

<b>Chapter One</b>	
<b>Equity Securities</b> .....	9
Introduction .....	9
What is a Security? .....	9
Types of securities .....	9
Types of non-securities .....	9
Equity = Stock .....	9
Common Stock .....	10
Corporate Time Line.....	10
Authorized Stock .....	10
Issued Stock .....	10
Outstanding Stock.....	11
Treasury Stock.....	11
Values of Common Stock .....	11
Book Value .....	11
Par Value .....	12
Rights of Common Stockholders .....	12
Preemptive Rights.....	12
Exercised .....	13
Sold.....	13
Expired.....	13
Characteristics of a Rights Offering.....	13
Determining the Value of a Right Cum Rights .....	13
Determining the Value of a Right Ex Rights .....	14
Voting .....	15
Methods of Voting .....	15
Limited Liability .....	16
Freely Transferable.....	16
The Transfer Agent.....	16
The Registrar .....	16
CUSIP Numbers .....	17
Inspection of Books and Records .....	17
Residual Claim to Assets .....	17
Why do people buy common stock? .....	17
Income .....	17
What Are The Risks of Owning Common Stock?.....	18
Dividends May Be Stopped or Reduced .....	18
Junior Claim on Corporate Assets .....	18
How Does Someone Become a Stockholder?.....	18
Trade Date .....	18
Settlement Date.....	18
Payment Date.....	19
Violation .....	19
Preferred Stock .....	19
Features of all preferred stock.....	19
Par Value .....	19
Payment of Dividends.....	20
Distribution of Assets .....	20
Perpetual .....	20
Non-Voting.....	20
Interest Rate Sensitive .....	20
Types of Preferred Stock .....	20
Straight/Non-Cumulative.....	21
Cumulative Preferred.....	21
Participating Preferred .....	21
Convertible Preferred.....	21
Callable Preferred .....	22
Types of Dividends.....	22
Cash.....	22
Stock.....	22
Property / Product.....	23
Dividend Distribution.....	23
Declaration Date.....	23
Ex Dividend Date.....	23
Record Date.....	23
Payment Date .....	23
Stock Price and the Ex Dividend Date .....	24
Taxation of Dividends .....	24
Selling Dividends .....	24
Dividend Disbursement Process .....	25
Warrants .....	25
How Do People Get Warrants? .....	25
Units .....	25
Attached to Bonds .....	25
Secondary Market .....	25
Possible Outcomes of a Warrant .....	25
Rights vs. Warrants .....	26
American Depository Receipts (ADR's) / American Depository Shares (ADS's) .....	26
Currency Risks .....	26
Functions of The Custodian Bank Issuing ADRs.....	26
Real Estate Investment Trusts / REITs.....	27
Direct Participation Programs and Limited Partnerships.....	27
Limited Partnerships .....	27
Structuring and Offering Limited Partnerships .....	29
Types of Limited Partnerships .....	30
Tax Reporting for Direct Participation Programs .....	31
Limited Partnership Analysis .....	31
Tax Deductions vs. Tax Credits .....	31
Other Tax Considerations.....	31
Dissolving a Partnership.....	32
<b>Chapter Two</b>	
<b>Corporate and Municipal Debt Securities</b> .....	37
Debt Securities / Bonds .....	37
Corporate Bonds.....	37
Types of Bond Issuance .....	37
Bearer Bonds.....	37
Registered Bonds .....	37
Principal Only Registration.....	38
Fully Registered .....	38
Book Entry / Journal Entry.....	38
Bond Certificate .....	38
Bond Pricing.....	39
Par Value.....	39
Discount .....	39
Premium .....	39
Corporate Bond Pricing.....	39
Bond Yields.....	40
Nominal Yield.....	40
Current Yield.....	40
Yield to Maturity.....	41
Yield to Maturity – Premium Bond.....	41
Yield to Maturity – Discount Bond.....	41
Calculating the Yield to Maturity.....	41

