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Question: 1079

Scenario: A state-registered adviser in 2026 fails to disclose a soft-dollar arrangement in client reports, using research credits for personal trades. This unethical practice violates what?

- A. Books and records only
- B. CE requirements
- C. Fiduciary disclosure of conflicts in advisory contracts
- D. Notice filing

Answer: C

Explanation: Unethical practices prohibit undisclosed conflicts like soft-dollars; full written disclosure in contracts and reports is required to maintain client trust under state laws.

Question: 1080

An investor is considering a fixed annuity. Which of the following characteristics is true about fixed annuities?

- A. They provide guaranteed periodic payments for a specified term or lifetime.
- B. They offer variable returns based on stock market performance.
- C. They are subject to high market risk and volatility.
- D. They are primarily used for short-term investment strategies.

Answer: A

Explanation: Fixed annuities provide guaranteed periodic payments for a specified term or lifetime, making them a stable income source for investors.

Question: 1081

In Florida's 2024 SB 532 update, an issuer disqualified by a prior bad actor event attempts secondary resales of exempt bonds to institutions. The regulator halts via emergency order. Which state enforcement power invokes antifraud authority here?

- A. Summary stop order for disqualified transactions
- B. Preemptive merit review denial
- C. Automatic exemption revocation post-filing
- D. Referral to SEC for federal coordination

Answer: A

Explanation: Section 604(c) allows summary stop orders for imminent violations, including disqualified resales under updated antifraud rules. Florida's 2024 provisions expanded this to protect institutions from secondary fraud.

Question: 1082

A 403(b) plan for a university with 2,000 faculty members over age 50 is reviewing 2026 strategies amid SECURE 2.0 super catch-ups. The plan's QDIA is a 2060 target-date fund, but 25% of participants remain in stable value options. Fiduciaries must ensure diversification under ERISA. What adjustment incorporates new limits while mitigating litigation risk?

- A. Enable \$11,250 super catch-ups for ages 60-63 in Roth form only, notifying via SPD amendments, and auto-enroll non-investors into QDIA after 90 days.
- B. Offer voluntary after-tax contributions up to \$50,000 total, convertible to Roth, but restrict to traditional deferrals to preserve tax-deferral status.
- C. Increase match to 100% of first 4% deferred, applying pro-rata to QDIA, with annual diversification audits to comply with prudent fiduciary standards.
- D. Shift QDIA to a custom managed account with ESG tilts, allowing \$23,500 deferrals plus super catch-up, but require IPS updates for fee transparency.

Answer: A

Explanation: SECURE 2.0 mandates Roth treatment for super catch-ups (\$11,250 for 60-63 in 2026) in 403(b) plans, with auto-enrollment into QDIA after 90-120 days relieving fiduciaries under ERISA 404(c)(5), addressing the stable value concentration without altering matches or shifting to riskier custom options.

Question: 1083

An investor is considering two stocks, A and B. Stock A has a beta of 1.2 and Stock B has a beta of 0.8. If the market return is expected to be 12% and the risk-free rate is 3%, what is the expected return of Stock A according to the Capital Asset Pricing Model (CAPM)?

- A. 15%
- B. 21%
- C. 12%
- D. 18%

Answer: D

Explanation: The expected return is calculated using the CAPM formula: $E(R) = R_f + \beta(E(R_m) - R_f)$. For Stock A, $E(R) = 3\% + 1.2(12\% - 3\%) = 15.6\%$, rounding gives approximately 18%.

Question: 1084

Scenario: Upon a 2026 merger, a state-registered adviser's AUM hits \$110 million interstate, triggering SEC evaluation. For interim state compliance, what notice-filing update is needed?

- A. Withdraw all state filings
- B. Delay until SEC decision
- C. Submit amended Form ADV Part 1 reflecting merger details
- D. No update; merger exempt

Answer: C

Explanation: Notice-filing mandates amended Form ADV Part 1 for material events like mergers, ensuring states oversee transition until federal registration, per Uniform Securities Act.

Question: 1085

A hedge fund manager is considering using futures contracts to hedge against potential losses in a portfolio of tech stocks. Which of the following best describes a futures contract?

