



Series 7 study guide to the series 7 podcast series

The Series 7 Podcast is available at <http://www.series7podcast.com> and also available through iTunes

This is an outline of the material that you will need to understand in order to pass the series 7 examination. This is simply an outline to get the answers to the outline you will need to study and understand the concepts.

Most of the material that you will need to understand for the series 7 exam will be covered in the podcasts. However, it may be difficult to take the time to wait for the podcast episodes to be uploaded to suit your time schedule for your own preparation to take the series 7 examination. If you wish to download all of the podcasts without the advertisements, eventually these will become available but as of this writing they are not. When this audio series is available you will be able to find it at this link http://www.series7podcast.com/series_7_videos_finra/ so check this link from time to time to find out what is available and what is new.

This podcast and study guides as of this writing is a work in progress, this is not my full time job, I work in the industry full time, but as I find the time this podcast and videos will be produced and the web site will become more useful to your studies. This project is my contribution to my goal of improving the quality of investment advisors for the future. Also I hope that at some point I will be able to monetize my efforts, **if you wish to contribute and motivate me to move faster then consider purchasing some of the videos.** Please be patient and feel free to contact me by using the contact form at the website. <http://www.series7podcast.com/contact/>

If you are a diligent student in addition to listening to the podcast and using this study guide, you should be learning the material either in a classroom setting (or by watching our videos), and reading material pertinent to what you are studying.

Additional study material including videos can be found at our website on the tab "Study Product's" or by using this link http://www.series7podcast.com/series_7_videos_finra/

Thanks,

Franz



Series



Exam Preparation
Guide and Podcast

Series 7 Study Guide Outline

I Common Stock Equity.

Issued by corporations.

Par.

No par.

Authorized stock.

Issued stock.

Outstanding shares.

Treasury stock

Registration

Registrar.

Transfer agent.

Book entry, certificates.

Stockholder record book.

Voting rights.

Items that require a shareholder vote.

Items that do not require a shareholder vote.

Cumulative voting.

Preemptive rights

Statutory voting.

Proxies.

Common stock classes.

Stockholder meeting.

Inspection of books and records.

Stockholder rights.

Transfer of ownership.

Negotiable and nonnegotiable common stock securities.

Corporate distribution rights.

Dissolution rights.

Corporate distributions dates.

Record date

payable date.

Declaration date.

Settlements.

Regular way.



Series



Exam Preparation
Guide and Podcast

Ex dividend.
Cum Dividend
Rights offering.
Stock dividends and stock splits.
Subscription rights.
Rights agent.
Expiration of rights.
Standby underwriter.
Cum rights.
Value of rights.
Fractional shares.

II Preferred stock

How does preferred stock come about.
Senior to common shares
Priority of claim two dividends and corporate assets.
Par value.
Dividend rate.
How often is the dividend paid, quarterly, semiannually, annual.
Tax exclusion for corporate purchasers on stock dividends
Taxation of dividends to individual stockholders.
Interest rate volatility.
Current yield.
The theoretical market price based on current interest rates.
No voting rights.
No preemptive rights.
Difference between preferred stock and bonds.
Cumulative rights.
Call features.
Convertible preferred.
Conversion ratio.
Parity price.
Forcing the conversion of convertible preferred stock.
Participating preferred Stock
Adjustable-rate preferred stocks.
Putable preferred stocks.
Variable-rate preferred stock.



Series



Exam Preparation
Guide and Podcast

III Warrants, Rights, ADRs,

Warrants, a long-term right to buy a stock at a specific price.

Why are they issued?

Perpetual and non-perpetual warrants.

Rights.

How do rights come about?

American depository receipts (ADR)

Sponsored ADRs.

Sponsoring bank

Nonsponsored ADRs.

Regulation of ADRs

Differences between sponsored and nonsponsored ADRs?

Dividends in foreign currency, currency risk.

Exchange risk.

Foreign taxes.

Quotation of equities, in dollars and cents.

IV Fixed income investments.

Characteristics of fixed income investments

A fixed principal amount called Par Value

A stated interest rate, except in the case of zero coupon Bonds

A stated maturity date, also called redemption date

Other possibilities of fixed-income investments



Series



Exam Preparation
Guide and Podcast

Call features
Sinking funds
Term payments, payments over the life at specified dates
Such as Mortgaged Backed Investments, GNMA, FNMA
Term payments may include interest-only or principal and interest
Zero coupon bonds

Zero coupon bonds

Bonds are issued with a fixed par value (usually \$1000) and a fixed maturity date no interest payments are made on zero coupon bonds instead, the bonds are bought at a discount to reflect a yield, which is calculated based on the discount at which the bonds are bought.

