

# SECURITIES INDUSTRY ESSENTIALS SIE EXAM COMPLETE STUDY GUIDE

Master Every Topic · Pass with Confidence · 2024 Edition

*Covers all 4 exam domains | 75 Questions | 105-Minute Exam  
Passing Score: 70% | FINRA Administered*

[@allstuguide.com](https://www.allstuguide.com)

# TABLE OF CONTENTS

*Your Roadmap to SIE Success*

| # | Section   | Page |
|---|---|------|
| 1 | Exam Overview & Structure                                     | 3    |
| 2 | Domain 1 — Knowledge of Capital Markets                       | 5    |
| 3 | Domain 2 — Understanding Products & Their Risks               | 7    |
| 4 | Domain 3 — Trading, Customer Accounts & Prohibited Activities | 11   |
| 5 | Domain 4 — Overview of Regulatory Framework                   | 14   |
| 6 | Key Formulas & Quick Reference                                | 16   |
| 7 | Practice Questions & Answer Explanations                      | 17   |
| 8 | Exam Day Strategy & Study Plan                                | 19   |

# CHAPTER 1

## *Exam Overview & Structure*

### What Is the SIE Exam?

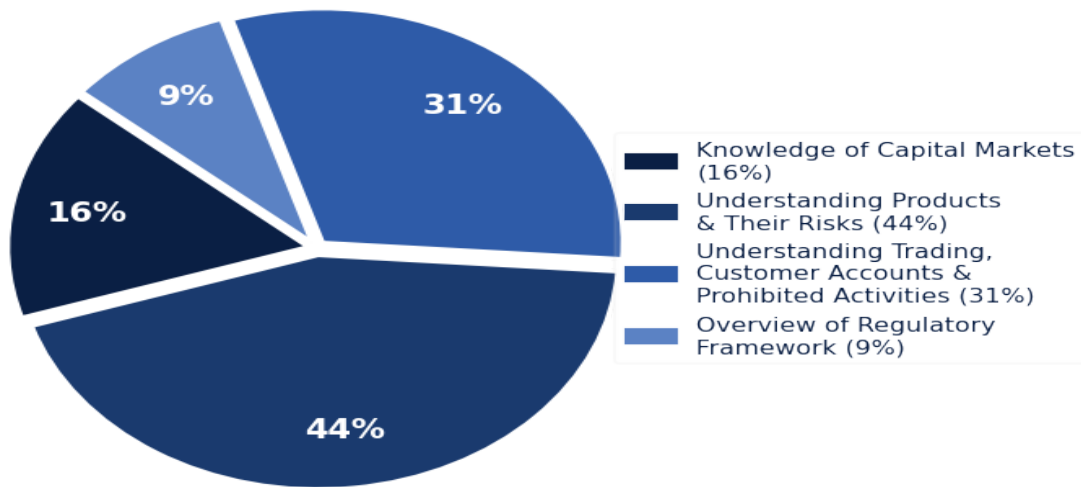
The **Securities Industry Essentials (SIE) Exam** is a FINRA-administered qualification examination that assesses a candidate's basic knowledge of the securities industry. Unlike other licensing exams, the SIE is open to anyone 18 years or older — you do not need to be associated with a FINRA member firm to sit for the exam. Passing the SIE is a prerequisite for most representative-level qualification exams such as the Series 6, Series 7, and others.

### Quick Facts at a Glance

| Item                       | Detail   |
|----------------------------|--|
| <b>Administered By</b>     | FINRA (Financial Industry Regulatory Authority)                            |
| <b>Number of Questions</b> | 75 (scored) + 10 (unscored/pretest)  |
| <b>Time Allowed</b>        | 1 hour 45 minutes (105 minutes)  |
| <b>Passing Score</b>       | 70% (53 out of 75 scored questions)  |
| <b>Exam Fee</b>            | \$80 USD   |
| <b>Eligibility</b>         | Anyone 18 years or older — no firm association required                    |
| <b>Score Validity</b>      | 4 years from the date of passing   |
| <b>Retake Policy</b>       | Must wait 30 days after each failed attempt; unlimited attempts            |
| <b>Delivery Method</b>     | Computer-based testing at a FINRA-approved test center or online           |
| <b>Co-requisite</b>        | Must also pass a representative-level exam (Series 6, 7, etc.) to register |