Calculating the Yield to Call.....	42	Original Issue Discount (OID) and Secondary Market Discounts.....	54
Realized Compound Yield Returns.....	43	Amortization of a Municipal Bond's Premium .....	55
Yield Spreads.....	43	Bond Swaps.....	55
The Real Interest Rate.....	43	Analyzing Bonds.....	55
Bond Maturities .....	43	Convexity .....	56
Term Maturity.....	43	Bond Portfolio Management .....	56
Serial Maturity .....	44		
Balloon Maturity.....	44	<b>Chapter Three</b>	
Series Issue .....	44	<b>Government and Government Agency Issues.....</b>	<b>61</b>
Types of Corporate Bonds .....	44	The United States Government .....	61
Secured Bonds .....	44	Series EE Bonds .....	61
Mortgage Bonds.....	44	Series HH Bonds .....	61
Equipment Trust Certificates .....	44	Treasury Bills, Notes, and Bonds .....	61
Collateral Trust Certificates .....	45	Purchasing Treasury Bills .....	61
Unsecured Bonds .....	45	Treasury Notes .....	62
Subordinated Debentures .....	45	Treasury Bonds .....	62
Income / Adjustment Bonds .....	45	Treasury Bond and Note Pricing .....	62
Zero Coupon Bonds.....	45	Treasury Strips .....	63
Guaranteed Bonds.....	46	Treasury Receipts.....	63
Convertible Bonds .....	46	Treasury Inflation Protected Securities / TIPS .....	63
Converting Bonds into Common Stock .....	46	Agency Issues.....	64
Parity Price .....	46	Government National Mortgage Association (GNMA).....	64
Advantages of Issuing Convertible Bonds.....	47	Federal National Mortgage Association (FNM).....	64
Disadvantages of Issuing Convertible Bonds .....	47	Federal Home Loan Mortgage Corporation (FHLMC) .....	65
Convertible Bonds and Stock Splits .....	47	Federal Farm Credit System.....	65
The Trust Indenture Act of 1939 .....	47		
Bond Indenture .....	48	<b>Chapter Four</b>	
Ratings Considerations .....	48	<b>Investment Companies.....</b>	<b>67</b>
Retiring Corporate Bonds .....	49	Introduction .....	67
Redemption.....	49	Investment Company Philosophy.....	67
Refunding .....	49	Types of Investment Companies .....	67
Pre-refunding .....	49	Face Amount Company/Face Amount Certificates .....	68
Calling in Bonds .....	49	Unit Investment Trust (UITs).....	68
Putting Bonds to The Company .....	50	Management Investment Companies (Mutual Funds).....	68
Tender Offers.....	50	Open End vs. Closed End.....	69
Open Market Purchases .....	50	Diversified vs. Non-Diversified .....	69
Municipal Bonds.....	50	Investment Company Registration .....	70
Types of Municipal Bonds.....	50	Registration Requirements .....	70
General Obligation Bond .....	50	Investment Company Components.....	71
Voter Approval .....	51	Board of Directors .....	71
Property Taxes.....	51	Bonding of Key Investment Company Employees .....	72
Overlapping Debt.....	51	Investment Adviser .....	73
Revenue Bonds .....	51	Custodian Bank .....	73
Industrial Development Bonds/ Industrial Revenue Bonds .....	52	Transfer Agent .....	73
Lease Rental Bonds .....	52	Mutual Fund Distribution .....	73
Special Tax Bonds .....	52	Selling Group Member.....	74
Special Assessment Bonds.....	52	Distribution of No-Load Mutual Fund Shares.....	74
Double Barreled Bonds.....	52	Distribution of Mutual Fund Shares .....	74
Moral Obligation Bonds .....	53	Mutual Fund Prospectus.....	74
New Housing Authority / Public Housing Authority .....	53	Additional Disclosures by a Mutual Fund.....	75
Short Term Municipal Financing.....	53	Anti-Reciprocal Rule.....	76
Taxation of Municipal Bonds .....	53	Money Market Funds .....	76
Tax Equivalent Yield.....	54	Money Market Guidelines.....	76
Purchasing A Municipal Bond in the State In Which the Investor Resides .....	54	Valuing Mutual Fund Shares.....	77
Triple Tax Free .....	54		