To calculate the yield on a zero coupon bond, the use of a bond calculator is required
The actual formula used to calculate the yield on zero coupon bond is:

$$\text{Zero Coupon Bond Yield} = \left(\frac{F}{PV} \right)^{\frac{1}{n}} - 1$$

F = Face Value

PV = Present Value

n = number of periods

Term Bonds

Term bonds are simply bonds issued at a specific par value with a specific maturity date, with a specific interest rate and a specific interest payment.

Serial Bonds

The serial bond is a bond issued with differing maturity dates.

Each of the maturity dates in the serial bond issue will carry a different interest rate.

The nature of bonds is that it's perceived that longer term bonds carry a higher risk and therefore a correspondingly higher interest rate.

In the normal interest rate environment you will see the highest rates on the longest maturities and lower rates. As you move down in maturity date.

Series Bonds



Impact on interest rate movements on bond prices

Secondary Market: Bonds that are issued and trading reflect the current interest rates by adjusting prices to reflect current interest rates.

Once a bond has been issued and it's trading in the bond market, all of its future payouts are determined, and the only thing that varies is its asking price.

Interest rates go up then bond prices (commonly also called Price or Market value, PV or Present Value) go down and visa versa

Interest rates go down then bond prices (commonly also called Price or Market value, PV or Present Value) go up

Discount Coupon Rate < Current Yield < YTM

Premium Coupon Rate > Current Yield > YTM

Par Value Coupon Rate = Current Yield = YTM

Bond Accretion or Depletion

Tax treatment of bond bought at a discount

Tax treatment of bond bought at a premium

Quotations US Treasury Bonds

Corporate Bonds Quotes

Municipal Bond Quotes

Debt Issuers:

US Treasury (Government debt)

Also Includes agencies such as:

GMNA (Government National Mortgage Association)

FNMA (Federal National Mortgage Association)

Freddie Mac (Federal National Mortgage Association)

Sallie Mae (Student Loan Marketing Association)

Municipalities (State, Local)

Corporate (domestic and international)

Foreign Govt. Debt (Bunds, Sterlings etc)



Corporate Bond Claim Priority

- Secured creditors (with liquidation of collateral used to secure)
- Unpaid Wages, Taxes, Trade Creditors
- Debentures
- Subordinated Debentures
- Preferred Stock (by classes)
- Common Stock

Trust Indenture

The terms of the issuance, including:

- Interest rate
- Call features
- Put features
- Collateral
- Maturity date

Any specific protections for the bond holder, including, insurance, debt ratios, audits, and rights of the debt holder

Terms and definitions for secured debt

Unsecured corporate debt

- Debt which is issued without specific assets acting as collateral
- Subordinated debenture
- Guaranteed debt
- Income bonds
- Short-term paper

Convertible Corporate debt

Retirement of Debt

- Maturity
- Sinking Fund
- Tender
- Refunding



Corporate Bond Trading

Settlement

Cash – same day

Regular way - 3 days

Buyer pays seller accrued interest up to but not including settlement date

30/360

Clearing House

Federal Funds

Corp. Bond price information

Yellow sheets

NYSE

Dealer paper

Direct paper

OTC

Quote services, Bloomberg

Trace: Trade Reporting and Compliance Engine (2004)

US Government Debt

Largest issuer of Debt over 16 trillion

Not subject to the Securities Act of 1933

US government debt is issued as Book entry form since 1983

Sold via an auction process

Treasury notes and treasury bonds are non-callable

US Treasury Bills (T-Bills)

T-Bills-less than one year-weekly auctions sold at a discount

US Government Debt: T-Notes

Treasury notes- earn a fixed rate of interest every six months until maturity. Notes are issued in terms of 2, 3, 5, 7, and 10 years

Sold at auction every 4 weeks

The 10-year Treasury note has become the security most frequently quoted when discussing the performance of the U.S. government bond market

Noncallable

US Government Debt: Bonds

Longest issues 20-30 years

Interest Paid semiannually (like T-Notes)

Noncallable 30 year bond auctions held every 6 months



Series



Exam Preparation
Guide and Podcast

US Government Debt: TIPS

Treasury Inflation-Protected Securities (or TIPS) are the inflation-indexed bonds issued by the U.S. Treasury.

The principal is adjusted to the Consumer Price Index (CPI)

Hybrid Treasuries

STRIPS (zero coupon bonds)

Created by financial institutions not the US government

Separate Trading of Registered Interest and Principal Securities (STRIPS) are T-Notes, T-Bonds and TIPS whose interest and principal portions of the security have been separated, or "stripped"; these may then be sold separately (in units of \$100 face value) in the secondary market.

