

Table of Contents

<u>CHAPTER</u>	<u>PAGE</u>
I INTRODUCTION TO THE TRAINING CONSULTANTS SERIES 7 TOP-OFF PROGRAM.....	i9
I.1 – ABOUT TRAINING CONSULTANTS	i10
I.2 – EXAM OVERVIEW	i10
I.3 – ARRANGING YOUR EXAM.....	i12
I.4 – TAKING THE EXAM	i14
I.5 – PREPARING FOR YOUR EXAM	i16
I INTRODUCTION TO THE SECURITIES INDUSTRY	i19
I.1 – SECURITIES INDUSTRY OVERVIEW.....	i20
1. EQUITY SECURITIES.....	1
1.1 – FUNDAMENTALS OF COMMON STOCK	2
1.2 – COMMON STOCK TERMINOLOGY	5
1.3 – EQUITY SECURITY CLASSIFICATIONS	7
1.3A (TOP-OFF) – COMMON STOCK FORMULAS.....	9
1.4 – STOCK SPLITS.....	10
1.5 – EQUITY SECURITY DERIVATIVES	13
1.6 – FUNDAMENTALS OF PREFERRED STOCK.....	15
1.7 – DIVIDENDS ON COMMON STOCK AND PREFERRED STOCK	16
1.8 – REAL ESTATE INVESTMENT TRUSTS	20
2. DEBT SECURITIES	23
2.1 – INTRODUCTION TO BONDS.....	24
2.2 – BOND YIELDS	29
2.2A (TOP-OFF) – CALCULATING ACCRUED INTEREST ON CORPORATE AND MUNICIPAL BONDS	30
2.3 – FUNDAMENTALS OF CORPORATE BONDS.....	32
2.4 – TYPES OF CORPORATE BONDS	33
2.5 – FEATURES OF CORPORATE BONDS	36
2.5A (TOP-OFF) – CALCULATING PARITY ON CONVERTIBLE SECURITIES, FORCED CONVERSIONS, AND BOND REFUNDING.....	38
2.6 – COLLATERALIZED MORTGAGE OBLIGATIONS AND COLLATERALIZED DEBT OBLIGATION BONDS	42
2.7 – OTHER DEBT INSTRUMENTS	45