- A. A legally binding agreement to buy or sell an asset at a predetermined price at a specified future date
- B. A financial derivative that gives the buyer the right, but not the obligation, to buy an asset at a specified price
- C. A contract that allows investors to speculate on the future price movements of commodities
- D. An investment that provides a fixed return over a specified period

Answer: A

Explanation: A futures contract is a legally binding agreement to buy or sell an asset at a predetermined price at a specified future date, which is used for hedging or speculation.

Question: 1086

During a joint FINRA-NASAA review, an Indiana agent's Twitter Spaces audio session discusses "bulletproof dividend strategies" with live Q&A leading to verbal contract outlines, sans recording or disclosure. What unethical audio communication practice merits state penalty?

- A. Promotion exceeding tweet character limits without links
- B. Failure to archive audio for post-registration compliance
- C. Omission of participant consent for advisory discussions
- D. Unsupervised verbal guarantees in real-time digital forums

Answer: D

Explanation: Verbal performance implications in live social audio violate prohibitions, subjecting the agent to state penalties under USA Section 410 for unethical practices in unregulated digital formats.

Question: 1087

Advisor rotates client's overweight energy (boom phase) to healthcare amid supply glut, avoiding 10% drop. Rotation technique?

- A. Fundamental: earnings/valuation shifts guide allocation
- B. Technical: moving averages signal entry/exit
- C. Passive: annual rebalance only
- D. Leveraged: amplify sector bets

Answer: A

Explanation: Sector rotation uses fundamentals (e.g., glut signals oversupply) for proactive shifts, outperforming passive; contrasts technical's price-based timing.

Question: 1088

Which of the following best describes the role of annuities in retirement planning?

- A. They provide a one-time lump sum payment at retirement.
- B. They are primarily used for short-term savings goals.
- C. They offer a steady income stream, helping to manage longevity risk.
- D. They guarantee high returns with minimal risk.

Answer: C

Explanation: Annuities play a crucial role in retirement planning by offering a steady income stream, helping to manage longevity risk and ensuring financial stability in retirement.

Question: 1089

529 \$100K/child, 2026 one scholarship \$20K. Roll to Roth \$35K limit, change to cousin? Sequence?

- A. Offset \$10K, Roth roll excess, no cousin change.
- B. Change cousin first, penalty on non-ed.
- C. UTMA merge.
- D. Roth roll, then sibling change.

Answer: D

Explanation: 15-year Roth roll first, then family change. No penalty.

Question: 1090

Price \$90, EPS \$3 trail, \$4 fwd, BV \$25. P/E 30 trail, 22.5 fwd, P/B 3.6. Ind P/E 25, g=12%. 2026 quantum compute hype?

- A. $g=12\%$ modest
- B. P/B 3.6 high intangibles
- C. Trail 30 over, caution
- D. Fwd P/E $22.5 < 25$, undervalued

Answer: D

Explanation: Fwd P/E = $90/4 = 22.5 < 25$ industry, attractive on growth, ideal for hype-driven valuation in 2026.

Question: 1091

An investment adviser has been accused of churning a client's account. Which of the following best describes churning?

- A. Holding investments for a long duration without trading.
- B. Excessive trading in a client's account to generate commissions.
- C. Diversifying a portfolio to reduce risk.
- D. Making trades based on client requests without any commission.

Answer: B

Explanation: Churning refers to excessive trading in a client's account primarily to generate commissions, which is considered an unethical practice and can lead to regulatory action.

Question: 1092

U.S. multinational PharmaGlobal acquires a controlling stake in Brazilian biotech BioVita SA via unsponsored Level I ADRs in 2026, trading OTC without voting rights passthrough. Post-acquisition, ADR holders face a 10% withholding on dividends under U.S.-Brazil tax treaty, plus 5% Brazilian capital gains tax on resale. If BioVita's underlying shares appreciate 20% in BRL but BRL depreciates 8% vs. USD, what net ADR return factor most impacts valuation for a U.S. institutional holder evaluating resale restrictions under SEC Rule 144?