CATS: Certificates Of Accrual On Treasury Securities

TIGRS: Treasury Income Growth Receipts

Simply an interest in a pool of treasury securities these are not issued directly by the US government

Federal Farm credit consolidated system

Federal Land Banks

Federal Intermediate Credit Banks

Banks For Cooperatives

Federal Home Loan Banks

Government National Mortgage Association

Collateralized mortgage obligations: CMO

CMO tranches

Planned Amortization Class (PAC) Tranches

Companion tranches

Targeted Amortization Class (TAC) Tranches

Z-Tranches

Principal only and interest only Tranches: PO, IO

Floating-rate and residual tranches



Series



Exam Preparation
Guide and Podcast

Municipal Bonds

Municipal bonds are issued by state and local governments and political subdivisions, such as sewer districts, water districts, school districts

The interest on qualified municipal bonds is exempt from federal income tax

Municipal bonds are issued in fully registered or book entry form

Prior to 1983 some in this poll bonds were issued in bearer form

Most municipal bonds are issued as serial bonds

Issuers of municipal bonds must obtain a legal opinion

Unqualified opinion

Where the bond counsel ascertains that he has not found any problems with the issue and the interest is exempt from federal tax

Qualified opinion

Issued if the legal counsel determines there may be problems with the issues such as the exemption from federal tax

General obligation bonds

General Obligation (GO) bonds carry the full faith and credit of the issuing municipality

Generally considered the least risky of in this book bonds because general obligation bonds have the full taxing authority (including the "ad valorem") of the municipality available for the payment of interest and debt service, some type of taxes include property taxes, income taxes, sales taxes

Property taxes (ad valorem) are determined by the mill rate

One mill equals 1/10 of 1% or .001

Revenue bonds

Not backed by the full taxing authority of the issuer

Typically backed by the revenue generated from project or projects the taxing authority is issuing the bonds to fund

Feasibility study required

A bond contract is prepared by the bond counsel

It consists of various pieces depending on the type of issue

Each bond has a "security agreement" pledging an income source to back the issue, such as full faith and credit and taxing authority for a general obligation bond or specified revenues for a revenue bond

In the case of revenue bonds a trust indenture which is a contract between the issuer and the trustee for the benefit of the bond holder is also in place



Protective Covenants of a Trust Indenture

Short term Municipal Notes

- Bond anticipation notes
- Construction loan notes
- Tax anticipation notes (TAN)
- Revenue anticipation notes (RAN)
- Tax and revenue anticipation notes
- Grant Anticipation Notes
- Project Notes
- Tax exempt commercial paper
- Step up/step down or Variable interest notes

Optional and Mandatory Redemption Provisions

Insurance and Rating agencies

- AMBAC American Municipal Bond Assurance Corporation
- MBIA Municipal Bond Insurance Association Corporation
- FGIC Financial Guarantee Insurance Corporation
- FSA Financial Security Assurance Corp.
- Rating agencies include Fitch and Moody's and Standard & Poor's

Municipal bond trading

- Trades over-the-counter
- Some issues are exempt from state federal and local taxes
- Most bonds issued in the state are always federal tax-free and state tax-free for that state
- Some states are triple tax-free but trades are subject to capital gains tax
- Municipal bonds trade in a very thin market no short sales are allowed
- Municipal bond risks include ratings and marketability
- A round lot in municipal bonds is \$5000 face amount and usually settles regular way or seller's option
- Accrued interest is calculated at 30/360

Comparing Tax Free to Taxable bonds

- Equivalent taxable yield = tax-free yield/(100%- Tax Bracket)
- Equivalent tax-free yield = taxable yield x (100%- tax bracket)



Series



Exam Preparation
Guide and Podcast

Classes of tax-free bonds

- Public purpose bond
- Qualified private activity bonds
- Nonessential use private purpose bonds
- Industrial development bonds issued prior to 1986
- Bank qualified municipal

Positive carrying negative carry

Money Market

- Debt obligations which mature in one year or less
- It may be a long-term bond but if matures in one year or less it is considered a money market instrument
- Institutions trade large units \$1 million or more minimum
- Typically trade at discount to par but some trade with accrued interest

Types of money market debt:

- Treasury bills
- Any treasury security which matures in one year or less
- Bankers acceptances
- Repurchase and reverse repurchase agreements
- Commercial paper
- Negotiable certificates of deposits

