
The individual is entitled to receive the cash value only. In this case, the insurance company may keep up to 30% of the first year's payments as sales charges.

Question: 14

Which of the following will have the longest duration?

A. A zero coupon bond with 10 years left until maturity
B. An 8% bond with 10 years left until maturity
C. A 5% bond with 6 years left until maturity
D. An 8% bond with 8 years left until maturity that becomes callable in 2 years

Answer: A

Explanation:
An interest paying bond's duration will always be lower than the number of years remaining until maturity. A zero coupon bond's duration will always be equal to the number of years remaining until maturity.

Question: 15

A fixed annuity guarantees all of the following EXCEPT:

A. Income for life
B. Protection from investment risk
C. Rate of return
D. Protection from inflation

Answer: D

Explanation:
A fixed annuity provides all of those listed except protection from inflation. If inflation rises, the holder of a fixed annuity may end up worse off due to the loss of value of the dollar.