

SIE Study Guide

Securities Industry Essentials - High-Yield Terms & Concepts

175+ concepts across all four content areas - pass the 75-question FINRA exam

- Format decoded: 75 scored questions + 5 unscored pretest items (80 total), 1 hour 45 minutes, 70 to pass
 - Knowledge of Capital Markets (16%): IPOs, underwriting, exchanges, economic factors
 - Understanding Products and Their Risks (44%): equity, debt, options, funds, annuities, munis
- Trading, Customer Accounts and Prohibited Activities (31%): orders, margin, AML, insider trading
 - Overview of the Regulatory Framework (9%): SEC, FINRA, SIPC, registration, arbitration
 - Test-day strategy: guessing has no penalty, the 1:24 pace, and a 48-hour review plan

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How to Use This Guide

The Securities Industry Essentials (SIE) exam is FINRA's entry-level test for the securities industry. It is open to anyone 18 or older - no firm sponsorship is required - and passing it stays valid for four years. The exam has 75 scored multiple-choice questions plus 5 unscored pretest items, takes 1 hour 45 minutes, and requires a passing score of 70 (on a scaled 0-100). The questions are distributed across four content areas in a fixed proportion: Knowledge of Capital Markets (16%), Understanding Products and Their Risks (44%), Understanding Trading, Customer Accounts and Prohibited Activities (31%), and Overview of the Regulatory Framework (9%).

This guide mirrors that weighting: study the biggest section (Products and Their Risks) hardest, because it is 44% of the questions. Each concept gives you key facts, an SIE tip, and an example. Read Part 1 once to learn the rules of the exam itself, then work the four content-area parts in order. Part 6 is your final review and test-day strategy.

Honest positioning: this guide is an independent study aid. It is NOT sponsored, endorsed, or approved by FINRA (the Financial Industry Regulatory Authority). The official SIE Content Outline, exam registration, and sample questions live at [finra.org](https://www.finra.org) - use them alongside this workbook for the strongest preparation.

PART 1: THE SIE EXAM - OVERVIEW

Who takes it, the 75-question format, the 70-passing score, scheduling, retakes, and what the SIE unlocks.

1 The SIE Exam

- Key facts:** Securities Industry Essentials: FINRA's introductory exam for aspiring securities professionals. It tests basic industry knowledge - products, risks, markets, regulators, and prohibited practices - before a candidate moves on to representative-level exams.
- SIE tip:** *The SIE is the front door: pass it, and the industry is open to you - no firm required to sit for it.*
- Example:** A college student interested in finance takes the SIE while in school to show employers foundational knowledge.

2 Who Can Take It

- Key facts:** Anyone 18 or older, including students and career-changers. You do NOT need a job at a broker-dealer to take the SIE.
- SIE tip:** *No sponsorship needed - register directly with FINRA/Prometric and sit for it on your own.*
- Example:** A career-changer with zero finance background enrolls online and schedules the exam within 120 days.

3 Exam Format

- Key facts:** 75 scored multiple-choice questions (four answer choices each) plus 5 unscored pretest items randomly mixed in - 80 items total. Computer-based, 1 hour 45 minutes.
- SIE tip:** *You cannot tell which items are pretest questions - answer every one with full effort.*
- Example:** You complete 80 items; 5 do not count toward your score, but you should never skip any.

4 The Passing Score

- Key facts:** A score of 70 on a 0-100 scale, equated to account for difficulty differences between question sets. 70% of the scored questions is the standard.
- SIE tip:** *Equating means a 70 is a 70 across all versions - aim comfortably above the threshold.*
- Example:** You answer 53 of 75 scored questions correctly and your SCALED score is reported as 70 - you pass.

5 No Guessing Penalty

- Key facts:** There is no penalty for guessing. A blank answer is wrong; a guessed answer might be right. FINRA says to attempt all items.
- SIE tip:** *Never leave an item blank - eliminate and guess if you must, but always answer.*
- Example:** With 30 seconds left and three unanswered items, you fill in every bubble rather than leaving them empty.

6 Exam Fee

- Key facts:** The fee is \$100 (raised from \$80 at the 2018 launch). Same fee for retakes. Payable when you enroll.
- SIE tip:** *Budget the \$100 plus any test-center convenience options; check finra.org for current fees.*
- Example:** You pay the exam fee during enrollment, then schedule your seat at a Prometric center or at-home proctoring.

7 Scheduling & Locations

- Key facts:** After enrolling you have 120 calendar days to schedule and take the exam. Offered at Prometric test centers and online proctored.
- SIE tip:** *Schedule early; prime windows fill fast. Test-center or online proctoring are both official options.*
- Example:** You enroll today and book a test-center seat for three weeks out, well inside the 120-day window.

8 Retake Waiting Periods

- Key facts:** 30 days after a first or second failed attempt; 180 days after a third failed attempt and for every attempt after that.
- SIE tip:** *A fail is data, not a stop - plan the 30-day gap as a structured review block.*
- Example:** You fail once, study the content breakdown, and retake 31 days later.

9 Score Validity

- Key facts:** Passing scores are valid for four years from the date you pass. Register with a firm in that window to use it.
- SIE tip:** *The 4-year clock starts at pass, not at enrollment - passing early gives you an advantage.*
- Example:** You pass at age 20, join a broker-dealer at 23, and the SIE is still valid - no retake needed.

10 What the SIE Unlocks

- Key facts:** Passing the SIE alone does not allow you to do business. It is the prerequisite for representative exams like the Series 7 (general securities), Series 63, 65, and 66 - which usually require firm sponsorship.
- SIE tip:** *Think of the SIE as the foundation; the Series exams are the building on top.*
- Example:** A firm hires you, sponsors your Series 7, and your SIE score counts toward that registration.
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11 The Content-Weighting Rule

- Key facts:** FINRA publishes the exact allocation: Capital Markets 16%, Products and Their Risks 44%, Trading/Accounts/Prohibited 31%, Regulatory Framework 9% (75 items total).
- SIE tip:** *Study in proportion - Products is nearly half the exam; Regulatory is the smallest.*
- Example:** You budget 40 hours of study and spend 18 of them on products and risks, matching the 44% weight.
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12 The Official Source

- Key facts:** FINRA's official SIE Content Outline and sample questions are free at [finra.org](https://www.finra.org). This workbook teaches the concepts; the outline shows the exact topic scope.
- SIE tip:** *Always cross-check scope with the current outline - it is the authoritative list.*
- Example:** You read the outline's 'products' section and confirm every concept this guide covers matches it.
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PART 2: KNOWLEDGE OF CAPITAL MARKETS (16%)

Primary and secondary markets, offerings and underwriting, the exchanges, and the economic factors that move them.

13 Primary vs Secondary Market

Key facts: Primary market: new securities are sold for the first time, money flows to the issuing company (IPO). Secondary market: existing securities trade between investors, money flows between investors, not the issuer.

SIE tip: *Primary = new + issuer gets cash; Secondary = old + investors trade.*

Example: An IPO raises \$300M for the company (primary); the next day investors buy and sell those shares on an exchange (secondary).

14 Initial Public Offering (IPO)

Key facts: The first time a private company sells stock to the public. Requires SEC registration (unless exempt), a prospectus, and underwriting. Proceeds typically fund the company's growth.

SIE tip: *IPO = first public sale; primary market; issuers raise capital.*

Example: A ride-share company files with the SEC and lists on Nasdaq, selling 10% of its shares to the public.

15 Seasoned / Follow-On Offering

Key facts: An additional offering of shares by a company that is already public. Also primary market - the issuer sells new shares.

SIE tip: *'Follow-on' = more shares from an already-public company.*

Example: A public tech company issues 5 million new shares to fund a factory - seasoned offering.

16 Secondary Offering

Key facts: A large sale of EXISTING shares by insiders or major holders. Proceeds go to the sellers, not the company. Do not confuse with the secondary market.

SIE tip: *Secondary OFFERING = insiders sell their own shares; proceeds to sellers.*

Example: A founder sells 2 million of their personal shares through an underwriter; the company receives nothing.

17 The Prospectus

Key facts: The legal offering document describing the company, the securities, risks, and use of proceeds. Must be delivered to investors in most public offerings; subject to anti-fraud rules.

SIE tip: *The prospectus is the disclosure centerpiece - read risks and use of proceeds.*

Example: An investor reads the IPO prospectus and sees the company's risk factors before deciding to buy.

18 Registration Statement

Key facts: The document filed with the SEC to register a securities offering. Contains the prospectus plus detailed financial information. Goes through a review (cooling-off) period.

SIE tip: *Registration = SEC review before the offering can go effective.*

Example: A company files Form S-1 with the SEC; SEC staff review it and request amendments before it is cleared.

19 Underwriting

Key facts: The process by which an investment bank raises capital for an issuer: it assesses demand, prices the offering, and distributes the securities. The underwriter may buy the issue (firm commitment) or sell on a best-efforts basis.

SIE tip: *Underwriter = middleman between issuer and investors; earns a spread.*

Example: A bank underwrites a \$500M bond for a utility, marketing it to institutions.

20 Firm Commitment Underwriting

Key facts: The underwriter buys the entire issue from the issuer and resells it to the public, assuming full risk. Profit = the spread between buy and sell price.

SIE tip: *Firm commitment = the underwriter owns the risk; unsold shares are its problem.*

Example: A bank buys all 10 million IPO shares at \$14 and sells them at \$15 - \$10M spread, and the bank keeps any unsold shares.

21 Best Efforts Underwriting

Key facts:	The underwriter agrees to sell as many shares as possible and returns what it cannot sell. No guarantee to the issuer; lower risk for the underwriter.
SIE tip:	<i>Best efforts = try our best; unsold shares go back.</i>
Example:	For a small risky issue, the bank sells 80% of the shares and returns the rest to the issuer.

22 The Underwriting Syndicate

Key facts:	A group of underwriters formed to sell a large issue. A lead (managing) underwriter organizes the syndicate; members take a portion of the shares.
SIE tip:	<i>Syndicate = several banks sharing the work and the risk of a big deal.</i>
Example:	Three banks split a \$2B offering - the lead bank takes 50%, two others take 25% each.

23 Due Diligence

Key facts:	The underwriters' investigation of the issuer's business, financials, and risks before pricing. Underwriters can face liability for material misstatements.
SIE tip:	<i>Due diligence = do your homework before you sell the deal.</i>
Example:	Bankers review the issuer's audits, contracts, and litigation before recommending a price.

24 Securities Act of 1933

Key facts:	The federal law governing NEW issues: requires registration of public offerings (with exemptions), prospectus delivery, and full disclosure; its anti-fraud rules apply to any offer or sale.
SIE tip:	<i>'33 = new issues'; it is the registration statute.</i>
Example:	An issuer files a registration statement; the SEC reviews it under the '33 Act.

