

125-Question Practice Final

*Modeled on real exam patterns and
Style*

125
QUESTIONS

How to use this
12

TOPICS
3h 45m EXAMPA
CING

- Take it cold and untimed the first pass — track which ones felt like guesses
 - Time yourself on a second pass at 3h 45m to simulate the real exam •
- Cross-reference with the full rationales (separate document)

1. An aggressive 35-year-old customer with a long time horizon and stable income is concerned about inflation eroding his purchasing power. The registered representative should recommend a portfolio weighted toward:

- A. long-term government bonds
- B. equities and inflation-linked securities
- C. money market instruments and cash equivalents
- D. fixed annuities and bank certificates of deposit

2. In a limited partnership, a limited partner who actively participates in the management of the partnership risks:

- A. loss of the depreciation flow-through benefit
- B. loss of limited liability status
- C. forfeiture of the original capital contribution
- D. recharacterization of income as portfolio income

3. To qualify as a real estate investment trust under federal tax law, the entity must distribute to shareholders at least:

- A. 75% of net investment income each year
- B. 90% of taxable income each year
- C. 95% of gross income each year
- D. 100% of capital gains each year

4. A customer's diversified equity portfolio has a beta of 1.20. If the broad market declines by 10%, the customer's portfolio will most likely:

- A. decline by approximately 8.3%
- B. decline by approximately 10%
- C. decline by approximately 12%
- D. decline less than the market due to diversification

5. The minimum maintenance requirement under FINRA rules for a long margin account is:

- A.** 25% of the long market value
- B.** 30% of the long market value
- C.** 35% of the long market value
- D.** 50% of the long market value

6. A customer signs a letter of intent to reach a \$50,000 breakpoint within 13 months but contributes only \$42,000 by the end of the period. The fund will:

- A.** rescind the breakpoint and refund all sales charges paid
- B.** apply the higher sales charge retroactively to the \$42,000 invested
- C.** liquidate enough of the escrowed shares to recover the higher sales charge
- D.** allow the breakpoint to remain because the customer made a good-faith effort

7. Which of the following customers is most appropriate for a direct participation program investment?

- A.** A customer in a low tax bracket who needs immediate income
- B.** A customer with high net worth, high tax bracket, and tolerance for illiquidity
- C.** A customer nearing retirement seeking preservation of capital
- D.** A customer who wants liquidity and exchange-listed price discovery

8. A customer is long 100 shares of XYZ at \$48 and writes 1 XYZ October 50 call at \$3. If the call is exercised when XYZ is trading at \$54, what is the customer's gain?

- A.** \$200
- B.** \$300
- C.** \$500

D. \$700

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9. A customer establishes the following position: short 100 shares of XYZ at \$40 and writes 1 XYZ July 35 put at \$2. What is the breakeven on the combined position?

- A. \$33**
- B. \$37**
- C. \$40**
- D. \$42**

10. A company announces a 3-for-1 stock split. A customer who owned 200 shares purchased at \$90 will, after the split, hold:

- A. 600 shares with a cost basis of \$30 per share**
- B. 600 shares with a cost basis of \$90 per share**
- C. 200 shares with a cost basis of \$30 per share**
- D. 200 shares with a cost basis of \$270 per share**

11. Before opening an options account, a registered representative must ensure that the customer has been provided with which of the following documents?

- A. An options agreement**
- B. The Characteristics and Risks of Standardized Options**
- C. A signed new account form**
- D. The firm's most recent options strategy report**

12. In April, a customer buys 1 XYZ July 50 call at \$4 and writes 1 XYZ October 50 call at \$6. The customer has established a:

- A. ratio spread**

- B.** calendar spread
- C.** diagonal spread
- D.** vertical spread

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13. A customer who has a profit on a long position in XYZ wants to defer the gain to the following tax year while protecting against a near-term decline. The most appropriate strategy is:

- A.** buy a protective put on XYZ
- B.** sell the stock and immediately repurchase 31 days later
- C.** sell the stock and write a put at the same strike
- D.** buy a deep-in-the-money call on XYZ

14. A customer who purchases a Ginnie Mae pass-through security receives:

- A.** monthly principal and interest payments based on the underlying mortgage pool
- B.** semiannual interest only, with principal paid at maturity
- C.** quarterly principal and interest at a stated coupon
- D.** only principal at maturity, with no current income

15. Which of the following agencies' securities carry the explicit guarantee of the U.S. government?

- A.** Federal National Mortgage Association
- B.** Federal Home Loan Mortgage Corporation
- C.** Government National Mortgage Association
- D.** Federal Home Loan Bank

