

Uniform Combined State Law (Series 66) Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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Questions

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- 1. Who qualifies as an accredited investor?**
 - A. A person with significant business experience**
 - B. Anyone with a net worth of over \$500,000**
 - C. A senior officer of the issuer**
 - D. A person with an annual income of \$200,000 or a net worth of \$1,000,000**
- 2. What determines the exposure for a limited partner in a limited partnership?**
 - A. The partnership's total liabilities**
 - B. The partner's unpaid amounts agreed to pay**
 - C. The profits of the partnership**
 - D. The partner's capital contribution**
- 3. What is the deadline for an Investment Advisor to record a transaction in a client's account?**
 - A. Within 5 days of the transaction**
 - B. 10 days of the end of each quarter**
 - C. 30 days of the end of each quarter**
 - D. At the end of the fiscal year**
- 4. For investment advisers, under what condition might they not have to maintain a surety bond?**
 - A. When clients are located out of state**
 - B. When they do not have custody of client funds**
 - C. When the adviser has been in business for less than one year**
 - D. When the adviser operates online only**
- 5. What must be included in a website advertisement as per NASAA guidelines?**
 - A. All brokers must be licensed**
 - B. Investments are insured by the federal government**
 - C. Agents will only conduct business in the state if registered or exempt**
 - D. Investment returns are guaranteed**

- 6. A "certificate of interest" is considered a security and is regulated by whom?**
- A. Federal authority**
 - B. State Administrator**
 - C. Investment firms**
 - D. Financial advisors**
- 7. What is the efficient frontier according to Modern Portfolio Theory?**
- A. A graphical representation of all possible investments**
 - B. A graph of optimal portfolios**
 - C. A model for predicting stock prices**
 - D. None of the above**
- 8. Can closed-end funds issue other types of securities besides common stock?**
- A. No**
 - B. Yes**
 - C. Only preferred stock**
 - D. Yes, but only during initial public offerings**
- 9. What is the Rule of 72 used for in finance?**
- A. Calculating the net present value**
 - B. Estimating the time for investments to double**
 - C. Assessing loan interest rates**
 - D. Determining capital gains tax**
- 10. Agents of broker-dealers must provide which document when selling to potential investors?**
- A. Confirmation statement**
 - B. Regulatory filing**
 - C. Prospectus**
 - D. Performance report**

Answers

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

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Explanations

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1. Who qualifies as an accredited investor?

- A. A person with significant business experience
- B. Anyone with a net worth of over \$500,000
- C. A senior officer of the issuer
- D. A person with an annual income of \$200,000 or a net worth of \$1,000,000**

The definition of an accredited investor is critical in the context of securities regulations, particularly under the Securities Act of 1933. An accredited investor is someone who meets certain financial criteria set forth by the SEC, allowing them to partake in higher risk investment opportunities, typically not available to the general public. The correct choice states that a person can qualify as an accredited investor if they have an annual income of \$200,000 (or \$300,000 together with a spouse in the previous two years) or a net worth of \$1,000,000 or more, either individually or jointly with a spouse, excluding the value of their primary residence. This definition plays a significant role as it is designed to ensure that individuals participating in certain private investment opportunities possess a sufficient level of financial sophistication and capacity to assume the risks involved. The other options do not align with the SEC's criteria for accreditation. While significant business experience and being a senior officer might indicate an understanding of investments, these factors alone do not fulfill the financial thresholds required to be categorized as an accredited investor. Similarly, having a net worth of over \$500,000 does not meet the specified threshold of \$1,000,000 or the income requirement outlined in the accredited investor definition. Understanding

2. What determines the exposure for a limited partner in a limited partnership?

- A. The partnership's total liabilities
- B. The partner's unpaid amounts agreed to pay**
- C. The profits of the partnership
- D. The partner's capital contribution

In a limited partnership, a limited partner's exposure to liability is primarily determined by the amounts they have agreed to pay, known as their unpaid capital contributions. This means that if a limited partner has committed to invest a certain amount in the partnership but has not yet fully paid that amount, their liability extends only to the amount they still owe to the partnership. Limited partners enjoy protection from personal liability beyond their initial investment in the partnership, which distinguishes them from general partners who can be held personally liable for all of the partnership's debts. As such, while the partnership's total liabilities, its profits, and the capital contributions are important aspects of the partnership's financial structure, it is the specific unpaid amounts that actually determine the extent of a limited partner's exposure. This framework helps in providing limited partners with a safety net while still allowing them to invest in the business.

