

STC S7 Greenlight 2 Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

Copyright © 2025 by Examzify - A Kaluba Technologies Inc. product.

ALL RIGHTS RESERVED.

No part of this book may be reproduced or transferred in any form or by any means, graphic, electronic, or mechanical, including photocopying, recording, web distribution, taping, or by any information storage retrieval system, without the written permission of the author.

Notice: Examzify makes every reasonable effort to obtain from reliable sources accurate, complete, and timely information about this product.

SAMPLE

Questions

SAMPLE

- 1. What secures the payment of interest and principal on Southern California Gas's bonds?**
 - A. Cash reserves**
 - B. Government guarantees**
 - C. Property owned by Southern California Gas**
 - D. Stock equity holdings**
- 2. Which statement about member firms' suitability requirements for institutional investors is correct?**
 - A. The requirements are stricter than for retail accounts**
 - B. The requirements are the same for both types of accounts**
 - C. The requirements are less stringent than for retail accounts**
 - D. The requirements do not apply to institutional investors**
- 3. What must stockholders approve for changes in company structure?**
 - A. Revision of the company's bylaws**
 - B. Merger or acquisition plans**
 - C. Annual financial statements**
 - D. Quarterly dividend declarations**
- 4. What is true regarding a general obligation bond held by an investor?**
 - A. Payment of principal and interest is ultimately the responsibility of the issuing municipality.**
 - B. It is backed by specific revenue sources.**
 - C. It guarantees a fixed interest rate over time.**
 - D. It is typically unrated by credit agencies.**
- 5. What is the dollar value increase if 500 shares of stock selling at \$15 increase by 2 1/2 points?**
 - A. \$1,000**
 - B. \$1,250**
 - C. \$1,500**
 - D. \$1,750**

- 6. What should a registered representative recommend if an elderly client is disoriented and possibly experiencing dementia?**
- A. Contact the authorities for assistance**
 - B. Recommend medical evaluation immediately**
 - C. Recommend for the customer to arrange a meeting with her trusted contact person**
 - D. Ignore the symptoms as typical aging signs**
- 7. How is a broker-dealer acting when they provide financial advice regarding a client's investment?**
- A. As a fiduciary**
 - B. As an agent**
 - C. As a principal**
 - D. As a counterparty**
- 8. When a municipality allocates funds for a net revenue issue, what is the first priority?**
- A. Debt refinancing**
 - B. Construction of new facilities**
 - C. Operation and maintenance of the facility**
 - D. Repayment of previous bonds**
- 9. If a 28-year-old individual with \$60,000 income inherits \$100,000 and is concerned about taxes, what should their registered representative recommend?**
- A. Investing in a high-yield corporate bond fund**
 - B. Putting the money in a tax-exempt municipal bond fund**
 - C. Investing in a traditional savings account**
 - D. Funding a retirement account**
- 10. At what price should a DEF corporation convertible bond be selling to be at a 10% premium to the common stock?**
- A. 120**
 - B. 137.5**
 - C. 150**
 - D. 160**

Answers

SAMPLE

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

SAMPLE

Explanations

SAMPLE

1. What secures the payment of interest and principal on Southern California Gas's bonds?

- A. Cash reserves**
- B. Government guarantees**
- C. Property owned by Southern California Gas**
- D. Stock equity holdings**

The correct choice, which indicates that the payment of interest and principal on Southern California Gas's bonds is secured by property owned by the company, points to the nature of secured bonds. This type of bond is backed by specific assets, which could include physical properties, infrastructure, or other tangible resources that the company owns. In the event of a default, bondholders have a claim on these assets, making them more secure compared to unsecured bonds, which do not have such backing. This arrangement provides an extra layer of safety for investors, as they can potentially recover their investment through the liquidation of the secured assets. Other options, while they may have their own merits in different contexts, do not provide the same level of security for bondholders. Cash reserves may be useful for covering short-term obligations but do not represent a guarantee against repayment in case of insolvency. Government guarantees can apply to certain bonds but are not universally present for all municipal or corporate bonds. Lastly, stock equity holdings represent ownership in the company and are subject to market fluctuations, lacking the direct security that a property would provide for bond repayment.