16. During the annuity payout phase of a variable annuity, the number of annuity

units the contract holder receives each month:

- A.** increases as the separate account performs above the AIR
- B.** remains fixed for the life of the contract
- C.** varies inversely with the performance of the separate account
- D.** increases each year by a guaranteed cost-of-living adjustment

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17. The maximum 12b-1 fee that a fund may charge while still being marketed as no-load under FINRA rules is:

- A.** 0.10%
- B.** 0.25%
- C.** 0.50%
- D.** 0.75%

18. Before a customer can execute the first trade in a margin account, the firm must:

- A.** obtain the customer's signed margin agreement and hypothecation agreement
- B.** obtain a deposit equal to 100% of the planned first transaction
- C.** provide the customer with the firm's most recent audited financial statements
- D.** obtain approval from a Registered Options Principal

19. The Volatility Index (VIX) is best described as a measurement of implied volatility in near-term option contracts on which of the following indexes?

- A.** S&P 100
- B.** Dow Jones Industrial Average
- C.** Russell 2000
- D.** S&P 500

20. Which of the following best describes diversification within a customer's equity portfolio?

- A.** Holding shares of three different growth funds from three different fund families
- B.** Holding stocks across multiple sectors and market capitalizations
- C.** Holding a single index fund that tracks the S&P 500
- D.** Holding a concentrated position in a blue-chip stock

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21. Which of the following must be included in a mutual fund's summary prospectus?

- A.** The fund's complete portfolio holdings as of the most recent quarter
- B.** Performance projections for the upcoming twelve months
- C.** A list of the directors and officers of the fund's investment adviser
- D.** The fund's investment objectives, fees, and principal risks

22. A company reports earnings per share of \$4.00 and pays an annual dividend of \$1.20. The dividend payout ratio is:

- A.** 25%
- B.** 30%
- C.** 33%
- D.** 40%

23. A customer who purchases Treasury Inflation-Protected Securities (TIPS) is protected primarily against:

- A.** credit risk on the underlying issuer

- B. erosion of purchasing power due to inflation
- C. early call risk if interest rates decline
- D. reinvestment risk on coupon payments

24. A company with 5 million shares outstanding announces a rights offering of 1 million additional shares. A customer who owns 5,000 shares will receive:

- A. 5,000 rights, exercisable for 1,000 shares
- B. 5,000 rights, exercisable for 5,000 shares
- C. 1,000 rights, exercisable for 1,000 shares
- D. 1,000 rights, exercisable for 5,000 shares

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25. During a period of rising prices, a company that uses LIFO inventory accounting compared with FIFO will report:

- A. lower cost of goods sold and higher reported profits
- B. lower cost of goods sold and lower reported profits
- C. higher cost of goods sold and higher reported profits
- D. higher cost of goods sold and lower reported profits

26. A customer owns a 5% convertible debenture with \$1,000 par value, convertible into common stock at \$40. The conversion ratio is:

- A. 25 shares per bond
- B. 50 shares per bond
- C. 200 shares per bond
- D. 250 shares per bond

27. A municipality is considering issuing a bond anticipation note. The

municipality's most likely reason for using a BAN is to:

- A.** provide cash flow to cover ongoing operating expenses
- B.** refund an existing bond issue at lower interest rates
- C.** attract investors subject to the alternative minimum tax
- D.** fund a capital project until long-term financing is arranged

28. A customer two years from retirement informs his registered representative that he wants to reduce risk in his portfolio. The most appropriate change is to:

- A.** reduce equity exposure and increase intermediate-term investment-grade bonds
- B.** increase exposure to high-yield corporate bonds
- C.** shift entirely to non-traded REITs for current income
- D.** concentrate the portfolio in growth stocks for a final push

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29. A customer writes 1 XYZ April 60 call at \$4 against 100 shares of XYZ purchased at \$58. What is the maximum gain on the combined position?