25 Securities Exchange Act of 1934

Key facts:	The federal law governing the SECONDARY market: exchanges, broker-dealers, and ongoing reporting. Created the SEC and requires ongoing annual/quarterly disclosure.
SIE tip:	<i>'34 = secondary market + the SEC.</i>
Example:	A public company files its Form 10-K annual report under the '34 Act; its broker-dealer registers with the SEC.

26 The SEC

Key facts:	The Securities and Exchange Commission - the federal regulator created by the '34 Act. Enforces securities laws, reviews registrations, and oversees SROs like FINRA and the exchanges.
SIE tip:	<i>SEC = the federal cop on the securities beat.</i>
Example:	The SEC brings an enforcement action against a firm for misleading investors in its filings.

27 FINRA

Key facts:	The Financial Industry Regulatory Authority - the self-regulatory organization (SRO) that oversees broker-dealers and their registered representatives. Formed in 2007 from the NASD and NYSE member regulation.
SIE tip:	<i>FINRA = the SRO that polices broker-dealers day to day.</i>
Example:	A broker-dealer must be a FINRA member; its reps must hold FINRA-issued registrations.

28 Stock Exchanges

Key facts:	Organized markets where listed securities trade: NYSE and NYSE American (auction markets), Nasdaq (dealer/electronic market). Exchanges are SROs subject to SEC oversight.
SIE tip:	<i>Exchanges = organized venues where listed stocks trade.</i>
Example:	A large-cap stock is listed on the NYSE; shares trade continuously during market hours.

29 Auction Market

Key facts:	A market with a single location and a specialist/designated market maker (DMM) matching buy and sell orders (e.g., NYSE floor). Trades occur at the best bid/offer.
SIE tip:	<i>Auction = centralized matching, one market maker keeps order.</i>

Example: On the NYSE, a DMM matches an incoming sell order with the best standing buy order.

30 Dealer (OTC) Market

Key facts: A decentralized market where multiple dealers/market makers post bid and ask prices and trade with each other (e.g., Nasdaq and OTC markets).

SIE tip: *Dealer market = multiple market makers, no single floor.*

Example: Three Nasdaq market makers quote prices for a stock; a customer order fills at the best quote.

31 Over-the-Counter (OTC) Market

Key facts: Trading that happens outside exchanges, directly between broker-dealers. Includes OTCQX, OTCQB, and Pink Sheets for smaller or foreign issuers.

SIE tip: *OTC = off the exchange, dealer-to-dealer.*

Example: A small foreign company's shares trade OTC because it does not meet exchange listing standards.

32 Third Market

Key facts: Trading of exchange-LISTED securities in the OTC market, usually large institutional blocks executed by broker-dealers.

SIE tip: *Third market = exchange-listed stock traded off-exchange.*

Example: A pension fund buys a block of NYSE-listed shares through a dealer in the third market.

33 Fourth Market

Key facts: Institutions trading directly with each other, bypassing exchanges and dealers (e.g., via crossing networks). No dealer, no exchange.

SIE tip: *Fourth market = big fish trading with each other directly.*

Example: Two mutual funds cross 500,000 shares privately through an electronic network - no dealer involved.

34 Economic Factors - GDP

Key facts: Gross domestic product measures the value of goods and services produced - the headline growth gauge. Investors watch GDP for economic health and direction.

SIE tip: *GDP up = economy growing; investors price in earnings.*

Example: GDP grows 3% in a quarter; analysts upgrade earnings forecasts for cyclical companies.

35 Monetary Policy

Key facts: The Federal Reserve's control of money and credit: setting the federal funds rate, reserve requirements, and open-market operations. Expansionary policy (low rates) stimulates; contractionary (high rates) slows inflation.

SIE tip: *Fed = rates. Low rates help stocks and housing; high rates cool an overheating economy.*

Example: The Fed cuts the federal funds rate, and bond prices rise while borrowing costs fall.

36 Fiscal Policy

Key facts: Government decisions on spending and taxation. Deficits (spending more than revenue) can stimulate the economy; surpluses contract it.

SIE tip: *Fiscal = the government's budget; Monetary = the Fed's rates.*

Example: Congress approves an infrastructure spending bill - an expansionary fiscal stimulus.

37 The Business Cycle

Key facts: The recurring pattern of expansion, peak, contraction (recession), and trough. Leading indicators (housing starts, stock prices) turn first; coincident indicators (employment) track it; lagging indicators (unemployment duration) confirm it.

SIE tip: *Cycle = expand, peak, contract, trough - then repeat.*

Example: Housing starts fall for six months, usually warning of an economic slowdown ahead - a leading indicator.

38 Investment Banking Basics

Key facts: Investment banks help issuers raise capital (underwriting) and advise on mergers and acquisitions. M&A advisory is a major line alongside underwriting and sales/trading.

SIE tip: *Investment banking = raise capital + advise on deals.*

Example: An investment bank advises two chemical companies on a merger while underwriting a bond for a third.

39 Market Participants

Key facts: The ecosystem: issuers (companies/governments), investors (retail and institutional), broker-dealers (intermediaries), regulators (SEC/FINRA), and the exchanges they use.

SIE tip: *Know who is on each side of a trade: issuer vs investor, dealer vs customer.*

Example: A pension fund buys stock from a market maker - the pension is the customer, the market maker the dealer.

PART 3A: PRODUCTS - EQUITY SECURITIES

Common and preferred stock, dividends and splits, rights and warrants, ADRs, REITs, and ETFs – plus their risks (44% of the exam begins here).

38 Common Stock

- Key facts:** Basic ownership shares in a corporation: holders vote on directors and major corporate actions and share in profits via dividends. Dividends are variable and declared by the board. Shareholders have limited liability - they can lose only their investment.
- SIE tip:** *Common = ownership + voting; dividends optional.*
- Example:** A company declares a \$0.50 per-share dividend; each common share receives \$0.50 when paid.

39 Preferred Stock

- Key facts:** A class with priority over common stock: fixed (or floating) dividends paid before common, and priority in liquidation. Usually no voting rights. May be cumulative (missed dividends must be paid later), convertible, callable, or participating.
- SIE tip:** *Preferred = priority over common, fixed dividend, usually no vote.*
- Example:** A firm suspends common dividends but must pay accrued preferred dividends first because they are cumulative.

40 Dividends

- Key facts:** Cash or stock distributions to shareholders, declared by the board of directors. Paid from current earnings or retained earnings. Dates matter: declaration, record (holder of record), ex-dividend (buyer on/after ex-date gets no dividend), and payment dates.
- SIE tip:** *The ex-date determines WHO gets the dividend; if you buy on or after ex-date, you do not.*
- Example:** Record date is Friday; ex-date is Wednesday (one business day prior for cash dividends); buyers Wednesday or later miss the dividend.

41 Stock Splits & Dividends

- Key facts:** A stock split divides each share into more shares (e.g., 2-for-1) - price falls proportionally, total value unchanged. A stock dividend issues additional shares similarly. Effects: more shares, lower price per share, no change to shareholder value.
- SIE tip:** *Split = more shares, lower price, same total value; it is not free money.*
- Example:** You own 100 shares at \$100; a 2-for-1 split gives you 200 at \$50 - still \$10,000.

42 Preemptive Rights

- Key facts:** Rightsholders get the first opportunity to buy new shares in proportion to their ownership before the public - protecting their voting percentage. The 'right' is a short-dated transferable instrument (typically 30-45 days).
- SIE tip:** *Preemptive = keep your voting share when the company issues new stock.*
- Example:** A shareholder with 5% gets rights to buy 5% of a new offering, preserving their 5% stake.

43 Warrants

- Key facts:** Long-term instruments (often years) giving the holder the right to buy the issuer's stock at a stated price. Often attached to bonds or preferred as a sweetener. Usually issued at a price above the current stock price.
- SIE tip:** *Warrants = long-term calls issued by the company itself (dilution when exercised).*
- Example:** A bond comes with warrants to buy 10 shares at \$25; the stock later trades at \$40, so the warrants are valuable.

44 American Depositary Receipts (ADRs)

- Key facts:** US-traded receipts representing shares of a foreign company held in custody by a US bank. Trade like US stocks, pay dividends in US dollars, but carry currency and country risk.
- SIE tip:** *ADR = foreign stock in a US wrapper; watch currency risk.*
- Example:** A Tokyo company's ADR trades on the NYSE; a weak yen reduces dollar dividends despite steady earnings.

45 Real Estate Investment Trusts (REITs)

- Key facts:** Companies that own and operate real estate. Must distribute at least 90% of taxable income as dividends to keep pass-through tax status. Trade like stocks; many are public exchange-listed.
- SIE tip:** *REIT = real estate company that must pay out most of its income.*
- Example:** An office REIT collects rents and distributes 95% of its income as dividends to shareholders.

46 Exchange-Traded Funds (ETFs)

- Key facts:** Baskets of securities that trade intraday on an exchange like a single stock. Created and redeemed in-kind by authorized participants; usually low expense ratios; track an index or strategy.
- SIE tip:** *ETF = a basket you can trade all day; in-kind creation keeps it efficient.*
- Example:** An S&P 500 ETF holds most of the index's stocks and trades continuously; its price tracks the index closely.

47 Limited Liability

- Key facts:** Shareholders' maximum loss is their investment - corporate debts cannot reach personal assets. This is the defining risk limit of owning equity.
- SIE tip:** *Your downside as a stockholder = what you put in.*
- Example:** A corporation goes bankrupt; shareholders lose their stock value but owe nothing more.

48 Authorized, Issued, Outstanding

- Key facts:** Authorized shares = the maximum a charter allows; issued = sold to investors (includes treasury stock); outstanding = issued minus treasury (shares in investors' hands).
- SIE tip:** *Outstanding is what trades; treasury shares are issued but not outstanding.*
- Example:** A company is authorized for 100M shares, has issued 80M, and holds 5M in treasury - 75M outstanding.

49 Cumulative Voting

- Key facts:** Voting method that lets shareholders concentrate their votes for one director (votes = shares x seats). Protects minority representation. Straight voting = one vote per share per seat.
- SIE tip:** *Cumulative = multiply and concentrate; helps small holders win a seat.*
- Example:** With 3 seats and 100 shares, cumulative voting gives you 300 votes you can all cast for one director.

50 Equity Risks

- Key facts:** The core risks of owning stock: market risk (prices move with the market), business risk (company performance), financial/leverage risk (debt burden), liquidity risk (hard to sell), and inflation risk (eroding purchasing power).
- SIE tip:** *Name the risk on each equity question: market, business, financial, liquidity.*
- Example:** A retailer's stock falls when sector sentiment sours (market risk) even though its own earnings were strong.

51 Clientele of Equity Holders

- Key facts:** Investors choose equity for growth and income participation, accepting volatility. Growth investors want appreciation; income investors want dividends.
- SIE tip:** *Match the investor's objective to the equity's behavior.*
- Example:** A retiree preferring income chooses a dividend-paying utility over a no-dividend growth stock.

