

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

Study Guide



Everything you need from our exam experts!

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Table of Contents

Copyright	1
Table of Contents	2
Introduction	3
How to Use This Guide	4
Questions	5
Answers	8
Explanations	10
Next Steps	16

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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. If you change your fees as an investment advisor, do you need to provide an updated brochure to current clients?**
 - A. Yes, to all clients**
 - B. No, only to new clients**
 - C. Yes, if requested by current clients**
 - D. No, current clients receive updates annually**
- 2. Under what conditions can the state Administrator disqualify a person from registration?**
 - A. Only if the person is a public figure**
 - B. Only for financial losses**
 - C. Based on reasons found in state law**
 - D. Based on personal opinion**
- 3. When developing a financial plan for a client, which factor is more important?**
 - A. Current interest rates**
 - B. Approximate inflation rate**
 - C. Market volatility**
 - D. Past performance of investments**
- 4. An investment adviser must notify clients of which necessary details regarding custody of their assets?**
 - A. Estimated value of the assets and risks involved**
 - B. Name and address of the custodian and notice of custody**
 - C. Fees associated with the custody and trading costs**
 - D. Frequency of statements and security measures in place**
- 5. What does an assessment require from a limited partner?**
 - A. To withdraw from the partnership**
 - B. To contribute additional capital**
 - C. To sign a new partnership agreement**
 - D. To notify the SEC**

6. According to the USA, who is considered an institutional investor?

- A. Individuals with assets exceeding \$1 million**
- B. Any entity that trades on the stock exchange**
- C. Organizations determined by the administrator**
- D. Only banks and insurance companies**

7. What does Alpha represent in investment terms?

- A. Expected return minus actual return**
- B. Actual return minus expected return**
- C. Investment risk measurement**
- D. Annualized rate of return**

8. According to IRS rules, what can a non-spouse do with an inherited IRA?

- A. Only take a lump-sum distribution**
- B. Have the funds distributed by the end of the fifth year**
- C. Withdraw the funds over their lifetime**
- D. All of the above options are allowed**

9. When performance-based fees are allowed, what must be disclosed to the client?

- A. This arrangement may encourage taking normal risks**
- B. This arrangement may cause the advisor to recommend strategies that encourage greater than normal risk**
- C. This arrangement ensures guaranteed returns**
- D. This arrangement eliminates all risks**

10. To qualify for the exemption under Regulation D, hedge funds may only be offered to which type of investors?

- A. Non-accredited investors**
- B. Institutional investors**
- C. Accredited investors and a limited number of non-accredited investors**
- D. Only high-net-worth individuals**

Answers

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

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Explanations

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1. If you change your fees as an investment advisor, do you need to provide an updated brochure to current clients?

- A. Yes, to all clients**
- B. No, only to new clients**
- C. Yes, if requested by current clients**
- D. No, current clients receive updates annually**

When it comes to an investment advisor changing their fees, the correct approach as per regulations requires that current clients are typically provided with updated information on a regular basis, such as annually. This annual update ensures that clients are kept informed about any changes that may affect their investment decisions, including fee adjustments. While it is essential for current clients to be aware of any changes in fees, the advisory firm's obligations do not mandate an immediate distribution of the updated brochure specifically upon the change unless the change is material enough to warrant immediate disclosure. The annual update is a structured process that facilitates ongoing communication and relevance of the information being presented to clients. This method helps maintain compliance with regulatory requirements while also fostering a transparent relationship between the advisor and their clients. Hence, the answer indicating that current clients receive updates on an annual basis aligns with best practices in the industry regarding communication and disclosure.

2. Under what conditions can the state Administrator disqualify a person from registration?

- A. Only if the person is a public figure**
- B. Only for financial losses**
- C. Based on reasons found in state law**
- D. Based on personal opinion**

The state Administrator has the authority to disqualify a person from registration based on reasons found in state law. This encompasses various criteria that are outlined within the legal framework governing securities and registration. Such reasons typically include criminal convictions, securities law violations, fraud, dishonesty, or misconduct in the financial industry that would disqualify an individual from holding a registration. This structured approach ensures that the decisions made by the Administrator are based on established legal standards rather than subjective judgments or personal opinions. The existence of specific statutory guidelines helps maintain consistency, fairness, and transparency in the registration process. Thus, the correct answer reflects the legal basis upon which disqualifications can occur, aligning with the intent of regulatory frameworks to protect investors and ensure integrity within the financial markets.