3. EQUITY OPTIONS	47
3.1 – INTRODUCTION TO EQUITY OPTIONS.....	48
3.2 – BASIC OPTIONS.....	49
3.3 – TRADITIONAL LISTED OPTIONS HOME BASE CHART.....	51
3.4 – HEDGING WITH OPTIONS	53
3.5 – SUMMARY OF OPTION STRATEGIES AND ACTIONS.....	54
3.6 – BASIC OPTION CALCULATIONS AND BREAKEVENS.....	57
BASIC OPTIONS SUMMARY CHART.....	64
3.7 – THE OCC, OPTION EXCHANGES AND TRADING.....	65
3.8 – OPTIONS ADMINISTRATION.....	67
3.9 – OPTION INTRINSIC AND TIME VALUES	70
3.9A(TOP-OFF) – OPTION SPREADS AND STRADDLES	72
ADVANCED OPTIONS SUMMARY CHART	81
3.10 (TOP-OFF) – TAXATION AND MISCELLANEOUS POINTS ON OPTIONS	82
3.11 (TOP-OFF) – STOCK INDEX OPTIONS	84
3.12 (TOP-OFF) – INTEREST RATE OR YIELD-BASED OPTIONS	87
3.13 (TOP-OFF) – WORLD CURRENCY OPTIONS: US DOLLAR SETTLED FOREIGN CURRENCY OPTIONS.....	88
3.14 – LEAPS OPTIONS	91
3.15 (TOP-OFF) – CUSTOMER ACCOUNT INFORMATION AND DOCUMENTATION.....	92
3.16 (TOP-OFF) – OPTION ACCOUNT REGULATIONS	95
4. INVESTMENT COMPANIES.....	99
4.1 – DEFINITION OF AN INVESTMENT COMPANY	100
4.2 – OPEN END VS. CLOSED END INVESTMENT COMPANIES	101
4.3 – TYPES OF FUNDS.....	104
4.3A (TOP-OFF) – ADDITIONAL TYPES OF FUNDS.....	109
TOP-OFF CHART – ETF/ETN COMPARISON.....	115
4.3B (TOP-OFF) – TYPES OF EARNINGS OF INVESTMENT COMPANIES	116
4.4 – MUTUAL FUND CHARACTERISTICS, BREAKPOINTS, AND REDEMPTIONS	118
4.5 – REGULATION OF MUTUAL FUND SALES	122
4.5A (TOP-OFF) – ADDITIONAL MUTUAL FUND REGULATIONS	124
4.5B (TOP-OFF) – INVESTMENT MANAGER, UNDERWRITER, CUSTODIAN, AND TRANSFER AGENT	129
5. INVESTMENT BANKING	131
5.1 – INTRODUCTION TO INVESTMENT BANKING.....	132
5.2 – INVESTMENT BANKING OVERVIEW.....	134
5.3 – UNDERWRITING PROCEDURES	135
5.4 – FINRA RULE 5130	140
6. FEDERAL REGULATIONS.....	143
6.1 – SECURITIES ACT OF 1933.....	144
6.2 – THE SECURITIES EXCHANGE ACT OF 1934.....	145
6.3 – OTHER TYPES OF OFFERINGS	148
6.4 – BASIC KNOWLEDGE OF BOOKS AND RECORDS.....	151
6.5 – CUSTOMER PROTECTION RULES.....	152
6.6 – CUSTOMER IDENTIFICATION PROGRAM	153
6.7 (TOP-OFF) – REGULATION S	154

7. SECURITIES MARKETS	155
7.1 – NATIONAL MARKET SYSTEM CHART.....	156
7.2 – TYPES OF ORDERS – BASICS	157
7.2A (TOP-OFF) – ADVANCED TYPES OF ORDERS.....	159
7.2B (TOP-OFF) – EQUITY SECURITIES TRADING.....	162
7.3 – SHORT SELLING, ORDER EXECUTION SYSTEMS, AND REPORTING SYSTEMS	163
7.4 – TRADING ON AN EXCHANGE – BASICS	165
7.4A (TOP-OFF) – ADVANCED TRADING ON AN EXCHANGE.....	166
7.4B (TOP-OFF) – SECURITIES TAPE READING	168
7.5 – THE OVER THE COUNTER MARKET – BASICS.....	170
7.5A (TOP-OFF) – THE 5% MARK-UP POLICY.....	172
7.5B (TOP-OFF) – LEVELS OF OTC TRADING	172
7.5C (TOP-OFF) – OTHER OTC TERMINOLOGY	175
7.6 – SETTLEMENT DATES, DEPOSITORYES AND CLEARING COMPANIES	175
7.6A (TOP-OFF) – ADVANCED SETTLEMENT DATE INFORMATION.....	177
7.6B (TOP-OFF) – GOOD DELIVERY.....	178
8. CUSTOMER ACCOUNTS	181
8.1 – PROSPECTING FOR NEW CUSTOMERS	182
8.2 – OPENING AND MAINTAINING CUSTOMER ACCOUNTS	183
8.3 – TYPES OF CUSTOMER ACCOUNTS	186
8.4 – HANDLING CUSTOMER ACCOUNTS	192
8.4A (TOP-OFF) – ADDITIONAL CUSTOMER ACCOUNT INFORMATION	194
8.5 – ORDER TICKETS, CONFIRMATIONS, AND ACCOUNT STATEMENTS	197
8.6 – INVESTMENT RISKS.....	198
8.7 – RISK MITIGATION AND COMPONENTS OF RETURN	200
8.8 – RECOMMENDATIONS TO CUSTOMERS	201
8.9 – MEMBER FIRM OBLIGATIONS RELATED TO SENIORS	205
9. CASH AND MARGIN ACCOUNT BASICS	207
9.1 – MARGIN ACCOUNT BASICS	208
9.2 – REGULATION T BASICS AND DELIVERY.....	208
9.3 – FUNDING OF MARGIN CREDIT	210
9.4 – MARGIN ACCOUNT FORMS	211
9.5 – REGULATION T INITIAL MARGIN REQUIREMENTS	212
9.6 – BASICS OF A MARGIN ACCOUNT LONG	215
9.6A (TOP-OFF) – DETERMINING THE CONDITION OF A LONG MARGIN ACCOUNT.....	216
9.6B (TOP-OFF) – EXCESS EQUITY.....	218
9.6C (TOP-OFF) – RESTRICTED MARGIN ACCOUNT - LONG	220
9.6D (TOP-OFF) – NYSE MINIMUM MAINTENANCE.....	222
9.6E (TOP-OFF) – BASICS OF A MARGIN ACCOUNT - SHORT	223
9.6F (TOP-OFF) – MIXED MARGIN ACCOUNT.....	224
TOP-OFF CHART – MARGIN SUMMARY CHART	225
9.6G (TOP-OFF) – OTHER MARGIN INFORMATION	226