52 Book Value vs Market Value

- Key facts:** Book value = accounting value of equity (assets minus liabilities) per share; market value = what investors will pay. P/B compares them; growth stocks trade far above book.
- SIE tip:** *Book is the accountant's number; market is the crowd's number.*
- Example:** A bank has \$50 book value per share but trades at \$80 - investors expect returns above book.

53 Earnings Per Share (EPS)

- Key facts:** Net income divided by outstanding shares (basic EPS; diluted EPS includes options/warrants/convertibles). The anchor for P/E valuation.
- SIE tip:** *Diluted EPS counts all would-be shares - the more conservative number.*
- Example:** A company earns \$10M with 5M shares - \$2.00 basic EPS; after counting options it reports \$1.80 diluted.

54 Price-to-Earnings (P/E) Ratio

- Key facts:** Market price divided by EPS. High P/E = investors expect growth; low P/E = value or distress. Compare within the same industry.
- SIE tip:** *P/E = how much you pay per dollar of earnings.*

Example: A stock at \$60 with EPS of \$3 has a P/E of 20 - above the market average, suggesting growth expectations.

55 Liquidity of Equity

Key facts: Exchange-listed blue chips are liquid (tight spreads, instant execution); small caps and OTC issues can be thin (wide spreads, slow exits).

SIE tip: *Size and listing usually tell you liquidity before you read the question.*

Example: A micro-cap OTC stock takes days to sell without moving the price; a blue chip sells instantly.

56 Convertible Preferred Stock

Key facts: Preferred shares that can be exchanged for common stock at a fixed conversion ratio. It offers the dividend priority of preferred with the upside of conversion.

SIE tip: *Convertible preferred = preferred income + the option to become common.*

Example: A \$100 preferred converts into 10 common shares; if common rises above \$10, conversion becomes attractive.

57 Callable Preferred Stock

Key facts: Preferred stock the issuer can redeem (buy back) at a stated call price after a call protection period - usually from a higher-yield era when the issuer wants to refinance.

SIE tip: *Callable = the company can take it back; watch for reinvestment risk.*

Example: Rates drop, so a utility calls its 6% preferred and refinances at 4% - holders get their money back at the call price.

58 Foreign Equity Risks

Key facts: Owning foreign stocks adds currency risk (exchange-rate swings) and country risk (political/regulatory) on top of market risk.

SIE tip: *Foreign = extra risks: currency and country.*

Example: A German stock gains 10% but the euro falls 12% against the dollar - the US investor still loses.

PART 3B: PRODUCTS - DEBT SECURITIES

Bonds, interest rate and credit risk, treasuries, munis, agencies, zero coupons, convertibles, and callable features.

57 Corporate Bonds

Key facts: Debt securities representing a loan to the issuer. Par value is typically \$1,000; pays a stated coupon (interest) until maturity, when principal returns. Bondholders rank ahead of preferred and common in liquidation.

SIE tip: *Bonds = lenders; stockholders = owners; lenders get paid first.*

Example: A \$1,000 par bond pays a 5% coupon = \$50 interest per year until maturity.

58 Bond Pricing - Premium and Discount

Key facts: A bond trades above par (premium) when its coupon is above current rates, and below par (discount) when its coupon is below current rates. Price always moves inversely to interest rates.

SIE tip: *Coupon vs market rate decides premium/discount; price and rates move opposite.*

Example: Rates fall to 3%; a 5% coupon bond is worth more than par - it trades at a premium.

59 Interest Rate Risk

Key facts: The risk that bond prices fall when rates rise. Longer maturities = more price sensitivity. This is the dominant risk of bonds (especially zero-coupons and long-duration issues).

SIE tip: *Price risk grows with maturity; short bonds dodge most of it.*

Example: Rates jump 1%; a 30-year bond loses far more than a 2-year note.

60 Credit / Default Risk

Key facts: The risk that the issuer fails to pay interest or principal. Measured by ratings (S&P, Moody's, Fitch): investment grade (BBB-/Baa3 and above) vs high yield (below). Higher risk = higher yield demanded.

SIE tip: *Rating = the market's shorthand for default risk; below BBB-/Baa3 = junk.*

Example: A strained retailer's bonds are downgraded to CCC - prices fall and yields spike.

61 Callable Bonds

Key facts: Bonds the issuer can retire early at a call price after a call protection period. Issuers call when rates drop to refinance cheaper. Investors face reinvestment risk (reinvesting at lower rates).

SIE tip: *Callable = the issuer can pay you off early, usually when rates fall.*

Example: A 6% corporate bond is callable at 102; rates drop to 4%, so the issuer calls it and refinances.

62 Convertible Bonds

Key facts: Corporate bonds that can be exchanged for common stock at a fixed conversion ratio/price. They behave like bonds (income + safety) with equity upside; convert when the stock rises above the conversion price.

SIE tip: *Convertible = debt with a built-in option to become stock.*

Example: A \$1,000 bond converts into 40 shares (\$25 conversion price); the stock hits \$35, so holders convert.

63 Treasury Securities

Key facts: Debt issued by the US government - the safest credit. T-bills (1 year or less, sold at discount), T-notes (2-10 years), T-bonds (10-30 years), TIPS (inflation-protected). Interest is exempt from state and local tax.

SIE tip: *Treasuries = safest + state-tax-free interest; TIPS beat inflation.*

Example: A 6-month T-bill bought at \$990 returns \$1,000 at maturity - the \$10 is your interest.

64 TIPS

Key facts: Treasury Inflation-Protected Securities: principal adjusts with CPI inflation; you receive inflation-adjusted principal at maturity plus a fixed real coupon. Protects purchasing power; can have negative real yields.

SIE tip: *TIPS = inflation-proof treasuries; principal moves with CPI.*

Example: CPI rises 3%; a \$1,000 TIPS principal becomes \$1,030, and the coupon applies to the larger amount.

65 Municipal Bonds

- Key facts:** Debt issued by states, cities, and local authorities. General obligation (GO) bonds are backed by the issuer's full taxing power; revenue bonds are backed only by a specific project's revenue (tolls, fees).
- SIE tip:** *GO = backed by taxes; revenue = backed by the project's income.*
- Example:** A city's GO bond is backed by property taxes; a toll-road revenue bond by toll income only.

66 Municipal Bond Interest Taxation

- Key facts:** Municipal interest is exempt from federal income tax; for residents of the issuing state it is often also exempt from state/local tax ('triple tax-free'). Capital gains on munis are still taxable. AMT may apply to some issues.
- SIE tip:** *Muni interest = federally tax-free; in-state residents go triple tax-free.*
- Example:** A New Yorker owns a NYC bond - interest escapes federal, NY state, and NYC tax.

67 Municipal Bond Risks

- Key facts:** Even tax-free bonds carry risk: credit risk (default), interest-rate risk, and market risk. Revenue bonds are riskier than GOs. Insurance can improve credit.
- SIE tip:** *Tax-free does not mean risk-free.*
- Example:** A toll-bridge revenue bond defaults when traffic falls far below projections.

68 Agency Securities

- Key facts:** Debt of government-sponsored enterprises: Ginnie Mae (GNMA, government-backed mortgage pools - full faith and credit), Fannie Mae and Freddie Mac (agency-backed). Mortgage-backed securities carry prepayment risk.
- SIE tip:** *Ginnie = full government backing; Fannie/Freddie = agency, not full faith.*
- Example:** A Ginnie Mae mortgage pool pays principal + interest monthly as homeowners make payments.

69 Money Market Instruments

- Key facts:** Short-term, low-risk debt: bank CDs (FDIC-insured up to \$250K), commercial paper (corporations), banker's acceptances, repurchase agreements (repos). Nearly cash-like, very low volatility.
- SIE tip:** *Money market = short + safe; CDs are insured, others are not.*
- Example:** A corporate issuer sells 30-day commercial paper at a discount to fund payroll.

70 Zero-Coupon Bonds

- Key facts:** Bonds sold at a deep discount with no periodic coupon; all return comes from the rise in price to par at maturity. Maximum interest-rate sensitivity and taxable phantom income (accretion) unless in a tax-deferred account.
- SIE tip:** *Zero = buy at discount, take it all at maturity; richest in tax-deferred.*
- Example:** A zero priced at \$600 matures at \$1,000 in ten years - \$400 of interest, all at the end.

71 Sinking Fund

- Key facts:** A provision requiring the issuer to retire a portion of the debt each year, reducing default risk and smoothing the maturity wall.
- SIE tip:** *Sinking fund = the issuer pre-pays a little every year; safer bond.*
- Example:** An issuer retires 5% of a bond issue annually through call or open-market purchases.

72 Duration

- Key facts:** A measure of a bond's price sensitivity to rate changes: the weighted average time to receive cash flows. Higher duration = more price risk from a given rate move.
- SIE tip:** *Duration = the speedometer of rate risk; longer bond, higher duration.*
- Example:** A 20-year zero has high duration - a 1% rate rise slashes its price more than a 2-year note.

73 Yield Measures

- Key facts:** Coupon yield (stated rate), current yield (annual coupon / price), yield to maturity (YTM, total return if held to maturity), yield to call (YTC, if called early). Premium bonds have higher current yield than YTM; discount bonds lower.
- SIE tip:** *For recall: current yield = coupon / price; YTM is the full picture.*

Example: A \$1,000 par 5% bond at \$800 has a 6.25% current yield ($\$50/\800) and a higher yield to maturity.

74 Bond Seniority

Key facts: Claim priority in bankruptcy: secured debt first, then senior unsecured, subordinated debt, preferred stock, common stock. Senior vs subordinated determines recovery.

SIE tip: *Ladder of claims: secured > senior > subordinated > preferred > common.*

Example: In a liquidation, senior bondholders are paid fully before subordinated holders see a penny.

75 FDIC / SIPC Distinction

Key facts: FDIC insures bank deposits (up to \$250K per depositor per bank) - not securities. SIPC protects customer securities held at a failed broker-dealer (details in Part 5).

SIE tip: *FDIC = banks; SIPC = brokerages.*

Example: Your bank CD is FDIC-insured; your mutual fund held at a brokerage is protected by SIPC, not FDIC.

PART 3C: PRODUCTS - OPTIONS

Calls and puts, buyers and writers, premiums, moneyness, breakevens, covered calls, protective puts, spreads, and straddles.

75 Options Basics

Key facts: Options give the buyer the RIGHT (not obligation) to buy (call) or sell (put) 100 shares at a stated strike price by expiration. The seller (writer) has the OBLIGATION. Options are cleared by the OCC (Options Clearing Corporation).

SIE tip: *Buyer has the right; writer has the obligation; one contract = 100 shares.*

Example: A call on 100 shares at a \$50 strike gives the buyer the right to buy at \$50 until expiry.

