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

Product characteristics and BRTI

Achievable
https://achievable.me

Common stock
- Equity security representing ownership
- **Benefits**
  - Capital appreciation / growth
  - Dividends (only paid by some issuers)
- **Systemic risks**
  - Market risk
  - Inflation risk (short term only_
- **Non-systematic risks**
  - Business risk
  - Financial risk
  - Legislative risk
  - Regulatory risk
  - Political risk (foreign only)
  - Liquidity risk
- **Typical investor**
  - Young, more aggressive
  - Seeks capital appreciation
  - May seek dividend income from value stocks
- Growth stocks
  - Growing companies
  - May be minimally or unprofitable
  - Low or no dividend payouts, high P/E ratios
- Value (undervalued stocks)
  - Large, well-established companies
  - Typically pay dividends
  - High dividend payout ratios, low P/E ratios

Preferred stock
- Equity security representing ownership
- Pays fixed dividend rate based on par value (usually $100)
- Potential features:
  - Cumulative vs. straight - skipper dividends
  - Callable - may be bought back by issuer
  - Convertible - into common stock of same issuer
  - Participating - extra dividends if company performs
- **Benefits**
  - Dividend income
  - Lower tax rates on income
- **Systematic risks**
  - Interest rate risk
  - Inflation risk
  - Reinvestment risk
- **Non-systematic risks**
  - Business or financial risk (threatens dividend payments)
  - Liquidity risk

Debt securities
- Represent debt obligations of issuers
- Pays fixed interest rate based on pay value ($1,000)
- Potential features:
  - Callable - may be bought back by issuer
    - Call premium = amount above par to be paid if called
    - Call protection = amount of time before callable
  - Convertible - into common stock of same issuer
  - Zero coupon - sold at discount, matures at par

Debt securities (continued)
- **Benefits**
  - Interest income
  - Capital appreciation if convertible
  - Variety of choices in the market
- **Systematic risks**
  - Interest rate risk (long maturity and low coupon)
  - Inflation risk (long maturity)
  - Reinvestment risk (except zero coupon)
- **Non-systematic risks**
  - Default (credit) risk
    - Investment grade = BBB or above
    - Speculative (junk) = BB or below
  - Liquidity risk
  - Legislative risk
  - Regulatory risk
  - Political risk (foreign only)
- **Typical investor**
  - Older, more conservative (unless junk bond)
  - Seeks income, especially in retirement

Corporate debt securities
- Commercial paper - short term (270 days or fewer), zero coupon
- Debenture - long term, unsecured bond
- Mortgage bond - secured by real estate or property
- Collateral trust cert - secured by securities or subsidiary

US government securities
- Treasury bill - 1 year or less, zero coupon
- Treasury note - 2-10 years, pays semi-annual interest
- Treasury bond - up to 30 years, pays semi-annual interest
- STRIPS - long term (up to 30 years), zero coupon
- TIPS - long term, pays semi-annual interest
  - Par value adjusts to inflation rate every 6 months
  - Greater of original or adjusted par paid at maturity

Municipal securities
- General obligation bonds
  - Non-self supporting debt
  - Funds public parks, schools, roads, etc.
  - Backed by property (ad valorem) taxes
  - Subject to debt limits and voter approval
- Revenue bonds
  - Self-supporting debt
  - Funds toll roads, stadiums, airports, etc.
  - Backed by user charges
  - Not subject to debt limits or voter approval
- Not subject to taxes if purchased by resident
  - Most suitable for high tax brackets
  - Not suitable for low tax brackets or retirement plans

Investment companies
- Classifications
  - Management companies (open and closed-end)
  - Unit investment trusts (UITs)
  - Face amount certificates
- Offer pooled investment opportunities
- Most suitable for investors seeking:
  - Instant diversification
  - Professional management (except fixed UITs)

Open-end management companies (mutual funds)
- Redeemable pooled portfolios of managed securities
- Active management
  - Attempting to "beat the market"
  - Intends to beat benchmark (e.g. S&P 500)
  - Higher expense ratios
- Passive management
  - Attempts to "match the market"
  - Intends to provide returns of benchmark, lower expense ratios
- Offered to investors at POP if front-end sales charge exists
- Offered to investors at NAV if no-load (no sales charge)
  - NAV is minimum price
- NAV influenced by:
  - Value of securities in portfolio
  - Distributions to investors (dividends or capital gains)
- NAV not influenced by demand for mutual fund shares
- May not be sold short or bought on margin

Close-end management companies (publicly traded funds)
- Negotiable pooled portfolios of managed securities
- NAV reports "book value" of shares
- Shares traded in market at the going market price
  - May be purchased above, below, or at NAV
- May be sold short or bought on margin

Exchange traded funds (ETFs)
- Structured as open-end management companies
- Typically are passively managed (match index)
- May be sold short or bought on margin
- Leveraged & inverse ETFs
  - Leveraged = track index at 2x or 3x rate
  - Inverse = tracks opposite index returns
  - Only suitable for aggressive and risk-tolerant investors

Types of funds
- Growth funds
  - Invest in growth common stocks, seek growth
- Value funds
  - Invest in value common stocks, seek growth and income
- Balanced funds
  - Invest in common & preferred stocks + bonds
  - Seek growth and income
- Growth & income funds
  - Invest in common & preferred stocks (equity only)
  - Seek growth and income
- Income funds
  - Invest in various securities seeking income
  - Types:
    - Equity income funds
    - Corporate debt funds
    - Government debt funds
    - Municipal debt funds
    - High yield (junk) bond funds
    - GNMA/FNMA/FGLMC funds
    - Money market funds - $1.00 NAV at all times
- Asset allocation funds - seek fixed or variable asset allocation mix
- Life cycle funds - adjusts risk tolerance over time
- Sector/specialized funds - invests in specific sectors or regions of world
- Index funds - track a specified index