### Exam Content Breakdown

## SIE Exam — Content Weighting



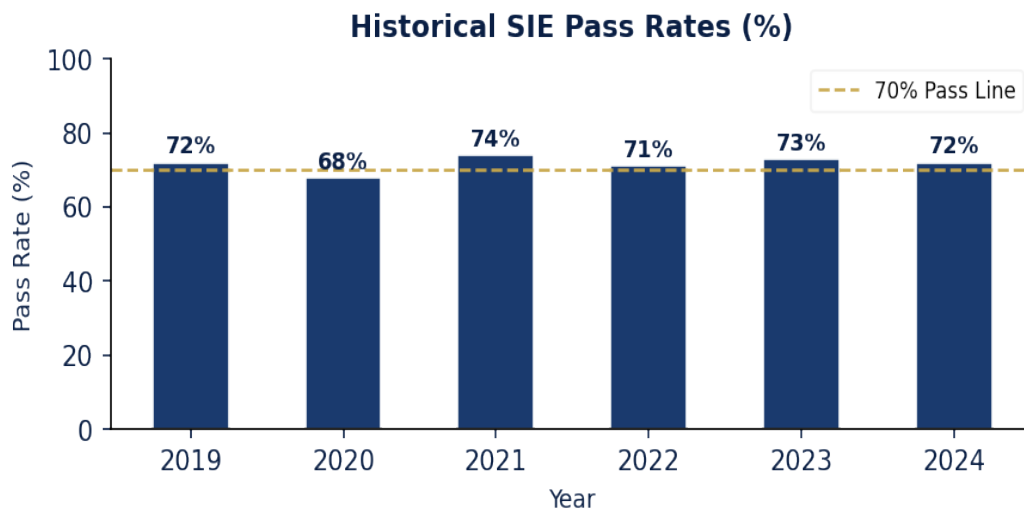
The pie chart above illustrates the percentage of questions dedicated to each of the four exam domains.

| Domain   | Topic Area   | Weight | Approx. Questions |
|----------|--|--------|-------------------|
| Domain 1 | Knowledge of Capital Markets                       | 16%    | ~12 questions     |
| Domain 2 | Understanding Products & Their Risks               | 44%    | ~33 questions     |
| Domain 3 | Trading, Customer Accounts & Prohibited Activities | 31%    | ~23 questions     |
| Domain 4 | Overview of Regulatory Framework                   | 9%     | ~7 questions      |

### EXAM TIP

Domain 2 carries nearly HALF the exam. Prioritize equity securities, debt securities, packaged products, and options before anything else. Use the remaining study time for Domain 3, then Domains 1 and 4.

## Historical Pass Rates



*Historical first-time pass rates hover around 70–74%, meaning consistent preparation significantly improves your chances.*

@allstuguide.com

# CHAPTER 2

## Domain 1 — Knowledge of Capital Markets (16%)

### 2.1 The Role of Financial Markets

Financial markets facilitate the flow of capital between savers and borrowers, enabling businesses to raise funds and investors to deploy capital. They are broadly classified into **primary markets** (where new securities are issued) and **secondary markets** (where existing securities are traded).

| Market Type      | Description   | Example                   |
|------------------|---|---------------------------|
| Primary Market   | Issuer sells new securities directly to investors; company receives proceeds                | IPO, seasoned offering    |
| Secondary Market | Investors trade previously issued securities among themselves; company receives no proceeds | NYSE, NASDAQ trading      |
| Money Market     | Short-term debt instruments (maturity $\leq 1$ year)  | T-Bills, Commercial Paper |
| Capital Market   | Long-term securities with maturity $> 1$ year   | Stocks, Bonds, Mortgages  |

### 2.2 Market Participants

- **Broker-Dealers:** Firms registered with FINRA that execute securities transactions for customers (broker) or for their own accounts (dealer/principal).
- **Investment Advisers:** Registered professionals who provide advice on securities investments, regulated under the Investment Advisers Act of 1940.
- **Issuers:** Companies, governments, or other entities that sell securities to raise capital.
- **Investors:** Retail (individual) and institutional (funds, pension plans, banks) buyers of securities.
- **Underwriters:** Investment banks that help issuers bring new securities to market, assuming pricing and distribution risk.
- **Market Makers:** Dealers who continuously quote bid and ask prices, providing liquidity in a specific security.