76 The Call Option

Key facts: Right to BUY 100 shares at the strike price. Call buyers profit when the stock rises above the strike; writers profit from the premium if the stock stays below.

SIE tip: *Calls = right to buy (bullish, or income by selling).*

Example: Buy a \$50-strike call; stock jumps to \$70 - exercise and buy at \$50, or sell the call for its increased value.

77 The Put Option

Key facts: Right to SELL 100 shares at the strike price. Put buyers profit when the stock falls; they pay a premium for downside insurance. Put writers collect premium and hope the stock stays above the strike.

SIE tip: *Puts = right to sell (bearish, or insurance).*

Example: Own \$60 stock, buy a \$55 put - if the stock crashes to \$40, the put locks in a \$55 selling price.

78 Option Premium

Key facts: The price of an option = intrinsic value + time value. Intrinsic value = how far ITM (call: stock - strike; put: strike - stock), floor of zero. Time value = the rest, decaying toward expiration.

SIE tip: *Premium = intrinsic + time; time value decays to zero at expiry.*

Example: A \$50 call on a \$55 stock has \$5 intrinsic value; its \$2.50 time value adds to a \$7.50 premium.

79 In, At, Out of the Money

Key facts: ITM: call - strike below stock; put - strike above stock. ATM: strike = stock. OTM: call - strike above stock; put - strike below stock. OTM options have only time value.

SIE tip: *ITM = intrinsic value exists; OTM = hope only.*

Example: Stock at \$50: a \$45 call is ITM, a \$50 call is ATM, a \$55 call is OTM.

80 Option Breakevens

Key facts: Call breakeven = strike + premium paid. Put breakeven = strike - premium paid. At expiry, the breakeven is where the option makes no profit or loss.

SIE tip: *Breakeven (call) = strike + premium; (put) = strike - premium.*

Example: Paid \$3 for a \$50 call - breakeven at \$53; below \$53 you lose, even if ITM.

81 Call Writer (Covered vs Naked)

Key facts: A covered call writer owns the stock and sells a call against it - income limited to the premium but capped upside. A naked call writer has no stock - unlimited loss risk if the stock soars.

SIE tip: *Covered = income + capped upside; naked = unlimited downside.*

Example: Own 100 shares at \$50, sell a \$55 call for \$3 - you pocket \$3 and cap at \$58 equivalent.

82 Protective Put

Key facts: Buy a put against stock you own - insurance that sets a floor on loss while keeping upside. The premium is the cost of the insurance.

SIE tip: *Protective put = floor under your stock; cost = the premium.*

Example: Own stock at \$48, buy a \$45 put - the most you can lose is \$3 (plus premium) regardless of a crash.

83 Covered Call vs Protective Put

Key facts:	Covered call: own stock + short call - generates income, caps upside. Protective put: own stock + long put - pays a premium, floors the downside. Both involve owning the stock; the option sides differ.
SIE tip:	<i>Covered call = sell upside for cash; protective put = buy a floor with cash.</i>
Example:	An income investor writes covered calls; a fearful holder buys protective puts.

84 Option Spreads

Key facts:	Buying one option and selling another of the same class (both calls or both puts) with different strikes/expiration. Debit spreads cost money to enter; credit spreads pay on entry. Both cap risk and reward.
SIE tip:	<i>Spread = one long + one short of the same class; caps both sides.</i>
Example:	Buy a \$50 call, sell a \$60 call (bullish debit spread) - risk limited to the net premium paid.

85 Straddle

Key facts:	Buying a call AND a put with the same strike and expiration (long straddle): profits from big moves either direction (volatility). Short straddle: profits if the stock stays still.
SIE tip:	<i>Straddle = call + put same strike; long straddle bets on motion.</i>
Example:	Before a product launch, buy a \$50 call and \$50 put - a big move either way profits.

86 American vs European Exercise

Key facts:	American-style options can be exercised any time before expiration (most equity options). European-style can be exercised only at expiration (some index options).
SIE tip:	<i>American = exercise anytime; European = at expiry only.</i>
Example:	A stock jumps to \$60, and you exercise an American \$50 call immediately rather than waiting.

87 Assignment & Exercise

Key facts:	Exercise = the buyer uses the right to buy/sell; assignment = the writer is obligated to deliver/take delivery. The OCC clears and guarantees performance, assigning exercise notices to writers.
SIE tip:	<i>Exercise = buyer triggers; assignment = writer gets the notice.</i>
Example:	A put buyer exercises; the OCC assigns the obligation to an assigned put writer, who must buy the shares.

88 Options Risks

Key facts:	The risk wheel: buyers can lose the full premium; writers face assignment risk; time decay (theta) erodes long options daily; volatility (vega) moves premiums; illiquid options have wide spreads.
SIE tip:	<i>Long = time decay enemy; short = assignment enemy.</i>
Example:	A week before expiry, an OTM call's time value evaporates - a long holder watches the premium shrink.

89 Index Options

Key facts:	Options on indexes (e.g., SPX) settled in CASH - no delivery of stocks; settlement based on the index value at expiration. Often European-style; used for hedging a portfolio.
SIE tip:	<i>Index options = cash-settled, hedge a whole market slice.</i>
Example:	A fund buys SPX puts to hedge its broad portfolio; at expiration it receives cash based on the index.

PART 3D: PRODUCTS - INVESTMENT COMPANIES

Mutual funds, NAV, loads and fees, open - vs closed -end, ETFs, UITs, and the dollar -cost averaging toolkit.

90 Investment Company Act of 1940

Key facts: The federal law regulating investment companies (mutual funds, closed-end funds, UITs). Requires SEC registration and imposes disclosure, diversification, and governance rules.

SIE tip: *1940 Act = the rulebook for funds.*

Example: A new mutual fund files its registration with the SEC under the 1940 Act before offering shares.

91 Mutual Funds (Open-End)

Key facts: Open-end investment companies that continuously issue and redeem shares at net asset value (NAV), computed once a day at market close. Investors buy/sell directly with the fund at NAV (plus any sales charge).

SIE tip: *Open-end = priced at NAV once daily; you buy from the fund.*

Example: You invest \$1,000 in a fund at today's NAV; the fund prices fresh NAV at the next market close.

92 Net Asset Value (NAV)

Key facts: $\text{NAV} = (\text{fund assets} - \text{liabilities}) / \text{shares outstanding}$, computed at least daily, typically at 4pm ET market close. All mutual fund buys/sells execute at the next NAV.

SIE tip: *NAV = fund price per share, set once a day after close.*

Example: A fund has \$100M assets, \$2M liabilities, 4M shares - NAV \$24.50.

93 Sales Charges (Loads)

Key facts: Front-end load (A shares): paid when you buy, lowered by breakpoints (volume discounts). Back-end/redemption charge (B shares): paid when you exit. Level load (C shares): annual 12b-1 fee. No-load = no sales charge.

SIE tip: *A = pay at entry; B = pay at exit; C = pay yearly via 12b-1.*

Example: You invest \$10,000 in A shares with a 5% load - \$500 goes to the sales charge, \$9,500 works.

94 Breakpoints & Letters of Intent

Key facts: Breakpoints are dollar thresholds at which the front-end load percentage drops (volume discounts). A letter of intent (LOI) lets you count planned future purchases toward a breakpoint now; a right of accumulation (ROA) counts current holdings in the same family.

SIE tip: *Breakpoint = buy more, pay less load; LOI/ROA help you reach it.*

Example: The load drops from 5% to 4% at \$50K; you sign an LOI to reach that level with a year of purchases.

95 12b-1 Fees

Key facts: Annual marketing/distribution fees charged from fund assets (up to 0.25% typically; 0.75% cap plus service fee for some classes). Included in the expense ratio; lower-cost funds often have none.

SIE tip: *12b-1 = distribution fee inside the expense ratio.*

Example: An A-share fund's expense ratio includes a 0.25% 12b-1 fee for marketing.

96 Expense Ratio

Key facts: Annual fund operating expenses (management fee, 12b-1, admin, custody) divided by average net assets. It reduces returns every year; index funds compete with the lowest ratios.

SIE tip: *Expense ratio = the annual drag on your return.*

Example: A fund with \$1B in assets and \$10M in expenses has a 1.0% expense ratio.

97 Open-End vs Closed-End Funds

Key facts: Open-end funds issue/redeem at NAV daily (shares unlimited). Closed-end funds issue a fixed number of shares that trade on an exchange at market price - which can be at a premium or discount to NAV.

SIE tip: *Open = NAV daily; Closed = trades like a stock, premium/discount to NAV.*

Example: A closed-end fund's shares trade at \$18 while its NAV is \$20 - a 10% discount.

98 ETF vs Mutual Fund

Key facts:	ETF: trades intraday like a stock, in-kind creation/redemption, typically lower fees, no front-end load (but may trade at small spreads). Mutual fund: end-of-day NAV pricing, load options, priced not traded.
SIE tip:	<i>ETF = intraday + in-kind; MF = daily NAV + loads.</i>
Example:	You place a market order for an S&P 500 ETF during the session; a mutual fund order fills only at that day's NAV.

99 Dollar-Cost Averaging (DCA)

Key facts:	Investing a fixed dollar amount at regular intervals. Buys more shares when prices are low and fewer when high, smoothing the average cost - removes timing risk for accumulators.
SIE tip:	<i>DCA = steady fixed-dollar buys; discipline beats timing guesses.</i>
Example:	Investing \$500 monthly into a fund buys 10 shares one month and 13 the next when the price dips.

100 Systematic Withdrawal Plan (SWP)

Key facts:	The reverse of DCA: withdrawing a fixed amount or percentage at regular intervals from a fund. Useful for retirement income; may consume shares in down markets.
SIE tip:	<i>SWP = scheduled payouts; watch sequence-of-returns risk.</i>
Example:	A retiree withdraws \$1,000 monthly from a fund between Social Security checks.

101 Exchange Privilege

Key facts:	The right to switch money between funds in the same fund family (e.g., growth to income). Often without a new sales charge, but check the policy; switches are taxable transfers in taxable accounts.
SIE tip:	<i>Exchange privilege = free-ish moves within one family.</i>
Example:	An investor shifts \$5,000 from a growth fund to a money market fund in the same family - no new load.

102 Fund Categories

Key facts:	The family tree: growth (capital appreciation), income (dividend/interest), balanced (stocks + bonds), index (tracks a benchmark), sector (one industry), international, target-date (glides to a retirement year), and money market funds.
SIE tip:	<i>Match the fund's objective to the investor's - that is the test.</i>
Example:	A 55-year-old risk-averse saver chooses a balanced or target-date fund rather than a sector fund.

103 Money Market Funds

Key facts:	Mutual funds investing in short-term instruments aiming to maintain a stable \$1 NAV. NOT FDIC-insured (unlike bank money market deposit accounts) but very low risk.
SIE tip:	<i>MMF = stable \$1, not FDIC-insured.</i>
Example:	A money market fund holds T-bills and commercial paper; its price stays \$1.00 while yielding interest.

