

FINRA SERIES 86 RESEARCH ANALYST PRACTICE EXAM (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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THE FULL VERSION STUDY GUIDE**

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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. How does competition affect pricing strategies?**
 - A. Increased competition can lead to price reductions to maintain market share
 - B. Competition has no effect on pricing strategies
 - C. Higher competition guarantees higher prices
 - D. It typically leads to product differentiation rather than price changes
- 2. What does sector analysis primarily explore?**
 - A. The financial statements of a single company
 - B. The dynamics affecting a specific industry or market segment
 - C. The historical performance of stock indices
 - D. The psychological factors affecting investor behavior
- 3. If a company has a high debt-to-equity ratio, what financial metric could indicate potential risk to equity holders?**
 - A. Operating income
 - B. Net income volatility
 - C. Return on equity
 - D. Cost of capital
- 4. In investment analysis, what does a rating of "buy" typically signify?**
 - A. The stock is undervalued relative to its fundamentals
 - B. The stock should be sold immediately
 - C. The stock is expected to significantly underperform
 - D. The stock's performance is aligned with the market
- 5. What role do macroeconomic indicators play in equity research?**
 - A. They indicate specific company performance
 - B. They assess global market trends and economic health
 - C. They provide insight into internal company issues
 - D. They mainly focus on technical trading strategies
- 6. What is a discount rate in valuation?**
 - A. The rate at which dividends are paid
 - B. The interest rate used to determine the present value of future cash flows
 - C. The rate of return for equity investments
 - D. The rate at which bonds are issued

7. Who is considered a "buy-side" analyst?

- A. An analyst who advises on selling securities
- B. An analyst working for an investment firm purchasing assets for clients
- C. An analyst who provides economic forecasts
- D. An independent researcher publishing reports

8. What does "differentiation" mean in competitive strategy?

- A. Offering products identical to competitors
- B. Offering distinct products or services that stand out from competitors
- C. Reducing prices below competitors
- D. Focusing solely on cost leadership

9. In stock valuation, the intrinsic value is typically determined by which model?

- A. Net present value model
- B. Asset-based valuation model
- C. Dividend discount model
- D. Cost of capital model

10. Why is understanding insider trading important for research analysts?

- A. It is a common illegal activity that must be reported
- B. It can signify the confidence or concerns of management regarding the company's future
- C. It determines the risk potential of stocks
- D. It aids in forecasting market trends

Answers

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

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Explanations

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1. How does competition affect pricing strategies?

- A. Increased competition can lead to price reductions to maintain market share**
- B. Competition has no effect on pricing strategies
- C. Higher competition guarantees higher prices
- D. It typically leads to product differentiation rather than price changes

In a competitive market, businesses constantly seek ways to attract and retain customers, which often leads to strategies focused on pricing. Increased competition typically drives companies to adjust their pricing to remain attractive to consumers. When multiple firms offer similar products or services, they may reduce prices to capture market share or respond to rival pricing strategies. This price reduction can affect overall market pricing trends and compel competitors to follow suit, leading to a more price-sensitive environment. Additionally, this dynamic pressures firms to find efficiencies and validate value propositions that justify their pricing. Therefore, the concept that increased competition results in price reductions is aligned with fundamental economic principles regarding supply and demand, where the presence of multiple competent suppliers can lead to downward pressure on prices. The other choices do not reflect the nuances of how competition operates in market settings. The option indicating that competition has no effect on pricing strategies contradicts the very nature of market competition. The assertion that higher competition guarantees higher prices overlooks the reality that in many cases, firms reduce prices to compete. Lastly, while product differentiation can be a strategy in competitive markets, it does not negate the influence of competition on pricing strategies, as companies often find themselves adjusting prices along with differentiation efforts. Thus, the correct understanding is that increased competition generally leads to

2. What does sector analysis primarily explore?

- A. The financial statements of a single company
- B. The dynamics affecting a specific industry or market segment**
- C. The historical performance of stock indices
- D. The psychological factors affecting investor behavior

Sector analysis focuses on understanding the dynamics that impact a specific industry or market segment. This involves examining the economic, competitive, regulatory, and technological factors that uniquely influence the performance and outlook of the sector. By analyzing these elements, researchers and analysts can gauge potential growth opportunities, assess risks, and develop insights into how various companies within that sector may perform relative to one another and the broader market. This approach is crucial for investors looking to make informed decisions based on the specific characteristics of industries rather than just individual firms. Understanding sector performance can help in portfolio diversification strategies, advising on sector rotation, and recognizing cyclical trends. The other options, while related to finance and investment, do not encapsulate the primary focus of sector analysis. It is not confined to evaluating the performance of a single company's financial statements, which is more relevant to company analysis. Historical stock indices performance pertains more to market trends and historical data rather than the specific factors affecting a sector. Psychological factors influencing investor behavior align more with behavioral finance studies, focusing on individual decision-making rather than broader industry dynamics.

