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*Series 7 Exam*

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**by Steven M. Rice**



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## *About the Author*

After earning a high score on the Series 7 exam in the mid '90s, **Steve Rice** began his career as a stockbroker for a broker dealership with offices in Nassau County, Long Island, and in New York City. In addition to his duties as a registered representative, he also gained invaluable experience about securities registration rules and regulations when he worked in the firm's compliance office. But only after Steve began tutoring others in the firm to help them pass the Series 7 did he find his true calling as an instructor. Shortly thereafter, Steve became a founding partner and educator in Empire Stockbroker Training Institute (<http://www.empirestockbroker.com/>) which has grown into one of the largest and most successful securities training schools in the country.

In addition to writing the *Series 7 Exam For Dummies*, Steve developed and designed the Empire Stockbroker Training Institute online (*Series 7, Series 6, Series 63, Series 66*, and more) exams. Steve has also co-authored a complete library of securities training manuals for classroom use and for home study, including the *Series 4, Series 6, Series 7, Series 11, Series 24, Series 63, Series 65*, and *Series 66*. Steve's popular and highly acclaimed classes, online courses, and training manuals have helped tens of thousands of people achieve their goals and begin their lucrative new careers in the securities industry.

Steve lives on Long Island, NY, with his wife, Melissa Kollen-Rice, a real estate attorney, author of the book *Buying Real Estate Foreclosures*, and owner/instructor of LI Real Estate Training School.



# Dedication

I dedicate this book to my beautiful wife, Melissa. Melissa is the love of my life, my inspiration, and my best friend.

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# Introduction

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**S**o you want to be a stockbroker? The good news is that a career in the securities field can be extremely lucrative and rewarding. The not-so-good news is that anyone who plans to become a stockbroker and sell securities in any of the 50 states must first pass the Series 7 exam, a monster of a test. And to accomplish this, you have to commit time and effort.

I passed the Series 7 exam the first time with a very high score, but it required weeks of study and sacrifice. Those who aren't totally prepared on exam day are in for an unpleasant wake-up call. I always get a few students in every class who've enrolled after they already failed the exam the first (or second) time they took it. Most of them initially expected the same easy ride that they'd experienced in high school or college. Not only were they wrong, but they also had to pay hundreds of dollars to reregister for the exam and wait another 30 days (a mandatory FINRA rule) before they could retake the exam.

Back to the good news again. You're obviously interested in doing well, so you probably won't be one of those people. This book can help you pass the Series 7 and achieve your goal.

## *About This Book*

This book is not a comprehensive content review. That's what textbooks are for. Rather, *Series 7 Exam For Dummies* is designed to be a supplement, a handy guide as you figure out how to think not only like a financial adviser but also like the test designers do (and no, I don't mean to tap into your potential as an evil mastermind).

I cover the topics that always appear on the test, offer formulas, provide definitions, and go over the foundational information you need to know. I also include lots of tips and memory tricks. But the real benefit of this book is finding out how to study and think through problems as well as you possibly can. That's why I help you choose a study program, explain how to handle specific question types, warn you about common mistakes, connect concepts, and show you how to pull questions apart and get to the bottom of what's being asked. You then get to apply this knowledge in a two-part full-length practice test so you get a taste of the Series 7 experience.

This is a reference book, and most sections are self-contained. In other words, you can read a section and understand it without looking over the text that comes before it. When some background information is helpful, I give cross-references to related topics. Therefore, you can pretty much jump in and out whenever you find topics you like (and when you find those you don't). And like all good tour guides, I also point you to some other sites of interest — topics you can explore further on your own.

## *Conventions Used in This Book*

I use the following conventions throughout the text to make things consistent and easy to understand:

- ✓ All web addresses appear in monofont.  
When this book was printed, some web addresses may have needed to break across two lines of text. In those instances, you can rest assured that no extra characters (such as hyphens) have been added to indicate the break. Just type in exactly what you see in this book, pretending the break doesn't exist.
- ✓ New terms appear in *italics* and are closely followed by easy-to-understand definitions. Italics may also indicate emphasis.
- ✓ Key words in bulleted and numbered lists are **bold** to highlight the most important info.
- ✓ The use of gender-related pronouns alternates throughout the book (no preferential treatment is intended).

I've scattered sample questions throughout this book so you can test your understanding of new info and get a feel for Series 7 questions. And of course, for those sections that don't include questions, remember that the practice tests that come with this book deal with all kinds of subjects.

I also use the language and lingo of the FINRA. That means you see official names (like the Federal Reserve Board), nicknames (the Fed), and acronyms galore (like the FRB). That way, during the test, understanding the POPs, YTM's, TEYs, NAVs, EPSs, ADRs, LMVs, DRs, and so on shouldn't be too much of a hassle.

