

JeffTharp
SECURITIES LICENSING



The Securities Guys

The

SIZE

Workbook

By Brian Kolins and Jeff Tharp

For Primerica Reps Only!

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@TheSecuritiesGuys

Information and to sign up for our Private Study Group
\$25/mo

Includes additional Pictures, Animations,
1 replay of the SIE, and 1 replay of the S6,
and access to our Private chat for questions and discussion!

www.TSG.mx/PrivateGroup

The simple, not easy, Securities Licensing Plan For the SIE

Begin with the end in mind

How do I know that I know without a doubt, that I'm ready to take and pass the SIE?

- Score an 80% on the Kaplan Practice exam (you have 5 attempts)
- Or score 75% on the Kaplan Mastery exam (you have 5 attempts)
- Or score 75% on the FINRA Practice exam online (1st attempt only!)

Everything you study is to get you to 1 of those scores then test and pass within 3 days

The Plan

Complete the Kaplan study plan within 2 to 3 weeks (use the custom schedule on Kaplan to stay on track)

Don't concern yourself with the content not sticking or trying to memorize all the information,

You are learning a new language it takes time. Just get through the study plan!!!!

Anytime you get confused call Jeff or Brian! That's part of what you paid for with our classes!

Now that you have completed the Kaplan study plan, take a simulated mock exam on Kaplan (not the Practice or Mastery, the mock exam is in the Qbank)

Then go to performance tracker on Kaplan to view your results by section by percentage

This is where the magic of learning happens

10 Question Quiz System (10QQS)

Go to create a custom quiz on Kaplan, starting with your weakest section set up a 10-question quiz and “show explanation”, where you get an immediate answer and explanation.

scores on these quizzes don't matter!!!

Follow these next steps exactly as given BE COACHABLE!!

Start your quiz (make sure to have paper and pen out to take notes)

- **Step 1** Identify every word or phrase in the question and answer choices that you do not fully understand
- **Step 2** Write down all the words or phrases in the question you don't fully understand (before you even attempt to answer the question) (Extremely Important!). Then make your best answer, read the explanation, and right or wrong, write down all the words or phrases in the explanation you don't fully understand.
the quiz is complete (Remember, Scores Don't Matter Here!)
- **Step 3** The purpose of the 10 question quizzes is to Identify what you don't understand and Physically write down and
- **Step 4** Look it up in one of 3 ways; The Kaplan glossary or Kaplan index, your Securities Guy's study material from class, or my favorite, the internet.
Now we are using Our Booklet from class and the Kaplan book as a reference (we don't need to read cover to cover anymore) only going to areas of weakest to get stronger.
- **Step 5** Repeat the 10-question quiz system (10QQS) [Steps 1-4]
Do three 10QQS for each section
- **Step 6** take the Kaplan Practice exam (This score matters) and Report this score to Jeff or Brian(call or Text)
- **Step 7** Repeat 10QQS on weak areas
- **Step 8** Take the Kaplan Mastery and Report results to Jeff or Brian
- **Step 9** Once you hit an 80% on the practice exam or 75% on Mastery exam, Let Jeff or Brian know!

Schedule your exam within 3 days !

TEST, PASS, then ON TO THE SERIES 6!!

At any point in this process, call or text Jeff or Brian! We are here to help and you paid for it!

Jeff's Cell (210) 325-6302

Brian's Cell (610) 348-1966

This is our material

- This is not based on any other companies material.
- FINRA outline, but my organization;
 - Investments/Securities
 - Laws
 - People
 - Economics/Math

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Ask Questions!

Raise your hand, and I will try and call on your as soon as possible.

IT WILL NOT BOTHER ME!!

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The SIE exam

- Preliminary Exam
- Does not allow the sale of any product
- Required before a Top-Off exam that will allow the sale of products.
- 75 questions + 10 test questions
- 1 hour 45 minutes to complete exam
- 70% to Pass

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The 3 ways I answer questions in class

- Answers are:
 - "I don't know"
 - See at the break
 - Here is your answer

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Types of Test Questions

- Easy, I got it!
 - Answer it, MOVE ON
- Um, hmm, I can make an educated guess!
 - Make your best guess, mark it for review, AND MOVE ON
- What language is this written in?
 - Pick consistent answer, (Brian says B is the best letter) you have to guess, then mark it, and MOVE ON!

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Chapter 1: Laws

All about the laws in the industry

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Securities Act of 1933

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The Securities Act of 1933

- "The Paper Act"
- Regulates the Primary market, New Issues.
- After registration, cooling off period of 20 days, no solicitation, only indications of interest
 - *No SARS (Selling, Advertising, Recommending, or Soliciting)*

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Issuer

- The organization that actually is issuing the securities
- *IBM is the Issuer of IBM bonds*
- *Microsoft is the Issuer of Microsoft Stock*
- *US Gov't is the Issuer of US Gov't securities*

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Underwriters

- Investment Banks who bring securities to market. Work by Contracts;
- Best Efforts (Like Broker, Issuer most risk)
 - The underwriter tries to sell all the shares, whatever it doesn't sell gets returned to issuer.
- All or Nothing
 - The underwriter either is able to sell all of the securities issued, or the issue is canceled.
- Mini-Max
 - Only effective if a minimum is sold. If min not sold, issue canceled and returned. If min is sold than underwriter tries to sell the rest, up to the maximum.
- Standby
 - The underwriting commitment used in rights offerings.
- Firm Commitment (Like Dealer, Underwriter most risk)
 - Underwriters buy all securities from issuer, and then sell it themselves. They have all risk

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Offering Documents (Cont...)

- (Stocks) Red Herring (Preliminary Prospectus)
 - Solicitation for interest in upcoming IPO
 - Cannot purchase stock yet
 - No SARS (Soliciting, Advertising, Recommending, or Selling)

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Offering Documents

- (Stocks) Tombstone
 - Advertises an upcoming IPO, or a recent IPO.
 - Not considered a prospectus
 - Disclosure must be included at the bottom of Tombstone
 - No SARS (Soliciting, Advertising, Recommending, or Selling) unless a final prospectus has been released.

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Offering Documents (Cont...)

- (Stocks) Final Prospectus
 - Anything a reasonable shareholder needs to know before they invest must be included in the prospectus
 - A current prospectus must be delivered prior to or during the sale
 - Do not ever make any marks at all. Don't do it, don't do it, don't do it. There are no exceptions.
 - For NYSE listed stocks, the Prospectus must be delivered for a period of 25 days after the IPO for trading on secondary markets.

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PROSPECTUS 421,233,615 Shares **facebook** CLASS A COMMON STOCK

Facebook, Inc. is offering 421,233,615 shares of its Class A common stock and the selling proceeds are being used to finance the offering of Class A common stock. For more information, see the table of shares to be sold in the offering. This is a non-registered offering and no public resale restrictions apply to the shares of Class A common stock.

We have two classes of common stock, Class A common stock and Class B common stock. The rights of the holder of Class A common stock and Class B common stock are described in the prospectus and certain rights are described in the notes to the financial statements. The rights of the holder of Class A common stock are described in the prospectus and certain rights are described in the notes to the financial statements. The rights of the holder of Class B common stock are described in the prospectus and certain rights are described in the notes to the financial statements.

The Class A common stock has been approved for listing on the NYSE Global Select Market under the symbol FB.

For more information, see the prospectus and the offering memorandum. The offering memorandum and the prospectus are available at www.facebook.com/ipo.

Investing in our Class A common stock involves risks. See "Risk Factors" beginning on page 12.

PROSPECTUS TABLE			
Class	Shares	Price	Total
Class A	421,233,615	\$12.00	\$5,054,803,380
Class B	1,000,000,000	\$12.00	\$12,000,000,000
Total	1,421,233,615		\$17,054,803,380

For more information, see the prospectus and the offering memorandum. The offering memorandum and the prospectus are available at www.facebook.com/ipo.

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Offering Documents (Cont...)

•(Mutual Funds) Omitting Prospectus Rule 482

- Omits key information and disclosures. General advertising for mutual funds. Sort of tombstone.

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Offering Documents (Cont...)