10. SELF-REGULATORY ORGANIZATIONS (SROs)	227
10.1 – SECURITIES INDUSTRY REGULATORS	228
10.2 – REGISTRATION REQUIREMENTS OF INDIVIDUALS	229
10.3 – DISCIPLINARY RULES	238
10.4 – SUPERVISION UNDER FINRA RULES	242
10.5 – GIFTS AND GRATUITIES	245
10.6 – FAIR DEALING WITH CUSTOMERS, BEST EXECUTION, AND CORPORATE ACTION DEADLINES	245
10.7 (TOP-OFF) – NYSE REGULATIONS	249
10.8 (TOP-OFF) – FINRA MARK-UP POLICY	249
10.9 (TOP-OFF) – MEMBER FIRM REGULATIONS	250
10.10 (TOP-OFF) – BROKER-DEALERS CONDUCTING BUSINESS IN FINANCIAL INSTITUTIONS & PAYMENTS FOR PUBLICATIONS	253
10.11 (TOP-OFF) – RECRUITMENT PRACTICES	254
10.12 (TOP-OFF) – GENERAL FINRA SUPERVISORY PROCEDURES	256
10.13 (TOP-OFF) – THE CODE OF PROCEDURE	257
10.14 (TOP-OFF) – TAPING RULES	258
10.15 (TOP-OFF) – FINRA CODE OF ARBITRATION	259
10.16 (TOP-OFF) – COMMUNICATIONS WITH THE PUBLIC	261
10.17 (TOP-OFF) – SOCIAL MEDIA SITES OF MEMBER FIRMS AND ASSOCIATED PERSONS	267
10.18 (TOP-OFF) – INVESTMENT COMPANY AND VARIABLE PRODUCT FILING AND REVIEW PROCEDURES	269
11. BASICS OF LIFE INSURANCE AND VARIABLE ANNUITIES	275
11.1 – LIFE INSURANCE BASICS	276
11.2 – ANNUITY BASICS	277
11.3 – VARIABLE ANNUITIES – ADVANCED	279
VARIABLE ANNUITY CONTRACT STRUCTURE	286
12. RETIREMENT PLANS AND EDUCATION SAVINGS PLANS	287
12.1 – INDIVIDUAL RETIREMENT ACCOUNTS - ADVANCED	288
R – ROLLOVER CHART	295
12.2 – QUALIFIED RETIREMENT PLANS - ADVANCED	296
12.3 – OTHER RETIREMENT PLANS	302
12.4 – ROLLOVERS	304
12.5 – EDUCATIONAL ACCOUNTS AND MUNICIPAL FUND SECURITIES - ADVANCED	305
RETIREMENT PLAN SUMMARY CHART	309
13. FEDERAL GOVERNMENT SECURITIES.....	311
13.1 – GOVERNMENT SECURITIES BASICS	312
13.2 – MARKETABLE FEDERAL GOVERNMENT DEBT ISSUES	313
13.3 – FEDERAL AGENCY ISSUES	317
13.4 – OTHER TYPES OF GOVERNMENT SECURITIES	319