3. When developing a financial plan for a client, which factor is more important?

- A. Current interest rates**
- B. Approximate inflation rate**
- C. Market volatility**
- D. Past performance of investments**

In the context of developing a financial plan for a client, the approximate inflation rate is particularly important because it significantly affects purchasing power and long-term financial goals. Inflation erodes the value of money over time, which means that the returns on investments not only need to exceed the nominal interest rate but must also outpace inflation to ensure that clients can achieve their desired lifestyle in the future. Understanding the approximate inflation rate allows financial planners to make adjustments to investment strategies, retirement savings, and spending estimates. For instance, if inflation is expected to be high, planners might advise clients to consider assets that historically provide better protection against inflation, such as stocks or real estate, rather than cash or fixed-income investments that could lose value in real terms over time. While factors like current interest rates, market volatility, and the past performance of investments are also relevant to a financial plan, understanding inflation is fundamental as it impacts all other aspects of financial planning. Interest rates can affect borrowing costs and investment returns, market volatility can influence asset selection, and past performance gives context to potential future results, but none of these can directly address how much clients can expect to preserve their purchasing power over time. Hence, the approximate inflation rate stands out as a critical factor in financial planning.

4. An investment adviser must notify clients of which necessary details regarding custody of their assets?

- A. Estimated value of the assets and risks involved**
- B. Name and address of the custodian and notice of custody**
- C. Fees associated with the custody and trading costs**
- D. Frequency of statements and security measures in place**

The duty of an investment adviser regarding custody of client assets includes providing clear information to clients about who is holding their assets. This information specifically includes the name and address of the custodian responsible for the assets, as well as a notice indicating that the adviser has custody of the client's funds or securities. This requirement is crucial because it ensures transparency and helps clients verify that their assets are being held securely and by a reputable entity. It also allows clients to independently contact the custodian if they have inquiries or concerns about their investments. While the other options include relevant aspects of investment management, they do not encompass the specific legal requirements related to custody notification. For instance, the estimated value of the assets, risks involved, or trading costs may be important for overall investment strategy, but those details do not directly address the custodial requirements. Similarly, while frequency of statements and security measures are significant, they fall under different areas of compliance and client responsibility.

5. What does an assessment require from a limited partner?

- A. To withdraw from the partnership
- B. To contribute additional capital**
- C. To sign a new partnership agreement
- D. To notify the SEC

In a limited partnership, an assessment refers to a situation where additional capital is required from the partners to support the financial needs of the partnership. When an assessment is made, it typically necessitates that limited partners contribute additional capital, which is crucial for covering operational costs, paying debts, or funding new projects. Limited partners have financial obligations as per the terms of the partnership agreement, and if an assessment is issued, they are expected to fulfill their share of these obligations by contributing an additional amount of capital as determined by the partnership agreement. This concept is fundamental in maintaining the financial health of the partnership and ensuring that all partners can meet their commitments. Options that suggest other actions, such as withdrawing from the partnership, signing a new agreement, or notifying the SEC, do not align with the typical requirements for responding to an assessment. Hence, the requirement to contribute additional capital is the correct interpretation of what an assessment entails for a limited partner.

6. According to the USA, who is considered an institutional investor?

- A. Individuals with assets exceeding \$1 million
- B. Any entity that trades on the stock exchange
- C. Organizations determined by the administrator**
- D. Only banks and insurance companies

Institutional investors are typically defined as organizations that trade large volumes of securities and have significant assets under management. According to the Uniform Securities Act (USA), the determination of who qualifies as an institutional investor can include a broad range of organizations, including but not limited to investment companies, pension funds, banks, and insurance companies. The concept is not limited strictly to financial institutions; it can also encompass other entities that fit specific criteria set forth by regulatory authorities or the administrator. This aligns with choice C, which states that institutional investors are "organizations determined by the administrator." The administrator has the discretion to establish what constitutes an institutional investor within their jurisdiction, reflecting the flexible nature of the definition to accommodate various organizational structures and investment portfolios. This flexibility is important because it allows for the inclusion of diverse entities that can play significant roles in the financial markets. In contrast, individuals with assets exceeding a certain threshold, entities that merely trade on the stock exchange, and a strict limitation to just banks and insurance companies do not encapsulate the full range of what the USA recognizes as institutional investors. These options are too narrow or do not align with the regulatory framework intended by the USA.