•(Mutual Funds) Summary Prospectus Rule 498

- Provides information from final prospectus investors need in plain English
- Can include application if it explains where to get statutory prospectus
- Includes; Investment objectives/goals, Fee and expense tables, Principal investment strategies risks and performance tables, Management information, Purchase and sale information, Tax information, and Financial intermediary compensation information

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Offering Documents (Cont...)

•(Mutual Funds) Statutory Prospectus

- Long form, traditional prospectus. The Mutual Fund's "Final Prospectus"
- Current prospectus must be updated at least annually
- Information can't be more than 16 months old.
- The fund's current portfolio is not included in the prospectus

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Statement of Additional Information

- SAI must be attached to the prospectus to keep it current (*for NEW investor*)
- SAI does not extend the life of a prospectus
- If requested by current shareholder, must be delivered within 3 days

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Public vs. private securities offering

- Public offerings** are offered to the public. Generally larger amount of capital from large number of investors.
- Private offerings** are released for sale only to accredited investors such as investment banks, pensions, and mutual funds, along with some high net worth individuals. Generally smaller amount of capital from limited number of investors

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Initial public offering (IPO), secondary offering and follow-on offering

- Initial Public Offering** – The first time a company sells its common stock to the public.
- Follow-on Public Offer (FPO) or Subsequent Public Offering** – Any time after the first time that a company sells its common stock, as a new issue, to the public. Rights to Maintain Proportional ownership for existing common stock holders.
- Secondary Offering** – A large block sale of a previously issued security. The blocks are held by large investors or institutions and proceeds go to them, not the issuing company.

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Shelf Registrations and Distributions

- Public offering where certain issuers are allowed to offer and sell securities without separate prospectus for each act of offering and without further prospectus.
- Basically, they could register 50M shares, \$500M in bonds, \$750M convertible bonds, 75M Warrants all in one document, then as needed offer and sell any, all, or even none of them until needed. Before each offering and sale the company must file a short statement regarding any material changes since the shelf registration prospectus was filed.
- Good for 3 years (exchange listed), 2 years (non-exchange)

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Exempt Offerings

- Regulation D
 - Sold to no more than 35 non-accredited investors
 - Accredited investor - Any individual that has a net worth of at least 1 million dollars or has earned at least \$200,000 (\$300k m/j) for the past 2 years and expects it to continue. ("1-2-3")
 - "Letter stock"

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Securities Exchange Act of 1934

- Laws about the People and Trading Securities in the Secondary Markets

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Settlement time frames for various products

• **Trade Date (T)**– The recorded date of the transaction, when the price is agreed and set, and both parties become responsible to fulfil the transaction.

- Corporate & municipal securities (T+2)
- Equity Options (T+1)
- Government Securities (T+1)
- Cash Trades (Mutual Funds) same day

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The SEC (Securities Exchange Commission)

- The SEC is the chief regulator and enforcer of Federal securities laws
- The SEC has a three-part mission:
 - To protect investors
 - Maintain fair, orderly, and efficient markets
 - Facilitate capital formation.
- 5-member board, with 5-year terms, 1 up every year. No more than 3 can be from same political party

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SRO (Self-Regulatory Organization)

- Under the SEC
- Self-Oversight to protect investors

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Financial Industry Regulatory Authority (FINRA)

- Regulator of securities firms doing business in the US.
 - Most important regulator for us.
 - Sets licensing requirements
 - Sets test requirements
 - Set renewal requirements, etc.

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FINRA continued

- Securities licenses expire **Dec 31** every year, unless renewed (fee)
- Continuing Education
 - Firm Element - Taken at office each year, in a verified watched format
 - Regulatory Element - Must be completed within 120 calendar days of the 2nd registration anniversary, then every 3rd year after that. At home test.

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Chicago Board of Options Exchange (CBOE)

- Large exchange offering trading across diverse range of products including options and many others.

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Municipal Securities Rulemaking Board (MSRB)

- Protects investors, all municipal entities, and the public interest by promoting a fair and efficient municipal securities market.
 - Regulates securities firms, banks, and advisers in the municipal securities and advisory markets.
- Generally Rule Making, enforcement is left to FINRA for BDs, or FRB for Banks, etc.
- Customer complaints are for **6 years**.

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Primary Market (covered by SA33)

- The marketplace where the money goes to the issuer of the security.
- All Primary Market sales require a Prospectus.
- **Initial Public Offering (IPO)** – The first time a company issues securities.
- **Subsequent/Additional Public Offering (SPO/APO)** – Any issuance of security outside an IPO.
- Requires a physical location, an exchange.
 - NYSE, Chicago Mercantile Exchange, etc

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Secondary Market (covered by SEA34)

- Trading of Issued Securities
- Exchange Market
- Auction style
- Physical Location (NYSE)
- Highest Bidder (Best Price)

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Third Market (covered by SEA34)

- Over the counter (OTC) market.
- Internet sales, trading without centralized location.
- Any security that can trade on an exchange (second market), can also trade OTC (third market)

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Fourth Market

- Instinet or Electronic Communication Networks (ECNs).
- Large institutional company trades.
- They arrange between themselves who wants to buy and sell.
- Hard to move 100,000 shares on the lower markets.*

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Investment Company Act of 1940

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Investment Company Act of 1940

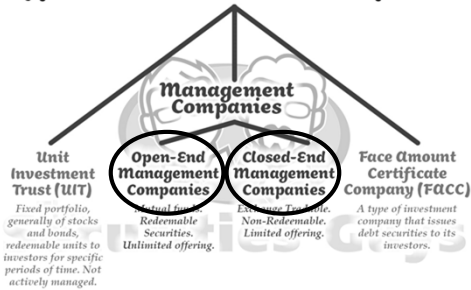
- Regulates the rules around Investment Companies;
 - Unit Investment Trusts, and
 - Face Amount Certificate Companies
 - Management Companies
 - Open-End Management Companies
 - Closed-End Management Companies

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Types of Investment Companies



*If it is not listed above it is NOT an Investment Company.
Primarily be concerned with Open-End and Closed-End Management Companies.*

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Unit Investment Trust

- A redeemable, fixed portfolio of securities, that is unmanaged, and has a definite life span
- No board of Directors, but has a board of managers or trustees.
- Securities in its portfolio will not be sold or increased except in very limited situations.

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Random Laws

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Other Regulators and Agencies

- Department of the Treasury
 - Regulates and supervises all national banks and federal savings associations in the US.
 - Goal to ensure these operate in a safe and sound manner and follow all consumer protection and AML laws and regulations.

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FinCEN (Financial Crimes Enforcement Network)

- Bureau of the Dept of the Treasury, collects and analyses information about financial transactions to combat domestic and international money laundering, terrorist financing, and other financial crimes.

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Anti-Money Laundering

Just file

No **special** filing, just keep documentation
Cash over \$3,000

SAR
Suspicious Activity Report
Weird transactions involving \$5,000+

CTR
Currency Transaction Report
Cash over \$10,000 in a single day

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Anti-Money Laundering (AML)

- Definition of money laundering
 - The act of trying to conceal transactions to make “dirty” money into “clean” money. It can be hard to buy cars and houses with drug money for example.
- Stages of money laundering
 - Placement
 - The part of putting money into the market
 - Structuring – Method of placement breaking down cash into smaller deposits
 - Layering
 - Moving money around to try and hide it
 - Integration
 - The money is cleaned and can be used to purchase legitimate things

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AML compliance program

- Every member firm must develop and implement a written AML program
- Financial crime enforcement network (FinCEN) enforces AML
- **Customer Identification Program (CIP)** – the part of a new account application where the RR must verify the identity of the customer by seeing and documenting a non-expired Government issued picture ID (driver license, military ID, or passport)

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OFAC and SDNs

- **Office of Foreign Asset Control (OFAC)**
 - Financial intelligence and enforcement agency of US Treasury
 - Publishes the list of people and organizations that US people can't do business with do to potential international issues.
- **Specially Designated Nationals and Blocked Persons' (SDNs)**
 - A list of persons, organizations, and vessels with whom US citizens and permanent residents are prohibited from doing business with. Published by OFAC.