104 Unit Investment Trusts (UITs)

Key facts:	A fixed portfolio of securities (often bonds or a static stock basket) held for a set term, then terminated and proceeds returned. No active management; redeemable units at NAV; low costs.
SIE tip:	<i>UIT = a fixed basket with an expiration date, no manager.</i>
Example:	A municipal-bond UIT holds 50 bonds for its 20-year term, then liquidates and returns principal.

105 Fund Prospectus & Disclosure

Key facts:	Funds deliver a statutory prospectus (and summary prospectus) describing objectives, risks, fees, and performance. You can buy on the summary prospectus; full prospectus available on request.
SIE tip:	<i>Read fees and risks in the prospectus before the investor signs.</i>
Example:	A buyer reviews the summary prospectus's fee table and risk section, then buys the fund.

106 Fund Performance & Taxes

Key facts:	Mutual fund distributions (dividends + realized capital gains) are taxable to shareholders unless in a retirement account; capital gains can surprise taxable investors at year-end.
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SIE tip: *Gains are the fund's, the tax is yours - know the distribution date.*

Example: A fund distributes \$2/share in December after selling winners - taxable even if the shareholder did not sell.

107

Hedge Funds & Private Funds

Key facts: Private pools for accredited investors: high minimums, lock-ups, limited liquidity, less regulatory disclosure, and strategies like long/short and leverage. Public retail investors generally cannot buy in.

SIE tip: *Hedge funds = private + accredited + illiquid - not for the average buyer.*

Example: A \$1M-minimum long/short fund admits only accredited investors under a private placement exemption.

PART 3E: PRODUCTS - ANNUITIES, STRUCTURED & SPECIALIZED

Variable and fixed annuities, REITs/DPPs, structured products, and specialized vehicles – plus suitability.

107 Annuity Basics

- Key facts:** A contract with an insurance company: you contribute in the accumulation phase, the insurer makes income payments in the distribution (annuitization) phase. Immediate annuities start paying soon; deferred annuities grow first.
- SIE tip:** *Annuity = insurance company income contract; two phases: in and out.*
- Example:** A 60-year-old puts \$200K in a deferred annuity at 55, annuitizes at 65 to receive monthly checks.

108 Variable Annuity

- Key facts:** A tax-deferred annuity whose value varies with separate-account subaccounts (mutual-fund-like). No guarantee of return; the contract holder bears investment risk. Includes a mortality-and-expense (M&E) risk charge.
- SIE tip:** *Variable = value moves with subaccounts; you carry the market risk.*
- Example:** A variable annuity's subaccount falls 8% in a downturn - the contract value falls with it.

109 Fixed Annuity

- Key facts:** An annuity crediting a guaranteed minimum interest rate; held in the insurer's general account. The insurance company bears the investment risk - safer but lower potential growth.
- SIE tip:** *Fixed = guaranteed rate, insurer's general account.*
- Example:** A fixed annuity credits a guaranteed 3% per year regardless of markets.

110 Annuity Fees & Features

- Key facts:** Variable annuities stack fees: surrender charges (declining over years), M&E risk charge, subaccount expenses, and rider costs (guaranteed income/withdrawal benefits). Riders add guarantees and costs.
- SIE tip:** *Name the annuity fees: surrender, M&E, subaccount expenses, riders.*
- Example:** An annuity with a guaranteed-minimum-income rider charges an extra 0.75% annually for that guarantee.

111 Annuity Taxation

- Key facts:** Growth is tax-deferred; distributions are taxed as ordinary income (not capital gains). A 10% penalty tax applies to withdrawals before age 59.5 (with exceptions). Basis = premiums paid, which come back tax-free first.
- SIE tip:** *Annuity = tax-deferred, ordinary income out, 10% early-withdrawal penalty.*
- Example:** A 50-year-old withdraws from an annuity - the earnings portion is taxed as ordinary income plus the 10% penalty.

112 Equity-Indexed Annuity

- Key facts:** A hybrid: guarantees a minimum return while linking growth to an index via participation rates and caps. You receive some (not all) of the index's gain - a floor with a ceiling.
- SIE tip:** *Indexed annuity = index upside capped, with a guaranteed floor.*
- Example:** A contract guarantees 1% minimum and pays 6% if the index rises 10% (60% participation, capped at 6%).

113 Guaranteed Benefits (Riders)

- Key facts:** GMIB/GLWB/GAW guarantee a minimum income or withdrawal stream no matter how the subaccounts perform; they shift some volatility risk back to the insurer in exchange for fees.
- SIE tip:** *Riders = bought guarantees; they cost recurring fees.*
- Example:** A GLWB rider guarantees lifetime withdrawals of 5% of the income base, even after a market crash.

114 Direct Participation Programs (DPPs)

- Key facts:** Pass-through investments (limited partnerships, oil & gas, real estate LPs) that pass income, gains, losses, and tax benefits to investors. Illiquid, no free transferability, and suitability-sensitive.
- SIE tip:** *DPP = partnership pass-through; illiquid, tax-benefit driven.*
- Example:** An oil-and-gas LP passes drilling losses through to limited partners' tax returns.

115 Structured Products

- Key facts:** Derivative-linked notes engineered from a bond component plus an embedded option (e.g., principal-protected notes, equity-linked CDs). Returns depend on the underlying; read the credit risk of the issuer.
- SIE tip:** *Structured = bond + option in one wrapper; know the issuer's credit.*
- Example:** A principal-protected note returns your principal and a payout linked to the S&P 500's gain, capped.

116 Business Development Companies (BDCs)

- Key facts:** Closed-end funds that invest in and lend to small/medium companies. Trade on exchanges; pay high income; carry credit risk and leverage.
- SIE tip:** *BDC = closed-end pool lending to midsize businesses.*
- Example:** A BDC yields 9% from loans to a dozen growing manufacturers; one default hurts the dividend.

117 Mortgage-Backed Securities (MBS) / CMOs

- Key facts:** Securities backed by pools of mortgages. Prepayment risk is the defining feature: when rates fall, mortgages prepay and you get principal back early to reinvest at lower rates. CMOs slice pools into tranches (IO/PO).
- SIE tip:** *MBS = mortgages pooled; watch prepayment, not just credit.*
- Example:** Rates drop, homeowners refinance, and a MBS holder receives principal early - reinvesting at 3%.

118 Collateralized Debt Obligations (CDOs)

- Key facts:** Pools of debt (loans, bonds) sliced into tranches with an order of claim: senior tranches get paid first (lower risk), equity tranches last (highest risk/return).
- SIE tip:** *CDO = debt pool + priority tranches.*
- Example:** A CDO's senior tranche is rated AA and gets all interest before the equity tranche sees a penny.

119 Commodities & Futures (Basics)

- Key facts:** Futures are leveraged contracts to buy/sell a commodity or index at a set price by a set date. Used to hedge or speculate; margin-based; trading in the futures markets is not SEC-registered securities trading.
- SIE tip:** *Futures = leveraged, margin-driven, built for hedging or betting.*
- Example:** A wheat farmer sells a harvest future to lock a price; the buyer speculates on the price rising.

120 Foreign & Emerging Market Products

- Key facts:** Emerging-market funds and ETFs add currency, country, political, and liquidity risks. High growth potential with high volatility.
- SIE tip:** *Emerging = growth + extra volatility + politics.*
- Example:** An emerging-market ETF drops on a currency crisis even when the local companies are doing well.

121 Suitability - Know Your Customer

- Key facts:** A recommendation must match the customer's profile: investment objectives, time horizon, risk tolerance, liquidity needs, tax situation, and experience. FINRA's know-your-customer (KYC) duty is the backbone of product questions.
- SIE tip:** *Match the product to the profile - suitability is job one.*
- Example:** An income-oriented retiree with no speculation appetite should NOT be put into an aggressive sector fund.

122 Investment Objectives

- Key facts:** The standard ladder: preservation of capital, income, growth, speculation (highest risk). Products map to objectives - money market for preservation, blue chips for income/growth, options for speculation.
- SIE tip:** *Objectives ladder: preserve, income, growth, speculate.*
- Example:** A conservative investor picks a diversified bond fund for income; a speculator trades options.

123 Risk Tolerance & Time Horizon

- Key facts:** Risk tolerance is the investor's ability and willingness to accept volatility; time horizon is how long before they need the money. Long horizons can bear equity risk; short horizons need liquidity.
- SIE tip:** *Time horizon + tolerance decide the asset mix.*

Example: A 35-year-old with a 30-year horizon holds mostly equities; a retiree with a 1-year need holds cash.

124 Diversification

Key facts: Spreading investments across asset classes, sectors, and geographies reduces unsystematic (company/sector-specific) risk. It cannot eliminate market-wide (systematic) risk.

SIE tip: *Diversify = spread risk; kills company-specific risk only.*

Example: Holding 30 stocks across industries still falls in a market crash - but one bankruptcy barely dents the portfolio.

125 Liquidity Needs

Key facts: The customer's near-term cash requirements dictate how much must stay in liquid, low-volatility holdings (money market, short bonds) vs long-term investments.

SIE tip: *Needed-in-6-months money has no place in equities.*

Example: A customer saving for a home down payment in eight months stays in a money market fund.

PART 4A: TRADING - ORDERS, SETTLEMENT, SHORT SALES

Order types, time in force, short sales, best execution, settlement, and trade reporting.

126 Order Types - Market

Key facts: A market order executes immediately at the best available price. Speed is guaranteed, price is not. Suitable when execution certainty matters more than price.

SIE tip: *Market order = price may slide; execution is instant.*

Example: You place a market order and fill in seconds at the current ask - but it may be a few cents worse than the last trade.

127 Limit Orders

Key facts: An order with a price limit: buy at or below the limit, sell at or above it. Price is guaranteed, execution is not - the order may sit unfilled.

SIE tip: *Limit = price protected, fill not guaranteed.*

Example: A buy limit at \$49 fills only if the stock trades at \$49 or lower; it rallies to \$55 and never fills.

128 Stop (Stop-Loss) Orders

Key facts: An order that becomes a market order when a price is touched: sell stop placed below the market to protect gains/limit losses; buy stop placed above the market (to enter or to cover a short).

SIE tip: *Stop = trigger below (sell) or above (buy), then a market order.*

Example: Own stock at \$60, sell stop at \$55 - if it falls to \$55, the stop sells at the market, likely near \$55.

129 Stop-Limit Orders

Key facts: A stop order that becomes a limit order when triggered - the stop price triggers, the limit price caps the execution. Guarantees a price floor but risks no fill in a fast move.

SIE tip: *Stop-limit = trigger then limit; can miss in a gap.*

Example: Sell stop-limit at \$55 with limit \$54.90 - if the stock gaps to \$52, the order never fills at \$54.90.

