

KAPLAN SECURITIES INDUSTRY ESSENTIALS (SIE) PRACTICE TEST (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. Which type of order guarantees a specific price when executed?

- A. Limit order
- B. Market order
- C. Stop order
- D. Stop limit order

2. How do common stocks differ from preferred stocks?

- A. Common stocks have fixed dividends; preferred do not
- B. Preferred stocks provide voting rights; common do not
- C. Common stocks usually provide voting rights while preferred stocks typically do not
- D. Preferred stocks have higher growth potential than common stocks

3. What is a 'stock split'?

- A. An action taken by a company to decrease the number of its shares outstanding
- B. An action taken by a company to issue more shares without altering the overall market capitalization
- C. An action taken by a company to divide its existing shares into multiple shares, increasing liquidity but not affecting overall market capitalization
- D. A corporate action to merge shares for a higher price

4. M1 is a measure of what?

- A. M2 plus retail CDs and money markets.
- B. Cash, cash equivalents, and DDAs.
- C. Retail CDs and money markets.
- D. Cash and funds held in DDAs.

5. Which transaction is not covered by Rule 144?

- A. Trades of a newly issued nonregistered security.
- B. Trades by an affiliate on an exchange.
- C. Non-affiliate trades on an exchange.
- D. Trades on an affiliate in the over-the-counter market.

- 6. Why are credit ratings critical in the financial market?**
- A. They simplify the process of trading securities
 - B. They help investors to identify high-risk industries
 - C. They provide a measure of the creditworthiness of borrowers
 - D. They improve the liquidity of stocks
- 7. LMN declared a 25% stock dividend. After selling the shares three years later for \$50, what statement about the adjusted cost basis is correct?**
- A. The adjusted cost basis of the shares is \$30.
 - B. The adjusted cost basis of the shares is \$32.
 - C. There is a short-term capital gain on all the shares sold.
 - D. There is a long-term capital gain on all the shares sold.
- 8. A notice from the Wetlands Maintenance and Drainages Act affecting New Haven Farms' land usage is an example of which type of risk?**
- A. Regulatory risk
 - B. Business risk
 - C. Legislative risk
 - D. Political risk
- 9. What does regulatory compliance refer to in the financial securities industry?**
- A. Following internal company policies on employee conduct
 - B. Adherence to laws, regulations, guidelines, and specifications
 - C. Monitoring the market for unethical practices
 - D. Ensuring customers are satisfied with services
- 10. What is the primary objective of a hedge fund?**
- A. To provide a secure investment for retirees
 - B. To sell stocks to maximize company profits
 - C. To employ various strategies to earn active return for its investors
 - D. To manage government securities

Answers

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

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Explanations

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1. Which type of order guarantees a specific price when executed?

- A. Limit order**
- B. Market order
- C. Stop order
- D. Stop limit order

A limit order guarantees that a trade will be executed at a specific price or better. This means that when the order is placed, the investor specifies the maximum price they are willing to pay for a buy order or the minimum price they are willing to accept for a sell order. For example, if an investor places a buy limit order at \$50, the order will be executed only if the stock's price reaches \$50 or lower. Similarly, a sell limit order will only execute when the market price is at or above the limit price set by the seller. This ensures that the investor has control over the pricing of the trade, providing a level of price assurance that can be crucial in volatile market conditions. In contrast, other types of orders, such as market orders and stop orders, do not guarantee a specific price. A market order is executed at the best available price in the market at the time, which may result in a price that is not favorable to the investor if the market moves rapidly. A stop order activates a market order once a specified stop price is reached, but again does not ensure a fixed price. A stop limit order is a combination of the two, stopping at a certain price but then requiring a limit price for execution,

2. How do common stocks differ from preferred stocks?

- A. Common stocks have fixed dividends; preferred do not
- B. Preferred stocks provide voting rights; common do not
- C. Common stocks usually provide voting rights while preferred stocks typically do not**
- D. Preferred stocks have higher growth potential than common stocks

Common stocks generally provide voting rights to their owners, allowing them to participate in the decision-making processes of the company, such as voting on board members and major corporate actions. This aspect of common stocks is significant because it gives shareholders a voice in the company's operations and direction. In contrast, preferred stocks typically do not come with voting rights. They are considered a hybrid security, combining features of both debt and equity. Preferred shareholders usually receive fixed dividends and have a higher claim on assets than common shareholders if the company undergoes liquidation, but they lack the ability to vote at shareholder meetings. The distinction in voting rights is a fundamental characteristic that sets common stocks apart from preferred stocks, making option C the correct choice. This highlights the varying levels of influence and potential benefits linked to ownership of these two types of securities.