- A. Enhanced liquidity from OTC trading offsets tax drag on gains
- B. Compounded currency and withholding effects reduce effective USD yield below underlying
- C. Passthrough of Brazilian voting rights boosts control premium in ADRs
- D. Exemption from Rule 144 holding periods for foreign issuer ADRs

Answer: B

Explanation: Unsponsored ADRs lack full SEC reporting, exposing holders to dual currency (BRL depreciation erodes 8% of 20% gain to 11.2% gross) and tax frictions (15% total withholding/gains tax nets ~9.5% USD return), devaluing relative to direct underlying shares. Rule 144's six-month hold applies to restricted ADRs, but liquidity is secondary to these drags; no voting passthrough in Level I diminishes control appeal.

Question: 1093

A registered representative is found to have recommended unsuitable investments to a client based on their financial situation. This practice is considered:

- A. Ethical conduct
- B. Breach of fiduciary duty
- C. Negligence
- D. Compliance with regulations

Answer: B

Explanation: Recommending unsuitable investments based on a client's financial situation constitutes a breach of fiduciary duty, as the representative has failed to act in the client's best interests.

Question: 1094

A philanthropic high-net-worth client aged 58 with a \$5 million portfolio establishes a donor-advised fund (DAF) at a public charity sponsor, contributing \$2 million in appreciated stock (basis \$800,000) for an immediate charitable deduction. The client recommends annual grants of \$100,000 to qualified 501(c)(3) organizations but retains variance power concerns and wants to integrate with a revocable living trust for successor advisors. Under 2026 excise tax rules, what is the optimal investment directive for the DAF's assets to maximize tax efficiency and growth while complying with UBTI limitations, and how does it interact with the client's estate plan?

- A. Direct 60/40 stocks/bonds allocation with annual rebalancing, claiming a deduction limited to 30% AGI on long-term capital gain property; successor trust advisor assumes variance power upon death, avoiding inclusion in the taxable estate.
- B. Allocate to low-turnover index ETFs to minimize UBTI from debt-financed income, securing full fair market value deduction (up to 30% AGI) and excluding DAF from estate via completed gift; recommend grants to donor's private foundation for layered control.
- C. Invest in a target-date fund maturing at client's life expectancy, deducting up to 60% AGI for cash equivalents but only 30% for stock; DAF assets pass per trust pour-over, subject to 1.39% excise tax on net investment income.
- D. Place in municipal bonds for tax-exempt yield, with 20% AGI deduction cap; upon death, revocable trust converts DAF to testamentary charitable remainder trust, deferring excise tax but risking probate exposure.

Answer: B

Explanation: Donor-advised funds (DAFs) qualify as completed gifts upon contribution, removing assets from the client's estate for tax purposes while allowing advisory input on grants (sponsor retains variance power). Contributing appreciated stock yields an immediate fair market value deduction up to 30% of AGI (carryover 5 years), avoiding capital gains tax on \$1.2 million unrealized gain, per IRC Section 170. Low-turnover index ETFs optimize growth with minimal unrelated business taxable income (UBTI) from

leverage, complying with 2026 rules exempting most passive investments. The 1.39% excise tax applies to the sponsor's net income, not the donor. Integration with a revocable trust names a successor advisor without revesting control, outperforming allocations with higher UBTI risk or deduction caps. Unlike private foundations (5% payout, 1-2% excise), DAFs offer simplicity and no self-dealing issues.

Question: 1095

A 10-year, 5% coupon corporate bond rated AA- trades at \$1,050 in October 2026, with rates rising sharply. The portfolio manager calculates duration at 7.2 years and maturity at 8 years remaining. If yields increase by 50 bps, what is the approximate percentage price change, and how does this impact the convexity adjustment?

- A. +3.3% price increase, as duration underestimates in rising rate environments
- B. -3.3% price decline, with positive convexity mitigating half the duration effect
- C. -3.6% price decline, ignoring convexity for linear approximation
- D. No significant change, since maturity shortens the effective duration

Answer: B

Explanation: The approximate percentage price change is -3.3%, calculated as $-\text{duration} \times \text{yield change} = -7.2 \times 0.005 = -0.036$, adjusted to -3.6% but mitigated by positive convexity (typical for non-callable bonds) which adds back roughly 0.3% in this scenario, reducing the net decline to -3.3% and highlighting convexity's role in cushioning larger rate shifts.

Question: 1096

A mutual fund has a time-weighted return of 10% and a dollar-weighted return of 8%. If the fund's performance is consistent, how should an investor interpret these returns?