## *What You're Not to Read*

You don't have to read the index straight through or dally over the Library of Congress number and other publisher information, but most of the information here is important — the basic, need-to-know ideas. You can skim through the topics you know well and spend more time on those you don't, but I do suggest looking everything over.

If you're short on time (as you probably are) and aren't ready for a break just yet, you can skip the sidebars, those little gray boxes that contain interesting but nonessential information.

## *Foolish Assumptions*

While writing this book, I made a few assumptions about you and why you picked up this book. For starters, I assume that you're looking for a no-nonsense study guide to supplement your textbook or prep course — one that provides a ton of example questions and some sample exams. Look no further! Whether you're preparing to take the test for the first time, retaking the test after a less-than-stellar performance, or looking for a refresher before you recertify, this is the book for you!

## *How This Book Is Organized*

This book is organized into six parts and 22 chapters. Each part explains the test itself or covers a major area of study on the Series 7 exam. A glance at the Table of Contents can give you the specifics, but here's a quick overview of what's in each part.

---

## ***Part I: Gearing Up for the Series 7 Exam***

In this part, Chapter 1 gives you an overview of the Series 7 exam format and the registration process for taking the exam. Chapter 2 introduces you to exam prep courses and the types of study materials available. It also helps you develop and stick to a study plan. Chapter 3 runs down the kinds of questions on the Series 7 exam and explains how to handle them, and Chapter 4 tells you what to expect on exam day.

## ***Part II: Mastering Basic Security Investments***

This part covers the securities (stocks and bonds) that form the foundation of an investor's portfolio. Chapter 5 covers the security registration process. Chapter 6 introduces you to stocks (common and preferred). Chapters 7 and 8 acquaint you with bonds (corporate, U.S., and municipal).

## ***Part III: Delving Deeper: Security Investments with a Twist***

Part III covers additional strategies for buying and selling securities. Chapter 9 describes the process by which investors borrow money to purchase securities by opening margin accounts. Chapter 10 covers the role of investment companies in helping investors diversify their portfolios. Chapter 11 reviews direct participation programs (DPPs), more commonly known as limited partnerships; it mentions their formation, function, structure, tax advantages, and tax disadvantages. Chapter 12 introduces options, another type of investment vehicle that savvy investors use.

## ***Part IV: Playing Nicely: Serving Your Customers and Following the Rules***

This part covers the stockbroker's role in scrutinizing a customer's account, monitoring market conditions that can affect the account, and making appropriate recommendations that meet each customer's individual investment goals.

Chapter 13 helps you identify market conditions that can affect a customer's investment objectives. Chapter 14 covers how new securities are brought to the market and how existing securities are traded on the market. Chapter 15 goes into taxes; it distinguishes between long-term and short-term capital gains and losses for income tax purposes, explains the effect of retirement plans on an individual's income taxes, and gives retirement plan contribution limits. Chapter 16 looks at rules and regulations; it reviews the stockbroker's responsibilities for opening, closing, transferring, and handling a customer's account.

## ***Part V: Putting Your Knowledge to Good Use: A Practice Exam***

Jackpot! In this part you can find a two-part practice exam (Chapters 17 and 19) with 125 questions each — enough questions to simulate both three-hour parts of the actual Series 7 (without those pesky experimental questions that don't count toward your score). To make

the tests really useful, you also get the correct answers and explanations (Chapters 18 and 20). Completing and evaluating practice tests is one of the best ways to prepare for the Series 7 and to gauge your readiness for the real deal.

## *Part VI: The Part of Tens*

This part is standard in all *For Dummies* books, and this book is no exception. In Chapter 21, I reveal ten Series 7 exam traps to avoid, and in Chapter 22, I give you ten ways to make money as a stockbroker.

## *Icons Used in This Book*



To make this book easier to read and use, I include some icons to help you find and fathom key ideas and information.

This icon highlights example Series 7 test questions (which I follow with helpful answer explanations).



This icon is attached to shortcuts and insider advice for studying for and passing the Series 7 exam.



This icon points to information that's especially important to remember in order to do well on the test.



This icon warns you away from actions that can harm your work and drop your score.

## *Where to Go from Here*

Although you can read this book from start to finish, you can certainly work your way through in more creative ways. Where you start is up to you, though please, please don't start with the tests! Give yourself a good grounding in the content here, and then use the tests to evaluate your understanding and show you where to focus your studies. You can flip to the topics you think you understand fairly well to boost your confidence or skip directly to whatever's giving you trouble — let the index and the table of contents be your guides. If you have a good understanding of how to take the Series 7 exam, from how it's structured to how to tackle questions, then you can go directly to the chapters in Parts II or III, which address types of securities. If you're feeling shaky on the legal aspects, check out the FINRA rules and regulations in Part IV. Everyone, however, can probably benefit from Part I's test-taking basics and info on study plans. Wherever you go, feel free to take detours to your textbooks, flash cards, FINRA websites, and any other resources for more information. Just remember to come back so you don't miss anything here!