### 2.3 Types of Offerings

| Offering Type                  | Description  | Key Feature                              |
|--------------------------------|--|--|
| Initial Public Offering (IPO)  | First time a company sells stock to the public                   | Prospectus required; SEC registration    |
| Follow-on / Secondary Offering | Additional shares sold after IPO                                 | Dilutes existing shareholders            |
| Private Placement (Reg D)      | Securities sold to accredited investors without SEC registration | Not publicly traded; illiquid            |
| Rights Offering                | Existing shareholders offered new shares at a discount           | Maintains proportional ownership         |
| Shelf Registration             | Issuer registers securities in advance to sell over time         | Flexibility; used when conditions favour |

## 2.4 Economic Factors & Market Indicators

| Key Term                  | Definition  |
|---------------------------|---|
| <b>GDP</b>                | Gross Domestic Product — total value of all goods and services produced in a country; key measure of economic health.           |
| <b>Inflation</b>          | Rate at which the general price level of goods/services rises, eroding purchasing power. Measured by CPI and PPI.               |
| <b>Interest Rates</b>     | Federal Reserve sets the federal funds rate; rising rates generally depress bond prices and can slow equity markets.            |
| <b>Business Cycle</b>     | Expansion → Peak → Contraction (Recession) → Trough → Recovery. Securities react differently at each phase.                     |
| <b>Leading Indicators</b> | Predict future economic activity (e.g., housing starts, stock prices, new orders for capital goods).                            |
| <b>Lagging Indicators</b> | Confirm trends after the fact (e.g., unemployment rate, CPI, bank loans outstanding).   |
| <b>Monetary Policy</b>    | Federal Reserve actions — buying/selling securities, adjusting reserve requirements and discount rate — to manage money supply. |
| <b>Fiscal Policy</b>      | Government spending and tax policy used to influence economic activity; enacted by Congress.                                    |

### ■ EXAM TIP

Know the difference between monetary policy (Fed) vs fiscal policy (Congress/Treasury). The Fed targets inflation and employment; Congress uses the budget. This distinction appears frequently on the SIE.

# CHAPTER 3

*Domain 2 — Understanding Products & Their Risks (44%)*

This is the most heavily weighted domain — nearly half the exam. Master every product type, its characteristics, risks, and suitability considerations.

## 3.1 Equity Securities

### Common Stock

- Represents ownership in a corporation; shareholders have **residual claim** on assets after debt holders.
- Rights: voting rights (one share = one vote typically), right to dividends (not guaranteed), preemptive rights.
- Dividends paid from retained earnings; declared by the board of directors.
- Key dates: Declaration Date → Ex-Dividend Date → Record Date → Payment Date.

### Preferred Stock

| Feature              | Common Stock             | Preferred Stock                             |
|----------------------|--------------------------|---|
| Dividends            | Variable, not guaranteed | Fixed, must be paid before common           |
| Voting Rights        | Yes (typically)          | Usually none                                |
| Liquidation Priority | Last (residual claim)    | Before common, after debt                   |
| Price Sensitivity    | Growth-oriented          | Interest rate sensitive (like bonds)        |
| Conversion           | Not convertible          | Convertible preferred may convert to common |
| Callable             | Not typically callable   | May be callable by issuer                   |

## 3.2 Debt Securities (Bonds)

A bond is a **debt obligation** issued by corporations, governments, or municipalities. The issuer borrows money from investors, promising to pay periodic interest (**coupon**) and return the **principal (face/par value)** at maturity.

| Key Term                       | Definition   |
|--------------------------------|--|
| <b>Par Value</b>               | Face value of the bond — typically \$1,000. Amount repaid at maturity.   |
| <b>Coupon Rate</b>             | Annual interest rate stated on the bond. Annual interest = Coupon Rate × Par Value.                                      |
| <b>Current Yield</b>           | Annual coupon ÷ Current market price. Reflects actual income relative to price paid.                                     |
| <b>Yield to Maturity (YTM)</b> | Total return if bond held to maturity; accounts for price difference from par, coupon payments, and time value of money. |
| <b>Premium Bond</b>            | Trades ABOVE par; coupon rate > current market rates. YTM < Coupon Rate.   |
| <b>Discount Bond</b>           | Trades BELOW par; coupon rate < current market rates. YTM > Coupon Rate.   |

|                       |  |
|-----------------------|--|
| <b>Duration</b>       | Measure of a bond's sensitivity to interest rate changes. Longer duration = greater price volatility.            |
| <b>Call Provision</b> | Issuer's right to redeem bonds before maturity — typically at a premium. Reinvestment risk for investor.         |
| <b>Put Provision</b>  | Holder's right to sell bond back to issuer before maturity at par. Protects investor in rising rate environment. |

