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Steven M. Rice

Author of *Securities Industry
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Series 7 Exam 2022-2023

by Steven M. Rice

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Series 7 Exam 2022-2023 For Dummies®

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Introduction

So 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, which is no joke. And to accomplish this, you have to commit time and effort.

I passed the Series 7 exam (back when 250 questions counted toward your score) 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 should be all you need to pass the exam, although I certainly encourage you to view other materials and take whatever exams you can get your hands on.

I cover the topics that 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 a few 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 two full-length practice tests 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.

I've scattered sample questions throughout this book so you can test your understanding of new info and get a feel for Series 7 exam questions. I've also added a quiz and detailed answer explanations at the end of each chapter in Parts 2, 3, and 4 (which cover the subject matter of the exam). 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 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.

If you're short on time, you can skip the sidebars, which are 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 that provides you with the meat and potatoes you need to pass the Series 7 along with a ton of example questions and some sample exams. Well, 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!

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.



EXAMPLE

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



TIP

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



REMEMBER

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



WARNING

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

Beyond the Book

In addition to reference material and sample exams, this book also comes with access to some really useful online material. For additional tips and tricks, check out this book's free Cheat Sheet by going to www.dummies.com and typing for "Series 7 Exam For Dummies cheat sheet" in the search box.

You also get access to an online database of practice exams. The two exams in this book are online, and you can also take two additional exams for even more practice.

To gain access to the four online exams, all you have to do is register. Just follow these simple steps:

- 1. Register your book or ebook at Dummies.com to get your PIN. Go to www.dummies.com/go/getaccess.**
- 2. Select your product from the dropdown list on that page.**
- 3. Follow the prompts to validate your product, and then check your email for a confirmation message that includes your PIN and instructions for logging in.**

If you do not receive this email within two hours, please check your spam folder before contacting us through our Technical Support website at <http://support.wiley.com> or by phone at 877-762-2974.

Now you're ready to go! You can come back to the practice material as often as you want — simply log on with the username and password you created during your initial login. No need to enter the access code a second time.

Your registration is good for one year from the day you activate your PIN.

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 2 or 3, which address types of securities. If you're feeling shaky on the legal aspects, check out the FINRA rules and regulations in Part 4. Everyone, however, can probably benefit from Part 1'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!

1

Gearing Up for the Series 7 Exam

IN THIS PART . . .

Review the computerized exam format and the procedures for registering to take the Series 7 exam.

Select the right study course and materials to prepare yourself for exam day.

Understand how to organize your study time efficiently and effectively.

Learn test-taking tips to improve your chances of scoring well.

Discover what to expect on test day.

- » 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

Chapter 1

Introducing the Series 7 Exam

Congratulations on your interest in becoming a stockbroker (or registered representative, to use the parlance of our times). 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. By this point, you've probably already taken the co-requisite Securities Industry Essentials (SIE) exam, so you should be somewhat familiar with the effort taken to pass a securities exam.

What Is the Series 7 Exam, Anyway?

The Series 7 exam (Series 7 top-off 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 (www.prometric.com/finra) test centers throughout the United States. The 125-question exam, administered by the Financial Industry Regulatory Authority (FINRA), is three hours and 45 minutes 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 Support Team at 240-386-4040 or visit www.finra.org/industry/qualification-exams.

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) 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 FINRA reviews each application on a case-by-case basis.

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

As of October 1, 2018, FINRA upset the applecart by dividing the Series 7 into the Securities Industry Essentials exam and the Series 7 (Series 7 top-off) exam. Because you don't need a sponsor to take the Securities Industry Essentials exam, you've probably already taken it. So, after tackling the Securities Industry Essential and Series 7 exams, you'll have to take one of the state licensing exams. You'll 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 co-requisites 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 prohibiting unethical and dishonest business practices (not that you'd do anything like that). The Series 63 used to be the most common test taken along with the Series 7 and SIE. Judging by class sizes, however, I would say that around twice as many Series 7 students are now taking the Series 66 as compared to the Series 63.

