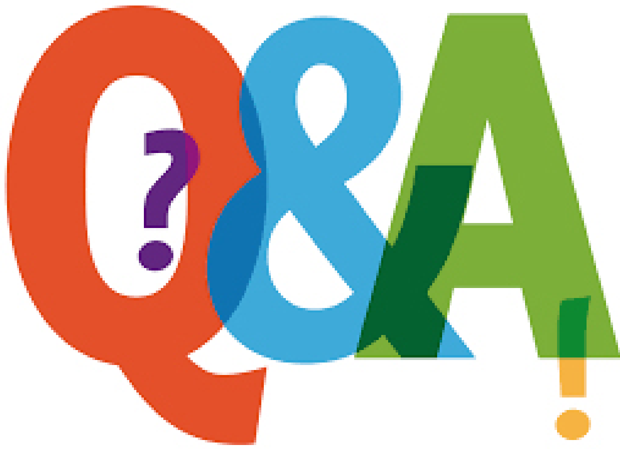

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QUESTION: 305
Which of the following trading sequences contains a zero-plus tick?

A. 27.28.27.26.27.26.25.27
B. 31.31.30.29.30.30.29.28
C. 38.39.40.41.40.41.39.40
D. 43.42.42.41.42.41.41.40

Answer: B

Explanation:
A zero-plus tick occurs when there are two or more trades at the same price, but the most recent change was a plus tick. In the following sequence: 31.31.30.29.30.30.29.28, when the stock trades at 30, just after the 29, that is a plus tick. The next transaction is also at 30 which creates a zero-plus tick

QUESTION: 306
When securities are registered with the various states under the "Blue Sky Laws," by which of the following methods may they be registered?
I. Notification
II. Coordination
III. Administration
IV. Qualification

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

Answer: A

Explanation:
The three methods by which securities may be registered with the states are; Notification, Coordination, and Qualification. The term "Blue Sky Laws" refers to the Uniform Securities Act. Notification is the simplest method—also known as filing—but is not available in all states. Coordination is the most common— coordinating registration at the state with the SEC registration. Qualification is the most time-consuming and difficult—the last resort in most cases

QUESTION: 307

Which of the following types of underwriting commitments by an Investment Banker could not be made in an IPO?

A. Firm Commitment
B. Standby
C. Mini-max
D. Mini-max

Answer: B

Explanation:
A standby underwriting is a form of firm commitment underwriting used in a preemptive rights offering. The underwriter is "standing by" until after the rights offering has expired and will purchase, for distribution, any unsubscribed shares. Since preemptive rights are only offered to existing shareholders, this could not be done in an Initial Public Offering

QUESTION: 308
What information may be found by a RR when looking at "Pink Sheets"?

A. Quotations on municipal bonds in the secondary market
B. Quotations on non-NASDAQ OTC stocks
C. Quotes on penny stocks
D. Daily quotations on corporate bonds

Answer: B

Explanation:
Pink Sheets is a daily publication showing quotations on non- NASDAQ Over-The-Counter stocks. The Yellow Sheets are a similar publication for corporate bonds. Pink Sheet stock is not necessarily "penny stock," it is simply stock of companies that are not quoted on the NASDAQ system. Pink Sheets are being supplanted by the OTC Bulletin Board (OTCBB), an electronic service

QUESTION: 309
After the receipt of a written complaint from a customer who has lost money in his account and before the matter reaches any level of hearing, the broker-dealer settles with the customer and pays him $20,000. After settlement, which of the following are required of the broker-dealer?

A. Give notice to the Federal Reserve Board
B. Apply to the SEC for special arbitration procedures
C. Dismiss the registered representative who handled the customer's account
D. Inform the appropriate SRO

Answer: D

Explanation:
Although the firm might fire the RR, it is not a requirement. Informing the SRO—Self Regulatory Organization—such as the NYSE or NASD is a requirement. The SEC does not get involved in arbitration and the FRB has no function in these proceedings.

Section 6: Sec Six (310 to 314)
Details:
Options Contracts

QUESTION: 310
A client opens the following options positions when MML stock is trading at 49: Long 1 MML Dec 50 call@4
Short 1 MML Dec 60 call @1
Just prior to the end of the trading day, on the last business day before the contracts expire, MML stock is trading at 59 and both open positions are closed. What is the profit/loss to the investor?

A. Profit of $900
B. Loss of $300
C. Profit of $600
D. Loss of $900

Answer: C

Explanation:
When the two contracts are closed, they are closed at their intrinsic value, because there is no remaining time value. To close an open long position, the investor makes a closing sale. In this case, the investor sells the 50 contract for its intrinsic value of 9. The 60 contract is out-of-the money—has no intrinsic value— and will expire worthless. The investor, as noted above, has a net debit of 3 and sells for 9. 9 – 3 = 6, or $600 profit.

QUESTION: 311

An investor opens the following options positions: Sell 1 MML May 50 Call and Long 1 MML Aug 50 Call This strategy is defined as which of the following?

I. A debit call spread
II. A diagonal spread
III. A credit call spread
IV. A horizontal spread

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

Answer: A

Explanation:
This is a calendar or horizontal spread because the only difference in the contracts is the expiration date. It is a debit spread because the time value for the August contract will be greater than the May contract. The contracts have the same intrinsic value because they share the same strike price

QUESTION: 312
An options investor establishes the following positions: Short 1 LTP Nov 35 Put @5 and Writes 1 LTP Nov 35 Call @ 3. Which of the following statements regarding this strategy is/are true?

I. The maximum loss is $800
II. This strategy is a straddle
III. The maximum loss is unlimited
IV. The investor expects no movement in the market

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

Answer: A

Explanation:
This strategy is a short straddle. This investor has sold (short/write) a call and a put on the same stock with the same expiration and the same strike price. Since the investor has sold a call, and we cannot assume he/she owns the covering stock, the call is naked and exposes the investor to unlimited upside risk.An investor establishing a short straddle expects little or no movement in the market for the underlying stock

QUESTION: 313
An investor who is bullish on AQS stock would establish which of the following options positions?

A. Short 1 AQS Jan 50 call. Short 1 AQS Jan 60 call
B. Long 1 AQS Jan 50 call. Short 1 AQS Jan 60 call
C. Long 1 AQS Jan 60 call. Short 1 AQS Jan 50 call.
D. Short 1 AQS Jan 50 put. Long 1 AQS Jan 60 put.

Answer: B

Explanation:
This question requires that, first; you recognize that the spread in choice "C" is bullish without premiums being provided. The call with the lower strike price and the same expiration on the same stock will always be more expensive. The investor will pay more for the 50 call than he receives for the 60 call, thus establishing a debit, or bull, spread. Note that choice "D," is not a spread and that is very bearish

QUESTION: 314
A client opens the following options positions when MML stock is trading at 49:
Long 1 MML Dec 50 call@4
Short 1 MML Dec 60 call @1
If the investor who established the strategy did not close the positions, what would happen at expiration if the market had closed on the final trading day at 51?

A. The 60 call would not be exercised, but the 50 call would.
B. Both contracts would be exercised
C. Both contracts would expire worthless.
D. The exchange would close both contracts at intrinsic value

Answer: A

Explanation:

When a customer has not given instructions to close the contract(s) the OCC (Options Clearing Corporation) will automatically exercise contracts that are .75 or more in-the-money for a customer. The automatic exercise for a member firm is .25 in-the-money

SAMPLE QUESTIONS

*These questions are for demo purpose only. **Full version** is up to date and contains actual questions and answers.*

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