130 Time-in-Force

Key facts: How long an order lives: day (cancel at close), good-till-cancelled (GTC), immediate-or-cancel (IOC - fill what you can now, cancel the rest), fill-or-kill (FOK - all or nothing now).

SIE tip: *Day/GTC/IOC/FOK = the order's lifetime and fullness rules.*

Example: A day order that unfilled cancels at 4pm; an FOK order either fills completely now or cancels.

131 Short Selling

Key facts: Selling borrowed shares hoping to buy them back cheaper later (sell high, buy low - reversed). You are liable for dividends paid on borrowed shares and face unlimited loss if the stock rises.

SIE tip: *Short = borrow, sell, buy back cheaper; the mirror of a long.*

Example: Borrow and sell 100 shares at \$50; buy them back at \$40 - \$10 profit, minus the \$1 dividend you owed the lender.

132 Short Sale Mechanics

Key facts: To short, the shares must be located/borrowed (fail-to-deliver rules under Reg SHO); you must be in a margin account; profits come from covering at a lower price. A rising stock forces margin calls.

SIE tip: *Short needs a borrow + margin account; rising prices squeeze shorts.*

Example: You short at \$50; the stock rockets to \$80, triggering a margin call - you must add cash or cover.

133 Best Execution

Key facts: The duty to seek the best reasonably available price, speed, and likelihood of execution for customer orders - not necessarily the very last tick, but a genuine best-effort.

SIE tip: *Best execution = diligence on price and speed, not perfection.*

Example: A broker checks three venues and routes the order to the one quoting the best price.

134 Payment for Order Flow

Key facts:	A broker-dealer receives compensation for routing customer orders to a specific market maker/venue. Allowed with disclosure; the SEC's order handling rules require best execution regardless of payment.
SIE tip:	<i>Payment for order flow = legal, disclosed, still subject to best execution.</i>
Example:	A retail broker routes orders to a market maker that pays it a per-share rebate - disclosed in its SEC disclosures.

135 Settlement (T+1)

Key facts:	Regular-way settlement for stocks and most securities is one business day after the trade date (T+1). Buyer pays and receives securities one business day after the trade.
SIE tip:	<i>T+1 = one business day after the trade for payment + delivery.</i>
Example:	You buy stock on Monday - settlement (cash out, shares in) happens Tuesday, one business day later.

136 Cash vs Margin Settlement

Key facts:	Cash accounts must be paid in full by settlement (T+1); buying without paying is free-riding (a violation). Margin accounts borrow part of the purchase.
SIE tip:	<i>Cash account = pay in full by T+1; margin = borrow.</i>
Example:	A cash-account customer buys \$10K of stock; \$10K must be in the account by settlement.

137 Trade Reporting & Transparency

Key facts:	Firms must report trades to the tape/consolidated feed and to regulators: TRACE (corporate/municipal bonds), CAT/OATS-style audit trails, and the consolidated tape for equities. Transparency supports fair pricing.
SIE tip:	<i>Every trade is reported; regulators watch the tape.</i>
Example:	A bond trade is reported to TRACE within minutes, publishing the price for public transparency.

138 Markups & Markdowns

Key facts:	In principal (dealer) transactions the firm's profit is the markup (buying from customer at a discount to market) or markdown (selling to customer above market). Must be fair; the 5% guideline applies to most trades.
SIE tip:	<i>Markup/markdown = the dealer's spread on principal trades; keep it fair.</i>
Example:	A dealer buys a customer's bond at \$98 when the market is \$100 - a 2% markup from market.

139 Trading Halts & Circuit Breakers

Key facts:	Exchanges may halt a stock for news, order imbalances, or regulatory reasons. Market-wide circuit breakers pause all trading at severe declines (7%, 13%, 20% from the previous close).
SIE tip:	<i>Single-stock halt = news; market circuit breaker = 7/13/20%.</i>
Example:	A pharmaceutical stock halts for a pending FDA announcement; a 13% market drop triggers a 15-minute break.

140 Market Maker Obligations

Key facts:	Market makers continuously quote two-sided (bid/offer) prices and provide liquidity, earning the spread. They must honor published quotes within size.
SIE tip:	<i>Market maker = always quoting both sides; earns the spread.</i>
Example:	A Nasdaq market maker quotes 20.00 bid / 20.05 offer for 1,000 shares, ready to buy or sell there.

PART 4B: CUSTOMER ACCOUNTS

Cash and margin, account documentation and types, discretionary accounts, minors, retirement accounts, and transfers.

141 Cash Account

- Key facts:** The standard account: full payment required by settlement (T+1); no borrowing. Cannot buy-and-sell-without-paying (free-riding is prohibited).
- SIE tip:** *Cash = pay by settlement; no credit.*
- Example:** You buy \$5,000 of stock in a cash account; the \$5,000 must be there by the settlement date.

142 Margin Account

- Key facts:** An account that borrows from the broker to buy securities, using the purchased assets as collateral. Requires a margin agreement (risk disclosure) and meeting Regulation T initial requirements.
- SIE tip:** *Margin = broker loan secured by your securities.*
- Example:** With \$5,000 cash you buy \$10,000 of stock in a 50% initial margin account - you borrowed \$5,000.

143 Regulation T (Initial Margin)

- Key facts:** The Fed's initial requirement: you must deposit at least 50% of the purchase price; the broker may lend the rest. For long purchases, that caps leverage at 2x at entry.
- SIE tip:** *Reg T = 50% of the purchase upfront; max 2x at entry.*
- Example:** Buying \$10,000 of stock requires \$5,000 cash on deposit (or marginable collateral).

144 Maintenance Margin

- Key facts:** The minimum equity you must keep in a margin account - at least 25% of market value (firms may set higher). Falling below triggers a margin call to deposit or liquidate.
- SIE tip:** *Maintenance = 25% floor; below it, deposit or sell.*
- Example:** Your \$5,000 stock falls to \$6,000 value with \$3,000 debit - equity 50%: fine; fall to \$4,000: equity 25% - margin call.

145 Margin Calls

- Key facts:** When equity falls below maintenance, the firm demands cash or securities (a margin call) within a short deadline; if unpaid, the firm liquidates positions. Clients bear the loss below the deposit.
- SIE tip:** *Margin call = deposit fast or the firm sells.*
- Example:** A position drops below the 25% floor; the broker demands \$1,000 by end of day, then sells if not deposited.

146 Debit / Equity in Margin

- Key facts:** In a margin long account: debit balance = the loan (what you owe); equity = market value minus debit. Your return is calculated on your equity, magnifying gains and losses.
- SIE tip:** *Equity = value - debit; leverage magnifies both ways.*
- Example:** \$10,000 stock, \$5,000 debit = \$5,000 equity; the stock rises 10% to \$11,000, and equity jumps to \$6,000 (+20%).

147 Joint Accounts - JTWROS vs TIC

- Key facts:** Joint tenants with right of survivorship (JTWROS): the surviving owner inherits the full account automatically. Tenants in common (TIC): each owner's share passes to their own heirs. Both require joint signatures and documentation.
- SIE tip:** *JTWROS goes to the survivor; TIC goes to each owner's heirs.*
- Example:** A married couple holds JTWROS - if one dies, the other owns 100% without probate.

148 New Account Documentation

- Key facts:** Opening an account requires: new-account form (customer info), customer identification program (CIP) verification, KYC/suitability disclosure, signature agreements, and tax forms (W-9, or W-8BEN for foreign).
- SIE tip:** *New account = CIP + KYC + W-9 - the paperwork trio.*
- Example:** A broker verifies a new customer's name, address, and ID (CIP), then collects a W-9.

149 Know Your Customer (KYC)

Key facts:	The account-opening duty to gather facts: identity, investment objectives, risk tolerance, time horizon, financial situation, and experience - and to use them in every recommendation.
SIE tip:	<i>KYC = collect the profile and USE it.</i>
Example:	A new customer profiles as conservative; the firm notes it and screens recommendations against it.

150 Discretionary Accounts

Key facts:	An account giving the firm PRIOR written authorization to choose securities and execute trades without asking each time. Every trade still appears on the account statement and is subject to suitability. Oral discretion is not permitted.
SIE tip:	<i>Discretion = written authorization in advance; verbal does not count.</i>
Example:	A customer signs a limited power of attorney, letting the advisor pick trades - but the advisor still must be suitable on each.

151 Power of Attorney (POA)

Key facts:	A legal document granting another party trading/administrative authority over an account (general or limited). The account owner remains the client; the POA holder's trades must comply with the firm's rules.
SIE tip:	<i>POA = someone else authorized to act on the account; owner still governs.</i>
Example:	An aging parent grants a child POA to manage their brokerage account after documented incapacity planning.

152 Transfer of Accounts (ACAT)

Key facts:	ACATS is the automated system that moves whole accounts between firms, typically in three business days to two weeks. Positions and most cash transfer in-kind; some assets (options, some annuities) may not.
SIE tip:	<i>ACAT moves accounts between firms; most assets transfer in-kind.</i>
Example:	A client leaves firm A; ACATS delivers their portfolio to firm B in five business days.

153 UGMA / UTMA Accounts

Key facts:	Uniform Gifts/Transfers to Minors Act accounts: a custodian manages assets for a minor; contributions are irrevocable gifts; money is for the minor; control passes to the child at the age of majority. No margin.
SIE tip:	<i>UGMA/UTMA = irrevocable custodial gifts; the child takes over at majority.</i>
Example:	Grandparents fund a UTMA for a newborn; the custodian invests it conservatively until the child turns 18/21.

154 401(k) / Retirement Accounts

Key facts:	Employer retirement plans (401(k)) and IRAs offer tax advantages: traditional = tax-deductible in, ordinary income out; Roth = taxed in, tax-free qualified withdrawals. Brokerage accounts hold plan assets in custody.
SIE tip:	<i>Traditional: tax now-deferred; Roth: tax-free later; both grow tax-deferred.</i>
Example:	A 401(k) contribution lowers taxable income today; Roth IRA withdrawals at 65 are tax-free.

155 IRA Basics

Key facts:	Traditional IRA: contributions may be deductible; growth tax-deferred; distributions taxed as ordinary income; required distributions start at RMD age. Roth IRA: contributions not deductible; qualified distributions tax-free; no RMDs for the owner.
SIE tip:	<i>Split: Traditional = tax later; Roth = tax now, free later.</i>
Example:	A 30-year-old contributes \$6,000 to a Roth IRA - no deduction now, but tax-free growth for decades.

156 Fiduciary Duty

Key facts:	When acting with discretion or as an ERISA fiduciary, the firm must put the client's interests first: best interest recommendations, no excessive costs, full disclosure. The standard is higher than 'suitable'.
SIE tip:	<i>Fiduciary = client first; suitability = fits the profile.</i>
Example:	A fiduciary advisor avoids a higher-fee annuity when a comparable lower-fee fund meets the same goal.