3. If a company has a high debt-to-equity ratio, what financial metric could indicate potential risk to equity holders?

- A. Operating income
- B. Net income volatility**
- C. Return on equity
- D. Cost of capital

A high debt-to-equity ratio suggests that a company is more leveraged, meaning it relies significantly on borrowed funds to finance its operations and growth. This increased leverage can introduce various risks, particularly for equity holders. Net income volatility is a critical financial metric for equity holders because it reflects the company's ability to generate consistent profits despite its high debt levels. When a company has substantial debt, its fixed interest obligations mean that any fluctuations in revenue can lead to drastic changes in net income. If the company underperforms—whether due to market conditions, operational inefficiencies, or other factors—its ability to cover interest payments may be jeopardized, which could erode shareholder value or lead to potential losses. In summary, net income volatility serves as a warning sign of how debt may amplify the impact of performance variability, hence signaling potential risk to equity holders in a highly leveraged company. Understanding this volatility enables equity analysts to assess the sustainability of profits and the overall financial health of the firm.

4. In investment analysis, what does a rating of "buy" typically signify?

- A. The stock is undervalued relative to its fundamentals**
- B. The stock should be sold immediately
- C. The stock is expected to significantly underperform
- D. The stock's performance is aligned with the market

A rating of "buy" typically signifies that the analyst believes the stock is undervalued relative to its fundamentals. This rating is an indication that the stock has strong potential for price appreciation based on various factors such as the company's earnings, growth prospects, and overall financial health compared to its current market price. Analysts assign a "buy" rating when they anticipate that the stock will perform well in the future, outperforming the market, and therefore, it is a good investment opportunity for buyers. This assessment is often backed by in-depth analysis of the company's financial statements, competitive position, industry trends, and macroeconomic factors that could influence performance. The rating serves as a recommendation to investors that now may be a good time to purchase the stock, as it is likely to yield favorable returns over time.

5. What role do macroeconomic indicators play in equity research?

- A. They indicate specific company performance
- B. They assess global market trends and economic health**
- C. They provide insight into internal company issues
- D. They mainly focus on technical trading strategies

Macroeconomic indicators serve as vital tools in equity research by providing insights into the broader economic environment that can affect all companies within the market. These indicators, which include metrics such as gross domestic product (GDP), unemployment rates, inflation, and interest rates, help analysts understand global market trends and the overall health of the economy. When evaluating stocks, equity researchers utilize these macroeconomic indicators to gauge potential changes in consumer behavior, business investment, and market demand. This context allows analysts to make more informed predictions about future company performance and market movements. By assessing these economic factors, analysts can identify sectors that may outperform or underperform due to prevailing economic conditions, thus influencing investment strategies and recommendations. Other options, while relevant in different contexts, do not primarily focus on the impact of the overall economy on equity markets. For example, specific company performance relates to company-specific financial metrics, internal issues point to operational and management factors, and technical trading strategies are based on price patterns and market trends rather than macroeconomic indicators.

6. What is a discount rate in valuation?

- A. The rate at which dividends are paid
- B. The interest rate used to determine the present value of future cash flows**
- C. The rate of return for equity investments
- D. The rate at which bonds are issued

The concept of a discount rate in valuation is fundamentally tied to the time value of money, which emphasizes that a dollar today is worth more than a dollar in the future due to its potential earning capacity. The discount rate is specifically the interest rate used to calculate the present value of expected future cash flows from an investment or asset. By applying the discount rate, analysts can assess how much those future cash flows are worth in today's terms, allowing for better comparison between investments that may have different cash flow timelines and amounts. This rate reflects the opportunity cost of capital and incorporates the risks associated with those expected cash flows. Therefore, when valuing investments such as stocks or projects, applying the appropriate discount rate is crucial to arrive at an accurate valuation. It enables investors to make informed decisions by helping to differentiate between potentially viable investments and those that may not justify their cost based on the present value of their expected returns.