| Bond Type                | Issuer                                     | Tax Treatment                          | Risk Level                             |
|--------------------------|--|--|--|
| Treasury Bills (T-Bills) | U.S. Federal Gov't                         | Federal taxable; state/local exempt    | Lowest — backed by full faith          |
| Treasury Notes/Bonds     | U.S. Federal Gov't                         | Federal taxable; state/local exempt    | Very Low                               |
| TIPS                     | U.S. Federal Gov't                         | Federal taxable; state/local exempt    | Low — inflation protection             |
| Municipal Bonds          | State/Local Gov't                          | Federal tax exempt; often state exempt | Low-Medium                             |
| Investment-Grade Corp.   | Corporations (BBB- or higher)              | Fully taxable                          | Medium                                 |
| High-Yield (Junk) Corp.  | Corporations (BB+ or below)                | Fully taxable                          | High — greater default risk            |
| Agency Bonds             | Gov't-sponsored entities (Fannie, Freddie) | Federal taxable; state/local exempt    | Very Low                               |
| Zero-Coupon Bonds        | Various                                    | Taxable on phantom income              | Interest rate risk — no coupon cushion |

#### ■ EXAM TIP

Interest rates and bond prices move in OPPOSITE directions. If rates rise, bond prices fall. This inverse relationship is fundamental — expect multiple questions on it.

## 3.3 Packaged Products

### Mutual Funds

- **Open-End Funds:** Continuously issue and redeem shares at NAV. Priced once daily after market close.
- **Closed-End Funds:** Fixed number of shares issued in IPO; traded on exchange at premium or discount to NAV.
- **NAV Calculation:**  $(\text{Total Assets} - \text{Liabilities}) \div \text{Outstanding Shares}$
- **Sales Loads:** Front-end load (charged at purchase, Class A), back-end/CDSC (Class B), level load (Class C — 12b-1 fee).

### ETFs (Exchange-Traded Funds)

- Trade on exchanges throughout the day like stocks — unlike mutual funds priced once daily.
- Generally lower expense ratios than actively managed mutual funds.
- Can be bought on margin and sold short.

### Variable Annuities & Variable Life Insurance

- Insurance products with a securities component; held in a **separate account** from the insurance company's general account.
- Variable annuities accumulate tax-deferred; withdrawals taxed as ordinary income.
- **Surrender charges** apply if withdrawn early. 10% IRS penalty if before age 59½.

- Must be sold with a prospectus; require both a securities license AND an insurance license.

### 3.4 Options

Options are **derivative contracts** giving the buyer the **right, but not the obligation**, to buy (call) or sell (put) an underlying asset at a specified **strike price** on or before a set **expiration date**. Each standard equity options contract covers **100 shares**.

| Position   | Rights / Obligation          | Maximum Gain                 | Maximum Loss     | Bullish/Bearish |
|------------|------------------------------|------------------------------|------------------|-----------------|
| Long Call  | Right to BUY at strike       | Unlimited (stock rises)      | Premium paid     | Bullish         |
| Short Call | Obligation to SELL at strike | Premium received             | Unlimited        | Bearish/Neutral |
| Long Put   | Right to SELL at strike      | Strike – Premium (stock → 0) | Premium paid     | Bearish         |
| Short Put  | Obligation to BUY at strike  | Premium received             | Strike – Premium | Bullish/Neutral |

| Key Term                      | Definition   |
|-------------------------------|--|
| <b>In-the-Money (ITM)</b>     | Call: stock price > strike. Put: stock price < strike. Has intrinsic value.                |
| <b>At-the-Money (ATM)</b>     | Stock price = strike price. No intrinsic value; entirely time value.                       |
| <b>Out-of-the-Money (OTM)</b> | Call: stock price < strike. Put: stock price > strike. No intrinsic value.                 |
| <b>Intrinsic Value</b>        | Amount option is in-the-money. For a call: $\max(0, \text{Stock Price} - \text{Strike})$ . |
| <b>Time Value (Extrinsic)</b> | Option premium – intrinsic value. Decreases as expiration approaches (theta decay).        |
| <b>Break-Even (Long Call)</b> | Strike Price + Premium paid.   |
| <b>Break-Even (Long Put)</b>  | Strike Price – Premium paid.   |

#### ■ EXAM TIP

Remember: option buyers pay the premium; option writers/sellers RECEIVE the premium. The writer's max gain is always the premium received.