Repurchase agreements

Reverse repurchase agreements

The role of the Federal Reserve in money market

- The Federal Reserve will expand and tightened credit through its open market operations
- To expand credit the Federal Reserve will buy securities
- To restrict credit the Federal Reserve will sell securities

Securities which the Federal Reserve may buy

Federal Funds

Euro Dollars, Eurodollars

Types of CDs



Series **7**

Exam Preparation
Guide and Podcast

Disclosures to be made when selling a brokered CD to a client

V Options

Option Trading
CBOE
Amex

Quotations

Puts

Calls

Option Strategies
Covered calls
Married Puts
Hedging with options

Expiration

Strike Price

In the Money

Out of the money

Intrinsic Value

Black Scholes Model

Puts

Calls





Series **7**

Exam Preparation
Guide and Podcast

Option Strategies

- Covered calls
- Married Puts
- Straddles
- Spreads
 - Bull Spread
 - Bear Spread
- Combinations
- Ratio Strategies

Naked Strategies

Calculating break even points and profits

Leaps

Put/Call Ratio

Index Options

Interest Rate Options

Foreign Currency Options

VI Mutual Funds and Investment Companies

Investment Company act of 1940

Unit Investment Trust

- Fixed Unit Investment Trust
- Participating Unit Investment Trust

Face Amount Certificate Companies

Management Companies(mutual funds)

- Open-End Mutual Funds
- Closed-End Mutual Funds



Series



Exam Preparation
Guide and Podcast

Disclosures Required Under the Investment Company Act of 1940

Investment Objectives
Investment Advisor
Management Fees
Diversified or Non-Diversified
Open-End or Closed-End
Sales Charges
Breakpoints
Redemption Fees
Contingent Deferred Sales Charges
12-b-1 fund or not and details related to this

Fund Sponsor

Selling Group

Prospectus

Prospectus Disclosures

Types of Diversification

75/5/10 Rule

Types of funds

Growth Fund
Income Funds
International Funds
Balanced Funds
Dual-Purpose Funds
Index Funds
Special Situation Funds
Growth and Income Funds
Sector Funds
Money Market Funds

Maximum sales charges 8 1/2% On POP

POP (public offering price)



Breakpoints

Forward Pricing

Letters of Intent

Rights of Accumulation

Automatic Reinvestment of Dividends

Fund Families and Switching between Funds within the Family

Classes of stock in a 12-b-1 Fund

Class A Shares

Class B Shares

Class C Shares

Which class of stock in a 12 B-1 fund is suitable for various types of investors?

Systematic Withdrawal Plans

Fixed Dollar

Fixed Shares

Fixed Period

Fixed Percentage

Mutual fund sales practices which are prohibited

Inappropriate Recommendation of class B Shares in a 12 B-1 Fund

Trading of Mutual Fund Shares

Breakpoint Sales

Market Timing

Late Trading

Characteristics of and Open-End Mutual Fund

Characteristics of a Closed-End Mutual Fund

What are the critical differences between a open-end and a closed-end fund?

Exchange Traded Funds



Hedge Funds

Fund Expenses

- Management Fees
- Legal and Audit Fees
- Shareholder Servicing Fees
- Administrative Fees
- Trading Fees
- Printing Fees
- 12 B-1 fees
- Custodial Fees

Expense ratio

Cost Basis

Calculating the Yield on a Mutual Fund

Tax Treatment of Mutual Funds
Regulation M

Fund EX-Dates

Various Types of Unit Investment Trusts

- Municipal Bond Trusts
- Fixed Portfolio Trusts
- Fixed Bond Portfolio Trusts

Self liquidation characteristics of unit investment trusts

Variable Annuities

Real Estate Investment Trusts

Taxation of Real Estate Investment Trusts

Types of Real Estate Investment Trusts



Series



Exam Preparation
Guide and Podcast

Retirement Plans

- Defined-Benefit Plan
- Defined Contribution Plan
- Profit-Sharing Plans
- 401(k) plans
- 403(b) plans
- IRA
- Roth IRA
- Nonqualified Plans

Tax Deferral Aspect of Retirement Plans

Contribution Limits on Retirement Plans

Withdrawing from Retirement Plans

When can you withdraw from a retirement plan(what age)

Penalties for Early Withdrawal from Retirement Plans

IRA Rollovers

Inherited IRA Accounts

Beneficiary Distribution Accounts

ERISA

Fiduciary Responsibility

ERISA permitted investments

Tax-Deferred Annuities

Pension Liabilities

Unfunded Pension Liabilities



Series **7**

Exam Preparation
Guide and Podcast

VI Customer Interactions

Know Your Customer Rule

Suitability of Investments for Your Customers

New Account Form

account approval

Nonmanaged fee-based accounts

Option accounts

Margin in Margin Accounts

Discretionary Accounts

Investment Advisor Accounts

Closing or moving accounts between brokerage firms (ACATS system)