- A.** \$200
- B.** \$400
- C.** \$600
- D.** Unlimited

30. A customer holds a non-qualified variable annuity with a cost basis of \$50,000 and a current value of \$80,000. If the customer takes a \$20,000 withdrawal at age 55, the tax consequence will be:

- A.** \$20,000 taxed as ordinary income plus a 10% early-withdrawal penalty
- B.** \$20,000 taxed at long-term capital gains rates with no penalty
- C.** \$20,000 returned tax-free as a recovery of basis
- D.** \$10,000 taxed as ordinary income, \$10,000 returned tax-free

31. Modern Portfolio Theory holds that the optimal portfolio: **A.** minimizes risk for a given level of expected return

B. concentrates investments in the highest-returning asset class **C.** eliminates all risk through proper diversification
D. produces the highest possible return regardless of risk

32. A customer who anticipates falling interest rates and wants to maximize potential capital appreciation should purchase:

A. a short-term bond with a low coupon
B. a long-term bond with a high coupon
C. a short-term bond with a high coupon
D. a long-term bond with a low coupon

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33. A municipality's general obligation bonds are sold through a competitive sale. The bonds will be awarded to the bidding syndicate that submits the:

A. lowest net interest cost or true interest cost
B. highest premium price
C. lowest spread to the underwriter
D. highest coupon rate

34. A customer who is bullish on the U.S. dollar relative to the euro would most likely:

A. buy euro puts
B. buy euro calls

- C. write euro puts
- D. buy U.S. dollar calls

35. A registered representative recommends an exchange of mutual fund shares from one fund family to another with substantially similar objectives and performance. The primary suitability concern is:

- A. the customer's prior holding period and recordkeeping
- B. the number of shares the customer will hold after the exchange
- C. the current net asset value of both funds
- D. the new sales charge incurred on the exchange

36. Under FINRA rules, when making a recommendation to purchase a deferred variable annuity, the registered representative must disclose:

- A. the rating of the issuing insurance company
- B. the historical performance of the insurance company's general account
- C. the names of the subaccount portfolio managers
- D. the surrender period and applicable surrender charges

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37. A reverse convertible bond can result in the investor receiving less than the principal amount at maturity if:

- A. the underlying stock trades above the original price
- B. the underlying stock trades below the knock-in price
- C. interest rates rise above the bond's coupon rate
- D. the issuer redeems the bond prior to maturity

38. Which of the following municipal bonds is most appropriate for a customer whose primary objective is preservation of capital?

- A.** Industrial development revenue bond
- B.** Pre-refunded bond escrowed in U.S. government securities
- C.** Revenue anticipation note from a small municipality
- D.** Moral obligation bond from a state authority

39. The Options Clearing Corporation (OCC) is responsible for which of the following functions?

- A.** Issuing and guaranteeing options contracts
- B.** Listing new options on exchanges
- C.** Setting strike prices and expirations for new contracts
- D.** Approving customer accounts for options trading

40. A unit investment trust differs from an open-end mutual fund primarily in that a UIT:

- A.** is actively managed by an investment adviser
- B.** has a fixed portfolio and a stated termination date
- C.** issues shares that trade on an exchange throughout the day
- D.** is not registered under the Investment Company Act of 1940

41. A customer who wants intraday pricing, low expense ratios, and tax efficiency would most likely invest in:

- A.** a no-load open-end fund
- B.** a closed-end fund trading at a premium to NAV
- C.** a unit investment trust holding municipal bonds
- D.** an exchange-traded fund tracking an index

42. Under MSRB rules, a registered representative aware of a credit rating downgrade on a municipal bond she is recommending to a customer must disclose the downgrade:

- A.** on the trade confirmation
- B.** in writing within five business days of the trade
- C.** at or prior to the time of the transaction
- D.** only if the customer specifically asks about ratings

43. A customer is comparing two open-end mutual funds with similar objectives and identical historical returns. Fund A has an expense ratio of 1.25% and Fund B has an expense ratio of 0.45%. The most appropriate consideration is that:

- A.** Fund A is more likely to outperform because higher fees fund better research
- B.** Fund B is more likely to deliver higher net returns over time
- C.** Fund A's higher fees suggest superior portfolio management
- D.** Fund B's lower fees indicate it is a closed-end fund

44. Which of the following statements is true regarding the official statement for a new-issue municipal offering?

- A.** It must be filed with the SEC prior to the offering
- B.** It is the disclosure document analogous to a corporate prospectus
- C.** It must contain the underwriting spread and selling concessions
- D.** It is required to be delivered only after the closing date

45. A registered representative is recommending blue-chip common stock to a customer seeking long-term growth and modest income. The most appropriate way to characterize the dividend yield is:

- A.** indicated annual dividend divided by par value

- B.** indicated annual dividend divided by current market price
- C.** trailing four-quarter dividend divided by closing price on ex-date
- D.** next quarterly dividend annualized and divided by purchase price

46. A technical analyst is least likely to use which of the following indicators? **A.** Trading volume

B. Support and resistance levels

C. Moving averages

D. Earnings per share

47. The minimum maintenance requirement on a customer's short margin account is:

A. 25% of the short market value

B. 50% of the short market value

C. 35% of the short market value

D. 30% of the short market value

48. A customer buys 1 XYZ October 50 call at \$4 and is later assigned when the stock is trading at \$58. For tax purposes, the customer's cost basis in the resulting stock position is:

A. \$46 per share

B. \$50 per share

C. \$54 per share

D. \$58 per share

49. A company's current ratio is best used to measure:

- A. profitability
- B. operating efficiency
- C. financial leverage
- D. liquidity

50. A customer wants to sell short 500 shares of ABC, which is currently quoted at \$25 bid, \$25.05 ask. Before the order can be executed, the registered representative must:

- A. obtain written authorization from the customer for the short sale
- B. obtain approval from a Registered Options Principal
- C. wait until the stock has traded on a plus tick or zero-plus tick
- D. confirm that the security can be borrowed and delivered for settlement

51. Which of the following best describes commercial paper? **A.** Long-term unsecured corporate debt issued at a discount

- B. Long-term subordinated corporate debt sold at par
- C. Short-term secured corporate debt issued at par
- D. Short-term unsecured promissory notes issued at a discount

52. Which of the following call provisions on a callable municipal bond is used in the price-to-call calculation on a customer confirmation?

- A. Catastrophe call
- B. Sinking-fund call
- C. Optional call in whole
- D. Extraordinary mandatory call

53. A 1035 exchange between two variable annuity contracts allows the customer to:

- A.** defer recognition of gain from the surrender of the original contract
- B.** avoid all surrender charges that would otherwise apply
- C.** receive a stepped-up cost basis in the new contract
- D.** eliminate the early withdrawal penalty on subsequent distributions

54. A customer is offered a municipal bond with a 5% coupon, callable at par in five years and maturing in 15 years, currently priced at 102. Under MSRB rules, the yield shown on the customer's confirmation must be the:

- A.** yield to maturity
- B.** current yield
- C.** coupon yield
- D.** yield to call

55. A 30-year-old customer with stable employment, no dependents, and an aggressive risk tolerance contributes \$7,000 to a Roth IRA. The customer wants to maximize potential growth. The most appropriate investment is:

- A.** a balanced fund holding 60% stocks and 40% bonds
- B.** a diversified equity fund focused on growth
- C.** an investment-grade corporate bond fund
- D.** a money market fund

56. A customer purchases a tax-exempt municipal bond at a premium. The premium amortization for tax purposes:

- A.** reduces the customer's cost basis but is not deductible
- B.** is deductible against ordinary income each year
- C.** creates a capital loss at maturity equal to the premium

D. is treated as a nondeductible adjustment to interest income Series 7 Whisperer •

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57. A customer with an objective of preservation of capital and current income in retirement asks his registered representative for a recommendation. The most appropriate investment is:

- A.** a Treasury inflation-protected security
- B.** a high-yield corporate bond fund
- C.** a leveraged exchange-traded fund
- D.** an oil and gas direct participation program

58. A customer wants exposure to commercial real estate but also wants daily liquidity and exchange-traded pricing. The most appropriate investment is:

- A.** a non-traded REIT
- B.** a private real estate investment fund
- C.** a real estate limited partnership
- D.** a publicly traded equity REIT

59. A customer who anticipates a sharp price move in XYZ stock but is uncertain of direction would most likely establish which of the following positions?

- A.** Bull call spread
- B.** Bear put spread
- C.** Long straddle
- D.** Short straddle

60. Upon the dissolution of a limited partnership, the order of priority for distribution of remaining assets is:

- A.** limited partners, secured creditors, general partners, general creditors
- B.** general creditors, secured creditors, general partners, limited partners
- C.** general partners, secured creditors, general creditors, limited partners
- D.** secured creditors, general creditors, limited partners, general partners

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61. A customer in a high tax bracket who is also subject to the alternative minimum tax is comparing the following municipal bonds, all with identical pre-tax yields. The customer's best choice is:

- A.** a public-purpose general obligation bond
- B.** a private-activity bond financing a sports facility
- C.** a private-activity bond financing an industrial development project
- D.** a taxable municipal bond

62. A customer purchases 10 corporate bonds at 98 with \$250 in accrued interest. The customer's total cost on the trade confirmation is:

- A.** \$9,800
- B.** \$9,800 plus commission
- C.** \$10,050
- D.** \$10,050 plus commission

63. A registered representative meets with a 40-year-old customer who has a \$500,000 inheritance to invest. The customer's profile shows: moderate risk tolerance, 25-year horizon, primary objective of growth and income. Which allocation is most appropriate?