### 3.5 Risk Types — Comprehensive Summary

| Key Term                   | Definition   |
|----------------------------|--|
| <b>Market Risk</b>         | Risk of loss due to overall market decline. Also called systematic risk; cannot be diversified away. |
| <b>Credit/Default Risk</b> | Risk that issuer fails to make interest or principal payments. Rated by Moody's, S&P, Fitch.         |
| <b>Interest Rate Risk</b>  | Risk that rising rates decrease value of fixed-income securities. Longer maturity = higher risk.     |
| <b>Reinvestment Risk</b>   | Risk that coupon payments are reinvested at lower rates (especially with callable bonds).            |
| <b>Inflation Risk</b>      | Purchasing power risk — returns may not keep pace with inflation. Most relevant for fixed income.    |
| <b>Liquidity Risk</b>      | Risk of inability to sell a security quickly at a fair price. Greater for thinly traded securities.  |
| <b>Concentration Risk</b>  | Risk from holding too much exposure in a single security, sector, or asset class.                    |

|                                   |   |
|-----------------------------------|---|
| <b>Currency Risk</b>              | Risk of loss from exchange rate fluctuations for foreign investments.                         |
| <b>Political/Legislative Risk</b> | Risk that government actions (new laws, regulations, sanctions) adversely affect investments. |
| <b>Call Risk</b>                  | Risk that issuer calls bond when interest rates fall, forcing reinvestment at lower rates.    |

@allstuguide.com

# CHAPTER 4

*Domain 3 — Trading, Customer Accounts & Prohibited Activities (31%)*

## 4.1 Order Types

| Order Type                | Description  | Key Feature / Risk   |
|---------------------------|--|--|
| Market Order              | Buy/sell immediately at best available price               | Execution guaranteed; price not guaranteed                     |
| Limit Order               | Buy at or below / sell at or above specified price         | Price guaranteed; execution not guaranteed                     |
| Stop Order                | Becomes market order when stop price is reached            | Used to limit losses or protect gains; gaps can cause slippage |
| Stop-Limit Order          | Becomes limit order when stop price is triggered           | Controls entry/exit price but may not execute                  |
| Trailing Stop             | Stop price moves with security price by set amount/percent | Locks in gains; adjusts automatically                          |
| Day Order                 | Valid only for the current trading day                     | Cancelled if not filled by day's end                           |
| Good-Till-Cancelled (GTC) | Remains open until filled or cancelled (typically 60 days) | Must be monitored; forgotten orders can trigger unexpectedly   |

## 4.2 Account Types

| Account Type            | Description  | Key Rules   |
|-------------------------|--|---|
| Cash Account            | Securities paid for in full; no borrowing              | Settlement required; no margin buying   |
| Margin Account          | Borrow from broker-dealer to purchase securities       | Reg T: initial margin 50%; maintenance margin $\geq 25\%$ ; FINRA minimum \$2,000 |
| Custodial (UGMA/UTMA)   | Adult manages assets for minor; irrevocable gift       | Minor takes control at age of majority (18 or 21 depending on state)              |
| Joint Account (JTWROS)  | Two or more owners; right of survivorship              | Survivor inherits full account upon co-owner's death                              |
| Joint Tenants in Common | Two or more owners; proportional share                 | Each owner's share passes to their estate, not co-owners                          |
| Discretionary Account   | Broker given authority to trade without prior approval | Requires written discretionary authority; subject to supervision                  |
| Retirement Accounts     | IRA, Roth IRA, 401(k), 403(b)                          | Tax advantages; contribution limits; early withdrawal penalties                   |

## 4.3 Retirement Account Comparison

| Feature | Traditional IRA | Roth IRA | 401(k) |
|---------|-----------------|----------|--------|
|---------|-----------------|----------|--------|

|                               |   |                                       |                                      |
|-------------------------------|---|---------------------------------------|--------------------------------------|
| 2024 Contribution Limit       | \$7,000 (\$8,000 if 50+)                    | \$7,000 (\$8,000 if 50+)              | \$23,000 (\$30,500 if 50+)           |
| Tax Treatment (Contributions) | Pre-tax (may be deductible)                 | After-tax (no deduction)              | Pre-tax (employer plan)              |
| Tax Treatment (Withdrawals)   | Taxable as ordinary income                  | Tax-free (if qualified)               | Taxable as ordinary income           |
| Required Min. Distributions   | Yes — starting age 73                       | No RMDs during owner's life           | Yes — starting age 73                |
| Income Limits                 | None to contribute;<br>deductibility limits | Yes — phases out at higher<br>incomes | None (employer plan)                 |
| Early Withdrawal Penalty      | 10% before age 59½ + taxes                  | 10% on earnings before 59½            | 10% before 59½ (exceptions<br>apply) |