157 Account Statements & Confirmations

Key facts:	Customers receive trade confirmations (price, quantity, fees, settlement) and periodic account statements (positions, value, activity). Firms must safeguard customer records and report discrepancies.
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SIE tip: *Confirmations = per trade; statements = periodic; read both.*

Example: A monthly statement shows holdings, cash, and each trade - the customer reviews for unauthorized activity.

158

Customer Correspondence & Consents

Key facts: Separate customer consent is required for certain activities: borrowing customer securities (for short sales), margin accounts, and agreeing to arbitration. Firms must disclose risks in writing.

SIE tip: *Consent required: margin, securities lending, arbitration agreements.*

Example: A customer signs the margin agreement and the securities-lending consent before the account borrows shares.

PART 4C: PROHIBITED ACTIVITIES & AML

Insider trading, market manipulation, churning, unauthorized trading, communications rules, and anti money laundering duties.

159 Insider Trading

Key facts: Trading while in possession of material, non-public information (MNPI). Prohibited under the Exchange Act; the duty is to abstain from trading or disclose the information. Penalties include fines, disgorgement, and imprisonment.

SIE tip: *MNPI + a trade = insider trading; abstain or disclose.*

Example: A director hears the merger announcement will hit tomorrow and buys shares today - a prosecutable insider trade.

160 Material Information

Key facts: Information that a reasonable investor would consider important to a buy/sell decision (earnings surprises, M&A, FDA decisions, pending litigation). Insider trading law requires both materiality and non-public status.

SIE tip: *Material = would change an investor's decision; non-public = not yet released.*

Example: An unreleased earnings miss is material and non-public - trading on it is illegal.

161 Tipping

Key facts: Sharing MNPI with others who then trade ('tippees'). Both the tipper and tippee can be liable; the tip need not be in exchange for money.

SIE tip: *Tipping = passing the secret; tippee trades make both liable.*

Example: An analyst leaks a pending acquisition to a friend, who buys stock - both face penalties.

162 Market Manipulation

Key facts: Artificial interference with supply/demand to distort prices: wash trades (matching buy/sell with yourself), matched orders, painting the tape (reporting fictitious trades), and marking the close (distorting the closing price).

SIE tip: *Manipulation = fake activity or price distortion to trick the tape.*

Example: Two colluding traders run matched buy/sell orders to create volume and lure buyers - prohibited.

163 Front Running

Key facts: Trading a security for your own account ahead of a large customer order that is likely to move the price. Prohibited as a breach of client trust.

SIE tip: *Front running = jumping a big order with your own trade.*

Example: A dealer hears a \$5M customer buy order and buys the stock first to profit from the coming move - banned.

164 Churning

Key facts: Excessive, aggressive trading in a customer account to generate commissions, disregarding the customer's interests. Violates suitability and the just-and-equitable principles of conduct.

SIE tip: *Churning = commissions over client interest; turnover is the tell.*

Example: An advisor trades a conservative account 40 times a year, generating \$12K in commissions - a churning case.

165 Unauthorized Trading

Key facts: Executing trades without the customer's authorization (unless the account has a written discretionary agreement). Firm procedure requires client approval for each non-discretionary trade.

SIE tip: *No written discretion = every trade needs the customer's okay.*

Example: A rep buys a stock the client never discussed - an unauthorized trade the firm must reverse.

166 Misrepresentation & Omission

Key facts: False statements, exaggerated claims, or failing to disclose material facts in selling securities - all violations (anti-fraud rules) regardless of intent to deceive.

SIE tip: *Lying or hiding material facts about a product = fraud.*

Example: A rep calls a variable annuity 'guaranteed like a CD' without disclosing market risk - misrepresentation.

167 Commingling

Key facts:	Mixing customer securities with the firm's own assets, or failing to segregate client funds. Prohibited - customer assets must be held separately (customer protection rule).
SIE tip:	<i>Customer money never mixes with firm money.</i>
Example:	A firm deposits a client's check into its own operating account before moving it to the customer account - a violation.

168 Free-Riding

Key facts:	Buying and selling securities in a cash account without paying, profiting from the round trip before funds arrive. Violates Regulation T and margin rules.
SIE tip:	<i>Free-ride = buy, sell, and profit before you ever paid.</i>
Example:	A customer buys stock Monday, sells Tuesday at a profit, and never deposits the purchase funds - free-riding.

169 Anti-Money Laundering (AML) Basics

Key facts:	Firms must comply with the Bank Secrecy Act: establish AML programs, verify customers (CIP), monitor transactions, report suspicious activity (SARs) and currency transactions (CTRs), and screen against OFAC sanctions lists.
SIE tip:	<i>AML = verify, monitor, report; OFAC = do not touch sanctions targets.</i>
Example:	A customer makes \$9,900 cash deposits daily in a pattern - the firm files a SAR.

170 Customer Identification Program (CIP)

Key facts:	The AML identity check at account opening: collect name, date of birth, address, and government ID number; verify against records; screen against watchlists. Required before the account is used.
SIE tip:	<i>CIP = verify who you are dealing with at opening.</i>
Example:	A broker verifies a new customer's driver's license and address against public records before approval.

171 Suspicious Activity Reports (SARs)

Key facts:	Firms file SARs for transactions that suggest money laundering, fraud, or evasion: structuring below thresholds, unusual wire patterns, rapid layering through accounts. SARs are confidential - do not tip off the customer.
SIE tip:	<i>File a SAR for red flags; never tell the customer you filed.</i>
Example:	A retiree with no business history cycles \$50K through multiple accounts weekly - a SAR is filed.

172 OFAC Sanctions

Key facts:	The Office of Foreign Assets Control maintains lists of sanctioned countries, entities, and individuals. Firms must block/deny transactions with OFAC-listed parties and file blocked reports.
SIE tip:	<i>OFAC = deal with the blacklist or face severe penalties.</i>
Example:	A firm's system flags a wire to an OFAC-designated entity and blocks it.

173 Communications with the Public

Key facts:	Advertising, sales literature, social media, and correspondence must be fair, balanced, and not misleading - no promises, no false stats. Retail communications generally require a registered principal's review/approval.
SIE tip:	<i>Every communication = fair + balanced; principals approve retail outreach.</i>
Example:	A firm's ad claims 'highest returns guaranteed' - a principal rejects it as misleading.

174 Recordkeeping & Retention

Key facts:	Firms keep books and records per SEC/FINRA requirements: communications and account records retained (typically 3-6 years), accessible, and producing in investigations.
SIE tip:	<i>Records = your audit trail; keep them years, not months.</i>
Example:	A firm retains three years of customer emails per rule, producing them in a FINRA inquiry.

175 Gifts & Business Entertainment

Key facts:	FINRA limits business gifts to customers and others: generally no more than \$100 per person per year, and business entertainment must be reasonable and not excessive, with disclosure.
SIE tip:	<i>Gifts capped roughly at \$100/person/year; entertainment must be modest.</i>

Example: A rep gives a client a \$150 gift card - over the limit and a violation.

176 Outside Business Activities (OBA)

Key facts: Registered persons must disclose outside employment and business activities to their firm in writing and obtain approval where required. Private securities transactions ('selling away') need firm approval.

SIE tip: *Disclose outside work; never sell unapproved investments.*

Example: A rep starts a side consulting business - he discloses it; selling clients an unapproved private fund would be selling away.

177 Supervision and WSPs

Key facts: Firms maintain Written Supervisory Procedures (WSPs) and designate principals to supervise reps: reviewing orders, correspondence, account activity, and training. Supervision failure is itself a violation.

SIE tip: *Principals supervise; WSPs document how.*

Example: A branch manager reviews new-account forms and blotters monthly as the WSP requires.

PART 5: OVERVIEW OF THE REGULATORY FRAMEWORK (9%)

SEC, FINRA, SIPC, registration, the Code of Procedure, arbitration, and the financial rules protecting customer assets.

178 The SEC (Federal Regulator)

Key facts: The Securities and Exchange Commission - created by the 1934 Act. Federal agency that administers securities laws, reviews registrations, oversees exchanges/SROs, and enforces anti-fraud rules.

SIE tip: *SEC = the federal authority over the whole securities system.*

Example: The SEC approves a new exchange's rules and later brings an insider-trading enforcement action.

179 Self-Regulatory Organizations (SROs)

Key facts: FINRA, the exchanges, and other SROs make and enforce rules for their members subject to SEC approval. SROs do the day-to-day policing of broker-dealers.

SIE tip: *SROs = industry cops, SEC-approved, day-to-day.*

Example: FINRA examines a broker-dealer's books annually; its rule changes still need SEC sign-off.

180 FINRA Mandate

Key facts: FINRA writes and enforces rules for broker-dealers: qualification exams, supervision, sales practices, communications, and market integrity. It can fine, suspend, expel, and bar firms and individuals.

SIE tip: *FINRA = rules, exams, exams of firms, and teeth.*

Example: FINRA fines a firm for churning; the rep is also barred from the industry.

181 SIPC Protection

Key facts: The Securities Investor Protection Corporation protects customer securities and cash at a FAILED broker-dealer: up to \$500,000 total, including up to \$250,000 cash. It does NOT protect against market loss or bad advice.

SIE tip: *SIPC = broker bankruptcy insurance (\$500K/\$250K cash), not market insurance.*

Example: A brokerage fails holding a customer's stocks - SIPC returns the securities or their value up to the limits.

182 Firm Registration & Membership

Key facts: Broker-dealers must register with the SEC (or operate under a regulator) and be FINRA members. Firms file financial reports, pass exams, and maintain capital - all subject to inspection.

SIE tip: *Firm = SEC-registered + FINRA-member + financially examined.*

Example: A new brokerage registers with the SEC, joins FINRA, and appears for its first financial exam.

183 Individual Registration

Key facts: Individuals doing securities business must pass qualification exams (SIE + representative exams) and register under a member firm. Representatives (e.g., Series 7, 63) and principals (e.g., Series 24) hold different registrations.

SIE tip: *Rep = client-facing license; Principal = supervisor license; both need exams.*

Example: A new hire passes the SIE and Series 7, then registers as a general securities representative.

184 Form U4 (Registration/Disclosure)

Key facts: The Uniform Application for Securities Industry Registration: personal info, employment, exams, and disclosure of criminal, regulatory, and financial events. Must be updated promptly when anything material changes.

SIE tip: *U4 = the rep's file; update within 30 days of changes.*

Example: A rep is arrested off-hours - the firm files a U4 amendment within 30 days.

185 Form U5 (Termination)

Key facts: The Uniform Termination Notice filed when a rep leaves a firm, stating the reason (including 'discharged' or 'permitted to resign' with disclosures of allegations). It follows the rep's record.

SIE tip: *U5 = the exit document with the reason on the record.*

Example: A rep resigns amid a customer complaint - the firm's U5 notes it, which future employers will see.