3. What is the deadline for an Investment Advisor to record a transaction in a client's account?

- A. Within 5 days of the transaction**
- B. 10 days of the end of each quarter**
- C. 30 days of the end of each quarter**
- D. At the end of the fiscal year**

The deadline for an Investment Advisor to record a transaction in a client's account is at the end of each quarter, specifically within 10 days. This requirement aligns with the regulatory expectations for accurate and timely reporting of transactions to ensure transparency and compliance with the relevant rules governing the activities of investment advisors. Recording transactions regularly helps maintain accurate records that are essential for both the advisor's management and the client's understanding of their account activity. Timely record-keeping is crucial because it allows investment advisors to keep clients well-informed about their investments and to assist them in making sound financial decisions. Regular updates also facilitate audits and reviews, ensuring that advisors adhere to fiduciary duties and regulatory obligations. This standard reflects the importance of systematic transaction recording in managing clients' accounts effectively and ethically.

4. For investment advisers, under what condition might they not have to maintain a surety bond?

- A. When clients are located out of state**
- B. When they do not have custody of client funds**
- C. When the adviser has been in business for less than one year**
- D. When the adviser operates online only**

Investment advisers are typically required to maintain a surety bond to protect clients in cases of fraud, misappropriation, or other financial misconduct. However, the obligation to maintain a surety bond can be waived under specific conditions, which is why not having custody of client funds is key. When an investment adviser does not have custody of client funds, the risk of misappropriation is significantly reduced. Custody implies that the adviser holds the client's assets or has the ability to withdraw funds directly, which increases the potential for unethical practices. If an adviser only provides financial advice without touching clients' funds, the rationale for maintaining such a bond diminishes, as there is less risk to clients' assets directly attributable to the adviser's actions. In contrast, clients being located out of state, the adviser being in business for less than a year, or operating online only, does not inherently eliminate risks that justify the need for a surety bond. Each of these scenarios can still involve situations where the adviser might have to assume potential liabilities that a bond would cover, especially if there is any interaction with client funds. Therefore, the absence of custody of client funds provides a clear exception to the bonding requirement, aligning with regulatory measures aimed at protecting clients while also acknowledging the

5. What must be included in a website advertisement as per NASAA guidelines?

- A. All brokers must be licensed**
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According to NASAA (North American Securities Administrators Association) guidelines, advertisements, including those on websites, must provide clear and truthful information to consumers about the investment services being offered. One of the key requirements is that agents must conduct business only in the states where they are properly registered or where they qualify for an exemption. This ensures compliance with state regulations, protecting both the investors and the firms from engaging in unregistered activities that could lead to legal repercussions. Including this information in a website advertisement not only adheres to ethical standards but also fosters transparency. It informs potential clients that they should verify the licensing status of investment professionals within their jurisdiction. This approach maintains confidence in the regulatory system and ensures that investors are making informed decisions based on accurate representations of the agents' qualifications. In contrast, other alternatives do not align with the guidelines. For example, stating that all brokers must be licensed might be misleading since there could be jurisdictions where specific types of brokers or professionals can operate under different regulations. The assertion that investments are insured by the federal government is false; investments typically carry certain risks and are not insured like bank deposits. Finally, guaranteeing investment returns is against regulations as investments are inherently risky, and making such claims could mislead investors. Therefore, the inclusion

6. A "certificate of interest" is considered a security and is regulated by whom?

- A. Federal authority**
- B. State Administrator**
- C. Investment firms**
- D. Financial advisors**

A "certificate of interest" is indeed categorized as a security, which means it falls under regulatory oversight. In this context, the primary authority responsible for regulating securities, including certificates of interest, is the State Administrator. Each state has its own securities laws, often referred to as "blue sky laws," which are enforced by the state's securities regulatory agency or administrator. This agency ensures that securities transactions are conducted fairly and that investors are provided with the necessary disclosures. While federal authorities also regulate certain aspects of securities through the Securities and Exchange Commission (SEC), the specific regulatory framework for a certificate of interest is typically determined by state law. This is why the State Administrator plays a crucial role in overseeing these types of securities at the state level, ensuring compliance with both federal and state regulations. Investment firms and financial advisors may be involved in advising clients or facilitating transactions related to securities, but they do not have regulatory authority over them. Their role is more about providing services rather than enforcing compliance with the laws governing securities.