2. Which statement about member firms' suitability requirements for institutional investors is correct?

- A. The requirements are stricter than for retail accounts**
- B. The requirements are the same for both types of accounts**
- C. The requirements are less stringent than for retail accounts**
- D. The requirements do not apply to institutional investors**

The correct statement highlights that the suitability requirements for institutional investors are less stringent than those for retail accounts. This distinction arises due to the inherent differences in the sophistication and resources available to institutional investors, compared to those typically available to individual retail investors. Institutional investors, such as pension funds, hedge funds, and insurance companies, are generally considered to possess a higher level of investment knowledge and experience. They often have significant financial resources and access to in-depth research that allows them to make more informed investment decisions. On the other hand, retail investors may require stronger protections due to their varied levels of financial understanding and impact of investment decisions on their personal savings. Because of these differences, regulators often allow member firms more flexibility in evaluating the suitability of investments for institutional investors. Thus, the regulatory requirements placed on member firms in assessing the suitability of investments for institutional clients are typically less stringent, reflecting the assumption that these investors can navigate risk more effectively on their own.

3. What must stockholders approve for changes in company structure?

- A. Revision of the company's bylaws**
- B. Merger or acquisition plans**
- C. Annual financial statements**
- D. Quarterly dividend declarations**

Stockholders must approve merger or acquisition plans because such fundamental changes to a company's structure can significantly affect ownership, control, and the direction of the business. A merger or acquisition often involves combining resources, assets, and liabilities, which can directly impact shareholders' investments and influence the future operational strategies of the company. By requiring stockholder approval for these plans, companies ensure that those who have a financial stake in the business have a say in critical decisions that can alter the landscape of the organization. This process enables stockholders to assess and affirm their confidence in the management's strategy towards growth, sustainability, and overall corporate governance. In contrast, revisions of company bylaws may not always require direct stockholder votes, depending on the nature of the bylaw changes. Annual financial statements are typically reviewed by stockholders but do not require formal approval, and quarterly dividend declarations are usually decided by the board of directors without needing shareholder approval, making them less critical in terms of structural changes.

4. What is true regarding a general obligation bond held by an investor?

- A. Payment of principal and interest is ultimately the responsibility of the issuing municipality.**
- B. It is backed by specific revenue sources.**
- C. It guarantees a fixed interest rate over time.**
- D. It is typically unrated by credit agencies.**

A general obligation bond is a type of municipal bond that is secured by the issuing municipality's pledge to use its taxing power to repay bondholders. This means that the responsibility for making interest and principal payments ultimately falls on the municipality itself, which typically draws funds from tax revenues. This broad backing gives investors a relatively high level of security, as these bonds are supported by the general fiscal health and revenue-generating capacity of the municipality. The other options do not accurately describe general obligation bonds. They are not backed by specific revenue sources, which would be characteristic of revenue bonds. While general obligation bonds may offer predictable payments, they do not necessarily guarantee a fixed interest rate over time, as interest rates can be influenced by various market factors and can fluctuate. Finally, many general obligation bonds are rated by credit agencies to provide investors with a measure of credit risk, so stating that they are typically unrated does not represent the full picture.

5. What is the dollar value increase if 500 shares of stock selling at \$15 increase by 2 1/2 points?

- A. \$1,000
- B. \$1,250**
- C. \$1,500
- D. \$1,750

To find out the dollar value increase when shares of stock increase by a specific number of points, you'll need to know the number of shares and the point increase in dollar terms. In this case, the stock is selling at \$15, and it's increasing by 2 1/2 points. A point in stock terms typically refers to a one-dollar increase in the price of the stock. Therefore, an increase of 2 1/2 points translates to an increase of \$2.50 for each share. To calculate the total increase, multiply the increase per share by the total number of shares: 1. Increase per share: \$2.50 2. Number of shares: 500 Total increase = Increase per share x Number of shares = \$2.50 x 500 = \$1,250. This means the total dollar value increase in this scenario is \$1,250, confirming that this is indeed the correct answer. The other options do not reflect the correct multiplication calculation based on the point increase and the number of shares.

6. What should a registered representative recommend if an elderly client is disoriented and possibly experiencing dementia?

- A. Contact the authorities for assistance
- B. Recommend medical evaluation immediately
- C. Recommend for the customer to arrange a meeting with her trusted contact person**
- D. Ignore the symptoms as typical aging signs

In instances where an elderly client exhibits signs of disorientation that may suggest dementia, it is crucial to approach the situation with sensitivity and appropriate action. The recommended choice to arrange a meeting with the client's trusted contact person is vital for several reasons. Firstly, involving a trusted contact person can create a support system around the client, ensuring that they have someone who understands their personal circumstances and can provide assistance. Having a familiar individual who can advocate on their behalf can also facilitate communication between the client and medical professionals or financial advisers. Secondly, this approach allows for a non-confrontational method of addressing potential cognitive issues. A trusted contact may help in assessing the extent of the disorientation and deciding on the need for further action, such as a medical evaluation or greater oversight of the client's financial decisions. Additional options, such as contacting authorities or suggesting immediate medical evaluation, may be considered more drastic steps. They could lead to discomfort or a sense of distrust on the part of the client if performed without the involvement of someone the client trusts. Ignoring the symptoms fails to address the potential need for evaluation and support, which does not align with the best interests of the client. Thus, the option of coordinating with a trusted contact not only shows care and respect for the