186 Statutory Disqualification

- Key facts:** Certain criminal convictions, injunctions, or regulatory events make a person 'statutorily disqualified' from registration - each requires SEC/FINRA review (an application process) to overcome.
- SIE tip:** *Criminal/financial baggage = statutory disqualification + a review process.*
- Example:** A rep with a recent securities-fraud felony cannot simply re-register - FINRA/SEC must review and approve.

187 Code of Procedure

- Key facts:** FINRA's disciplinary process for member firms and associated persons: complaints, hearings, appeals, sanctions (fines, suspensions, bars). It is FINRA's internal adjudication system.
- SIE tip:** *Code of Procedure = FINRA's courtroom for its own rules.*
- Example:** FINRA files a complaint against a firm over unsuitable annuity sales; the firm answers and gets a hearing.

188 FINRA Arbitration

- Key facts:** A dispute-resolution forum for customer-vs-firm and industry disputes: arbitrators (often three, including a public-chair) hear the case; awards can be enforced in court. Customers sign arbitration agreements at account opening.
- SIE tip:** *Arbitration = binding dispute resolution; many agreements make it mandatory.*
- Example:** A customer who lost money on a bad recommendation submits the dispute to FINRA arbitration per the account agreement.

189 Customer Complaints

- Key facts:** Customers may file complaints with the firm or FINRA. Firms investigate, respond, and report serious complaints; reps' complaint history appears on BrokerCheck.
- SIE tip:** *Complaints = investigated, reported, and visible on BrokerCheck.*
- Example:** A client files a complaint about an unsuitable options trade; the firm investigates and the rep's BrokerCheck updates.

190 Fidelity Bond

- Key facts:** Member firms maintain a fidelity bond (insurance) covering employee theft and fraud - an extra layer protecting customer assets, required by FINRA.
- SIE tip:** *Fidelity bond = insurance against a dishonest employee.*
- Example:** A rogue rep steals client funds; the firm's fidelity bond covers part of the loss.

191 Net Capital Rule (15c3-1)

- Key facts:** The SEC rule setting minimum liquid capital a broker-dealer must maintain - equity capital minus illiquid assets. It ensures firms can meet obligations and return customer money in a wind-down.
- SIE tip:** *Net capital = the firm's liquid cushion, policing its solvency.*
- Example:** A firm's net capital slips below the minimum; it must restrict business or raise capital.

192 Customer Protection Rule (15c3-3)

- Key facts:** The rule requiring firms to segregate customer securities and cash, hold them in reserve, and not use them for firm purposes. It is SIPC's enforcement partner in protecting client assets.
- SIE tip:** *Customer protection = segregate and reserve customer assets.*
- Example:** A firm holds customer cash in a special reserve bank account, unable to touch it for its own operations.

193 Books & Records Rules (17a-3/17a-4)

- Key facts:** Firms must make and keep detailed records (account data, blotters, correspondence, order tickets) and preserve them for defined periods (usually at least 3 years, some for 6), available for inspection.
- SIE tip:** *Books and records = the firm's proof of what happened; keep for years.*
- Example:** Two years after a disputed trade, regulators request the order ticket - the firm produces the retained record.

PART 6: FINAL REVIEW & TEST-DAY STRATEGY

The content-weighted study plan, the 1:24 pace, elimination, and the 48-hour final review.

194 Study in Proportion

Key facts: Products and Their Risks = 44% of the exam (33 items) - study it hardest. Then Trading/Accounts (31%, 23 items), Capital Markets (16%, 12 items), Regulatory (9%, 7 items). Your time should mirror the weights.

SIE tip: *Budget hours by weight: products get ~44% of your study time.*

Example: With 40 study hours, spend ~18 on products, ~12 on trading, ~6 on capital markets, ~4 on regulatory.

195 The 1:24 Pace

Key facts: 75 scored questions in 105 minutes is 84 seconds per item - the same 1:24 as the LSAT. Bank time on easy items to fund the hard ones.

SIE tip: *84 seconds per question on average; answer every item.*

Example: After 25 items in 35 minutes, you hold a cushion for the harder middle of the exam.

196 No Penalty - Answer Everything

Key facts: There is no guessing penalty and no blank-item credit. Eliminate what you can and pick; a guessed answer beats a blank one.

SIE tip: *Never leave an item unanswered - even blind guesses are free.*

Example: On the final screen you have 40 seconds and three unanswered items - you fill them all.

197 The Two-Pass Method

Key facts: Pass 1: answer everything you know instantly. Pass 2: return to the flagged items with fresh eyes, using elimination. Finish with pure guesses on what remains.

SIE tip: *Two passes + a guess sweep = maximum scored answers.*

Example: You blitz 50 items in the first pass, then spend the second pass on 25 flagged questions.

198 Elimination First

Key facts: In four-choice questions, knock out absurd, extreme, and half-wrong answers first. Two viable choices remain more often than you expect - then compare the specifics.

SIE tip: *Eliminate extremes ('always', 'never') and mismatches first.*

Example: An answer says 'guaranteed return' on a variable product - that extreme sweeps it out.

199 The Definition-Driven Approach

Key facts: Most SIE items ask you to identify a term or match a concept. Learn the definitions cold (this guide's key-facts lines) and the questions become recognition tasks.

SIE tip: *Terms are the currency; definitions are the answers.*

Example: The question defines 'an account where the customer must pay in full by settlement' - you recognize cash account.

200 Tag the Content Area

Key facts: For every item, silently tag which content area it tests (products, trading, regulatory...). This focuses recall and flags when you are weak in one area.

SIE tip: *Tagging beats wandering; weak-area patterns reveal themselves.*

Example: You notice half your flagged items are options questions - that is a drill target.

201 Wrong-Answer Autopsy

Key facts: After practice sets, categorize every miss: definition gap, product confusion (e.g., margin vs cash), or misread. Attack your biggest bucket first.

SIE tip: *One autopsy pattern beats a hundred random drills.*

Example: Eight of ten misses are fund/annuity confusions - you re-read Parts 3D and 3E.

202 High-Yield Mnemonics

Key facts: Build personal hooks: 'Calls = right to buy' (both start with B-kind sounds), 'Sell stop below, buy stop above', 'GO = taxes, revenue = tolls',

'7%-13%-20% circuit breakers'.

SIE tip: *Mnemonics convert the definition list into fast recall.*

Example: 'Buy low, sell high' flips for shorts: borrow high, cover low - a mnemonic makes shorting stick.

203 The 48-Hour Rapid Review

Key facts: Two days before: re-read Parts 2-5 term lists, re-drill the definitions, and run one timed 75-item mixed set. No new content in the last 24 hours.

SIE tip: *Last two days = review recognition, not new material.*

Example: You flip the whole guide's key-facts lines once and hit your weakest section once more - done by 6pm the night before.

204 Test-Day Logistics

Key facts: Prometric center or online proctored: bring a government ID, arrive early, leave phones/calculators out (calculators are NOT allowed on the SIE). You get 5 pretest items you cannot identify - give all 80 items full effort.

SIE tip: *ID + early arrival + no calculator; treat every item as scored.*

Example: You check in early, lock your phone away, and settle into the 80 items with your 1:24 rhythm.

205 After the Exam

Key facts: Passing = scaled score report with a content-area breakdown - use it to plan any retake (30/180-day wait) and your Series 7/63 path. The 4-year validity clock starts the day you pass.

SIE tip: *The breakdown tells you what to strengthen, even on a pass.*

Example: You pass with a 74 and see products was your weakest area - that becomes review fodder before the Series exams.

THE TEST-DAY BLUEPRINT

A condensed checklist to review the morning of the SIE.

- 1. Exam: 75 scored questions + 5 unscored pretest items = 80 total; 1 hour 45 minutes; computer-based. Pass = 70 (scaled 0-100). Fee \$100; valid 4 years; no calculators.
- 2. Retakes: 30 days after 1st/2nd fail; 180 days after 3rd and beyond. Anyone 18+ can take it - no firm required.
- 3. Weighting: Capital Markets 16% (12 items) - Products & Risks 44% (33 items) - Trading/Accounts/Prohibited 31% (23 items) - Regulatory 9% (7 items). Study in that proportion.
- 4. Products quick list: common/preferred, dividends/ex-date, splits, rights, warrants, ADRs, REITs, ETFs; bonds (corporate/Treasury/muni/agency/zero/convertible/callable), TIPS, money market; options (calls/puts, premium, ITM/ATM/OTM, breakeven, covered call, protective put, spreads, straddle); mutual funds (NAV, loads, 12b-1, expense ratio, open vs closed, DCA); annuities (variable/fixed/equity-indexed, M&E, surrender, riders); DPPs, structured products, BDCs, MBS/CMOs.
- 5. Trading quick list: market/limit/stop/stop-limit orders, time-in-force (day/GTC/IOC/FOK), short sales, best execution, settlement T+1, margin (Reg T 50%, maintenance 25%), cash vs margin accounts, joint accounts, CIP/KYC, discretionary/POA, UGMA/UTMA, 401(k)/IRA, ACA transfers.
- 6. Prohibited quick list: insider trading/tipping, manipulation (wash, painting the tape), front running, churning, unauthorized trading, misrepresentation, commingling, free-riding, AML (SAR/CTR/OFAC/CIP), communications rules, gift limits, OBA/selling away, supervision.
- 7. Regulatory quick list: SEC, FINRA (SRO), SIPC (\$500K/\$250K cash), registration (U4/U5), statutory disqualification, Code of Procedure, arbitration, complaints, fidelity bond, net capital (15c3-1), customer protection (15c3-3), books & records (17a-3/4).
- 8. Strategy: 1:24 pace, answer every item (no guessing penalty), two-pass method, eliminate extremes, tag each item's content area.
- 9. Before: one timed set, mnemonic review, no new content. Day of: ID, early arrival, no calculator, no phone at the Prometric/online proctored session.
- 10. After: read the content-area breakdown, plan any retake, move toward Series 7/63/65/66 with a firm - and keep this guide as your reference.
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- Remember: this guide is an independent study aid, NOT sponsored, endorsed, or approved by FINRA (the Financial Industry Regulatory Authority) or any regulatory body. The SIE is a FINRA-administered exam; the official SIE Content Outline, registration, and sample questions are available free at finra.org.

Your Road Map to the SIE

SIE Study Guide	\$19	This book - 180 concepts, all 4 content areas
LSAT Logical Reasoning Study Guide	\$19	162 concepts, LR only
U.S. Citizenship Study Guide	\$19	192 concepts, civics + English
HSPT Study Guide	\$15	182 concepts, all 5 subtests
SAT Study Guide	\$19	190 concepts, digital SAT structure
ACT Study Guide	\$19	192 concepts, all score areas
ASVAB Study Guide	\$29	200 concepts, all 9 subtests
GED Study Guide	\$19	178 concepts, all 4 subject tests

All study guides include key facts, tips & examples

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