- A. 70% equities, 25% bonds, 5% cash
- B. 100% large-cap growth equities
- C. 80% high-yield bonds, 20% money market
- D. 50% commodities, 50% emerging-market equities

64. The primary distinction between an agency CMO and a private-label CMO is that:

- A. agency CMOs hold only jumbo mortgages while private-label CMOs hold subprime mortgages
- B. agency CMOs carry the credit backing of the issuing agency while private label CMOs rely on internal credit enhancement
- C. agency CMOs are exempt from SEC registration while private-label CMOs must register
- D. agency CMOs pay principal monthly while private-label CMOs pay principal only at maturity

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65. A customer in a 32% federal tax bracket is comparing a 4.5% municipal bond with a corporate bond. The taxable equivalent yield of the municipal bond is approximately:

- A. 5.40%
- B. 6.00%
- C. 6.62%
- D. 14.06%

66. A registered representative recommends an options strategy for a customer who is moderately bullish on XYZ and wants to reduce the premium paid versus buying a call outright. Which position best fits the customer's outlook?

- A. Long XYZ call, short XYZ call at a higher strike
- B. Long XYZ call, long XYZ put at the same strike
- C. Short XYZ call, long XYZ call at a higher strike
- D. Long XYZ call, short XYZ put at the same strike

67. A customer redeems mutual fund shares directly with the fund. The price the customer receives is:

- A.** the bid price quoted at the time of the redemption request
- B.** the average net asset value over the five trading days following the request
- C.** the prior trading day's closing net asset value, less management fees
- D.** the next computed net asset value, less any contingent deferred sales charge

68. A municipal revenue bond's debt service coverage ratio is best described as:

- A.** the ratio of net revenues to annual debt service
- B.** the ratio of gross revenues to outstanding principal
- C.** the ratio of total assessed property value to outstanding debt
- D.** the ratio of operating expenses to gross revenues

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69. A customer wants to write covered calls on shares she already owns but has never traded options. Before the customer can place the trade, which of the following must occur?

- A.** The customer must sign and return the options agreement before the trade
- B.** The account must be approved in writing by a Registered Options Principal
- C.** The customer must complete an options trading questionnaire approved by FINRA
- D.** The customer must hold the ODD for at least 15 days before trading

70. Which of the following statements is true regarding the rights of a common stockholder?

- A.** They include the right to vote for board members and a fixed dividend
- B.** They include the right to vote on mergers and a residual claim on assets
- C.** They include the right to determine the dividend rate set by the board
- D.** They include the right to receive interest payments and vote on the budget

71. The crossover point in a direct participation program is best described as the point at which:

- A.** cash distributions to partners begin
- B.** the program terminates and assets are sold
- C.** depreciation deductions equal accumulated capital contributions
- D.** taxable income exceeds cash distributions

72. A pension fund manager holding a diversified portfolio of large-cap U.S. stocks wants to hedge against a broad market decline. Which of the following hedging strategies is most appropriate?

- A.** Buy broad-based index puts
- B.** Buy narrow-based index puts
- C.** Write broad-based index calls
- D.** Write narrow-based index puts

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73. A customer is long 100 shares of ABC at \$30 and is concerned about a near term decline but wants to retain ownership. Which of the following positions limits downside exposure at the lowest premium cost?

- A.** Buy 1 ABC at-the-money put
- B.** Buy 1 ABC at-the-money call
- C.** Write 1 ABC at-the-money call
- D.** Buy 1 ABC out-of-the-money put

74. Which of the following statements is true regarding American Depositary Receipts (ADRs)?

- A.** Holders have voting rights identical to those of common shareholders abroad
- B.** They represent ownership of foreign securities held on deposit by a U.S. bank
- C.** They are denominated in the foreign currency of the issuing company

D. They are not subject to currency risk because they trade on U.S. exchanges

75. Which of the following features distinguishes preferred stock from common stock?

A. Preferred stockholders receive dividends before bondholders are paid interest

B. Preferred stockholders typically have voting rights and receive a fixed dividend
C. Preferred stockholders have no voting rights but receive a stated dividend before common

D. Preferred stockholders share equally with common holders in residual asset claims

76. Under Regulation T, the initial margin requirement for the purchase of a marginable common stock is:

A. 25% of the purchase price

B. 30% of the purchase price

C. 50% of the purchase price

D. 100% of the purchase price

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77. A pattern day trader is defined under FINRA rules as a customer who: **A.** executes three or more day trades within a five-business-day period
B. executes four or more day trades within a ten-business-day period
C. executes three or more day trades within a four-business-day period
D. executes four or more day trades within a five-business-day period

78. Which of the following features of a variable annuity is guaranteed by the insurance company?

A. The investment performance of the separate account

B. The annuity unit value during the payout phase

C. The number of accumulation units credited each contribution
D. The minimum death benefit during the accumulation phase

79. Which of the following sources is the primary source of repayment for a general obligation bond issued by a local municipality?