14. MUNICIPAL BOND BASICS	321
14.1 – MUNICIPAL BOND BASICS.....	322
14.2 – GENERAL OBLIGATION BONDS.....	323
14.3 – REVENUE BONDS	326
14.4 – TYPES OF REVENUE BONDS.....	329
14.5 – ZERO COUPON, REFUNDING, OTHER BONDS & NOTES.....	330
14.6 – MUNICIPAL BOND INVESTMENT COMPANIES.....	333
14.7 – LEGAL OPINION.....	333
14.8 – FEATURES OF MUNICIPAL BONDS.....	334
14.9 – PORTFOLIO MANAGEMENT AND MUNICIPAL BOND SELECTION	337
14.10 – MUNICIPAL BOND INSURANCE	339
15. MUNICIPAL BOND TAXATION, UNDERWRITING, AND THE SECONDARY MARKET	341
15.1 – TAX TREATMENT OF MUNICIPAL BONDS	342
15.2 – THE MARKET FOR MUNICIPAL BONDS	344
15.3 – THE MUNICIPAL BOND PRIMARY MARKET.....	346
15.4 – MUNICIPAL SECURITIES TERMINOLOGY.....	351
15.5 – THE SECONDARY MARKET FOR MUNICIPAL BONDS.....	352
15.6 – MARKETABILITY AND LIQUIDITY OF MUNICIPAL BONDS.....	354
16. MUNICIPAL BOND RULES AND REGULATIONS	357
16.1 – THE MUNICIPAL SECURITIES RULEMAKING BOARD	358
16.2 – GENERAL MSRB RULES	359
16.3 – MSRB UNIFORM PRACTICE RULES	362
17. TAXES	367
17.1 – TAXATION ON SECURITIES TRANSACTIONS.....	368
17.2 – GENERAL TAX INFORMATION	371
18. DIRECT PARTICIPATION PROGRAMS.....	375
18.1 – INTRODUCTION TO DIRECT PARTICIPATION PROGRAMS	376
18.2 – CHARACTERISTICS OF DPPs	378
18.3 – REAL ESTATE DIRECT PARTICIPATION PROGRAMS	382
18.4 – OIL AND GAS PARTNERSHIPS.....	383
18.5 – EQUIPMENT LEASING PARTNERSHIPS.....	385
18.6 – MISCELLANEOUS DPP INFORMATION	385
19. SECURITIES ANALYSIS	387
19.1 – PORTFOLIO MANAGEMENT.....	388
19.2 – FUNDAMENTAL AND TECHNICAL ANALYSIS	390
19.3 – THE BALANCE SHEET	394
19.4 – THE INCOME STATEMENT	395
19.5 – OTHER FINANCIAL INFORMATION.....	396
19.6 – FINANCIAL RATIOS	397
20. INVESTMENT RECOMMENDATIONS AND STRATEGIES	401
20.1 – INVESTMENT RECOMMENDATIONS	402
20.2 – INVESTMENT SCENARIOS AND CHOICES.....	405
20.3 – FINRA SALES PRACTICE RULES (SUITABILITY).....	407
PRODUCT SUITABILITY SUMMARY	409

R CLOSING RESOURCES.....	415
DAMAGE CONTROL STEPS	416
HOME STRETCH & THE REAL EXAM.....	418
R ADDITIONAL RESOURCES	423
EXERCISE ANSWERS & FILL-INS	424
TOPICS TO WRITE DOWN WHEN STARTING EXAM AT THE TESTING CENTER	454
CRITICAL FACTS	454
INDEX	477

“Your own resolution to success is more important than any other one thing.” ~Abraham Lincoln