Series 66: Uniform Combined State Law Exam

The Series 66 is a 100-question NASAA exam that combines the Series 63 and the Series 65 (Uniform Investment Adviser). The Series 66 is designed to qualify candidates as both securities agents and investment adviser representatives (IARs). The Series 65 portion of the Series 66 allows you to collect a fee for just giving investment advice. This license was implemented several years ago, and it'll most likely be required if you work for one of the bigger broker-dealers. More and more firms are requiring the Series 66 because it gives their registered reps an additional service to provide for their clients and an additional way for you (and your firm) to make money.

Securing Sponsorship and Signing Up

All candidates (that's you) must have a sponsoring broker in order to register for the Series 7 exam. After passing the exam, your license will be in your own name; however, you have to be working for a firm in order for your license to be active. Generally, a firm hires you and then acts as your sponsor.

The following sections explain the basic exam requirements and help you navigate your way through the exam registration process.

Filling out an application to enroll

For you to obtain admission to the Series 7, your sponsoring firm has to file an application form (called a U-4) and pay the required processing fees with the Central Registration Depository (CRD). The U-4 is an annoying little form with about a gazillion pages that requires you to remember where you were ten years ago. You're also required to submit your fingerprints, and you have to complete this step through an approved facility. Your firm will likely recommend the place it uses — often the local police precinct. (Be advised that your sponsoring firm will probably frown upon your fingerprints if they're attached to your mug shot.)

If you want to see a preview of the U-4 registration form that you're responsible for filling out and that your firm has to submit, go to www.finra.org/sites/default/files/form-u4.pdf.

It's a date! Scheduling your exam

After your firm files the application with the Central Registration Depository and receives your enrollment notification, you can schedule an appointment to take the exam by contacting the Prometric Testing Center. Locate the test center nearest you by calling the Prometric center (800-578-6273) during business hours. Or you can visit www.prometric.com/test-takers/search/1finra to schedule to take your exam at either a Prometric testing center or to schedule for online delivery to take the test at your location.



REMEMBER

At the present time, online testing is relatively new. At the end of this chapter, I discuss what you need to do to take the exam online. Check out the sidebar “Can You Take the Test at Your Location?”

Your Series 7 exam enrollment is valid for 120 days — you have to take the exam within this time frame. When scheduling your exam appointment, be ready to provide the exam administrators with

- » Your name and Social Security number and/or FINRA number
- » The name of your firm
- » A telephone contact to reach you and your employer
- » The name of the securities exam you're registering to take
- » Your desired test date

Getting an appointment usually takes about one to two weeks, depending on the time of year (you may wait longer in the summer than around Christmastime). Prometric will confirm your appointment on the phone or via email.



TIP

I suggest putting pressure on yourself and scheduling the exam a little sooner than you think you may be ready to take it; you can always move the test date back. (There will be a charge if you cancel within ten business days of your test date.) You know yourself best, but I think most students study better when they have a target test date.

You have a choice of locations to take the exam. If you're a travelin' man (or woman), you may want to schedule your exam at a location far away (maybe even in a different state) to get the test date that you want.

After you have your test date set, you may find that you're ready sooner or will be ready later than your scheduled appointment. The exam center administrators are usually pretty accommodating about changing appointments and/or locations as long as you call before noon at least two business days before your test date, but there may be a fee involved.

You can get an extension from the 120-day enrollment only if you call within ten days of your enrollment expiration and if no earlier test dates are available.

Planning ahead for special accommodations

If you require special accommodations when taking your Series 7 exam, you can't schedule your exam online. You have to contact the FINRA Special Conditions Team at 800-999-6647 or fill out the special-accommodations form at www.finra.org/sites/default/files/SA-Eligibility-Questionnaire.pdf. Read on for info on what the test administrators can do if you have a disability or if English isn't your first language.



WARNING

Depending on your testing center, you may have to receive authorization to bring medical devices and supplies — such as insulin pumps, eye drops, and inhalers — into the testing room. If you need authorization, call your local Prometric testing center, and they'll be able to guide you on the approval process.

Americans with Disabilities Act (ADA) candidates

If you're disabled or learning impaired, FINRA provides testing modifications and aids in compliance with the provisions of the Americans with Disabilities Act (ADA). To qualify for ADA provisions, your disabilities have to permanently limit a major life activity, such as learning, speech, hearing, or vision.

