

Securities Industry Essentials (SIE) Diagnostics Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

This is a sample study guide. To access the full version with hundreds of questions,

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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. Don't worry about getting everything right, 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, and take breaks to retain information better.

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.

7. Use Other Tools

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!

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Questions

- 1. What occurs during the standby period of a rights offering?**
 - A. New shares are issued**
 - B. The underwriter purchases unsold shares**
 - C. Securities are held without trading**
 - D. Subscribing rights are canceled**
- 2. A discretionary account allows a registered representative to do what?**
 - A. Conduct transactions without client consent**
 - B. Make decisions on specific asset purchasing**
 - C. Provides the customer with full control**
 - D. Only track client investments**
- 3. What type of order is adjusted downward by the amount of the dividend on the ex-dividend date?**
 - A. Limit order**
 - B. Market order**
 - C. Stop order**
 - D. Fill-or-kill order**
- 4. Which of the following describes the risks associated with thinly traded securities?**
 - A. Low liquidity risks**
 - B. High price volatility**
 - C. Stable price behavior**
 - D. Low market impact**
- 5. What action by the Federal Reserve would lead to a decrease in the money supply?**
 - A. Purchasing securities in the open market**
 - B. Decreasing the discount rate**
 - C. Decreasing reserve requirements**
 - D. Selling securities in the open market**

- 6. What typically funds revenue bonds?**
- A. Tax revenues from property**
 - B. User fees or service charges**
 - C. General sales tax revenues**
 - D. State government allocations**
- 7. What is the relationship of bond prices to market interest rates?**
- A. Higher interest rates lead to higher bond prices**
 - B. Lower interest rates result in lower bond prices**
 - C. Higher interest rates lead to lower bond prices**
 - D. Bond prices are unaffected by interest rates**
- 8. Which statement about required minimum distributions from IRAs is true?**
- A. Contributions to a traditional IRA are never tax deductible.**
 - B. Distributions must be taken from traditional IRAs in the year an individual turns 59.5.**
 - C. Minimum distributions must be made from all types of IRAs.**
 - D. Investors may withdraw more than the required minimum from IRAs and will be taxed on these distributions accordingly.**
- 9. What is the minimum equity requirement for a customer making an initial purchase of \$3,000 in a margin account?**
- A. \$1,000**
 - B. \$1,500**
 - C. \$2,000**
 - D. \$2,500**
- 10. What illegal practice involves placing a large number of orders just before trading opens or closes to influence stock prices?**
- A. Market manipulation**
 - B. Front running**
 - C. Churning**
 - D. Prohibited trading**

Answers

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

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Explanations

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1. What occurs during the standby period of a rights offering?

- A. New shares are issued
- B. The underwriter purchases unsold shares**
- C. Securities are held without trading
- D. Subscribing rights are canceled

During the standby period of a rights offering, the underwriter purchases any unsold shares. In a rights offering, existing shareholders are given the opportunity to purchase additional shares at a predetermined price before they are made available to the public. If shareholders do not exercise their rights to buy additional shares, the underwriter steps in during the standby period to buy those remaining shares to ensure that the company raises the intended capital. This helps provide a safety net and allows the offering to be successful, even if not all existing shareholders choose to participate. The role of the underwriter is critical during this phase, as it mitigates the risk of the offering falling short of its financial goals. It ensures that there is a market for the shares and introduces another layer of financial security for the issuing company.

2. A discretionary account allows a registered representative to do what?

- A. Conduct transactions without client consent
- B. Make decisions on specific asset purchasing**
- C. Provides the customer with full control
- D. Only track client investments

A discretionary account permits a registered representative to make investment decisions on behalf of the client regarding specific asset purchases without needing to obtain consent for each transaction. This arrangement allows the representative to act in the client's best interest based on their investment objectives and risk tolerance, streamlining the process and potentially allowing for more timely trades. It is essential for the registered representative to have a clear understanding of the client's financial situation and investment goals to manage the account effectively.