- A.** Project user fees
- B.** Lease rental payments
- C.** Ad valorem taxes
- D.** Sales tax revenue

80. A customer asks her registered representative to identify a feature of cumulative voting that benefits minority shareholders. The correct response is that cumulative voting:

- A.** requires that minority shareholders receive at least one board seat
- B.** requires the company to give minority shareholders veto power over major decisions
- C.** allows the shareholder to vote each share once per board seat
- D.** allows the shareholder to allocate the total available votes to one or more candidates

81. A customer who is approved as a pattern day trader must maintain minimum equity of:

- A.** \$2,000
- B.** \$10,000
- C.** \$25,000
- D.** \$50,000

82. A bond is described as trading flat. This means the bond: **A.** trades at a price equal to par value
B. trades without accrued interest
C. has a flat yield curve
D. carries no markup or commission

83. A customer's long margin account shows a long market value of \$20,000 and a debit balance of \$12,000. The account would receive a maintenance call if the market value falls below:

- A.** \$14,000
- B.** \$15,000
- C.** \$16,000
- D.** \$18,000

84. An elderly customer who is opening a new account asks her registered representative whether she is required to designate a trusted contact person. The registered representative should respond that:

- A.** designation of a trusted contact is mandatory for any account holder over age 65
- B.** the firm is required to ask, but the customer is not required to designate one
- C.** the trusted contact must hold a power of attorney over the account
- D.** the trusted contact is empowered to place trades when the customer is unavailable

85. A customer holds three 100-share lots of ABC: 100 at \$20 in 2020, 100 at \$30 in 2021, and 100 at \$40 in 2022. The customer wants to sell 100 shares to minimize the current taxable gain. The registered representative should recommend:

- A.** selling the 2020 shares using FIFO

- B. selling the 2022 shares using LIFO
- C. selling the 2022 shares by specific identification
- D. selling using the average cost basis method

86. A customer has satisfied the holding period for restricted stock under SEC Rule 144 and now wants to sell. Under the rule, the customer's sales over any 90-day period are subject to:

- A. a limit of 1% of outstanding shares or the average weekly trading volume over the prior four weeks
- B. a limit of 5% of outstanding shares or the average weekly trading volume over the prior four weeks
- C. a limit of 10% of outstanding shares or the average daily trading volume over the prior four weeks
- D. no volume restrictions

87. A customer's long margin account has a special memorandum account balance of \$5,000. The customer's buying power for additional marginable securities is:

- A. \$2,500
- B. \$5,000
- C. \$7,500
- D. \$10,000

88. A customer establishes the following position: long 1 XYZ January 40 put at \$2 and long 100 shares of XYZ at \$42. What is the breakeven point on the combined position?

- A. \$38
- B. \$40
- C. \$42
- D. \$44

89. Which of the following describes the exchange privilege offered by some

mutual fund families?

- A.** Allows the customer to exchange listed equities for fund shares at NAV
- B.** Allows the customer to exchange shares of one fund for another in the same family at NAV
- C.** Allows the customer to defer capital gains until the final exchange
- D.** Allows the customer to exchange Class A shares for Class B shares without charge

90. A registered representative observes that an elderly customer has begun making frequent calls placing unusually large trades inconsistent with the customer's prior pattern. The most appropriate first step is to:

- A.** execute the trades because the customer has authorization
- B.** refuse all further trades until the customer comes to the branch in person
- C.** consult with the firm's compliance department about possible diminished capacity
- D.** contact the trusted contact person and place a hold on the account

91. The trust indenture of a corporate bond issue contains:

- A.** the names of all bondholders and their account numbers
- B.** the contract between the issuer and the bondholders
- C.** the registered representative's recommendation history for the issue
- D.** the underwriting compensation paid to syndicate members

92. Interest income on a Federal Home Loan Bank bond is:

- A.** exempt from federal tax but subject to state and local tax
- B.** fully taxable at the federal, state, and local level
- C.** exempt from federal, state, and local income tax
- D.** exempt from state and local income tax but subject to federal tax Series 7

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93. A registered representative receives a written customer complaint about a recent municipal bond transaction. Under MSRB rules, the firm must retain the complaint for at least:

- A.** two years from the date the account is closed
- B.** four years from receipt of the complaint
- C.** six years from receipt of the complaint
- D.** ten years from receipt of the complaint

94. A stock with a beta of 0.75 is best described as:

- A.** less volatile than the broad market
- B.** more volatile than the broad market
- C.** negatively correlated to the broad market
- D.** uncorrelated to the broad market

95. The current yield on a corporate bond with an 8% coupon trading at 96 is approximately:

- A.** 7.68%
- B.** 8.00%
- C.** 8.33%
- D.** 8.50%

96. Treasury securities are sold to the public through:

- A.** competitive auctions conducted by the Federal Reserve
- B.** negotiated underwriting by primary dealers
- C.** open-market operations conducted by the Treasury
- D.** firm-commitment offerings to insurance companies

97. Which of the following events requires an amendment to a registered representative's Form U4?

- A.** Notifying the firm of an outside brokerage account at another broker-dealer
- B.** Opening a personal savings account at a commercial bank
- C.** A misdemeanor traffic citation with no securities-related conduct
- D.** A felony charge for wrongful taking of property

98. Capital gains distributions from a mutual fund are taxable to the shareholder: **A.** in the year the gains are realized by the fund, regardless of distribution **B.** in the year the distribution is paid, always reported as ordinary income **C.** in the year paid, with character based on the fund's holding period **D.** only when the shareholder sells the fund shares

99. Which of the following risks is least applicable to a zero-coupon bond? **A.** Interest rate risk

- B.** Reinvestment risk
- C.** Credit risk
- D.** Inflation risk

100. Which of the following is a characteristic of an oil and gas direct participation program that is not available in a real estate direct participation program?

- A.** Depreciation of program assets
- B.** Flow-through of expenses to limited partners
- C.** Depletion of natural reserves

D. Limited liability for the limited partners

101. A customer writes 1 XYZ October 50 put at \$3. At expiration, XYZ is trading at \$44. The customer's profit or loss on the option position is:

- A. \$300 loss
- B. \$300 gain
- C. \$600 loss
- D. \$600 gain

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102. A customer establishes the following position: long 1 XYZ April 70 put at \$3 and short 1 XYZ April 60 put at \$1. What is the maximum loss on the position?

- A. \$200
- B. \$300
- C. \$700
- D. \$1,000

103. A customer who anticipates that XYZ stock will trade in a narrow range over the next two months would most likely profit from which of the following positions?

- A. Long straddle on XYZ
- B. Long call on XYZ
- C. Short straddle on XYZ
- D. Married put on XYZ

104. The companion (or support) tranche of a CMO is designed to: **A.** pay principal and interest at the stated coupon regardless of prepayments **B.** receive only interest payments while principal accrues to later tranches **C.** absorb prepayment variability so the planned amortization class can stay on schedule

D. receive only principal payments while earlier tranches receive interest

105. A customer owns 1,000 shares of ABC 7% cumulative preferred (\$100 par). ABC has not paid dividends for the past two years. Before resuming dividends on common stock, ABC must pay preferred holders:

- A.** \$7 per share
- B.** \$14 per share
- C.** \$21 per share
- D.** \$28 per share

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106. The assumed interest rate on a variable annuity is best described as:

- A.** a guaranteed minimum rate of return paid by the insurance company
- B.** the rate set by FINRA for valuing separate account performance
- C.** a benchmark used to calculate annuity payments during the payout phase
- D.** the maximum rate at which the contract can grow during accumulation

107. Which of the following is a key difference between variable life insurance and a variable annuity?

- A.** Variable life pays a death benefit that is income-tax-free; variable annuities do not
- B.** Variable life accumulates value tax-deferred; variable annuities do not
- C.** Variable life has subaccount investment options; variable annuities do not
- D.** Variable life is registered with the SEC; variable annuities are not

108. Which of the following corporate bonds is secured?

- A.** A debenture
- B.** A subordinated debenture
- C.** An equipment trust certificate
- D.** An income bond

109. A customer is interested in penny stocks. Before the registered representative can recommend a penny stock to the customer, the firm must:

- A.** obtain a signed risk disclosure document and approve the account in writing
- B.** obtain a signed margin agreement and a written suitability acknowledgment
- C.** confirm the customer is an accredited investor
- D.** provide the customer with the issuer's most recent audited financial statements

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110. A customer purchases a new-issue municipal bond with a dated date of January 1 and a settlement date of January 18. The first coupon date is July 1. Accrued interest paid by the customer covers the period:

- A.** trade date to settlement date
- B.** settlement date to first coupon date
- C.** dated date to first coupon date
- D.** dated date to settlement date

