

Table of Contents

CHAPTER	PAGE
I INTRODUCTION TO THE EXAMFX SECURITIES INDUSTRY ESSENTIALS (SIE) PROGRAM	i7
I.1 – ABOUT EXAMFX	i8
I.2 – EXAM OVERVIEW	i8
I.3 – ARRANGING YOUR EXAM.....	i10
I.4 – TAKING THE EXAM	i12
I.5 – PREPARING FOR YOUR EXAM	i14
I INTRODUCTION TO THE SECURITIES INDUSTRY	i17
I.1 – SECURITIES INDUSTRY OVERVIEW.....	i18
1. EQUITY SECURITIES	1
1.1 – FUNDAMENTALS OF COMMON STOCK	2
1.2 – COMMON STOCK TERMINOLOGY	5
1.3 – EQUITY SECURITY CLASSIFICATIONS	7
1.4 – STOCK SPLITS.....	9
1.5 – EQUITY SECURITY DERIVATIVES.....	12
1.6 – FUNDAMENTALS OF PREFERRED STOCK.....	14
1.7 – DIVIDENDS ON COMMON STOCK AND PREFERRED STOCK	15
1.8 – REAL ESTATE INVESTMENT TRUSTS	19
1.9 – INTRODUCTION TO DIRECT PARTICIPATION PROGRAMS	21
2. DEBT SECURITIES	23
2.1 – INTRODUCTION TO BONDS.....	24
2.2 – BOND YIELDS	28
2.3 – FUNDAMENTALS OF CORPORATE BONDS.....	31
2.4 – TYPES OF CORPORATE BONDS	32
2.5 – FEATURES OF CORPORATE BONDS	35
2.6 – COLLATERALIZED MORTGAGE OBLIGATIONS AND COLLATERALIZED DEBT OBLIGATION BONDS	37
2.7 – FEDERAL GOVERNMENT DEBT ISSUES.....	40
2.8 – MUNICIPAL BONDS	42
2.9 – OTHER DEBT INSTRUMENTS.....	47
3. EQUITY OPTIONS.....	49
3.1 – INTRODUCTION TO EQUITY OPTIONS	50
3.2 – BASIC OPTIONS.....	51
3.3 – TRADITIONAL LISTED OPTIONS HOME BASE CHART	53
3.4 – HEDGING WITH OPTIONS	55
3.5 – SUMMARY OF OPTION STRATEGIES AND ACTIONS.....	56
3.6 – BASIC OPTION CALCULATIONS AND BREAKEVENS	59
BASIC OPTIONS SUMMARY CHART.....	66
3.7 – THE OCC, OPTION EXCHANGES AND TRADING	67
3.8 – OPTIONS ADMINISTRATION.....	69
3.9 – OPTION INTRINSIC AND TIME VALUES	72
3.10 – LEAPS OPTIONS	76
3.11 – ALTERNATIVE OPTIONS	77
3.12 – OPTION ACCOUNT REGULATIONS.....	78