7. Who is considered a "buy-side" analyst?

- A. An analyst who advises on selling securities
- B. An analyst working for an investment firm purchasing assets for clients**
- C. An analyst who provides economic forecasts
- D. An independent researcher publishing reports

A "buy-side" analyst is typically one who works for an investment firm or asset management company and is primarily involved in purchasing assets on behalf of their clients. This role is focused on investment decisions, analyzing securities to determine which ones to buy to meet the investment goals of the firm's clients, which often include institutional investors such as pension funds, mutual funds, and endowments. This kind of analyst uses their expertise to analyze financial statements, market conditions, and overall economic trends to make informed buying decisions. Their analysis is critical in portfolio management and contributes directly to the firm's investment strategy. In contrast, analysts who focus on selling securities, providing economic forecasts, or publishing independent research reports serve different functions within the financial ecosystem. Each of these roles plays a significant part in the markets, yet they do not fit the definition of a "buy-side" analyst, whose primary motivation is to acquire assets for investment purposes rather than advising on sales or generating independent insights without a direct investment function.

8. What does "differentiation" mean in competitive strategy?

- A. Offering products identical to competitors
- B. Offering distinct products or services that stand out from competitors**
- C. Reducing prices below competitors
- D. Focusing solely on cost leadership

In the context of competitive strategy, "differentiation" refers to the process of developing distinct products or services that are perceived as unique by consumers compared to those offered by competitors. This uniqueness can stem from various factors such as superior quality, innovative features, design, customer service, or brand reputation. By successfully differentiating their offerings, companies can create a competitive advantage, attract a loyal customer base, and often command higher prices because customers are willing to pay a premium for products they see as better or different. In contrast, merely offering products identical to competitors does not involve differentiation and would likely lead to price competition, which is not the focus of a differentiation strategy. Reducing prices below competitors could indicate a cost leadership strategy rather than differentiation, which focuses on added value rather than lower costs. Lastly, focusing solely on cost leadership ignores the critical aspect of product uniqueness that defines differentiation.

9. In stock valuation, the intrinsic value is typically determined by which model?

- A. Net present value model
- B. Asset-based valuation model
- C. Dividend discount model**
- D. Cost of capital model

The intrinsic value of a stock is often assessed through the Dividend Discount Model (DDM), which focuses specifically on the present value of expected future dividends. This model operates under the premise that a stock's value is derived from the dividends it will generate for shareholders over time, discounted back to their present value using an appropriate discount rate. The DDM is particularly useful for firms that have a consistent history of paying dividends, as it accounts for the time value of money and the expected growth of those dividends. By predicting future dividend payments and determining a suitable rate to discount those payments, analysts can estimate the intrinsic value of a stock. If the intrinsic value calculated from the DDM exceeds the current market price, the stock may be considered undervalued, making it a potentially attractive investment. This approach is distinct from other valuation models, such as the net present value model, which is typically used for evaluating the profitability of investments rather than valuing stocks. The asset-based valuation model estimates a company's value based on the value of its assets minus liabilities, which can overlook elements such as future earnings potential. The cost of capital model, while important for understanding required returns, does not directly calculate intrinsic value as it does not focus on tangible cash flows or dividend payments

10. Why is understanding insider trading important for research analysts?

- A. It is a common illegal activity that must be reported
- B. It can signify the confidence or concerns of management regarding the company's future**
- C. It determines the risk potential of stocks
- D. It aids in forecasting market trends

Understanding insider trading is significant for research analysts because it provides insights into the sentiments and expectations of a company's management regarding its future performance. When executives or insiders of a company buy or sell shares, it can reflect their confidence in the company's prospects. For example, if insiders are purchasing stock, it may signal their belief that the company's share price will increase, suggesting positive future developments or financial stability. Conversely, significant selling of stock by insiders might raise concerns about the company's performance or potential challenges ahead. This understanding is not just anecdotal; research analysts often use insider trading data as part of their broader analysis to gauge market sentiment and make informed investment recommendations. By interpreting these movements, analysts can better assess the intrinsic value of a stock and align their research with the underlying dynamics of management's confidence, thereby enhancing their predictive capabilities.

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://finraseries86researchanalyst.examzify.com>

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

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