## 4.4 Prohibited & Unethical Practices

| Key Term                    | Definition  |
|-----------------------------|---|
| <b>Insider Trading</b>      | Trading on material, non-public information. A federal crime under the Securities Exchange Act of 1934. Both tipper and tippee can be liable. |
| <b>Front Running</b>        | Broker executes own/firm trades ahead of a large customer order they know will move the market. Prohibited.                                   |
| <b>Churning</b>             | Excessive trading in a customer's account to generate commissions without regard to the customer's interests.                                 |
| <b>Unauthorized Trading</b> | Executing trades in a customer's account without prior authorization or discretionary authority.  |
| <b>Selling Away</b>         | Registered rep sells securities outside the scope of their firm without firm approval. Violates FINRA rules.                                  |
| <b>Painting the Tape</b>    | Series of transactions to create artificial appearance of activity in a security. Form of market manipulation.                                |
| <b>Spoofing</b>             | Placing then cancelling large orders to create false impression of demand/supply. Illegal market manipulation.                                |
| <b>Pump and Dump</b>        | Artificially inflate a security's price through false statements, then sell at the high. Illegal.   |
| <b>Ponzi Scheme</b>         | Returns to early investors paid with money from new investors; no actual investment returns generated. Fraud.                                 |
| <b>Commingling</b>          | Improperly mixing customer funds with firm or personal funds. Prohibited; customer funds must be segregated.                                  |

### ■ EXAM TIP

Insider trading requires: (1) material information, (2) non-public information, and (3) trading based on that information. "Material" = would a reasonable investor consider it important in making a decision?

# CHAPTER 5

## Domain 4 — Overview of Regulatory Framework (9%)

### 5.1 Key Legislation

| Act / Law                                 | Year      | Key Provisions  |
|---|-----------|---|
| Securities Act of 1933                    | 1933      | Regulates new issues (primary market); requires registration and prospectus for public offerings; anti-fraud provisions.              |
| Securities Exchange Act of 1934           | 1934      | Regulates secondary market; created the SEC; governs broker-dealers, exchanges, insider trading rules.                                |
| Investment Company Act of 1940            | 1940      | Regulates investment companies (mutual funds, closed-end funds, ETFs); defines registered investment company types.                   |
| Investment Advisers Act of 1940           | 1940      | Requires investment advisers with \$110M+ AUM to register with SEC; fiduciary duty standards.   |
| Securities Investor Protection Act (SIPA) | 1970      | Created SIPC — protects customers if broker-dealer fails; covers up to \$500K (\$250K cash).  |
| Bank Secrecy Act / USA PATRIOT Act        | 1970/2001 | Anti-money laundering (AML) requirements; firms must file SARs (Suspicious Activity Reports) and CTRs (Currency Transaction Reports). |
| Dodd-Frank Wall Street Reform Act         | 2010      | Comprehensive financial reform post-2008 crisis; created CFPB; enhanced systemic risk oversight; Volcker Rule.                        |

### 5.2 Regulatory Bodies

| Regulator                                    | Type                      | Jurisdiction   |
|--|---------------------------|--|
| SEC (Securities and Exchange Commission)     | Federal Gov't Agency      | Oversees all securities markets; enforces federal securities laws; regulates broker-dealers, investment advisers, exchanges. |
| FINRA  | Self-Regulatory Org (SRO) | Regulates broker-dealers and registered representatives; administers licensing exams; enforces conduct rules.                |
| MSRB (Municipal Securities Rulemaking Board) | SRO                       | Sets rules for municipal securities dealers and advisers; does NOT enforce rules (enforcement by SEC/FINRA).                 |
| CBOE (Chicago Board Options Exchange)        | Exchange / SRO            | Primary options exchange; sets rules for options trading.  |
| Federal Reserve (Fed)                        | Federal Gov't Agency      | Monetary policy; regulates bank holding companies; sets Reg T margin requirements.   |
| State Regulators                             | State Agencies            | Enforce Blue Sky Laws; regulate investment advisers with <\$100M AUM; state-level broker-dealer registration.                |

### 5.3 SIPC vs FDIC Coverage

| Feature                  | SIPC   | FDIC   |
|--------------------------|--|--|
| Protects Against         | Broker-dealer failure/insolvency               | Bank failure/insolvency                                |
| Does NOT Protect Against | Investment losses from market decline, fraud   | Investment losses                                      |
| Coverage Limit           | \$500,000 per customer (max \$250,000 cash)    | \$250,000 per depositor, per institution, per category |
| Covers                   | Stocks, bonds, mutual funds, cash in brokerage | Checking, savings, CDs, money market deposit accounts  |
| Created By               | Securities Investor Protection Act (1970)      | Banking Act of 1933                                    |

■ **EXAM TIP**

SIPC does NOT protect against bad investment decisions or market losses — only against the broker-dealer going out of business. This distinction is a common exam trap.