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Regulatory filing requirements

- **Form 8-k** – Event driven.
 - Sale of large asset, Mgmt change, Change in name, Bankruptcy, Disgruntled BOD resignation
 - Relocation of subsidiary not trigger
 - Filed w/14 days of event
- **Form 10-k** – Annual audited financial report. Must use independent accountant
- **Form 10-Q** – Quarterly financial report
- **Annual Report** – Sent to stockholders, may use 10-k

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State Registrations (Blue-Sky)

- **Notice Filing*** – Large nationally traded issues. (*not technically state registration*)
- **Coordination** – Midsize, multi-state issues.
- **Qualification** – Small, All others, single state issues.

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**State Securities Registrations
(Blue Sky Laws)**

Notice Filing*
Nationally traded company, all 50 states.
All Mutual Funds, anything on national exchange.
**Not technically registration, they are exempt, it is "Giving Notice" of upcoming offering.*

Coordination
Simultaneous Registration with SEC and a limited number of states
Mid Size, Multi-State issues.

Qualification
Any issue "can" be registered by Qualification.
Used by Small Size, Single State issues.
No other way works.

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Books and Record Requirements

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Record Retention

3-Years
Most Things
Trade confirmations, U-4, U-5, Fingerprint cards, Communications with the public, Order tickets, and the Firm's Compliance and Procedure Manual.

4-Years
Customer Complaints

5-Years
Verification "stuff" (Money and People)
FinCEN documents and Customer Identification Documents

6-Years
Seriously Important Documents
Blotters, General Ledgers, Customer Ledgers, Stock Records, and Customer Account Records

Lifetime
"Birth Certificate"-type documents
Partnership Agreements, Corporate Charter, Board Minutes

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Holding customer mail

- When written instructions are provided, mail can be held for up to **3 months**.
- There must be an emergency contact though, can't just disappear.

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Prohibited Activities

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Market Manipulation

- Deliberate attempt to interfere with the free and fair operation of any market. Somehow, somehow, purposefully increasing or decreasing the value of a security.

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Churning

- Agent doing transactions purely for commissions
- Depends on client's objectives and goals, if it is churning, not just number
- **Switching**
 - Churning in mutual funds

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Marking the Close/Open

- **Marking the Close**
 - Buying/Selling a security at very end of trading day at higher/lower price than actual current market price to artificially raise/lower the closing price to make it appear higher valued.
- **Marking the Open**
 - Placing buy/sell orders at a slightly higher/lower price, to drive up or suppress the price of securities when the market just opened.

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Front Running

- Someone who knows a large order is going to be processed and puts an order in before, specifically to benefit from the change in price when the larger order executes.
- Agent is "**running in front**" of the large order

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Rumors

- Spreading false gossip about a security for personal benefit.
- Generally connected with **Pump and Dump** schemes.

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Pump and Dump

- Buying a large amount of a cheap stock, artificially increasing the price of the stock, and when it is higher sell all you have at a profit.
- *Buy 10 million shares of a stock for \$0.02, cost of \$200k. Spread rumors, get people to buy it, stock goes up to \$0.05 on the news, sell your stock for a cool \$500k, so \$300k profit. Then stock plummets as it isn't worth anything.*

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Insider Trading Act of 1988

- **Definition:** Using material nonpublic information to make a gain in a security, or to prevent a loss.
- It is illegal in all cases to use in anyway.
- **Insider Trading Liability**
 - Any person who purchases or sells securities while in possession of material nonpublic information, or communicates such information to another person is in violation.
 - Both Tipper and the Tippee are guilty.

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Penalties

- **Civil Penalties** – Not to exceed the greater of \$1M (now indexed) or 3 times the profit gained or loss avoided (treble damages)
- **Criminal Penalties** – Up to 20 years in prison
- **Cotemporaneous Traders** – Individual, natural traders, trading at the same time, as the opposite side of a trade with insider information used. Those traders may sue the inside trader for what they lost, nothing more (including legal, interest, etc).

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Backing Away

- Failure of a Market Maker to honor their quoted bid and ask prices.

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Freeriding/Withholding

- A practice where an underwriter does not make a legitimate public offering of a hot issue, but instead holds back shares for its own use
- The underwriter is “**withholding**” shares.

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Selling Dividends

- Trying to convince a client to buy a security just to receive an upcoming dividend.
- Selling the stock BECAUSE of dividends

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Breakpoint Sale

- Selling an investment just below a breakpoint.
- Must always notify clients of breakpoints.
- Can't recommend borrowing beyond their means, but Letters Of Intent could be suggested

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Fraud

- No member shall effect any transaction in, or induce the purchase or sale of, any security by means of any manipulative, deceptive or other fraudulent device or contrivance.

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Borrowing/Lending to Clients

- You cannot borrow from clients who are not in the lending/borrowing business, except;
 - Immediate Family, Outside long-term friends (best friend since childhood who become a client a couple years ago), outside business partners requiring lending between you, and other reps registered with the same member firm
- **Be careful of confusing HOUSE rules with FINRA rules.**

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Unethical Practices

- Guarantees
 - Registered Reps cannot, in any way, guarantee a profit to the customer
- Sharing in customer accounts
 - Registered Reps can't share in clients accounts, unless there is a written procedure in place and they share in direct proportion to the amounts contributed by all parties.
 - Except in the case of accounts being shared with immediate family.

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Financial exploitation of seniors and other persons

- Permit members to place temporary holds on disbursements of funds or securities from the accounts of **specified customers** where there is a reasonable belief of financial exploitation of these customers (65+ or mental issue, 18yo+)
- Require members to make reasonable efforts to obtain the name of and contact information for a **trusted contact person** for a customer's account.

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Activities of unregistered persons

- Prohibition against paying commissions to unregistered person
 - Must be natural person, can't receive commission income through separate entity.
- Unregistered persons can't solicitate customers or take orders

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Falsifying or Withholding Documents

- Signatures of convenience
 - Blank forms/dates with signatures to allow easy filling and filing.
 - Very unethical and not allowed.
- Respond to regulatory requests Promptly

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Chapter 2: Securities

All about the types of Securities in the market.

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Basics of Securities

- What is a Security, and who are Broker Dealers

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What is a Security (Howey Decision)

- Investment of Money
- In a Pooled Interest
- With an Expectation of Profit
- Managed by a Third Party

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In business Broker/Dealers can take either side, but in any given transaction they can only act EITHER as a Broker OR a Dealer, never both.

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Liquidation Order

Wages

Taxes

Secured Bonds

General Creditors

Debentures

Subordinated Debentures

Preferred Stock

Common Stock



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Limited Liability

• **Limited Liability** is the idea that your liability is limited to your investment. You can only lose at most what you put in.

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Equity (Common and Preferred)

- Ownership in a company
- More risky than debt of the same issuer
- Many types of equity

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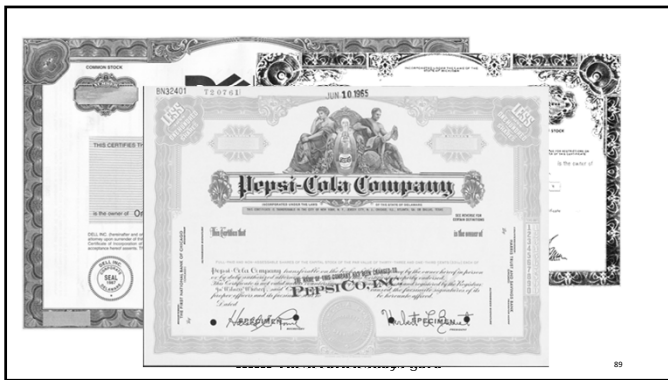
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Common Stock

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Common Stock

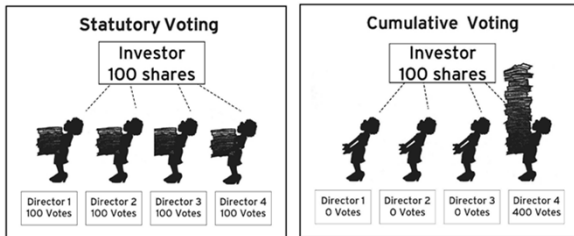
- Primarily capital appreciation, purchased for **GROWTH**
- Round Lots (100)
- Potential dividends
- Lowest liquidation claims in bankruptcy, LL
- Preemptive Rights
- Voting rights **Common Stock is purchased for Capital Appreciation/Growth**