4. INVESTMENT COMPANIES	79
4.1 – DEFINITION OF AN INVESTMENT COMPANY	80
4.2 – OPEN-END VS. CLOSED-END INVESTMENT COMPANIES.....	81
4.3 – TYPES OF FUNDS.....	84
4.4 – MUTUAL FUND CHARACTERISTICS, BREAKPOINTS, AND REDEMPTIONS	89
4.5 – REGULATION OF MUTUAL FUND SALES	93
5. INVESTMENT BANKING	97
5.1 – INTRODUCTION TO INVESTMENT BANKING	98
5.2 – INVESTMENT BANKING OVERVIEW	100
5.3 – UNDERWRITING PROCEDURES	101
5.4 – FINRA RULE 5130	106
6. FEDERAL REGULATIONS	109
6.1 – SECURITIES ACT OF 1933.....	110
6.2 – THE SECURITIES EXCHANGE ACT OF 1934	111
6.3 – OTHER TYPES OF OFFERINGS	114
6.4 – BASIC KNOWLEDGE OF BOOKS AND RECORDS	117
6.5 – CUSTOMER PROTECTION RULES.....	118
6.6 – FINCEN & USA PATRIOT ACT	119
6.7 – POLITICAL CONTRIBUTION RULES (PAY-TO-PLAY).....	122
6.8 – CUSTOMER IDENTIFICATION PROGRAM.....	124
7. SECURITIES MARKETS	125
7.1 – NATIONAL MARKET SYSTEM CHART.....	126
7.2 – TYPES OF ORDERS – BASICS	127
7.3 – SHORT SELLING AND REPORTING SYSTEMS	129
7.4 – THE NYSE DESIGNATED MARKET MAKER (DMM) – BASICS	130
7.5 – THE OVER-THE-COUNTER MARKET, NASDAQ MARKET MAKERS – BASICS	132
7.6 – SETTLEMENT DATES, DEPOSITORIES AND CLEARING COMPANIES	134
8. CUSTOMER ACCOUNTS	137
8.1 – PROSPECTING FOR NEW CUSTOMERS	138
8.2 – OPENING AND MAINTAINING CUSTOMER ACCOUNTS	139
8.3 – TYPES OF CUSTOMER ACCOUNTS	142
8.4 – HANDLING CUSTOMER ACCOUNTS	149
8.5 – ORDER TICKETS, CONFIRMATIONS, AND ACCOUNT STATEMENTS	151
8.6 – INVESTMENT RISKS	152
8.7 – RISK MITIGATION AND COMPONENTS OF RETURN	154
8.8 – RECOMMENDATIONS TO CUSTOMERS	155
8.9 – SECURITIES INVESTOR PROTECTION CORPORATION (SIPC).....	159
8.10 – MEMBER FIRM OBLIGATIONS RELATED TO SENIORS	161
9. CASH AND MARGIN ACCOUNT BASICS	163
9.1 – MARGIN ACCOUNT BASICS	164
9.2 – REGULATION T BASICS AND DELIVERY.....	164
9.3 – FUNDING OF MARGIN CREDIT.....	166
9.4 – MARGIN ACCOUNT FORMS.....	167
9.5 – REGULATION T INITIAL MARGIN REQUIREMENTS	168
9.6 – BASICS OF A MARGIN ACCOUNT LONG.....	170

10. SELF-REGULATORY ORGANIZATIONS (SROs)	171
10.1 – SECURITIES INDUSTRY REGULATORS	172
10.2 – REGISTRATION REQUIREMENTS OF INDIVIDUALS	173
10.3 – DISCIPLINARY RULES.....	182
10.4 – SUPERVISION UNDER FINRA RULES	186
10.5 – GIFTS AND GRATUITIES.....	189
10.6 – FAIR DEALING WITH CUSTOMERS, BEST EXECUTION, AND CORPORATE ACTION DEADLINES	190
10.7 – COMMUNICATIONS WITH THE PUBLIC	194
11. FEDERAL RESERVE & GENERAL ECONOMICS	199
11.1 – MONETARY AND FISCAL POLICIES	200
11.2 – MONEY AND CAPITAL MARKETS.....	203
11.3 – YIELD CURVES	207
11.4 – INTERNATIONAL ECONOMIC FACTORS	208
11.5 – ECONOMICS AND ECONOMIC INDICATORS	210
11.6 – BANKRUPTCY.....	214
11.7 – SECURITIES ANALYSIS.....	215
11.8 – THE BALANCE SHEET	216
11.9 – THE INCOME STATEMENT	217
12. BASICS OF LIFE INSURANCE AND VARIABLE ANNUITIES	219
12.1 – LIFE INSURANCE BASICS	220
12.2 – ANNUITY BASICS	221
12.3 – VARIABLE ANNUITIES – ADVANCED	223
VARIABLE ANNUITY CONTRACT STRUCTURE	229
13. RETIREMENT PLANS AND EDUCATION SAVINGS PLANS	231
13.1 – INDIVIDUAL RETIREMENT ACCOUNTS	232
13.2 – QUALIFIED RETIREMENT PLANS	235
13.3 – EDUCATION ACCOUNTS AND MUNICIPAL FUND SECURITIES.....	239
RETIREMENT PLAN SUMMARY CHART	243
R CLOSING RESOURCES	245
DAMAGE CONTROL STEPS.....	246
HOME STRETCH & THE REAL EXAM.....	248
R ADDITIONAL RESOURCES	253
EXERCISE ANSWERS & FILL-INS	254
TOPICS TO WRITE DOWN WHEN STARTING EXAM AT THE TESTING CENTER	273
CRITICAL FACTS	273
INDEX	287