7. What does Alpha represent in investment terms?

- A. Expected return minus actual return
- B. Actual return minus expected return**
- C. Investment risk measurement
- D. Annualized rate of return

Alpha in investment terms represents the difference between the actual return of an investment and the expected return. It is a measure used to evaluate the performance of an investment relative to a benchmark or market index. A positive alpha indicates that the investment has outperformed the benchmark, while a negative alpha suggests underperformance. The calculation of alpha helps investors determine whether a portfolio manager is adding value beyond what would be expected based on the level of risk taken. This is particularly useful in assessing active management strategies, as it reveals whether any excess returns are due to skill or just random chance. In using alpha, investors can make more informed decisions about their investments and adjust their strategies accordingly, aiming for higher returns while managing the risks involved.

8. According to IRS rules, what can a non-spouse do with an inherited IRA?

- A. Only take a lump-sum distribution
- B. Have the funds distributed by the end of the fifth year
- C. Withdraw the funds over their lifetime
- D. All of the above options are allowed**

A non-spouse beneficiary of an inherited IRA has several options regarding how they can manage and withdraw the funds. According to IRS rules, a non-spouse beneficiary can take a lump-sum distribution, allowing them to receive the entire balance of the IRA in one payment. Alternatively, they may choose to withdraw the funds over their lifetime, which is often referred to as a "stretch" IRA strategy, allowing for continued tax-deferred growth. Additionally, the IRS provides a rule that allows non-spouse beneficiaries to have the inherited funds distributed by the end of the fifth year after the account holder's death, which is known as the "5-year rule." This gives flexibility in terms of timing and can help in tax planning for the individual. Thus, a non-spouse beneficiary has multiple options available to them, encompassing all listed methods of distribution in the question. This understanding not only informs beneficiaries of their choices but also helps them make informed decisions based on their financial circumstances and tax implications.

9. When performance-based fees are allowed, what must be disclosed to the client?

- A. This arrangement may encourage taking normal risks**
- B. This arrangement may cause the advisor to recommend strategies that encourage greater than normal risk**
- C. This arrangement ensures guaranteed returns**
- D. This arrangement eliminates all risks**

When performance-based fees are allowed, it is essential for the advisor to disclose to the client that this arrangement may cause the advisor to recommend strategies that encourage greater than normal risk. Performance-based fees provide an incentive for financial advisors to achieve higher returns, which can lead to taking on more investment risk in pursuit of those performance benchmarks. By disclosing the potential for greater risk, the advisor helps the client understand that while there may be an opportunity for higher returns due to the performance-based fee structure, it is accompanied by the possibility of increased volatility and risk in the investment strategy. This transparency is crucial in maintaining fiduciary responsibility and ensuring that clients are making informed decisions about their investments.

10. To qualify for the exemption under Regulation D, hedge funds may only be offered to which type of investors?

- A. Non-accredited investors**
- B. Institutional investors**
- C. Accredited investors and a limited number of non-accredited investors**
- D. Only high-net-worth individuals**

To qualify for the exemption under Regulation D, hedge funds primarily target accredited investors, as these are individuals or entities that meet specific income or net worth thresholds. Regulation D establishes certain criteria that allow private placements to be conducted without the need for full registration with the SEC, primarily aimed at protecting less sophisticated investors from high-risk investments. The correct response highlights that hedge funds can indeed be offered to accredited investors, which include high-net-worth individuals and institutions that satisfy the financial criteria.

Additionally, Regulation D permits hedge funds to include a limited number of non-accredited investors, provided that the fund meets specific conditions associated with the exemption. This approach balances the need for investment opportunities while ensuring some level of investor sophistication and capacity to absorb potential losses. Other categories mentioned in the options, such as non-accredited investors alone, institutional investors only, or only high-net-worth individuals, do not provide the full picture of the regulatory framework under which hedge funds operate. Understanding the definition of accredited and non-accredited investors is crucial since the exemption under Regulation D greatly impacts how hedge funds can raise capital while navigating regulatory requirements.

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://series66.examzify.com>

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

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