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Voting

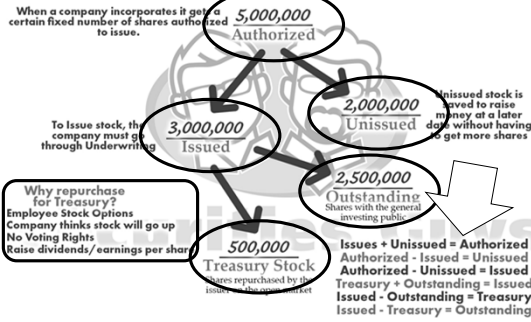


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How Shares Get Issued



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Preferred Stock

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Preferred stock

- Purchased for **INCOME**
- Stated interest rate on certificate, representing annual income as a percentage of par.
- Par Value is \$100
- Higher liquidation claims in bankruptcy than common stock
- No voting
- No proportional ownership rights (no preemptive rights)
- Can be Cumulative, Participating, Convertible, or Callable

Preferred Stock is purchased for Current Income

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Attachments;

- **Straight Preferred:** Nothing other than stated rate if BOD declares dividend.
- **Convertible:** Investor can convert the security into common shares. **Lower stated return than straight.** $\$100 / (\text{Conversion Factor}) = (\text{Number of Shares})$. *(discussed more later)*
- **Participating:** If BOD declares larger dividend, this preferred gets larger dividend. **Lower stated return than straight**
- **Cumulative:** If dividends missed, all missed dividends must be paid to cumulative preferred owners before anyone else gets new dividend. **Lower stated return than straight.**
- **Callable:** Issuer can force investor to sell the security to them. **Higher stated return than straight.**

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Features of Bonds/Preferred Stock

Regular/Straight

Nothing special, normal coupon/interest

Convertible (Bonds/PS)

Allows the owner of the Fixed Income security to convert to Common Stock for direct Capital Appreciation Potential

Lower Coupon/Interest

Callable (Bonds/PS)

Allows issuer to force investor to sell the security back to issuer, usually at premium, and stops all future interest payments.

Higher Coupon/Interest

Cumulative (PS-Only)

If any annual dividend payment is missed, all missed dividends must be paid to Cumulative Preferred Stockholders first.

Lower Coupon/Interest

Participating (PS-Only)

If Board of Directors declares a larger than expected dividend, Participating Preferred Stockholders will get a larger dividend.

Lower Coupon/Interest

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Bonds/Debt

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Bonds/Debt

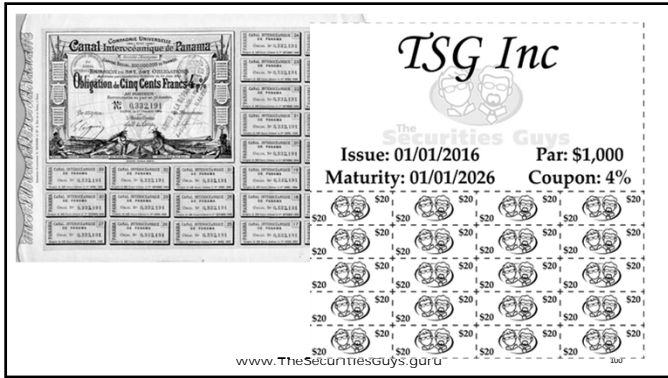
- Bought for **INCOME**
- Instead of owning the company, you are a debtor of the company; you lent them money and they are paying you interest and eventually the principal.
- Could be Callable or Convertible (discussed later)

Bonds are purchased for Current Income

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Needed Definitions

- **Par Value**
 - Face amount, amount paid on maturity, for bonds is \$1,000. (\$100 for preferred stock)
- **Coupon**
 - Stated interest rate, or nominal yield printed on the Certificate
 - Interest paid every six months (semiannually).
 - Annual income is the coupon times par, or coupon percentage times \$1,000.
 - Simply: Take percentage and multiply by 10. That is dollars.
- **Maturity**
 - The date when interest payments stop. Stated at issue of the bond. On maturity date, last interest payment and \$1,000 is paid.
 - Also known as Redemption.

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Yields **Bond Teeter Totter**

YTC = Yield To Call (Only on Premium Bonds)
 CY = Current Yield
 NY = Nominal Yield/Coupon
 YTM = Yield To Maturity

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Yields Continued...

- Current Yield is $(\text{Annual Income}) \div (\text{Cost to Purchase})$. The annual income is the coupon times 1000.
- “Maximizing Current Yield” and “Maximizing Income” means the same thing; *If a client wants to maximize income, look for investment with highest current yield*

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Bond Quotations

- Given as percentage of Par.
- Be careful with decimals (colons);

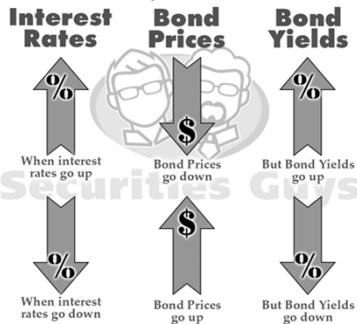
If you See:	What it Means:
XX.08 or XX:08	XX.25
XX.16 or XX:16	XX.50
XX.24 or XX:24	XX.75

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Interest Rates, Prices, and Yields



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Direct Government Debt

The safest security in the world.
Low Risk=Low Return

These are Marketable/Negotiable securities. These trade on exchanges, and can be bought and sold by anyone to anyone.
Minimum Denomination for all is \$1,000
Maximum is \$5,000,000

	Maturities	Price	Interest
Treasury Bills	4-13-26-52 Weeks (1-3-6-12) Months	Sold At Discount	Zero Coupon Pays at Maturity
Treasury Notes	2-10 Years	Sold at Par	Pays Interest Semi-Annually
Treasury Bonds	10-30 Years	Sold at Par	Pays Interest Semi-Annually

BNB
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Short | | Long

EE-Bonds
Non-Negotiable, these do not trade on markets, only redeemable by the US Government
Issued at 50% face/par value. Minimum \$50 face.



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Treasury STRIPS

- Separately Trading of Registered Interest and Principal Securities
- Breaks apart a Treasury (Note or Bond) into separate interest payments and then final Principal
- STRIPS issued by Gov't, Receipts by BDs/Banks
- Zero Coupon Bonds



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Agency Securities

- GNMA
 - Monthly Income
 - Backed by full faith and credit of US Government
- Other agencies are not backed by full faith and credit and have semi-annual instead of monthly income

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Zero Coupon Bonds (Zeroes)

- Pay no interest. They have “Zero Coupons” or “0% Coupon rate”.
- Bought at steep discount, matures at par, difference is the income
- Taxable each year as phantom income
- Duration = Maturity
- Ex. Traditional US Gov’t EE Savings Bonds, buy for \$25, matures at \$50. STRIPS

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Municipal Bonds

- Issued by municipalities (Cities, States, Counties, Etc)
- **General Obligation**
 - Backed by taxing authority (schools/police/city council/etc)
- **Revenue Bonds**
 - Backed by specific revenue stream (tolls/sewage/stadiums)
- Income is **Federally tax exempt**, and if from same state generally state and local exempt as well.
- Generally, for **high income (high tax bracket) individuals**, or any question involving **Tax Bracket**.

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Corporate Bonds

- Issued by corporations
- Credit Ratings (Investment vs Junk)
- Stated interest on the certificate, paid semi-annually

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Attachments

- **Callable**
 - The issuer can force the investor to sell the bond back before maturity, thus ending the expected interest payments.
 - Allows issuer to pay off debt early, and refinance to lower interest rate.
 - Can't be called for at least 5 years (Call Protection)
 - Higher than normal coupons.
- **Convertible**
 - Investor can convert the bonds into common stock. (Number of Shares) = $(\$1,000) / (\text{Conversion Price})$.
 - Lower than normal coupons.

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Secured Bonds

- These are bonds backed by Collateral, something the person loaning the money will get, if the issuer doesn't pay them back. The difference between the Secured Bonds, is what the collateral is.