Sales Charges For Open-End Funds .....	77
Sales Charges For Closed-End Funds .....	77
Front-End Loads .....	77
Back-End Loads.....	78
Other Types of Sales Charges .....	78
12B-1 Fees .....	78
Limits of a 12B-1 Fee .....	79
Sales Charge Reductions .....	79
Breakpoint Schedule .....	79
Letter of Intent .....	80
Back-Dating a Letter of Intent .....	80
Breakpoint Sales .....	80
Rights of Accumulation .....	81
Automatic Reinvestment of Distributions.....	81
Combination Privileges.....	81
Conversion or Exchange Privileges .....	82
30-Day Emergency Withdrawal .....	82
Voting Rights.....	83
Yields.....	83
Portfolio Turnover .....	83

## Chapter Five

### Variable Annuities and Retirement Plans

Introduction .....	87
Annuities.....	87
Fixed Annuity .....	87
Variable Annuity .....	87
Direct Investment.....	88
Indirect Investment .....	88
Combination Annuity .....	88
Annuity Purchase Options .....	89
Single Payment Deferred Annuity .....	89
Single Payment Immediate Annuity .....	89
Periodic Payment Deferred Annuity .....	90
Accumulation Units .....	90
Annuity Units .....	90
Annuity Payout Options.....	90
Life Only/Straight Life .....	91
Life With Period Certain.....	91
Joint with Last Survivor.....	91
Factors Affecting the Size of the Annuity Payment.....	91
The Assumed Interest Rate (AIR).....	91
Taxation .....	92
Sales Charges .....	92
Variable Annuity vs. Mutual Fund .....	92
Retirement Plans .....	93
Individual Plans .....	93
Individual Retirement Accounts (IRAs) .....	93
Traditional IRA.....	94
Roth IRA.....	94
Simplified Employee Pension IRA (SEP IRA).....	95
Participation.....	95
Employer Contributions.....	95
SEP IRA Taxation .....	95
Educational IRA .....	95
529 Plans.....	96
IRA Contributions .....	96
IRA Accounts .....	96
IRA Investments .....	96

Allowable / Non-Allowable .....	96
It Is Unwise to Put a Municipal Bond in an IRA.....	97
Rollover vs. Transfer.....	97
Rollover.....	97
Transfer .....	97
Keogh Plans (HR-10) .....	97
Contributions .....	97
Tax-Sheltered Annuities/Tax-Deferred Account.....	98
Public Educational Institutions (403B) .....	98
Nonprofit Organizations/Tax-Exempt Organizations (501C3) .....	99
Contributions.....	99
Tax Treatment of Distributions .....	99
Corporate Plans .....	99
Non-Qualified Corporate Retirement Plans .....	99
Payroll Deductions .....	100
Deferred Compensation Plans .....	100
Qualified Plans .....	100
Types of Plans .....	100
Defined Benefit Plan .....	100
Defined Contribution Plan.....	101
Employee Stock Ownership Plans / ESOP.....	101
Profit Sharing Plans.....	101
401(k) Thrift Plans .....	101
Rolling Over a Pension Plan .....	102
Employee Retirement Income Security Act of 1974 (ERISA) .....	102
Plan Participation .....	102
Investment Policy Statement .....	102
Funding .....	102
Vesting .....	103
Communication .....	103
Beneficiaries .....	103

## Chapter Six

<b>Fundamental and Technical Analysis</b> .....	107
Introduction .....	107
Fundamental Analysis .....	107
The Balance Sheet.....	107
Capitalization .....	109
Changes in The Balance Sheet .....	111
Purchasing Equipment for Cash .....	111
Depreciation .....	111
Issuing Securities .....	111
Declaring a Dividend .....	111
Conversion of Convertible Securities.....	111
Bond Redemption .....	111
Stock Splits.....	112
The Income Statement.....	113
Operating Income .....	113
Net Income After Taxes .....	113
Earnings Available to Common .....	113
Earnings Per Share Primary .....	114
Earnings Per Share Fully Diluted .....	114
Price Earnings Ratio.....	114
Dividend Payout Ratio .....	114
Debt Service Ratio .....	114
Industry Fundamentals .....	115
Growth Industries .....	115