7. What is the efficient frontier according to Modern Portfolio Theory?

- A. A graphical representation of all possible investments**
- B. A graph of optimal portfolios**
- C. A model for predicting stock prices**
- D. None of the above**

The efficient frontier, according to Modern Portfolio Theory (MPT), is fundamentally a graph that represents a set of optimal portfolios that provide the highest expected return for a given level of risk. These portfolios are constructed in a way that minimizes the risk for a target level of expected return, or maximizes returns for a given level of risk, effectively making them the most efficient combinations of risk and return. In the context of MPT, the efficient frontier is shaped like a curve in a risk-return graph, where the horizontal axis represents the risk (usually measured by standard deviation) and the vertical axis represents expected returns. Portfolios that lie on the efficient frontier are considered efficient because they cannot be improved upon without increasing the risk; that is, no other portfolio offers a higher return for the same level of risk or a lower risk for the same level of return. The other answer choices do not accurately capture the essence of the efficient frontier. While choice A implies a broader representation of all investments which is not specific to efficiency in terms of risk and return, and choice C mischaracterizes the purpose of the efficient frontier, focusing incorrectly on predictive models rather than optimal investment combinations. Therefore, the correct perspective is that the efficient frontier graphically illustrates portfolios that are deemed

8. Can closed-end funds issue other types of securities besides common stock?

- A. No**
- B. Yes**
- C. Only preferred stock**
- D. Yes, but only during initial public offerings**

Closed-end funds have the ability to issue various types of securities beyond just common stock. This flexibility allows them to raise capital through various financial instruments, which can include preferred stock and bonds, depending on the specific structure and investment strategy of the fund. The issuance of different security types provides closed-end funds with diverse ways to attract investors and manage their portfolios, which can enhance liquidity and financial stability. This is a significant characteristic that differentiates closed-end funds from other types of investment vehicles that may have more limited issuance capabilities. The capacity to issue different classes of securities can also reflect on the fund's goals and market conditions, allowing for strategic financial maneuvers to optimize performance.

9. What is the Rule of 72 used for in finance?

- A. Calculating the net present value
- B. Estimating the time for investments to double**
- C. Assessing loan interest rates
- D. Determining capital gains tax

The Rule of 72 is a simplified formula used in finance to estimate the number of years required to double an investment at a given annual rate of return. By dividing 72 by the expected annual return rate, investors can quickly gauge how long it will take for their money to grow. For instance, if an investment earns an 8% return, it will take approximately 9 years to double (72 divided by 8 equals 9). This rule offers a practical way to visualize the effects of compound interest without the complexity of more detailed financial calculations. While the other options mention important financial concepts, they do not apply to the Rule of 72. Calculating net present value involves discounting future cash flows back to the present value, which is not related to the concept of duration for doubling investments. Assessing loan interest rates is focused on understanding costs associated with borrowing, and determining capital gains tax relates to profits made from asset sales, none of which pertain to estimating the timeframe for an investment to double.

10. Agents of broker-dealers must provide which document when selling to potential investors?

- A. Confirmation statement
- B. Regulatory filing
- C. Prospectus**
- D. Performance report

When agents of broker-dealers are selling securities to potential investors, they are required to provide a prospectus. A prospectus is a comprehensive document that outlines the details of an investment offering, including the nature of the investment, associated risks, financial statements, and company management information. Its primary purpose is to provide potential investors with crucial information so they can make informed decisions about whether to invest. The requirement for a prospectus stems from the need to promote transparency and protect investors from potential misinformation or misunderstandings about the investment products being offered. This aligns with securities regulation rules that mandate disclosure to provide potential investors with a clear picture of what they are considering. In contrast, a confirmation statement is issued after a transaction to confirm the details of the trade, regulatory filings serve compliance and reporting purposes for the issuing entity, and performance reports showcase how specific investments have performed over a given period—they are not intended for initial sales and do not replace the obligation to provide a prospectus when making a sale.