3. What is a 'stock split'?

- A. An action taken by a company to decrease the number of its shares outstanding
- B. An action taken by a company to issue more shares without altering the overall market capitalization
- C. An action taken by a company to divide its existing shares into multiple shares, increasing liquidity but not affecting overall market capitalization**
- D. A corporate action to merge shares for a higher price

A stock split is an action taken by a company to divide its existing shares into multiple shares, which increases the number of shares outstanding while maintaining the overall market capitalization. This process does not change the total value of the company, but it reduces the price per share, making the shares more affordable and potentially more attractive to a larger number of investors. In a stock split, the company's total equity value remains the same; for example, if a company splits its shares in a 2-for-1 split, shareholders will receive an additional share for each share they currently own, but the price per share will be halved. This can enhance liquidity, as more shares on the market make it easier for investors to buy and sell them. This understanding of stock splits is essential for grasping how companies manage their stock prices and shares in their efforts to improve market conditions for their investors.

4. M1 is a measure of what?

- A. M2 plus retail CDs and money markets.
- B. Cash, cash equivalents, and DDAs.
- C. Retail CDs and money markets.
- D. Cash and funds held in DDAs.**

M1 is a key indicator in the measurement of a country's money supply and primarily consists of the most liquid forms of money. The correct answer identifies M1 as including cash and funds held in demand deposit accounts (DDAs). This definition reflects the components of M1, which are essential for understanding the highly liquid nature of these assets. Cash includes physical currency such as coins and paper money that are in circulation. Demand deposit accounts are checking accounts that allow for deposits and withdrawals at will, making these funds readily accessible. This liquidity is what sets M1 apart from broader definitions of money supply, like M2, which encompasses a wider range of financial assets. Understanding this distinction is crucial for analyzing monetary policy and economic conditions, as M1 provides insight into the money supply that's immediately available for spending in the economy.

5. Which transaction is not covered by Rule 144?

- A. Trades of a newly issued nonregistered security.
- B. Trades by an affiliate on an exchange.
- C. Non-affiliate trades on an exchange.**
- D. Trades on an affiliate in the over-the-counter market.

Rule 144 is a regulation that governs the resale of restricted and control securities. It is designed to provide a safe harbor for selling securities without the need for registration while still protecting the investing public. The correct answer states that non-affiliate trades on an exchange are not covered by Rule 144. This is because such transactions involve the trade of securities by individuals who are not insiders or affiliates of the issuer. Essentially, these trades are considered to be in the public marketplace and do not involve the same restrictions that apply to affiliates or control persons. In the context of Rule 144, affiliates typically have greater access to information about the company and, therefore, face more scrutiny in terms of trading their shares. Non-affiliate trades, occurring in a public exchange, do not need to adhere to the resale limitations that Rule 144 establishes, making them exempt from the rule's restrictions, unlike trades by affiliates or the other identified types of transactions which are subject to specific guidelines under Rule 144.

6. Why are credit ratings critical in the financial market?

- A. They simplify the process of trading securities
- B. They help investors to identify high-risk industries
- C. They provide a measure of the creditworthiness of borrowers**
- D. They improve the liquidity of stocks

Credit ratings are crucial in the financial market because they provide a standardized measure of the creditworthiness of borrowers, which can include both individuals and institutions. This assessment helps investors evaluate the likelihood that borrowers will be able to meet their financial obligations, such as repaying loans or honoring bond payments. When investors understand the credit ratings assigned to various entities, they can make more informed decisions regarding risk and return on their investments. A higher credit rating typically indicates a lower perceived risk, which can attract more investors. Additionally, credit ratings influence borrowing costs; borrowers with higher ratings generally receive loans and financing at lower interest rates because they are seen as safer investments. The importance of credit ratings extends to the overall health of the financial system, as these ratings help maintain transparency and reduce uncertainty in investment decisions, ultimately contributing to market stability.