Cyclical Industries .....	115	Painting The Tape .....	135
Defensive Industries .....	115	Unauthorized Trading .....	135
Technical Analysis.....	115	Fraud .....	135
Support .....	115	Blanket Recommendations.....	135
Resistance .....	115	Selling Dividends .....	135
Upward Trendlines .....	116	Misrepresentations .....	136
Downward Trendlines.....	116	Omitting Material Facts .....	136
Reversals.....	116	Guarantees.....	136
Consolidation.....	116	Recommending Mutual Funds .....	136
Market Theories and Indicators .....	119	Periodic Payment Plans.....	136
Short Interest.....	119	Disclosure of Client Information.....	137
Odd Lot Trading .....	119	Borrowing and Lending Money .....	137
Advance Decline Line .....	119	Developing The Client Profile .....	137
Efficient Market Theory .....	119	Types of Advisory Clients.....	138
Market Capitalization .....	119	Investment Objectives .....	139
<b>Chapter Seven</b>		Income.....	139
<b>Economic Fundamentals</b> .....	123	Growth .....	139
Introduction .....	123	Preservation of Capital .....	139
Gross Domestic Product .....	123	Tax Benefits .....	139
Expansion .....	124	Liquidity.....	140
Peak .....	124	Speculation.....	140
Contraction .....	124	Risk vs. Reward .....	140
Trough .....	124	Capital Risk.....	140
Recession .....	124	Market Risk.....	141
Depression .....	124	Nonsystematic Risk.....	141
Economic Indicators .....	125	Legislative Risk.....	141
Leading Indicators .....	125	Timing Risk.....	141
Coincident Indicators.....	125	Credit Risk .....	141
Lagging Indicators.....	126	Reinvestment Risk.....	141
Economic Policy.....	126	Interest Rate Risk .....	141
Tools of The Federal Reserve Board .....	126	Call Risk.....	141
Reserve Requirement.....	126	Opportunity Risk.....	142
Changing the Discount Rate .....	127	Liquidity Risk.....	142
Federal Open Market Committee.....	127	Alpha.....	142
Money Supply.....	127	Beta .....	142
M1.....	127	Expected Return .....	143
M2.....	128	Time Value of Money .....	144
M3.....	128	Modern Portfolio Theory .....	145
Disintermediation .....	128	Tax Structure .....	146
Moral Suasion.....	128	Investment Taxation.....	146
Fiscal Policy .....	128	Calculating Gains and Losses.....	146
The Consumer Price Index (CPI).....	129	Cost Base of Multiple Purchases.....	147
Inflation / Deflation .....	129	FIFO First In First Out .....	147
Real GDP.....	129	Share Identification .....	147
International Monetary Considerations.....	130	Average Cost.....	148
<b>Chapter Eight</b>		Deducting Capital Losses .....	148
<b>Customer Recommendations</b>		Wash Sales .....	148
<b>Professional Conduct and Taxation</b> .....	133	Taxation of Interest Income .....	149
Introduction .....	133	Inherited and Gifted Securities.....	149
Professional Conduct by Investment Advisers .....	133	Donating Securities To Charity .....	149
Fair Dealings with Customers.....	134	Trusts.....	150
Churning .....	134	Gift Taxes.....	150
Manipulative and Deceptive Practices .....	134	Estate Taxes .....	150
Capping.....	134	Withholding Tax .....	151
Pegging.....	134	Corporate Dividend Exclusion .....	151
Front Running.....	135	Alternative Minimum Tax / AMT .....	151
Trading Ahead .....	135	Taxes on Foreign Securities .....	151

## Chapter Nine

<b>Securities Industry Rules and Regulations</b> .....	157
Introduction .....	157
The Securities Exchange Act of 1934.....	157
The Securities Exchange Commission / SEC .....	157
Extension of Credit.....	158
The National Association of Securities Dealers / NASD .....	158
Advertising and Sales Literature.....	158
Advertising .....	159
Sales Literature .....	159
Blind Recruiting Ads .....	159
Generic Advertising.....	160
Tombstone Ads .....	160
Tombstone Ads Must Include.....	160
Filing and Retention Requirements.....	160
Testimonials.....	161
Free Services.....	161
Misleading Advertising and Sales Literature .....	161
Securities Investor Protection Corporation Act of 1970 (SIPC) .....	161
Net Capital Requirement .....	161
Customer Coverage .....	162
Fidelity Bond .....	162
The Securities Acts Amendments of 1975.....	162
The Uniform Securities Act.....	162