3. What type of order is adjusted downward by the amount of the dividend on the ex-dividend date?

- A. Limit order**
- B. Market order**
- C. Stop order**
- D. Fill-or-kill order**

The correct answer is that a stop order is adjusted downward by the amount of the dividend on the ex-dividend date. This occurs because, on the ex-dividend date, the stock price generally declines to reflect the fact that the dividend will not be paid to new shareholders who purchase the stock after that date. When a stop order is in place, it is designed to trigger a market order once a specified price (the stop price) is hit. If the stock is expected to open lower due to the adjustment for the dividend, the stop price would need to be adjusted accordingly to ensure that it remains effective under the new price conditions. This adjustment accounts for the decrease in value due to the dividend payout, allowing the stop order to remain relevant and actionable within the new trading landscape. In contrast, limit orders, market orders, and fill-or-kill orders do not automatically adjust for dividends in this manner, as they are executed based on different principles and objectives. Limit orders specify a price at which to buy or sell, market orders execute at current market prices, and fill-or-kill orders are strict in requiring immediate completion or cancellation without consideration for price adjustments resulting from dividends.

4. Which of the following describes the risks associated with thinly traded securities?

- A. Low liquidity risks**
- B. High price volatility**
- C. Stable price behavior**
- D. Low market impact**

Thinly traded securities are characterized by low trading volumes and limited market participation, which can lead to high price volatility. When there are fewer participants in the market, even relatively small buying or selling activity can significantly impact the price of the security. This is because when a trade takes place in a thinly traded market, there are often not enough sellers or buyers to absorb the order without moving the price substantially. In contrast, more actively traded securities tend to have sufficient buying and selling activity to cushion price fluctuations, resulting in greater price stability. Therefore, the inherent lack of liquidity in thinly traded securities usually leads to larger price swings compared to securities that are frequently traded. This makes investors more susceptible to experiencing rapid changes in the market price, as the supply and demand dynamics are less stable and balanced. Understanding this aspect is crucial for investors, as entering or exiting positions in thinly traded securities can involve greater risk due to these pronounced price movements.

5. What action by the Federal Reserve would lead to a decrease in the money supply?

- A. Purchasing securities in the open market**
- B. Decreasing the discount rate**
- C. Decreasing reserve requirements**
- D. Selling securities in the open market**

Selling securities in the open market is a key tool used by the Federal Reserve to influence the money supply. When the Fed sells securities, it effectively takes money out of circulation because buyers pay for these securities, which reduces the amount of money that banks and the public have available. The transaction decreases reserves in the banking system, leading to a contraction in the overall money supply. This action is part of the Fed's open market operations and is typically employed in an effort to curb inflation or cool off an overheating economy. By reducing the money supply, the Fed aims to manage economic growth and stabilize prices. Therefore, selling securities in the open market directly leads to a decrease in the money supply, making it the correct action in this context.

6. What typically funds revenue bonds?

- A. Tax revenues from property**
- B. User fees or service charges**
- C. General sales tax revenues**
- D. State government allocations**

Revenue bonds are typically funded through user fees or service charges. This type of bond is issued by municipalities or other governmental entities to finance specific projects such as toll roads, bridges, or utilities. The primary source of repayment for these bonds comes not from general tax revenues, but rather from the income generated by the project itself. For instance, revenue from tolls collected on a road or fees charged for water usage go directly towards servicing the debt on the revenue bonds. The emphasis on user fees distinguishes revenue bonds from general obligation bonds, which are backed by the taxing power of the issuing authority. Hence, revenue bonds are more reliant on the success and income of the specific infrastructure or service they are funding, making this method of financing particular to projects designed to generate revenue.