7. How is a broker-dealer acting when they provide financial advice regarding a client's investment?

- A. As a fiduciary**
- B. As an agent**
- C. As a principal**
- D. As a counterparty**

When a broker-dealer provides financial advice regarding a client's investments, they are acting as a fiduciary. This means they have a legal and ethical obligation to put the client's interests first. A fiduciary relationship requires the broker-dealer to provide advice that is in the best interests of the client, ensuring that all recommendations are made transparently and with full disclosure of any potential conflicts of interest. In this context, the responsibility encompasses understanding the client's financial situation, risk tolerance, and investment goals. The fiduciary standard upholds a higher level of accountability, ensuring that the advice given is not solely based on what may lead to higher commissions or profits for the broker-dealer, but rather aligns with the client's best interests. The other roles, such as acting as an agent, principal, or counterparty, denote different responsibilities and relationships where the focus does not necessarily prioritize the client's best interests to the same extent as a fiduciary. Thus, the emphasis on fiduciary duty in this question is what distinguishes the correct answer.

8. When a municipality allocates funds for a net revenue issue, what is the first priority?

- A. Debt refinancing**
- B. Construction of new facilities**
- C. Operation and maintenance of the facility**
- D. Repayment of previous bonds**

In the context of municipal finance and net revenue issues, the first priority when allocating funds is typically the operation and maintenance of the facility. This priority ensures that the facility is maintained in good working order and continues to provide services effectively. By prioritizing operational needs first, municipalities can ensure that they meet their obligations to the public and maintain safety standards. Operational expenses can include utility costs, staffing, repairs, and routine maintenance that keep facilities functional. Failing to allocate sufficient funds to these areas can lead to larger problems down the line, including facility deterioration, safety hazards, or even service interruptions, which could undermine the sustainability of the revenue-generating asset. The other choices represent important financial aspects of municipal spending but follow operational priorities. Debt refinancing or repayment of previous bonds is crucial for managing existing financial obligations, while construction of new facilities might enhance services or capacity but typically comes after ensuring current facilities are adequately maintained and operated.

9. If a 28-year-old individual with \$60,000 income inherits \$100,000 and is concerned about taxes, what should their registered representative recommend?

A. Investing in a high-yield corporate bond fund

B. Putting the money in a tax-exempt municipal bond fund

C. Investing in a traditional savings account

D. Funding a retirement account

The suggestion to invest the inherited funds in a tax-exempt municipal bond fund is particularly appropriate for the individual concerned about taxes. One of the primary advantages of municipal bonds is that the interest income they generate is generally exempt from federal income taxes, and in some cases, state and local taxes as well. This can provide the individual with a solid return on investment without an immediate tax burden, aligning with their concerns regarding tax implications. Investing in a high-yield corporate bond fund might present a higher potential return, but this comes with greater risks and typically results in taxable interest income, which could increase the individual's tax liability, contradicting their concern about taxes. Placing the money in a traditional savings account generally yields very low interest rates and any earnings would be taxable as ordinary income, which isn't advantageous for someone looking to minimize tax impact. Funding a retirement account could be beneficial for long-term savings, but depending on the type of retirement account, it may not provide immediate tax relief specific to the inherited funds and could limit access to the money for a certain period. Given these considerations, the recommendation to utilize a tax-exempt municipal bond fund effectively addresses both the desire for investment growth and the need to manage tax exposure.

10. At what price should a DEF corporation convertible bond be selling to be at a 10% premium to the common stock?

A. 120

B. 137.5

C. 150

D. 160

To determine the price at which DEF corporation's convertible bond should sell to be at a 10% premium to the common stock, one needs to first understand the relationship between the bond's price and the underlying stock price. If the bond is selling at a 10% premium, it means that the bond's price exceeds the stock price by 10%. This can be visualized by establishing the stock price and calculating the relevant premium. Assuming the common stock price is represented as 'X', then a 10% premium on the common stock can be calculated as follows: - A 10% increase over 'X' would equate to the bond price being $1.1 * X$. If we take one of the potential answers, 137.5, for example, and reverse-engineer it, we can estimate what the corresponding stock price would be: - If the bond price is 137.5, dividing this by 1.1 gives us the underlying stock price, which would be approximately 125. In this context, when you calculate the bond price at a 10% premium relative to the stock price (if the stock price is known), you discover that 137.5 aligns perfectly with the calculated premium.