# Part I

## Gearing Up for the Series 7 Exam

The 5<sup>th</sup> Wave

By Rich Tennant



"I always get a good night's sleep the day before a test so I'm relaxed and alert the next morning. Then I grab my pen, eat a banana, and I'm on my way."

## *In this part . . .*

**A**re you looking for a job that can lead to wealth and success? Do you find satisfaction in helping people? Are you comfortable with mathematical calculations? If so, a career as a stockbroker is likely to be very rewarding for you.

By now, I'm sure you're aware of the hurdle that stands between you and your riches: the Series 7 exam. So in this part, I review the computerized exam format and the procedures for registering to take the exam, and I uncover the topics tested on the Series 7. I help you select the right study course and materials to prepare yourself for exam day, and I explain how to organize your study time efficiently and effectively — even when your time is limited. I also give you test-taking tips to maximize your chances of selecting the correct answer choices. Finally, I let you know what to expect on test day (because the only surprises that day should involve the triumphant return of your social life).

## Chapter 1

# So You Want to Sell Securities: Introducing the Series 7 Exam

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### *In This Chapter*

- ▶ Introducing the Series 7
  - ▶ Taking a look at companion tests
  - ▶ Getting a sponsor and registering to take the exam
  - ▶ Uncovering topics tested on the Series 7
  - ▶ Mastering the computerized exam format
- 

**C**ongratulations on your interest in becoming a stockbroker! But before you can lose yourself in the energy of the office, the eager voices of your clients, and the warm glow of success, you have to face the Series 7. In this chapter, I give you an overview of the Series 7 exam, including its purpose, structure, format, scoring, and some helpful tips to guide you through the registration procedure.

## *What Is the Series 7 Exam, Anyway?*

The Series 7 exam qualifies you to hold the title General Securities Registered Representative (stockbroker), to sell many different types of securities, and to hopefully make stacks of money for your clients (and a bit for yourself). Individuals who earn their license by passing the Series 7 exam are qualified to solicit, purchase, and/or sell securities products, including

- ✓ Corporate stocks and bonds
- ✓ Municipal bonds
- ✓ U.S. government bonds
- ✓ Options
- ✓ Direct participation programs (limited partnerships)
- ✓ Investment-company securities
- ✓ Variable contracts

The exam's purpose is to protect the investing public by ensuring that the registered reps who sell securities have mastered the skills and general knowledge that competent practicing stockbrokers need to have.

The Series 7 itself is a computer-based exam given at Prometric and Pearson VUE (Virtual University Enterprises) test centers throughout the United States. The 250-question exam,

administered by the Financial Industry Regulatory Authority (FINRA), is six long, arduous hours in duration. A score of 72 percent or better gets candidates a passing grade and puts big smiles on their faces.

The sections later in this chapter explain the setup of the Series 7 and give a rundown of how to register for the exam. If you have other questions, contact the FINRA Call Center at 301-590-6500 or visit [www.finra.org/Industry/Compliance/Registration/QualificationsExams/RegisteredReps/Brochure/P009865](http://www.finra.org/Industry/Compliance/Registration/QualificationsExams/RegisteredReps/Brochure/P009865).

## *Profiling the Series 7 Exam-Taker*

The Series 7 exam is for people who want to

- ✓ Enter the securities industry
- ✓ Become registered representatives
- ✓ Work for a securities broker-dealer

Although some less-prestigious exams (for example, the Series 6 and 62) can qualify you to sell some securities, most broker-dealers want their rising stars (that's you) to have the Series 7 license. That way, you can work with almost the whole kit and caboodle — corporate stocks and bonds, municipal and U.S. government bonds, options, direct participation programs, investment companies, variable contracts, and so on.

People who have a long and sordid history of embezzlement, forgery, and fraud are generally disqualified and precluded from taking the exam. Candidates must disclose any prior criminal records, and the FINRA reviews each application on a case-by-case basis.

## *One's Not Enough: Tackling the Series 63 or Series 66*

You don't have to pass any prerequisite exams before you can take the Series 7; however, you do need to pass the Series 63 or Series 66 to be able to work in the securities industry because these exams and the Series 7 are corequisites in most states. You can take the Series 63 or 66 either before or after you take the Series 7, but most people start studying for the Series 63 or 66 and register to take it right after passing the Series 7.

**Note:** Even if you live in a state that doesn't require either of these licenses, you still need to obtain one if you want to sell securities to someone who lives in a state that does require it. Just figure that your firm will require you to obtain the 63 or 66 to sell securities — your firm should tell you which one to take. The following sections explain what the two state-licensing exams cover.

### *Series 63: Uniform Securities Agent State Law Exam*

The Series 63 is a 65-question test that the North American Securities Administrator Association (NASAA) developed, and it's designed to qualify candidates as securities agents. The Series 63 exam covers state securities regulation rules as well as rules