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Mortgage Bonds

- Most common type of Secured Bond
- Backed by real Property that the issuer owns



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Equipment Trust Certificate

- Backed by specific piece of equipment
- Example: Airplanes or Railroad cars
- Not backed by issuer



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Collateral Trust Certificate

- Issued by corporations that own subsidiaries companies
- Stock of the subsidiary company pledged as collateral for their bond issue
- Example: Pepsi ... Yum! Brands

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Debenture

- Debenture is simply a debt that is backed by the full faith and credit of the issuer.
- If the question doesn't specify, the bond is likely a debenture.
- Only time really tested is liquidation order.

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Municipal and Corporate Equivalence

- Municipal lower than Corporate at equivalence
- If they were the same rate, would you rather get \$100 a year tax free? Or \$100 a year you have to pay money on?
- Clearly then the tax free would cost more... but they both will cost the same \$1000 at issue.
- Therefore, since the \$1,000 par doesn't change, the Rate on the Muni must be lower (or the corporate has to be higher)

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Money Markets

- Cash Equivalents
- **Short term debt:** Maturity less than 270 days.
- All Treasuries maturing within 1 year
- Commercial Paper, Banker's Acceptances, Jumbo CDs (>\$100k, negotiable), Repo/Reverse Repo

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Derivatives

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Derivatives (List, more to come)

- Rights
- Warrants
- Puts
- Calls

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Rights

- Max 60 days.
- Issued with purchase price below current market value.
- Preexisting shareholders given first right to buy new issue, they can sell them.

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Generic Company
Issuer
Right to buy common stock
XX/YY/20ZZ
Issue Date
This certificate expires 30 days from issue
The owner of this certificate is entitled to purchased 100 Shares of Generic Company Common Stock at a price of \$95 for each of 100 shares before expiration.

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Warrants

- Long term; 3-5 years or perpetual (forever)
- Issued with purchase price above current market value.
- Generally attached as sweetener to bond or other security issue.

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Options

- Contract for 100 shares
- Between 2 parties; Buyers and Writers
 - **Owners/Buyer/Long**
 - Right to exercise, to choose whether to use the option or not
 - Can force the Writer to either Buy from them (if a Put), or Sell to them (if a Call)
 - **Writer/Seller/Short**
 - The one with an obligation.
 - Can't say no, if the Owner decides to Exercise.

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Put and Call Vocabulary

Writer

The original seller, the one with the obligation in the contract.

Buyer/Owner

The person who owns the security, the one with the option to exercise and force the writer to buy or sell.

Strike Price

The "bet" of the contract. The price a buyer of a call thinks the stock will go above, and what a buyer of a put believes will go below.

Expiration

The date the option expires, and becomes worthless. Must be exercised before or on that date.

Premium

The cost to buy the contract, multiply by 100 to find actual cost in dollars.

Break Even

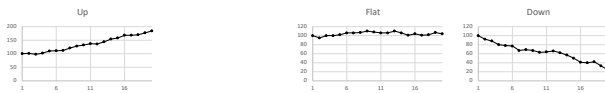
The price at which the buyer doesn't make or lose money.
Strike Price + Premium for Calls, above the buyer makes money
Strike Price - Premium for Puts, below the buyer makes money

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Calls

- The buyer bets stock will go up, above the Strike Price.
- Seller believes it will stay the same or go down.



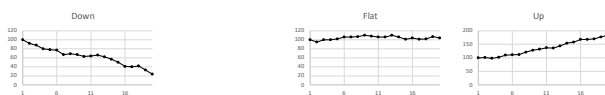
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Puts

- The buyer bets stock will go down, below the Strike Price.
- Seller believes it will stay the same or go up.



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Sample Option Quote

Long 1 XYZ Jan 60 Call at 3	
Long	The investor has bought the call and has the right to exercise the contract
XYZ	The single contract represents 100 shares of XYZ stock
Jan	The contract expires on the third Friday of January at 11:59 pm ET
60	The strike price of the contract is 60
Call	The type of option is a call, and the investor has the right to buy the stock at 60 since he is long the call
3	The premium of the contract is \$3 per share. Contracts are issued with 100 shares, so the total premium is \$300. The investor paid the premium to buy the call

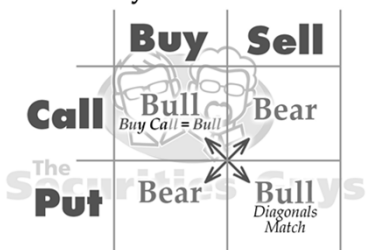
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Simplest Option Info

Buy Call = Bull



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Market Up Bull	Buy Call	Sell Put	Long Stock
Market Down Bear	Sell Call	Buy Put	Short Stock

Generally, if you are being asked to pick 2 you want to pick 2 in the same row

Generally, if you are being asked to pick only one of the 4 options, pick one of the Red ones.

Long Stock is the standard buying stock, "buy low sell high".
Short Stock is selling borrowed shares then returning later, "sell high, then buy low later"

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Equity vs Index

- **Equity option's** underlying asset is an equity security, typically common stock.
- **Index option's** underlying asset is the value of the underlying index.

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Hedging and Speculation

- **Hedging** is insurance. Buying puts as insurance against a long (buying) position in a stock. (Buying calls as insurance when you are short)
- **Speculation** is Gambling. Buying calls to simply *bet* the stock will go up, or buying puts to *bet* it will go down.

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- Long – buy put
- Short – buy call

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Strike Price

- The 'bet' price of the option. The price a Call Buyer thinks it will go above, and the price a Put Buyer thinks it will go below.
- The amount that changes hands when the option is exercised.

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In-The-Money and Out-Of-The-Money

- When the **Market Price** of the underlying asset of a call is ABOVE the **Strike Price**, or when the **Market Price** of the underlying asset of a put is BELOW the **Strike Price**. The difference is how "in" or "out" of the money the option is.

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Premium

- The cost to purchase the option, or the amount the writer receives initially.
- Each option is for 100 shares, so multiply the premium by 100 to find the true cost for the entire contract.
- Premium consists of:
 - **Intrinsic Value** - How much "in the money" contributes to the cost to purchase.
 - **Time Value** - How much time remaining until Expiration contributes to the cost to purchase.

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Underlying or Cash Settlement

- Underlying Settlement is where the actual transfer of the underlying security occurs.
- Cash Settlement is where Seller/Writer pays out the “in-the-money” value of the option at time of exercise.
 - **Index Options only Cash Settle!**

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Covered and Uncovered

- **Covered Calls** are when someone writes a call, but also owns the same number of shares they are writing. Worst case they only lose the shares they already owned when the call gets exercised.
- **Uncovered, or Naked calls** are when someone writes a call but doesn't actually own the full number of shares they wrote the call on. Worst case, if the stock price goes extremely high, they would have to purchase at the extremely high price, and then sell at the strike price, losing a lot of money. Very very dangerous.

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American and European

- **American Options** can be exercised anytime before the expiration
- **European Options** can only be exercised on their expiration date, not before.

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Exercise and Assignment

- **Exercise** – The **Right** of the **Buyer** of the option (put or call) to exercise the option, and force the writer to assignment.
- **Assignment** – When the **Writer** is assigned the **Obligation** to fulfill the control; Either purchase shares at the given strike price in a Put, or to sell the shares at the given strike price in a Call

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Strategies

- **Long** – Purchasing. Wanting to “Buy low and later sell high”. “Buying” a security is being “long” that security
- **Short** – Borrowing. Wanting to “Sell high now, and then later buy it low”. “Borrowing” the security, selling the security for cash, and then later when the price has gone down, purchase the security with the cash, and then give it back to the person you borrowed it from, plus interest.

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Short Selling Example

- Brian thinks the ABC company’s value will go down, so he borrows 100 shares of ABC from Jeff, each worth \$100, and then Brian sells those shares for \$10,000 now that is in his pocket.
- In a few months, ABC goes down to \$80, so Brian takes his \$10,000 and goes and buys 100 shares at \$80, so he now has 100 shares of ABC and \$2,000 in his pocket.
- He goes and gives Jeff back his 100 shares, and some interest for the loan of shares, and keeps the difference as his profit.
- Thus selling high, to later buy it low.

