

FINRA Series 86 Research Analyst Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. If a corporation can issue preferred stock instead of bonds, what must it do to maintain the same after-tax income?**
 - A. Increase taxable income to cover dividends**
 - B. Decrease taxable income to cover interest**
 - C. Maintain taxable income at the same level**
 - D. Issue more bonds to offset dividends**

- 2. What is qualitative analysis?**
 - A. Analyzing quantitative data from financial statements**
 - B. Evaluating non-numeric factors that affect a company's performance, such as management effectiveness**
 - C. Calculating financial ratios to gauge efficiency**
 - D. Assessing stock market trends based on numerical data**

- 3. Which factor affects the calculation of the terminal value in a company's financial analysis?**
 - A. The company's annual revenue growth rate**
 - B. The company's market capitalization**
 - C. The company's terminal multiple**
 - D. The company's brand recognition**

- 4. Based on changes in demand for computers, how should a decline in demand impact the financials of chip makers?**
 - A. Cash flow from operations will increase**
 - B. Capital expenditures will decrease**
 - C. Asset turnover will improve**
 - D. Gross margins will increase**

- 5. What is a distressed asset?**
 - A. An asset that has rapidly increased in value**
 - B. An asset whose value has fallen significantly and is often in financial trouble**
 - C. A highly liquid asset with minimal risk**
 - D. An asset held for less than a year**

- 6. What is a primary feature of a SWOT analysis?**
- A. It forecasts macroeconomic changes**
 - B. It identifies industry regulations**
 - C. It evaluates strengths, weaknesses, opportunities, and threats**
 - D. It focuses only on external factors**
- 7. What characteristic is typically associated with a buy-side analyst's responsibilities?**
- A. Providing regulatory guidance**
 - B. Researching for internal investment decisions**
 - C. Advising on short-term trading strategies**
 - D. Conducting public presentations**
- 8. What are "earnings revisions"?**
- A. Adjustments made to stock prices**
 - B. Changes in earnings forecasts based on new information**
 - C. Periodic assessments of a company's revenue**
 - D. Updating the management team's performance**
- 9. What happens to the present value of cash flows when the WACC decreases?**
- A. The present value increases**
 - B. The present value decreases**
 - C. The present value remains unchanged**
 - D. The present value becomes negative**
- 10. What is the primary function of a sell-side firm?**
- A. To manage clients' investment portfolios directly**
 - B. To provide advisory services and research to clients regarding investments**
 - C. To regulate the securities industry**
 - D. To issue new public offerings of stocks**

Answers

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1. A
2. B
3. C
4. B
5. B
6. C
7. B
8. B
9. A
10. B

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Explanations

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1. If a corporation can issue preferred stock instead of bonds, what must it do to maintain the same after-tax income?

- A. Increase taxable income to cover dividends**
- B. Decrease taxable income to cover interest**
- C. Maintain taxable income at the same level**
- D. Issue more bonds to offset dividends**

To maintain the same after-tax income when a corporation opts to issue preferred stock instead of bonds, it is essential to recognize the differing tax treatments of these financial instruments. Preferred stock dividends are paid from after-tax profits and are not tax-deductible by the issuing corporation, whereas interest on bonds is tax-deductible. If a corporation chooses to issue preferred stock, it will not benefit from the interest tax shield that bondholders enjoy. This means that, to achieve the same after-tax income, the company would need to generate a higher taxable income to support the payment of preferred dividends. By increasing taxable income, the corporation can cover the obligation of preferred stock dividends with the after-tax earnings that arise from the increased pre-tax income. Maintaining taxable income at the same level, as suggested by another option, would not suffice since it would result in lower after-tax income due to the non-deductibility of preferred dividends. Thus, to account for the payment of dividends on preferred stock, increasing taxable income is the necessary action to preserve the same after-tax income.

2. What is qualitative analysis?

- A. Analyzing quantitative data from financial statements**
- B. Evaluating non-numeric factors that affect a company's performance, such as management effectiveness**
- C. Calculating financial ratios to gauge efficiency**
- D. Assessing stock market trends based on numerical data**

Qualitative analysis focuses on evaluating non-numeric factors that influence a company's performance. This encompasses aspects such as the effectiveness of management, company culture, brand reputation, competitive positioning, and industry dynamics. These elements, while not easily quantifiable, can significantly affect a company's potential for success and future growth. By considering these qualitative factors, analysts can gain deeper insights into a company's overall health and its ability to sustain profitability beyond the numbers presented in financial statements. This approach is especially important in sectors where brand loyalty, management expertise, and market perception play critical roles in business development and longevity. In contrast, the other options center around quantitative methods—like analyzing numerical data from financial statements or calculating financial ratios—rather than the qualitative insights that B addresses. Thus, the focus on non-numeric evaluation makes option B the correct answer regarding what constitutes qualitative analysis.