# CHAPTER 6

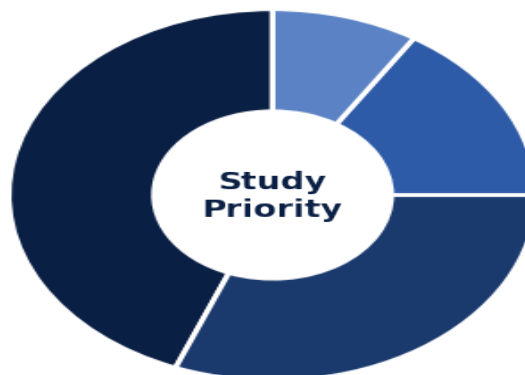
## Key Formulas & Quick Reference

### Essential Formulas

| Formula                   | Calculation   |
|---------------------------|---|
| Net Asset Value (NAV)     | $(\text{Total Assets} - \text{Liabilities}) \div \text{Outstanding Shares}$                           |
| Current Yield (Bond)      | $\text{Annual Coupon} \div \text{Current Market Price}$   |
| Taxable Equivalent Yield  | $\text{Tax-Exempt Yield} \div (1 - \text{Tax Rate})$  |
| Dividend Yield (Stock)    | $\text{Annual Dividend} \div \text{Current Stock Price}$  |
| P/E Ratio                 | $\text{Market Price per Share} \div \text{Earnings per Share (EPS)}$                                  |
| Earnings per Share (EPS)  | $(\text{Net Income} - \text{Preferred Dividends}) \div \text{Weighted Avg. Common Shares}$            |
| Break-Even (Long Call)    | $\text{Strike Price} + \text{Premium Paid}$   |
| Break-Even (Long Put)     | $\text{Strike Price} - \text{Premium Paid}$   |
| Margin Call Trigger Price | $\text{Purchase Price} \times (1 - \text{Initial Margin \%}) \div (1 - \text{Maintenance Margin \%})$ |
| Operating Margin          | $\text{Operating Income} \div \text{Revenue} \times 100\%$  |

### Recommended Study Allocation

#### Recommended Study Time Allocation



*Distribute your study hours proportionally to exam domain weighting, with extra emphasis on Domain 2.*

@allstuguide.com

# CHAPTER 7

## Practice Questions & Answer Explanations

**Question 1: Which of the following BEST describes the primary market?**

- A. Investors trade existing securities among themselves on stock exchanges.
- B. The issuer sells newly created securities directly to investors.
- C. Securities are bought and sold between broker-dealers.
- D. Derivative contracts are priced based on underlying asset values.

✓ **Correct Answer: B**

*Explanation: The primary market is where issuers sell NEW securities to raise capital. The company (or government) receives the proceeds. The secondary market (choice A) is where investors trade previously issued securities — the issuing company receives no proceeds from secondary trading.*

**Question 2: A bond with a 5% coupon is trading at \$1,100 in the market. What is its approximate current yield?**

- A. 5.00%
- B. 4.55%
- C. 5.50%
- D. 4.00%

✓ **Correct Answer: B**

*Explanation: Current Yield = Annual Coupon ÷ Market Price = \$50 ÷ \$1,100 = 4.55%. Note: annual coupon = 5% × \$1,000 par = \$50. Since the bond trades at a premium (above par), the current yield is BELOW the coupon rate.*

**Question 3: A customer buys 1 XYZ Nov 50 Call @ \$3. What is the customer's maximum loss?**

- A. \$5,000
- B. Unlimited
- C. \$300
- D. \$4,700

✓ **Correct Answer: C**

*Explanation: When buying an option, the maximum loss is limited to the premium paid. Premium = \$3 per share × 100 shares = \$300. The customer's maximum gain is unlimited (stock could rise indefinitely). Break-even = \$50 + \$3 = \$53.*

**Question 4: Which regulatory body administers the SIE examination and oversees broker-dealers?**

- A. SEC (Securities and Exchange Commission)
- B. MSRB (Municipal Securities Rulemaking Board)
- C. FINRA (Financial Industry Regulatory Authority)
- D. Federal Reserve Board

**✓ Correct Answer: C**

*Explanation: FINRA is the Self-Regulatory Organization (SRO) that administers licensing examinations including the SIE, Series 6, Series 7, etc. The SEC is the federal government agency with broader oversight, but FINRA directly regulates broker-dealers and registered representatives on a day-to-day basis.*

**Question 5: SIPC protects customers of member broker-dealers against which of the following?**

- A. Losses resulting from poor investment advice
- B. Market losses when stock prices decline
- C. Loss of securities and cash if the broker-dealer becomes insolvent
- D. Losses from insider trading violations