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Options Clearing Corporation (OCC)

- Listed Options
- Provides clearing and settlement services to 15 exchanges in equity options and futures.

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Options Disclosure Document (ODD)

- Publication of the OCC that must be read by first time option traders before making an option trade. Explains risks of options.

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Options

	Max Gain	Max Loss	Break Even
Long/Buy Call	Unlimited	Premium Paid	SP+Prem <i>Buyer wants it ABOVE</i>
Short/Write Call	Premium Paid	Unlimited	Writer wants it BELOW
Long/Buy Put	SP-Prem	Premium Paid	SP-Prem <i>Buyer wants it BELOW</i>
Short/Write Put	Premium Paid	SP-Prem	Writer wants it ABOVE

SP=Strike Price
Prem=Premium

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Pooled Investment Products

- Investment Companies, Variable Annuities, REITs, DPPs

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Net Asset Value (NAV)

- Is the total value of the portfolio divided by the total number of shares of the portfolio outstanding.

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Price Quote Terms


- Bid Price (Wholesale)
 - The smaller number in a quote (NAV)
 - The highest price a buyer is willing to pay
 - You sell at Bid
- Asked Price (Retail)
 - $NAV + SC = POP$ or Asked
 - Larger number in a quote
 - You buy at Asked
 - "Ask Pop Before you Buy"

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My Boat vs My Warehouse




I'm building a boat

1000 seats, \$1000 each

I buy stuff: Stocks, Bonds, Gold, Deeds, etc
Everyone owns 1/1000th of the boat's value

I have no more seats, find someone selling
I don't want seats, find someone buying

Closed-End



I own a warehouse full of stuff!

Come give me money, I'll give you percentage ownership
and then take your money and buy stuff for warehouse

You want your money back, bring me your shares,
and I will sell stuff and give you the cash

Only I have keys to my warehouse;
Only I can sell to investors,
only I can redeem from investors

Open-End

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Closed End	Open End
Initial Offering of Fixed Number	Unlimited Primary Offering
<small>Specific number of seats</small>	<small>Unlimited Pricing</small>
Full Shares Only	Fractional Shares Allowed
<small>No partial seats</small>	<small>Any fractional ownership</small>
Only trades on the Secondary markets	Only redeemable by the Fund itself
<small>Everyone on the shore</small>	<small>Only I have the keys</small>
Can issue Senior Securities; Pref Stock and Bonds	Can only issue Common Stock
<small>Just know they "can"</small>	<small>Just what they do</small>
Priced by Supply and Demand	Fixed Pricing Usually NAV+SCPOP
<small>How much someone wants it</small>	<small>Fixed/known pricing system</small>
Voting Rights Dividends Preemptive Rights	Voting Rights Dividends
Rights of Shareholders	

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Open-End Investment Companies (Mutual Funds)

- Issuer must always sell and redeem shares, number of shares outstanding changes daily.
- Board of Directors
 - Structured so that at least 40% is unaffiliated, outside the company people. (at most 60% affiliated)
 - The rest can be directors, owners, even investment adviser.

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Forward Pricing

- NAV is calculated once every business day at 4:00 pm EST
- Client receives next calculated NAV from when their funds post at the fund company
- *Example:*
 - Client's funds post 2 pm Thursday, so the client will receive Thursday's close of business NAV. If instead the Client's funds post 5 pm Friday, the client receives Monday close of business NAV
- Redemption of shares works the same way

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Mutual fund redemption

- Redemption occurs at NEXT calculated NAV price.
- Mutual funds must redeem within 7-days.

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Share Classes

A-Shares

Up-Front Sales Charge.
Breakpoints, Rights of Accumulation,
Letters of Intent
Best for Long-Term Investors

B-Shares

Contingent Deferred Sales Charge
Certain % of years decreasing sales charge
at redemption, and when sales charge hits
0%, B-Shares become A-Shares.

C-Shares

No Up-Front or Back-End Sales Charge.
Highest Annual Sales Fees.
Best for Short-Term Investors.

No-Load Shares

Lowest Sales Fees.
At most 0.25%
Generally index fund, not actively
managed.

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Letter of Intent and Rights of Accumulation

- Letter of Intent:
 - Get breakpoint discount over at most 13 months.
 - Can backdate 90 days
 - Only New Money gets to the discount
- Rights of Accumulation
 - Get breakpoint discount eventually once account value grows to reach it.
 - Growth and new money count

Amount of Purchase at Offering Price (\$)	Sales Charge as % of Offering Price
Less than \$25,000	5.00%
\$25,000 to Less than \$50,000	4.25%
\$50,000 to Less than \$100,000	3.75%
\$100,000 to Less than \$250,000	3.50%
\$250,000 to Less than \$500,000	2.00%
\$500,000 to Less than \$1,000,000	0.50%
\$1,000,000 and above	0.00%

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Purpose of Annuity

- Create a stream of income that can't be outlived.

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How an Annuity is Invested

- Fixed Annuities
 - General account of the insurance company with a guaranteed fixed return. Suffers from Inflation Risk.
- Indexed Annuities
 - General account of the insurance company, where an index is used to calculate credited return. Caps and participation rates are used.
- Variable Annuities
 - Separate account of the insurance company, where the investor has the investment risk as they choose where the separate account is invested.
 - Requires Insurance and securities licenses.

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Misc. Investments

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Real Estate Investment Trusts (REITs)

- **Private**
 - Exempt from SEC registration, and don't trade on national stock exchanges.
 - Generally sold to institutional investors
- **Registered, non-listed**
 - Do not trade on exchanges, but are registered and have more disclosure requirements than Private REITs
- **Listed**
 - The REIT is listed on exchanges. Will not have the same liquidity risks of other, unlisted securities.

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How a REIT might make money

- **Equity REIT**: Acquire, Manage, Build, Renovate, and Sell real estate. Generate income usually from rent or similar income.
- **Mortgage REIT**: Lend money to real estate buyers, or purchase mortgages. Generate income from mortgage loan interest.
- **Hybrid REIT**: Combination of Equity and Mortgage REITs.
- *Sub-Chapter M rules hold if they pass on 90% of their income.*

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Limited Partnership

- The actual investment is managed by the General Partners (Unlimited Liability)
- Limited Partners have Limited Liability; They are providing the money.
- Limited Partners can vote, get distributions, and other things, but day-to-day operations left to General Partners

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Direct Partnership Program (DPP)

- Usually a Limited Partnership, but could be S-Corp or simple General Partnership
- Defining characteristic is that they pass through both gains **and losses**. The losses is what makes it a DPP.
- DPP's do not pay taxes, all taxes flow to partners (Limited and General)
- High Liquidity Risk/Illiquid; no active trading, may need GP's permission

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Hedge Funds

- Very high risk
- Invests in derivatives, commodities, futures, etc...
- Tries to make profit in all market conditions
- Generally illiquid, lock in, limited trading opportunities
 - May need partners permission to sell sometimes, partners can lock the fund (no withdrawals)
- Usually high fees and high minimum Investments
- Usually structured as a Partnership
- Not usually registered, but manager is usually an IA.

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Exchange Traded Products

- Exchange-traded funds (ETFs)
 - Represent ownership in the underlying portfolio of stocks, bonds, or commodities.
 - Unmanaged
 - Think Closed-End Fund.
- Exchange-traded notes (ETNs)
 - Issued as senior debt and are unsecured.
 - The issuer promises to pay ETN holders the return on some index over certain period of time and return the principal of investment at maturity
- Lower fees, both sales and management.

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Active vs. Passive

- Active Management:
 - Higher Fees, Trying to time the market, professional advice, commissions for professionals to advise. Could be very responsive to changes in the economy.
- Passive Management:
 - Lower Fees, "Invest and forget". Professionally chosen, but not actively changed. Won't be responsive to changes in the economy.

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Chapter 3: The People

All about the clients, the associated persons, and other people working and being a part of the industry

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Account Types and Characteristics

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Account Documentation

- It is important for a RR to obtain essential facts about a customer opening an account
 - Customer name and residence
 - Whether or not they are of legal age
 - Signature of Principal

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Individual Accounts (details to come)

- Cash Accounts
- Margin Accounts
- Discretionary Accounts

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Cash Account

- Simple account.
- 100% owned securities, paid in cash.