7. LMN declared a 25% stock dividend. After selling the shares three years later for \$50, what statement about the adjusted cost basis is correct?

- A. The adjusted cost basis of the shares is \$30.
- B. The adjusted cost basis of the shares is \$32.
- C. There is a short-term capital gain on all the shares sold.
- D. There is a long-term capital gain on all the shares sold.

When a company declares a stock dividend, it effectively issues additional shares to shareholders based on the number of shares they already own. In this scenario, the 25% stock dividend means that shareholders will receive additional shares equivalent to 25% of what they already hold. To determine the adjusted cost basis of the shares after the stock dividend, we need to calculate how the cost basis per share is affected. If the original shares had a certain cost basis, the stock dividend would increase the total number of shares while also distributing the original cost basis over a larger number of shares. This can lead to a decrease in the individual cost basis per share. For example, if someone originally owned 100 shares at a cost basis of \$40 each, their total investment was \$4,000. After a 25% stock dividend, they would receive an additional 25 shares, bringing the total to 125 shares. The total cost basis remains \$4,000, but the adjusted cost basis per share will now be: $\text{Total Cost Basis} / \text{Total Shares} = \$4,000 / 125 = \$32$ per share. When shares are sold after a holding period, the gain is calculated based on the adjusted cost basis. If the shares were sold for \$

8. A notice from the Wetlands Maintenance and Drainages Act affecting New Haven Farms' land usage is an example of which type of risk?

- A. Regulatory risk
- B. Business risk
- C. Legislative risk
- D. Political risk

The situation described, where a notice from the Wetlands Maintenance and Drainages Act affects land usage for New Haven Farms, represents legislative risk. This type of risk specifically pertains to the potential financial impact that changes in laws or regulations can have on a business's operations. Legislative risk often arises when new laws are enacted or existing laws are amended, which can impose constraints or new requirements on businesses, ultimately affecting their profitability or operational capabilities. In this case, the Wetlands Maintenance and Drainages Act is a piece of legislation that directly influences land use, indicating how regulatory changes can have a significant impact on agricultural or land development activities. Understanding legislative risk is crucial for businesses as it helps them to anticipate changes and adjust their strategies accordingly to mitigate potential impacts on their operations.

9. What does regulatory compliance refer to in the financial securities industry?

- A. Following internal company policies on employee conduct
- B. Adherence to laws, regulations, guidelines, and specifications**
- C. Monitoring the market for unethical practices
- D. Ensuring customers are satisfied with services

Regulatory compliance in the financial securities industry specifically refers to adherence to laws, regulations, guidelines, and specifications set forth by government authorities and regulatory bodies. This involves ensuring that all activities and operations within the industry align with the established legal framework designed to protect investors and maintain fair market practices. Compliance is critical as it helps organizations avoid legal penalties, maintains their reputations, and ensures the integrity of the financial system. The correct answer highlights the broad spectrum of compliance that encompasses various laws and regulations, such as the Securities Exchange Act, Anti-Money Laundering (AML) laws, and the rules enforced by the Financial Industry Regulatory Authority (FINRA) and the Securities and Exchange Commission (SEC). This focus on regulatory adherence ensures that firms operate within legal boundaries and uphold the standards expected in the financial industry.

10. What is the primary objective of a hedge fund?

- A. To provide a secure investment for retirees
- B. To sell stocks to maximize company profits
- C. To employ various strategies to earn active return for its investors**
- D. To manage government securities

The primary objective of a hedge fund is to employ various strategies to earn an active return for its investors. Hedge funds are investment vehicles that use a wide range of tactics, which may include long and short positions, leverage, derivatives, and arbitrage, among others. These strategies are designed to achieve high returns, often with a focus on absolute performance rather than comparing against a benchmark. This active management approach allows hedge funds to capitalize on market opportunities and navigate market volatility, aiming to deliver superior investment performance for their clients. In contrast, the other choices do not accurately capture the essence of a hedge fund's purpose. Providing secure investments for retirees is more aligned with traditional investment vehicles focused on stability, such as mutual funds or fixed-income securities. Selling stocks to maximize company profits pertains more to the operational goals of a corporation rather than an investment fund. Managing government securities typically refers to funds that exclusively deal with fixed-income investments, again limiting the broader and more diverse strategies typical of hedge funds.

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://kaplansie.examzify.com>

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

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