



Series 65 Practice Questions

1. During a contraction all of the following may be present EXCEPT:
 - A. Falling stock markets
 - B. Increasing unemployment
 - C. Rising inventories
 - D. An increasing rate of inflation

2. Which is not a component of shareholders' equity?
 - A. Preferred stock at par
 - B. Common stock at par
 - C. Net income
 - D. Paid in surplus

3. Which statement is not correct about treasury bills?
 - A. They are sold at a discount
 - B. They have maturities of 4, 13, 26, or 52 weeks
 - C. They pay semi-annual interest
 - D. They are highly liquid

4. Regarding classes of mutual funds shares which is true?
 - A. They are exposed to different assets within the fund portfolio
 - B. They are exposed to different expenses and sales charges
 - C. Class A shares have a back-end load
 - D. Class B shares have a front-end load

5. All are true about an individual account EXCEPT:
 - A. There can be only one beneficial owner
 - B. The client must disclose their investment objective and risk tolerance so that the investment adviser representative can formulate the client's Investment Policy Statement
 - C. The account holder is the only one who can place orders to buy or sell within the account
 - D. The spouse of the account holder automatically has rights to the account

6. None of the forms of the efficient market hypothesis allow for excess returns to be earned using:
 - A. Inside information
 - B. Technical analysis
 - C. Fundamental analysis
 - D. Qualitative analysis



7. Which of the following would satisfy the requirement of investment selection under ERISA's Section 404(c) safe harbor provisions?
 - A. A small business with 40 young employees all under the age of 30 offers 10 equity funds to invest in
 - B. A business with 100 employees offers 10 different bond funds to invest in
 - C. A business offers a bond fund, equity fund, and a money market fund to invest in
 - D. A business offers three bond funds

8. Which of the following elements characterize an investment adviser:
 - I. Also registered as a broker-dealer
 - II. Provides advice or analysis about securities either by making direct or indirect recommendations to clients or by providing research or opinions on securities or securities markets
 - III. Receives compensation in any form for the advice provided
 - IV. Engages in a regular business of providing advice about securities
 - A. I, II, III, IV
 - B. I, IV
 - C. I, III
 - D. II, III, IV

9. Which of the following employees of an investment adviser would be required to be registered as an investment adviser representative?
 - A. Anna, who prepares client statements
 - B. Annmarie, a financial research analyst, who has no contact with public clients
 - C. Marie, who makes cold calls for new advisory clients
 - D. James, who is the head of human relations

10. Which of the following entities is involved in distributing shares of a new issue to the public?
 - A. Investment adviser
 - B. Broker-dealer
 - C. Investment adviser representative
 - D. Administrator



Series 65 Practice Questions Answers and Rationale

1. D An increasing rate of inflation would most commonly be found during a cycle of expansion (recovery). During a contraction some, or all, of the following may be present: rise in bankruptcies, increase in unemployment, falling stock markets, a decrease in the inflation rate, rising inventories, decreasing consumer spending, increasing housing inventories, decreasing business spending, decreasing business investment, and increasing bond defaults.
2. C Net income is found at the bottom of the income statement (although in bad years you would find a net loss here). That year's net income/net loss flows through to the shareholders' equity portion of the balance sheet as retained earnings. Retained earnings are cumulative for all of the good and bad years. The four components to shareholders' equity are as follows: retained earnings, preferred stock at par, common stock at par, and paid-in surplus. Retained earnings is the only component of shareholders' equity that is constantly changing. The other three components (paid in surplus, preferred stock, and common stock) only change when additional shares are issued.
3. C Treasury bills make up the bulk of the money market. They have maturities of 4, 13, 26, and 52 weeks. They are sold and traded at a discount from par. They do not pay semi-annual interest. The difference between the cost to purchase and the amount received at maturity is considered interest income for tax purposes.
4. B Mutual fund classes are all exposed to the same assets within the fund's portfolio. They differ in the expenses and sales charges. Class A shares have a front-end load and class B shares have a back-end load.
5. D In an individual account the spouse does not have any rights unless they have been given, in writing, third party trading authority.
6. B None of the forms of the efficient market hypothesis allows for excess returns to be earned using technical (quantitative) analysis.
7. C To meet the investment selection requirements of ERISA Section 404(c) the plan must offer, at minimum, three materially different investment selections.
8. D Three essential elements characterize an investment adviser: provides advice or analysis about securities either by making direct or indirect recommendations to clients or by providing research or opinions on securities or securities markets; receives compensation in any form for the advice provided; and engages in a regular business of providing advice about securities. Investment advisers may be registered as broker-dealers, but they are not required to be.
9. C An employee who solicits for new business for the investment adviser is required to be registered as an investment adviser representative.



10. B Broker-dealers are often involved in taking a company public through an initial public offering. When the broker-dealer helps to distribute shares of a new issue to the public they are acting as a securities underwriter.