## Chapter Ten

<b>Trading Securities</b> .....	167
Introduction .....	167
Types of Orders .....	167
Market Orders.....	167
Buy Limit Orders .....	167
Sell Limit Orders .....	168
Stop Orders / Stop Loss Orders .....	168
Buy Stop Orders .....	168
Sell Stop Orders.....	168
Stop Limit Orders .....	169
Other Types of Orders .....	169
All or None Orders .....	169
Immediate or Cancel Orders .....	169
Fill or Kill Orders .....	169
Not Held Orders.....	169
Market on Open / Market on Close Orders.....	169
The Exchanges.....	170
Priority of Exchange Orders .....	170
The Role of The Specialist.....	170
The Specialist Acting as a Principal .....	170
The Specialist Acting As an Agent.....	171
Do Not Reduce / DNR.....	172
Stopping Stock.....	173
Commission House Broker .....	173
Two Dollar Broker.....	173
Registered Traders.....	173
Super DOT.....	174
Over The Counter / NASDAQ.....	174
Market Makers.....	174
NASDAQ Subscription Levels .....	175
Level I.....	175

Level II.....	175
Level III.....	175
NASDAQ Quotes.....	175
Nominal NASDAQ Quotes .....	176
Automated Confirmation System / ACT .....	176
NASDAQ Execution Systems.....	176
Super Montage .....	176
SmallCap SOES .....	177
Non NASDAQ OTCBB .....	177
Pink Sheets.....	177
Third Market .....	177
Fourth Market.....	177
Broker Vs. Dealer.....	177
NASD 5% Markup Policy .....	178
Mark Ups / Markdowns When Acting as a Principal .....	178
Riskless Principal Transactions.....	179
Proceeds Transactions .....	180
Arbitrage .....	180
Market Arbitrage .....	180
Security Arbitrage .....	180
Risk Arbitrage .....	180

## Chapter Eleven

<b>Options</b> .....	185
Introduction .....	185
Option Classification.....	185
Call Options .....	185
Put Options.....	185
Option Classes.....	185
Option Series.....	186
Bullish vs. Bearish .....	186
Bullish .....	186
Bearish .....	186
Buyer vs. Seller .....	187
Possible Outcomes for an Option .....	187
Exercised.....	187
Sold .....	187
Expire .....	187
Exercise Price.....	187
Characteristics of All Options .....	188
Managing an Option Position .....	188
Buying Calls.....	188
Maximum Gain Long Calls .....	189
Maximum Loss Long Calls .....	189
Determining The Breakeven for Long Calls .....	189
Selling Calls .....	189
Maximum Gain Short Calls.....	190
Maximum Loss Short Calls .....	190
Determining The Breakeven for Short Calls .....	190
Buying Puts .....	191
Maximum Gain Long Puts .....	191
Maximum Loss Long Puts .....	191
Determining The Breakeven for Long Puts.....	191
Selling Puts .....	192
Maximum Gain Short Puts.....	192
Maximum Loss Short Puts .....	192
Determining The Breakeven for Short Puts .....	192
Option Premiums .....	193

In The Money Options.....	194
At The Money Options.....	194
Out of The Money Options.....	194
Intrinsic Value and Time Value.....	195
Using Options as a Hedge.....	195
Long Stock Long Puts / Married Puts.....	195
Maximum Gain Long Stock Long Puts.....	196
Breakeven Long Stock Long Puts.....	196
Maximum Loss Long Stock Long Puts.....	196
Long Stock Short Calls / Covered Calls.....	197
Breakeven Long Stock Short Calls.....	197
Maximum Gain Long Stock Short Calls.....	198
Maximum Loss Long Stock Short Calls.....	199
Futures and Forwards.....	199
Correlation.....	199

## Chapter Twelve

<b>Definition of Terms.....</b>	<b>203</b>
Introduction:.....	203
Security.....	203
Person.....	205
Broker Dealer.....	205
Agent.....	206
Issuer.....	206
Non-Issuer.....	206
Investment Adviser.....	207
Investment Adviser Representative.....	207
Institution Investor.....	208
Qualified Purchaser.....	208
Private Investment Company.....	208
Offer/Offer to Sell/Offer to Buy.....	208
Sale/Sell.....	209
Guarantee/Guaranteed.....	209
Contumacy.....	209
Federally Covered Exemption.....	209