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Margin Account

- Client borrows money from the broker
- Regulation T (set by FRB) determines how much equity client must deposit. Currently 50% (or \$2,000, whichever is greater)
- *You almost certainly will NEVER have to deal with these in real world.*

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Options Account

- Many disclosures required

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Discretionary Account

- Rep can make purchase and sales without needing to talk to client.
- Discretionary if any of the 3 A's are missing
 - Action: Buy or Sell
 - Asset: The specific asset
 - Amount: The number of shares or dollar value to buy or sell
- Price and Time are NOT discretionary!

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Fee-based vs Commission

- **Fee-Based – Advisory.** Usually either on an hourly basis or percentage of assets under management annually.
- **Commission – On a sale.** Generally, a fixed amount or a percentage of the sale price.

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Account Registrations

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Individual Account

- 1 owner.
- No one can make any decisions without a Power of Attorney.

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Tenants in Common (TIC)

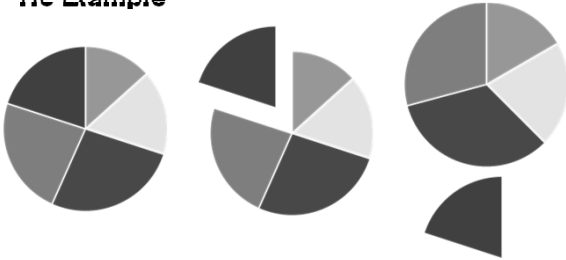
- If one tenant dies, their share is frozen and given to estate.
- All tenants can deposit, make investment decisions, withdrawal.
- With approval of all tenants, only 1 tenant can be designated to receive mail.

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TIC Example



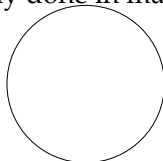
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Joint Tenants with Rights of Survivorship (JTWROS)

- Exactly like a TIC, except when one tenant dies, others gain their share.
- Generally, only done in marriage.



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Corporate/Partnerships

- Corporate/Partnership agreements, list of all partners/authorized traders.
- Any changes, the documents must be updated before trading can resume.

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Uniform Gift to Minors Act (UGMA) and Uniform Transfer to Minors Act (UTMA)

- Basically identical except UGMA age is assigned by state, UTMA age can be set up to age 25.
- Everything else identical.

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UGMA and UTMA

- One minor and one custodian per account
- All securities are registered in the minor's name
- Contributions to the account are considered an irrevocable gift to the minor.
- UGMA/UTMA accounts must include custodian's name, the name and social security number of the minor

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Retirement Accounts

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Traditional IRA

- Not Qualified Plan
- 100% of earned income up to annual max, plus \$1,000 catchup if over 50 years' old, tax deductible contribution
- Spousal option for non-wage-earning or low-earning spouse
 - Allows non-wage-earning spouse to contribute up to annual limit to their IRA.
- Tax deferred growth
- Premature withdrawal (prior to age 59½) subject to 10% penalty plus taxes. (penalty-free withdrawals like Roth IRA)
- Has Required Minimum Distributions (RMDs)
 - Withdrawals must begin by age 72 or penalties for failing to withdraw and pay taxes. Always better to withdraw and pay taxes.

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Roth IRA

- Contribution limits are same as Traditional IRA Contributions are subject to income limits
- After tax nondeductible contributions only. Not Qualified.
- Tax-free distribution if:
 - Account is open for at least 5 years (Roth Only)
 - Withdrawals begin after 59½ (Roth Only)
- Penalty-free distributions if (Including on Traditional IRA);
 - Withdrawals for 1st time homebuyer (\$10,000 lifetime cap)
 - Child (\$5,000), born or adopted
 - Qualified higher education expenses
 - Disabled owner
- RMD does not apply (72 rule)

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401(k)

- Pre-tax contributions, grows tax deferred
- No mandatory matching
- Employee picks where money goes
- Employees are always 100% vested on their contributions
- Distributions prior to 59½ will receive a 10% penalty, RMDs at 72.
- All withdrawals will be taxable

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403(b)

- Tax Sheltered Annuity (TSA)
- Pretax Contributions
- Public school employees, non-profit hospitals, and churches
- Contributions are made by salary deduction
- Distributions prior to 59½ will receive a 10% penalty, RMDs at 72.
- All withdrawals will be taxable

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SEP IRA

- For self-employed individuals and their eligible employees
- Eligibility rules:
 - 21 years' old
 - Worked for same employer 3 out of the last 5 years
 - Has received IRS Requirement (small amount) in compensation from the employer
- Employer contributions only
- Max contribution is the lesser of 25% of gross earning or IRS Limit.
- Distributions prior to 59½ will receive a 10% penalty, RMDs at 72.
- All withdrawals will be taxable

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SIMPLE IRA

- Small business plan
- No more than 100 eligible employees
- Eligibility: Any employee that make \$5,000 during the previous year
- Employees may contribute to their account up to the annual limit
- Employer must contribute either by:
 - 2% method or
 - 3% \$for\$ match
- Employees are immediately 100% vested on employer's contributions
- Distributions prior to 59½ will receive a 10% penalty, RMDs at 72.
- All withdrawals will be taxable

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Municipal/Education

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2 types of 529 plans (details coming)

- 529 Prepaid Tuition Plans (rarely/never dealt with)
- 529 Savings Plans

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Section 529 Savings Plans

- State-sponsored municipal fund for post-secondary education and some K-12.
- Funds post-secondary education, and K-12 up to \$10,000 a year.
- After tax contributions
- Gift tax limits (\$15k/person/year 2020), 5-year lump sum possible
- Tax deferred growth
- Distributions tax free for qualified education
- No income limits
- Can be transferred to others (siblings/children/parents/etc)

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Coverdell Education Savings Account (ESAs)

- After-tax contribution
- \$2,000/child/year up until child turns 18
- Tax free for qualified education, any education including high school and below.
- Income limits on donor.
- Must be used by 30, or transferred, if not it will be penalized and taxed on remainder.

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Comparison between 529 and ESA

Section 529	Coverdell ESA
After tax contributions	After tax contributions
No income limits	Has income limits
Deferred growth	Deferred growth
Tax-free distributions	Tax-free distributions
Gift tax limit of \$15k/year	\$2k/year/student
Any Education	Any Education

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Owner vs. beneficiary

- In most securities the owner and beneficiary can be the same
- 529 cases the owner and the beneficiary can be the same! However the beneficiary is (generally) the child, and the owner is (generally) the parent(s) or grandparent(s) of the beneficiary

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ABLE (Achieving a Better Life Experience) accounts

- Tax advantaged savings accounts for individuals with disabilities and their families.

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That is it for today

Questions,
Comments,
Concerns?

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Communications with the
Public

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Retail Communications

- **Advertisements**- materials used in the media; Newspapers, magazines, radio, and television
- No guarantees. No promises.
- Almost always requires a principal to at least review, except;
 - **Institutional Communications** are communications distributed and made available only to institutional investors (no principal needed)

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Sales Literature

- Defined as any written or electronic communication made generally available to the public
- Reprints, telemarketing scripts*, performance reports, and circulars are all sales literature
- Retail Communications are distributed to more than 25 retail investors within any 30 calendar-day period.

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Communications vs Correspondence

- **Communications** is more than 25 (26 or more)
- **Correspondence** is 25 or less (less than 26)
- Communications must always be checked by a principal **before** the clients see it, Correspondence just needs spot checks.