**✓ Correct Answer: C**

*Explanation: SIPC (Securities Investor Protection Corporation) protects customers ONLY if the broker-dealer fails/goes bankrupt — up to \$500,000 per customer (\$250,000 maximum for cash). SIPC does NOT protect against investment losses, fraud, or bad advice. This is a very common exam question.*

**Question 6: A registered representative executes trades in a customer's account without the customer's knowledge or a discretionary agreement. This practice is known as:**

- A. Churning
- B. Front Running
- C. Unauthorized Trading
- D. Selling Away

**✓ Correct Answer: C**

*Explanation: Unauthorized trading occurs when a rep executes transactions without prior customer approval and without a written discretionary authority agreement. This is prohibited under FINRA rules. Churning (A) involves excessive trading. Front running (B) involves trading ahead of a customer's pending order. Selling away (D) involves selling unapproved securities outside the firm.*

# CHAPTER 8

## Exam Day Strategy & Study Plan

### 8.1 Recommended 6-Week Study Plan

| Week   | Focus Area  | Daily Target  | Goal   |
|--------|---|---------------|--|
| Week 1 | Domain 1 — Capital Markets; Exam Format Familiarisation | 1–1.5 hrs     | Understand market structure, participants, economic indicators     |
| Week 2 | Domain 2 — Equities & Debt Securities                   | 1.5–2 hrs     | Master stocks, bonds, yield calculations, risk types               |
| Week 3 | Domain 2 — Packaged Products, Options & Derivatives     | 1.5–2 hrs     | Options strategies, mutual fund structures, annuities              |
| Week 4 | Domain 3 — Trading, Order Types, Account Types          | 1.5 hrs       | Order execution, margin rules, account types, prohibited practices |
| Week 5 | Domain 4 — Regulations, Laws, Regulatory Bodies         | 1 hr + review | Key legislation, FINRA/SEC roles, SIPC/FDIC                        |
| Week 6 | Full-Length Practice Exams + Weak Area Review           | 2+ hrs        | Achieve consistent 75%+ on practice exams before sitting           |

### 8.2 High-Yield Study Tips

- **Use Active Recall:** After each section, close the guide and write down everything you remember. This is proven to be more effective than passive re-reading.
- **Prioritise Domain 2:** Spend ~44% of your study time on products and risks. This domain alone determines whether you pass or fail.
- **Learn the Inverse Rule:** Bond prices and interest rates move in OPPOSITE directions. Memorise this and its implications for duration, yield to maturity, and premium/discount bonds.
- **Practice Questions Daily:** Complete at least 25–50 questions per study session. Read every explanation — both for questions you got wrong AND right.
- **Use Mnemonics:** For the order types (Market → best price; Limit → guaranteed price; Stop → triggers on price); for bond types (higher coupon = trades at premium).
- **Understand, Don't Memorise:** The SIE tests conceptual understanding. If you truly understand WHY a bond trades at a discount or premium, you can answer any variation of the question.

### 8.3 Exam Day Checklist

- Arrive at the testing centre 30 minutes early with valid government-issued photo ID
- No electronic devices, notes, or study materials are permitted in the testing room
- You will receive scratch paper and a calculator — use them
- Budget approximately 1.4 minutes per question (105 min ÷ 75 questions)
- Answer every question — there is NO penalty for guessing
- Flag and return to difficult questions; don't spend more than 2 minutes on any single question
- Trust your first instinct — unless you remember a clear reason to change your answer

- Results displayed immediately on-screen at the end of the exam

## 8.4 Mental Framework for Multiple Choice

| Strategy               | How to Apply   |
|------------------------|--|
| Eliminate First        | Immediately eliminate 1–2 clearly wrong answers. This narrows your choice and improves odds.                         |
| Watch for Absolutes    | Words like "always," "never," "all," "none" are often incorrect. Securities rules have exceptions.                   |
| Keyword Spotting       | Underline key words: "EXCEPT," "LEAST," "primary market," "secondary market," "SRO." These change the answer.        |
| Process of Elimination | If two answers seem similar, the correct one usually has the specific detail. Broader answers are often distractors. |
| Regulatory vs Market   | Distinguish between what FINRA/SEC rules say vs what market practice is. The exam tests rules, not practice.         |

### ■ You've Got This!

The SIE exam is achievable with consistent, focused preparation. Candidates who complete 500+ practice questions and study for 40–80 hours report high confidence on exam day. Use this guide as your foundation, stay consistent, and approach exam day with a clear mind.

**Good luck from the team at @allstuguide.com**