Achievable

FINRA / NASAA SERIES 6 / 7 / 65 / 66 DUMP SHEET

Suitability

Best practice

- Diversification
  - Allocating capital among multiple asset classes and securities
  - Reduces non-systematic risk
- Rule of 100
  - Determines appropriate asset allocation based only on age
  - 100 minus age = % in stock
- Strategic asset allocation
  - Long-term asset allocation goal
  - Rebalance portfolio periodically
- Tactical asset allocation
  - Deviating away from long-term goal for short-term opportunity
- Passive management
  - Investing in a pre-determined large portfolio ("the market")
  - Lower expenses than active management
- Active management
  - Investing in chosen securities within a large portfolio
  - Higher expenses than passive management

Portfolio analysis — calculation

- Total return
  - Measures overall rate of return on a security or portfolio
- Total return formula
  - Total return = All gains and/or losses ÷ Original cost
- After-tax return
  - Total return with taxes factored out
- Capital asset pricing model (CAPM)
  - Financial model for determining the expected return
  - Only considers systematic risk
- Expected return calculation
  - ER = RF + (Beta × (MR − RF))

Portfolio analysis — markets

- S&P 500 index
  - Tracks 500 large-cap stocks
  - Cap-weighted index
- S&P 100
  - Tracks 100 large-cap stocks (a subset of the S&P 500)
  - Cap-weighted index
- S&P 400
  - Tracks 400 mid-cap stocks
  - Cap-weighted index
- Dow Jones Composite
  - Tracks 65 prominent stocks
  - Composite of DJIA, DJTA, and DJUA
  - Price-weighted index
- Dow Jones Industrial Average (DJIA)
  - Tracks 30 prominent stocks (various industries)
  - Price-weighted index
- Dow Jones Transportation Average (DJTA)
  - Tracks 20 prominent transportation stocks
  - Price-weighted index
- Dow Jones Utilities Average (DJUA)
  - Tracks 15 prominent utilities stocks
  - Price-weighted index
- Russell 2000
  - Tracks 2,000 small-cap stocks
  - Cap-weighted index
- NASDAQ Composite
  - Tracks all stocks on the NASDAQ exchange
  - Cap-weighted index
- NASDAQ 100
  - Tracks 100 largest non-financial stocks on the NASDAQ exchange
  - Cap-weighted index
- Wilshire 5000
  - Tracks all actively traded stocks in the U.S.
  - Considered the broadest index
  - Cap-weighted index
- EAFE index
  - Tracks stocks in Europe, Australasia, and Far East
  - Cap-weighted index

Portfolio analysis — Modern portfolio theory

- Modern protocols and best practices related to investing
- Goal: to attain the highest return potential with the smallest risk exposure
- Overall risk/return profile of the portfolio is the most important
- Risk/return profile of individual securities not significant
- Diversification necessary to reduce risk
- Add negatively correlated securities to the portfolio to diversify