Numbered Accounts

Maintenance Of Client Accounts

The Various Departments of a Brokerage Firm

Anti-laundering rules

Margin Rules

Regulation T

Minimum Maintenance Margins

Short Margin Accounts

Option Margin Accounts



Series **7**

Exam Preparation
Guide and Podcast

VII Market regulation

Securities Act of 1933

Securities Act of 1934

- Insider Trading Amendments Of 1988

- Prohibitions

- Sale of Penny Stocks (rules 15-G-1 through 15-G-6)

Graham Dodd legislation

Trust indenture act of 1939

Securities investor protection act of 1970

Federal telephone consumer protection act of 1991

Sarbanes-Oxley act of 2002

State Regulation

FINRA/NYSE Rules

- Customer Account Rules

- Registered Rep. Rules

- Prohibited Practices

- Communications with the Public

FINRA/NASD Rules

- Code of Procedure

- Conduct of Customer Account Rules

- Communication with the public Rules

- Registered Rep. Rules

- Market and Trading Rules

- Prohibited Practices



Municipal Securities Rulemaking Board Rules (MSRB)

- Advertising Rules
- Customer account Rules
- Trading and Market Rules
- Registered Rep. Rules

Chicago Board Options Exchange Rules

- Advertising Rules
- Trading and Market Rules
- Customer Account Rules

VIII New Issues

Investment Bankers

- Letter of Intent
- Conditional and Unconditional Underwriting Commitments
- Syndicate Formation

US Government and US Government Agency Underwritings

- Direct US Treasury Underwritings
- Agency Underwriting

Municipal Issue Underwriting

- Official Notice of Sale
- Information Available
- Bidding Process
- The Official Statement
- Trading Procedures

Corporate Bond and Equity Underwriting

- Registration Statement
- Filing of the Registration Statement
- The Follow-Up after the Filing of the Registration
- Steps Taken after The Registration Is Effective
- Trading of Securities in the Secondary Market



Series



Exam Preparation
Guide and Podcast

IX Taxation

Capital Gains and Losses

Short term

Long term

Taxation of Stocks

Taxation of Corporate and Government Bonds

Municipal Bond Taxation

Corporate income tax

Gift tax

Estate tax

Tax Evasion Versus Tax Planning

Tax-advantaged investments

Master Limited Partnerships

Real Estate

Limited Partnerships

Oil and Gas Investments

Alternative Minimum Tax

X Investment Markets and Trading Mechanics

Brokers and Dealers

Ticket Information for Orders



Series



Exam Preparation
Guide and Podcast

Types of Orders

- Market
- GTC
- Limit
- Stop
- Short
- Do Not Reduce

Options

- Buy to Open
- Buy to Close
- Sell to Open
- Sell to Close

Settlement and Customer Disclosure Rules

- Customer Confirmations
- Time and Tick, fairness of pricing to customers
- Settlement Dates
- Delivery Dates
- Ex dates
- Mark to Market Rules
- Rejection Rules

Over-The-Counter Market

- Listing and Delisting Rules
- Operation of the Over-The-Counter Market
- Bulletin Board Stocks
- NASDAQ

New York Stock Exchange

- Listing and Delisting Rules
- Specialists
- Tape
- NYSE rules
- Regulation SHO



Series **7**

Exam Preparation
Guide and Podcast

XI Investment Analysis

Fundamental Analysis

Financial Statements

Balance Sheet

Income Statement

Cash Flow Statement

Statement of Changes in Retained Earnings

Annual Report (10K)

Quarterly Reports(10Q)

Management Discussions and Disclosures in Annual Report

Auditor Statement

Unqualified

Qualified

Earnings per Share

Diluted Earnings per Share

Undiluted Earnings per Share

Stock Splits And Stock Dividends

Effects of stock buyback programs by the company On Equity

Analysis of changes to Equity

Economic analysis

The state of the economy and the Business Cycle

Interest Rates

Monetary Policy

Fiscal Policy

Balance of Trade

Currency Markets And International Trade

Equity Market Analysis



Series



Exam Preparation
Guide and Podcast

Portfolio Analysis

Diversification Strategies
Portfolio Performance Versus Indexes
Portfolio Structure
Asset Allocation
efficient market theory

Technical Analysis

Chart Patterns
Head and Shoulders Top
Volume Measures
Moving Averages





Series 

Exam Preparation
Guide and Podcast