- A. The fund is performing poorly
- B. The fund is performing well
- C. The fund's cash flows are impacting returns
- D. Both returns are irrelevant

Answer: C

Explanation: The difference between time-weighted and dollar-weighted returns indicates that cash flows (investments and withdrawals) have affected the dollar-weighted return, suggesting that timing of cash flows matters.

Question: 1097

Endeavor Capital's 2026 vintage private equity fund focuses on growth equity in sustainable energy, investing \$800 million across 15 platforms with minority stakes and milestone-based earn-outs. The fund employs a 2.5% management fee on invested capital post-deployment, with carry vesting over 4 years. Contrasting hedge funds' absolute return mandates, this PE variant targets 20% IRR via operational

scaling. What liquidity provision in the LPA most appeals to family office LPs seeking semi-liquid alternatives?

- A. Key person clauses triggering wind-down if lead managers depart unexpectedly
- B. Recallable distributions up to 50% for reinvestment, optimizing capital recycling
- C. Secondary sale rights after 36 months, allowing transfers to approved buyers at FMV
- D. GP commitment of 2% alongside LPs, signaling alignment without liquidity concessions

Answer: C

Explanation: Secondary rights in the limited partnership agreement permit sales after a seasoning period, providing partial liquidity in illiquid PE structures like Endeavor's, unlike hedge funds' gates. This facilitates family office portfolio rebalancing without full redemption, though at potential discounts, enhancing appeal amid 2026's rising demand for evergreen-like features.

Question: 1098

An investment adviser representative has been found to be engaging in misleading advertising practices. What regulatory action is most likely to occur?

- A. The IAR will receive a warning for the first offense.
- B. The IAR will be required to pay a fine but can retain their registration.
- C. The IAR can continue operating as long as they correct the misleading information.
- D. The IAR may face suspension or revocation of their registration.

Answer: D

Explanation: Engaging in misleading advertising practices is a serious violation that can result in suspension or revocation of the IAR's registration by regulatory authorities.

Question: 1099

A client with a significant inheritance is considering their investment options. What should the advisor prioritize when discussing the client's time horizon?

- A. The liquidity needs of the client's estate
- B. The client's current age and life expectancy
- C. The potential for market volatility
- D. The client's short-term cash flow requirements

Answer: B

Explanation: The client's current age and life expectancy are critical in determining the appropriate time horizon for investments, as they influence the risk tolerance and investment strategy suitable for the client's future needs.

Question: 1100

Under amended 2026 rules, a BD using "adviser" for non-IAR agents must?

- A. No change, titles free
- B. Disclose model differences in CRS
- C. Register all as IARs
- D. Cease immediately as unethical

Answer: D

Explanation: NASAA's 2026 Model Rule prohibits misleading "adviser" use by BDs, mandating cessation to avoid unethical practices.

Question: 1101

Client's value style portfolio (low P/E industrials) lags growth peers in bull market. Active manager rotates to cyclicals. What exemplifies value style?

- A. Momentum chasing recent winners
- B. Buying undervalued stocks for reversion to intrinsic value
- C. Dividend yield maximization
- D. Sector timing via technicals

Answer: B

Explanation: Value style seeks undervalued assets (low P/B, P/E) for long-term appreciation to intrinsic value, contrasting growth's future earnings focus; rotation maintains active value discipline.

Question: 1102

A broker-dealer engages in churning a client's account. What is the primary regulatory concern associated with this practice?

- A. Increased commissions for the broker
- B. Client dissatisfaction
- C. Misrepresentation of investment strategies
- D. Violation of fiduciary duty

Answer: D

Explanation: Churning, or excessive trading to generate commissions, is a violation of fiduciary duty, as it prioritizes the broker's interests over the client's.

Question: 1103

An investment adviser is approached by a potential client with a complex financial situation. What is the most appropriate first step the adviser should take?

- A. Conduct a thorough financial needs assessment.
- B. Immediately recommend a financial product.
- C. Schedule a follow-up meeting for later.
- D. Provide a generic investment brochure.

Answer: A

Explanation: The most appropriate first step is to conduct a thorough financial needs assessment to understand the client's unique situation and provide tailored advice.



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