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 if 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 tile 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 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.
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.
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
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

Corporation 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
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
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)
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
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
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 Then Mutual Funds
  - Closed-End Mutual Funds
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
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
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
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
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
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
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
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

That should do it!