## Chapter Thirteen

<b>Registration of Broker Dealers, Investment Advisers, and Agents.....</b>	<b>215</b>
Introduction.....	215
Registration of Broker Dealers.....	215
Agent Registration.....	216
Registering Broker Dealers.....	216
Financial Requirement.....	217
Registering Agents.....	217
Changes in an Agent's Employment.....	218
Mergers and Acquisitions of Firms.....	218
Renewing Registrations.....	218
Canadian Firms and Agents.....	218
Investment Advisor State Registration.....	218
The National Securities Market Improvement Act of 1996.....	219
Investment Adviser Representative.....	219
State Investment Adviser Registration.....	219
Capital Requirement.....	220
Advertising and Sales Literature.....	220
Brochure Delivery.....	221
The Role of the Investment Adviser.....	221

Additional Compensation for an Investment Adviser.....	222
Agency Cross Transactions.....	222
Disclosures by an Investment Adviser.....	222
Investment Adviser Contracts.....	223
Additional Roles of Investment Advisers.....	223
Private Investment Companies/Hedge Funds.....	224
Fulcrum Fees.....	224
Wrap Accounts.....	224
Soft Dollars.....	224

## Chapter Fourteen

<b>Securities Registration, Exempt Securities, and Exempt Transactions.....</b>	<b>231</b>
Introduction.....	231
Exempt Securities.....	231
Securities Registration.....	231
Registration of IPOs Through Coordination.....	231
Registration of Established Issuers/Registration Through Filing or Notification.....	232
Registration of Non-Established Issuers/Registration Through Qualification.....	233
Exempt Securities Federally Covered Exemption.....	234
Exempt Transactions.....	235
Private Placements/Regulation D Offerings.....	235
Rule 147 Intrastate Offering.....	235
Regulation A Offerings.....	235
Transactions with Financial Institutions.....	236
Transactions with Fiduciaries.....	236
Transactions with Underwriters.....	236
Unsolicited Orders.....	236
Transactions in Mortgage-Backed Securities.....	236
Pledges.....	236
Offers to Existing Securities Holders.....	237
Offers Made Before the Registration Statement Is Effective.....	237
Pre-Organization Certificates.....	237
Isolated Non-Issuer Transactions.....	237
Non-Issuer Transactions.....	237

## Chapter Fifteen

<b>State Securities Administrator The Uniform Securities Act.....</b>	<b>243</b>
Introduction.....	243
Actions by the State Securities Administrator.....	243
Cancellation of a Registration.....	244
Withdrawal of a Registration.....	244
Actions Against an Issuer of Securities.....	244
Rule Changes.....	244
Investigations.....	244
Civil and Criminal Penalties.....	245
<b>Jurisdiction of the State Securities Administrator.....</b>	<b>246</b>
Introduction.....	246
Administrator's Jurisdiction Over Securities Transactions.....	246
Right of Rescission.....	248
Statute of Limitations.....	248

	Pretest	Answer Key
<b>Chapter One</b>		
Equity Securities .....	33	255
<b>Chapter Two</b>		
Corporate and Municipal		
Debt Securities .....	58	257
<b>Chapter Three</b>		
Government and		
Government Agency Issues .....	66	258
<b>Chapter Four</b>		
Investment Companies .....	84	259
<b>Chapter Five</b>		
Variable Annuities and		
Retirement Plans.....	104	260
<b>Chapter Six</b>		
Fundamental and		
Technical Analysis .....	120	261
<b>Chapter Seven</b>		
Economic Fundamentals .....	131	262
<b>Chapter Eight</b>		
Customers Recommendations		
Professional Conduct		
and Taxation .....	152	263
	Pretest	Answer Key
<b>Chapter Nine</b>		
Securities Industry Rules		
and Regulations.....	164	265
<b>Chapter Ten</b>		
Trading Securities.....	181	266
<b>Chapter Eleven</b>		
Options.....	200	267
<b>Chapter Twelve</b>		
Definition of Terms.....	210	268
<b>Chapter Thirteen</b>		
Registration of Broker Dealers,		
Investment Advisers,		
and Agents.....	226	270
<b>Chapter Fourteen</b>		
Securities Registration,		
Exempt Securities,		
and Exempt Transactions .....	238	272
<b>Chapter Fifteen</b>		
State Securities Administrator		
The Uniform Securities Act.....	249	274
<b>GLOSSARY OF EXAM TERMS.....</b>		277