3. Which factor affects the calculation of the terminal value in a company's financial analysis?

- A. The company's annual revenue growth rate**
- B. The company's market capitalization**
- C. The company's terminal multiple**
- D. The company's brand recognition**

The terminal value is a critical component in the discounted cash flow (DCF) valuation model, as it represents the present value of all future cash flows of a company beyond a certain point, typically the end of the forecast period. The correct answer refers to the company's terminal multiple, which is essential in estimating the terminal value. The terminal multiple is derived from comparable companies and reflects the market's valuation of similar businesses. It is often based on financial metrics such as earnings or revenue and provides a way to project the company's value at the end of the explicit forecast period. By applying a terminal multiple to the appropriate financial metric (like EBITDA or earnings), analysts can effectively estimate what the company's worth would be in the future. In contrast, while factors like annual revenue growth rate may inform the company's future performance and cash flow projections, they do not directly determine the terminal value calculation. Market capitalization reflects the company's overall market value at a given point in time but is not used in the terminal value calculation itself. Brand recognition can influence company performance and growth, but it is more of an intangible asset impacting overall business strategy rather than a direct factor in calculating terminal value. Thus, the company's terminal multiple is the basis on which the terminal value is calculated,

4. Based on changes in demand for computers, how should a decline in demand impact the financials of chip makers?

- A. Cash flow from operations will increase**
- B. Capital expenditures will decrease**
- C. Asset turnover will improve**
- D. Gross margins will increase**

A decline in demand for computers directly impacts chip makers by leading to a decrease in the volume of chips required for production. As demand decreases, chip makers are likely to scale back their production levels, which in turn leads to a reduction in capital expenditures. Capital expenditures refer to the funds used by a company to acquire, upgrade, and maintain physical assets such as machinery, buildings, and technology. With lower demand for chips, manufacturers will have less need to invest in new facilities or expand existing operations. They may delay or cancel plans for new equipment purchases or expansions, resulting in reduced capital expenditures. By effectively managing their expenditures in response to declining demand, chip makers can maintain better control over their financial health in a challenging market environment. This adjustment is a strategic decision aimed at preserving cash flow and minimizing losses during periods of reduced consumer demand. The other options do not directly relate to the impacts of declining demand on chip makers' operations in this context. For instance, cash flow from operations may not necessarily increase with lower demand, and the asset turnover ratio is likely to worsen as revenues decline despite stable or increasing asset bases. Gross margins are also expected to suffer as reduced production could lead to inefficiencies and fixed costs being spread over a smaller volume of sales

5. What is a distressed asset?

- A. An asset that has rapidly increased in value
- B. An asset whose value has fallen significantly and is often in financial trouble**
- C. A highly liquid asset with minimal risk
- D. An asset held for less than a year

A distressed asset refers specifically to an asset whose market value has declined substantially, often due to financial instability or economic adverse conditions affecting the asset's performance. This decline may result from various factors such as poor management, reduced demand, unfavorable market conditions, or adverse regulatory changes. Distressed assets may be associated with companies facing bankruptcy or significant cash flow issues, and they are often available at bargain prices, appealing to investors looking for high-risk, high-reward opportunities. This understanding of distressed assets highlights how they contrast with other asset types. For example, an asset that has rapidly increased in value signifies growth and potential, while a distressed asset exemplifies a downward trend. Additionally, terms like "highly liquid" and "minimal risk" do not apply to distressed assets, as they are typically illiquid and carry a higher risk of further devaluation. Moreover, the time frame of asset holding does not inherently define an asset as distressed; thus, assets held for less than a year do not necessarily indicate distress. Understanding these distinctions clarifies why the correct answer accurately captures the essence of what constitutes a distressed asset.