111. A customer who buys an interest-rate call option benefits from which of the following changes?

- A.** Bond prices decline and interest rates rise
- B.** Bond prices rise and interest rates fall
- C.** Bond prices decline and interest rates fall
- D.** Bond prices rise and interest rates rise

112. A customer purchases a callable corporate bond at par. The bond pays a 6% coupon and is callable at 102 in five years. If the bond is called, the

customer's yield to call will be:

- A. lower than the coupon rate
- B. equal to the coupon rate
- C. higher than the coupon rate
- D. equal to the yield to maturity

113. A new-issue Treasury bill is best described as a money-market instrument because it:

- A. matures in one year or less and is sold at a discount to face
- B. pays semiannual interest at a fixed coupon rate
- C. is sold to commercial banks before retail investors
- D. is exempt from federal income taxation

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114. A customer is short 1 ABC October 50 call. The stock pays a 10% stock dividend. After adjustment, the contract represents:

- A. 90 shares with a strike of \$50.00
- B. 100 shares with a strike of \$45.45
- C. 110 shares with a strike of \$45.45
- D. 110 shares with a strike of \$50.00

115. Which of the following best describes a warrant?

- A. A short-term right to purchase additional shares at a discount to market
- B. A long-term right to purchase shares at a fixed price, typically attached to a new bond issue
- C. A short-term debt instrument convertible into common stock at the issuer's option
- D. A right to receive a fixed dividend in lieu of common stock dividends

116. A customer invests her life savings of \$200,000 across three high-yield bond funds offered by three different fund families. The portfolio is:

- A.** not diversified because it is concentrated in a single asset class
- B.** diversified because it is spread across three fund families
- C.** diversified because high-yield funds reduce credit risk through pooling
- D.** not diversified because three funds is below the minimum threshold

117. Which of the following statements is true about Class B mutual fund shares? **A.** They charge a front-end load and an annual 12b-1 fee

- B.** They charge no sales load but a higher annual expense ratio
- C.** They charge a contingent deferred sales charge that declines over time
- D.** They convert to Class A shares after one year of ownership

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118. A customer buys 100 shares of XYZ at \$40 in February. In November, XYZ declares a 10% stock dividend. After the dividend, the customer's adjusted cost basis is:

- A.** \$36.00 per share on 100 shares
- B.** \$40.00 per share on 110 shares
- C.** \$36.36 per share on 110 shares
- D.** \$44.00 per share on 110 shares

119. A customer purchases a 6% corporate bond at 105. If interest rates subsequently rise, the bond's yield to maturity will:

- A.** rise as the bond price falls
- B.** fall as the bond price rises

- C. remain unchanged regardless of price
- D. equal the coupon rate at maturity

120. A customer is investing for the college expenses of a 6-year-old. Which of the following statements is true about a 529 college savings plan?

- A. Contributions are deductible on the federal return up to specified limits
- B. Contributions in excess of the gift-tax annual exclusion are not permitted
- C. The beneficiary must be under age 18 at the time of contribution
- D. Earnings are tax-deferred and qualified withdrawals are federally tax-free

121. A customer wants to make a \$35,000 investment in a Class A mutual fund and intends to invest more in the future. The fund offers a breakpoint at \$50,000. The registered representative should:

- A. recommend Class C shares to avoid the front-end load
- B. inform the customer about the letter of intent option
- C. split the investment between two fund families
- D. recommend that the customer wait until reaching \$50,000

122. Under Regulation Best Interest, a registered representative recommending a securities transaction to a retail customer must:

- A. ensure the recommendation provides the customer with the highest possible return
- B. act in the customer's best interest without placing the firm's interests ahead of the customer's
- C. obtain written acknowledgment that the customer has read the firm's Form CRS
- D. limit recommendations to the lowest-cost product available in the category

123. Hedge funds typically differ from mutual funds in that hedge funds: **A.** provide daily redemption at net asset value
B. are limited to investment-grade securities
C. are typically offered only to accredited or qualified investors
D. are subject to the same diversification rules as mutual funds

124. A customer writes 1 XYZ April 50 put at \$4. The put is exercised when XYZ is trading at \$43. For tax purposes, the customer's cost basis in the resulting long stock position is:

- A.** \$43 per share
- B.** \$46 per share
- C.** \$50 per share
- D.** \$54 per share

125. A customer establishes the following position: long 1 ABC October 60 call at \$3 and short 1 ABC October 65 call at \$1. What is the maximum gain on the position?

- A.** \$200
- B.** \$300
- C.** \$500
- D.** Unlimited