To apply for special accommodations, you need to submit documentation from your physician or licensed healthcare professional to FINRA, along with a letter from your sponsoring firm requesting the special arrangements. Additionally, you have to submit the FINRA Special Accommodations Eligibility Questionnaire and Special Accommodations Verification Request Form for all special arrangement requests. (You can find links to the forms at www.finra.org/industry/special-accommodations.)

You may request the accommodations you want approved; possible aids include

- » Extra time
- » A written exam (pencil and paper)
- » A reader, writer, or recorder
- » A sign language interpreter
- » A large-print exam booklet
- » Wheelchair-accessible locations

FINRA reserves the right to make all final decisions about accommodations on a case-by-case basis.

English as a second language (ESL) candidates

If English is your second language, you can request additional time to take the exam when you schedule your SIE test date. If FINRA approves, you receive a little extra time to complete the exam. In general, it gives an extra 30 minutes for exams less than two hours and an extra hour for exams over two hours.

To qualify for extra time due to English being your second language (LEP — Limited English Proficiency), fill out the form at www.finra.org/sites/default/files/LEP-request-form.pdf.

Just in case: Cancelling as an option

If something comes up or if you feel you're just not ready, you can cancel your appointment to take the Series 7 exam without penalty if you do so at least ten business days before the exam date. If a holiday falls within the cancellation period, you have to cancel an additional business day earlier. For example, if you're scheduled to take the exam on a Wednesday, you have to cancel on Tuesday two weeks before your exam date. If a holiday falls between those dates, you have to cancel on Monday two weeks before your exam date. For more information, you can visit www.finra.org/industry/reschedule-or-cancel-your-appointment.

TEST CENTER AMENITIES

Series 7 test centers are required to comply with FINRA site guidelines; however, some of the older centers may not have the amenities that the newer ones do (such as lockers and earplugs). To protect yourself from a whole variety of unpleasant, unexpected site surprises on exam day, the FINRA website (www.finra.org) offers general information, including test center security guidelines (including candidate ID requirements, personal items allowed, and provided aids), test center rules of conduct, and so on. For more site-specific questions, like whether a cafeteria, vending machines, or lockers are on site, ask the center's administrator when you schedule your test date.

This book was written many months into the Covid 19 pandemic. As of now, most closed testing centers have reopened at either full or limited capacity. Certainly, due to state and local government mandates, some testing sites may be more affected than others. The situation remains fluid and may change as the number of virus-infected individuals increases or decreases. I would suggest you check the following link for the latest Prometric updates: www.prometric.com/corona-virus-update. In addition, FINRA in combination with NASAA, have recently set up an online testing service. For the latest, go to www.finra.org/rules-guidance/key-topics/covid-19/exams.



WARNING

If you cancel after the proscribed deadline, if you don't show up to take the exam, or if you show up too late to take the exam, you will be charged a cancellation fee equal to the Series 7 exam fee paid by your firm. I'm sure the old "I forgot" excuse has been tried but I've never heard of it being effective.

Taking a Peek at the Tested Topics

As a practical exam, the Series 7 requires you to master vocabulary, handle customer accounts, understand the rules and regulations that govern the securities industry, and yes, work with some math formulas. For ease of use (and because humans have a limited life span), this book focuses on the most commonly tested topics on the Series 7 exam. Here's an overview of what to expect:

- » The underwriting process (how new securities come to market) (Chapter 5)
- » Common and preferred stock (Chapter 6)
- » Corporate bonds and U.S. government securities (Chapter 7)
- » Securities issued by local governments (municipal bonds) (Chapter 8)
- » Margin accounts (using money borrowed from broker-dealers to purchase securities) (Chapter 9)
- » Investment companies (including mutual and closed-end funds) (Chapter 10)
- » Direct participation programs (limited partnerships) (Chapter 11)
- » Options (Chapter 12)
- » Analyzing the benefits and risks associated with investments; making appropriate recommendations to customers (Chapter 13)
- » Following how new securities are brought to the market and how existing securities are traded in the market (Chapter 14)
- » Risk considerations and income-tax implications that stock market investors face (Chapter 15)
- » Rules and regulations governing the purchase and sale of securities and the registered representative's responsibility for maintaining accurate recordkeeping (Chapter 16)