6. What is a primary feature of a SWOT analysis?

- A. It forecasts macroeconomic changes
- B. It identifies industry regulations
- C. It evaluates strengths, weaknesses, opportunities, and threats**
- D. It focuses only on external factors

A primary feature of a SWOT analysis is that it evaluates strengths, weaknesses, opportunities, and threats. This framework is crucial for strategic planning and provides a comprehensive overview of both internal and external factors affecting an organization or project. By identifying strengths, organizations can leverage their advantages; conversely, recognizing weaknesses allows them to address shortcomings or vulnerabilities. Opportunities represent external conditions that an organization could exploit for growth or improvement, while threats highlight potential challenges or obstacles in the environment. This holistic approach enables businesses to formulate strategies that maximize their strengths and opportunities while mitigating weaknesses and threats, ultimately contributing to informed decision-making and planning. Other options, while related to broader aspects of analysis and business strategy, do not capture the essence of what a SWOT analysis specifically aims to accomplish.

7. What characteristic is typically associated with a buy-side analyst's responsibilities?

- A. Providing regulatory guidance**
- B. Researching for internal investment decisions**
- C. Advising on short-term trading strategies**
- D. Conducting public presentations**

A buy-side analyst is primarily focused on researching securities and investments to inform internal investment decisions for the firm they work for, such as hedge funds, mutual funds, or pension funds. Their role involves analyzing financial data, assessing market trends, and evaluating the potential performance of stocks and other assets, all of which are done to guide the investment strategies and decisions made by their firm. The insights generated from this research are crucial for the buy-side's portfolio management, as they aim to maximize returns for their clients. In contrast, providing regulatory guidance would more typically fall under the scope of compliance officers or legal teams within a firm. Advising on short-term trading strategies is often the domain of traders or sell-side analysts who focus on market timing and trading tactics rather than in-depth fundamental research. Conducting public presentations is usually associated with investor relations or marketing teams, as these roles focus on communicating a firm's strategies and performance to external stakeholders rather than the analytical work conducted by buy-side analysts.

8. What are "earnings revisions"?

- A. Adjustments made to stock prices**
- B. Changes in earnings forecasts based on new information**
- C. Periodic assessments of a company's revenue**
- D. Updating the management team's performance**

Earnings revisions refer to modifications made to a company's earnings forecasts as analysts receive new information about the company's performance or economic conditions that may impact its profitability. This process involves reassessing the expected earnings figures to provide a more accurate outlook for investors and stakeholders regarding the company's potential future financial performance. Analysts often revise earnings forecasts in response to quarterly earnings reports, changes in market conditions, shifts in consumer demand, or other relevant news that could affect the company's operations. These adjustments are crucial for investors as they can influence stock valuations and investment decisions, making it essential for research analysts to stay informed and revise their earnings estimates accordingly. Thus, changes in earnings forecasts based on new information accurately capture the essence of what earnings revisions entail.

9. What happens to the present value of cash flows when the WACC decreases?

- A. The present value increases**
- B. The present value decreases**
- C. The present value remains unchanged**
- D. The present value becomes negative**

When the weighted average cost of capital (WACC) decreases, the present value of cash flows increases. This relationship is rooted in the principles of discounted cash flow analysis. WACC represents the average rate that a company is expected to pay to finance its assets, and it serves as the discount rate when calculating the present value of future cash flows. When you apply a lower discount rate to future cash flows, it means that the future cash flows are discounted less aggressively. Consequently, each cash flow amounts to a higher present value since their future value is not diminished as much. In mathematical terms, when calculating the present value, the cash flows are divided by $(1 + \text{WACC})$ raised to the power of the number of periods until the cash flow is received. A decrease in WACC results in larger values when you compute this division. Therefore, as WACC decreases, the present value of the expected cash flows rises, thus making the correct answer the increase in present value.

10. What is the primary function of a sell-side firm?

- A. To manage clients' investment portfolios directly**
- B. To provide advisory services and research to clients regarding investments**
- C. To regulate the securities industry**
- D. To issue new public offerings of stocks**

The primary function of a sell-side firm is to provide advisory services and research to clients regarding investments. Sell-side firms, such as investment banks and brokerage houses, focus on generating research reports and analyses that help institutional and retail investors make informed decisions. They often produce equity research, offering insights into the performance and valuation of various stocks and other securities. By providing this research and insights, sell-side firms help their clients to develop strategies for buying and selling securities. Additionally, sell-side firms facilitate the buying and selling of securities by acting as intermediaries between buyers and sellers. They may also offer clients access to initial public offerings (IPOs) and capital-raising services but their primary role is centered around generating and distributing research and providing investment advice. This differentiates them from buy-side firms, which manage portfolios directly for clients.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://finraseresearchanalyst.examzify.com>

We wish you the very best on your exam journey. You've got this!

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