7. What is the relationship of bond prices to market interest rates?

- A. Higher interest rates lead to higher bond prices**
- B. Lower interest rates result in lower bond prices**
- C. Higher interest rates lead to lower bond prices**
- D. Bond prices are unaffected by interest rates**

The relationship between bond prices and market interest rates is fundamental to understanding fixed-income investments. When market interest rates rise, new bonds are issued with higher yields, making existing bonds with lower rates less attractive to investors. As a result, the prices of existing bonds decrease to adjust for the new, higher yields in the market. This mechanism occurs because investors seek the best return on their investments, and if new bonds offer higher interest payments, they will not be willing to pay full price for existing bonds that pay lower interest rates. Thus, to sell those existing bonds in the face of new competition, sellers must lower the price, leading to a negative correlation between market interest rates and bond prices. In contrast, when market interest rates fall, the prices of existing bonds increase, as their fixed interest payments become more attractive compared to new bonds issued at lower rates. This inverse relationship is a crucial concept in the bond market.

8. Which statement about required minimum distributions from IRAs is true?

- A. Contributions to a traditional IRA are never tax deductible.**
- B. Distributions must be taken from traditional IRAs in the year an individual turns 59.5.**
- C. Minimum distributions must be made from all types of IRAs.**
- D. Investors may withdraw more than the required minimum from IRAs and will be taxed on these distributions accordingly.**

The correct answer highlights that investors can withdraw more than the required minimum from IRAs, and any amounts taken above the minimum distribution will be subject to taxation. This is an important aspect of Individual Retirement Accounts (IRAs), particularly traditional IRAs, where any distributions are typically considered taxable income in the year they are taken. Therefore, when individuals choose to withdraw additional amounts beyond what is mandated by the IRS, they must be aware that these additional withdrawals will also incur income tax liabilities. Understanding that individuals have the flexibility to take more than the minimum distribution is crucial for effective retirement planning. It allows for adjusting withdrawals based on personal financial circumstances, tax strategies, or cash flow needs. However, it's essential for investors to keep in mind the implications of taxation on these additional withdrawals to avoid unexpected tax burdens. In terms of context, it's valuable to note that contributions to traditional IRAs can indeed be tax-deductible depending on various factors, such as income levels and participation in employer-sponsored retirement plans, which directly contradicts the assumption found in the first choice. The second choice refers to the requirement to take minimum distributions at a later age (not 59.5), specifically at age 72, which clarifies the timing for those distributions. Lastly,

9. What is the minimum equity requirement for a customer making an initial purchase of \$3,000 in a margin account?

- A. \$1,000**
- B. \$1,500**
- C. \$2,000**
- D. \$2,500**

In a margin account, when an investor makes an initial purchase, FINRA requires that the investor has a minimum equity of at least 50% of the purchase price for the initial margin transaction. This is often referred to as the "Regulation T" requirement. For an initial purchase of \$3,000, the minimum equity requirement would be calculated as follows: 50% of \$3,000 equals \$1,500. However, there's an additional requirement referred to as the "minimum margin requirement," which may vary by firm but is often set to a minimum of \$2,000. Given this information, the correct answer reflects the industry standard of maintaining a minimum equity of \$2,000 when making an initial margin purchase, therefore confirming that the minimum equity requirement for a customer making an initial purchase of \$3,000 in a margin account is indeed \$2,000. This ensures that customers have some level of equity after borrowing funds to finance their purchase and mitigates the risk for brokerage firms.

10. What illegal practice involves placing a large number of orders just before trading opens or closes to influence stock prices?

- A. Market manipulation**
- B. Front running**
- C. Churning**
- D. Prohibited trading**

Market manipulation refers to the illegal practice of intentionally inflating or deflating the price of a security to create a misleading appearance of active trading, thereby influencing the stock price. This can be done through various techniques, such as placing a large number of orders just before the market opens or closes. The goal of such actions is to attract other investors by creating the false impression of a high demand or supply, leading them to make decisions based on manipulated information. This practice is considered unethical and illegal because it undermines the integrity of the market and can result in significant financial losses for unsuspecting investors. For these reasons, regulatory bodies closely monitor trading activities to detect and prevent market manipulation.

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://siediagnosics.examzify.com>

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