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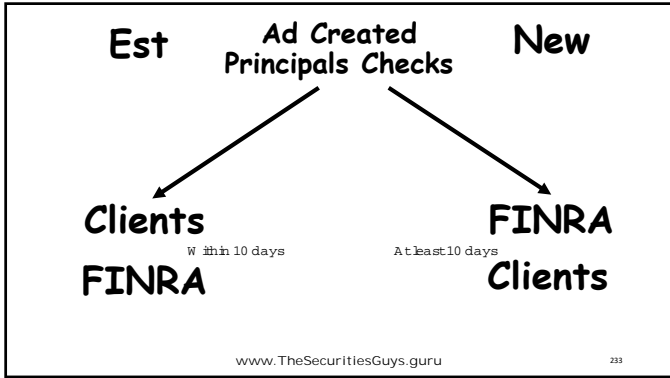
Advertising and Sales Literature approval, recordkeeping, and filing requirements

- Advertisements, Sales Literature, and any other retail communications must be kept on file for 3 years starting from date of first use and last use.
- Advertisements and Sales Literature must be filed with FINRA within 10 days after use
- **For newly established firms, that is 10 days prior filing**

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Suitability requirements

- Know-Your-Customer (KYC)
 - Bank and AML regulations.
 - Requires proof of identity, make sure the client is who they say they are. CIP, Customer Identification Program.

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What constitutes a recommendation

- General requirements
 - We must have a reasonable basis to believe the investment is suitable for the client.
 - *Things like; Age, Investment History, Objectives, Risk Tolerance, etc.*

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Associated Persons

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Registered Persons

- **Registered Person:** Anyone involved in a firm's investment banking or securities business must be a registered representative with FINRA. Anyone dealing with cash or original books of entry as well. **Duties include;** supervision, solicitation, or training of persons associated with member
- Registered reps can handle customer accounts, make recommendations. Commissions can be split with others registered reps of the same member.

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Non-Registered Persons

- **Non-registered persons:** Limited to clerical, ministerial, or janitorial type positions. May not recommend or solicit business.

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Background checks

- Firms are responsible for investigating the good character, business reputation, qualifications, and experience of applicants for registration
- Required to make reasonable effort to review most recent Form U5
- Full 10-year employment history

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Fingerprinting

- Everyone in the business gets fingerprinted. Anyone who is a registered representative, who touches money, or who deals with any original books of entry must all be fingerprinted.
- Exemption for those not involved in securities sales, do not handle or have access to cash/securities, and do not supervise employees engaged in these activities.

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Statutory disqualification

- If a person has been expelled or suspended and is denied trading privileges, or is subject to an order of the commission for such actions
- For Firms
 - Having been expelled/suspended by another SRO
 - Subject to SEC order denying/suspending/revoking registration
 - Willfully filed false or misleading membership application
- For Individuals
 - Made willful misrepresentations on registration application
 - Felony conviction within past 10 years
 - Misdemeanor conviction involving securities or money in past 10 years

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Failing to register an Associated Person

- The failure of any member to register an employee, who should be so registered, may be deemed to be conduct inconsistent with just and equitable principles of trade and will face appropriate disciplinary action.

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Reportable Activities

- **Private Securities Transactions**
 - Securities transactions that are not done by the Broker Dealer. Must get permission, or can't be done. If permission is given the trade is run on the BD's books.
 - Violation is called "Selling Away". If we don't sell it, you can't sell it.
- **Outside Business Activities:**
 - Must inform employing Broker Dealer of any source of income outside the BD. This is not permission. Non-securities.

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Gifts and Entertainment

- B/Ds may not pay compensation to employees of other members except:
 - The employing firm gives written permission
 - Gifts less than \$100
- Business entertainment or usual business expense
 - Must keep track to verify no gifts above \$100
- Be careful about the difference between a "gift" and a "marketing expense"

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Filing Forms

- Form U-4 and Form U-5
 - U-4 - Initial Registration Form
 - U-5 - Withdrawal Form
 - Changes filed within 30 days
- Consequences of filing misleading information or omitting information
 - Termination, and potentially other consequences
- Once a rep; Felony, financial-related misdemeanors, liens, bankruptcy must be reported PROMPTLY

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Customer Complaints

- Written complaint is defined as any written communication from a client to the member firm regarding the activities of their reps in regards to transactions, securities, or funds
- OSJs must maintain a file of:
 - All written complaints for 4 years
 - Any action taken on such complaints

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Potential Red Flags

- Indicators of irregularities or misconduct
 - Unreasonably large number of trades in accounts in regards to clients stated goals (churning)
 - Blanket recommendations
 - Identical explanations on many replacement forms
 - Many other brokerage accounts
 - Not wanting to take mandatory vacation
(compliance/people with The Books/Not Reps)

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Rule 144 Control/Restricted

Control Stock: Those shares owned by an affiliate/insider
Restricted Shares: Shares issued in an unregistered, generally private offering

<p>Just Restricted</p> <p>Unregistered Shares Non-Affiliate Owner</p> <ul style="list-style-type: none"> ✧ 6-month hold ✧ Freely sell after ✧ No Volume Rules 	<p>Restricted and Control</p> <p>Unregistered Shares Affiliate Owner</p>  <ul style="list-style-type: none"> ✧ 6-month hold ✧ Volume Rules 	<p>Just Control</p> <p>Registered Shares Affiliate Owner</p> <ul style="list-style-type: none"> ✧ No Hold Rules ✧ Volume Rules always apply to affiliates
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Roles of Participants

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Participants

- **Investment Bankers**
 - A single underwriter of securities.
 - They know what type of financial instrument should be issued, the pricing, and the regulatory requirements to try and raise maximum capital.
 - Too much risk for a single bank, so they join into a syndicate.
- **Underwriting Syndicate**
 - A group of underwriters working together to underwrite a new issue, thus spreading the risk amongst more participants.
- **Municipal Advisors**
 - More details below, but *basically* an Underwriter for Municipal Securities.

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Types of Investors

- Retail (*Mom and Pop*)
 - Normal regular investors.
- Accredited (*Rich Person*)
 - Net Worth of at least \$1M (excluding primary residence), or have income of \$200K (\$300k married) for past 2 years and expect it to continue.
- Institutional (*Organization >\$50m invested*)
 - Large organization, like bank, pension fund, labor union, or insurance company that makes substantial market investments. Not natural persons.

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Types of Broker/Dealers

- Introducing/Fully Disclosed
 - Doesn't actually handle the transactions.
 - They can make recommendations, but someone else is actually handling the trade.
 - Forwards the money it receives to the actual clearing firm
- Clearing/Carrying
 - Acts as middleman, makes sure trades are settled properly and transaction is successful. They work between the investor and a clearing corporation and actually does the trade.
- Prime Brokers
 - Brokerage firm that offers special services to only certain clients. These clients could be hedge funds, specialists, or even other money managers.

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Traders

- Individual who engages in buying/selling of financial assets in any market either for themselves or someone else. Difference between Trader and Investor, is;
 - Investor is Long-Term
 - Trader is Short-Term
- Can work for a company, using company money, or could be for themselves, personal money.

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Market Makers

- Big Firms.
- They promise to always be willing to sell at a given price (their Ask), and buy at a given price (their Bid). The combination of the Ask and Bid is their current Quote. Some securities have only a few MMs, others have hundreds. The more MMs the more liquid the investment.

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Market Maker Quote Example

- *Example: 50-51 (10x20). They are quoting the bid, what retail investors would get for selling to them at \$50, and they are willing to purchase 10 lots, or 1,000 shares at \$50. They are quoting the ask, what retail investors pay as \$51, and they are willing to sell 20 lots, or 2,000 shares at \$51.*

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Depositories and Clearing Corporations

- Depository Trust and Clearing Corporation
 - American post-trade financial services company provided clearing and settlement services.
 - **Clearing** – all activities from the time a commitment is made for a transaction until it is settled.
 - **Settlement** – Process whereby securities or interests in securities are delivered, usually against payment of money to fulfil contractual obligations.
- Options Clearing Corporation
 - Clearing house based in Chicago specializing in equity derivatives clearing and settlement.

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Positions in Mutual Funds

- Board of Directors**
 - Elected by Shareholders.
 - Approves and Hires Investment Adviser, Transfer Agent, and Custodian.
 - Authorizes Dividends.
- Investment Adviser**
 - Makes Investment Decisions.
 - Has to follow Fund Objectives.
- Transfer Agent**
 - Record Transactions.
 - Issues/Redeems Certificates.
 - Distributes Dividends.
- Custodian**
 - National Bank safeguards securities.
 - Records inflows and outflows.
- Underwriter**
 - aka Distributor or Sponsor of fund.
 - Help distribute actual shares.

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Disclosures

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Required Disclosures

- **Disclosures of Financial Condition**
 - Must make available to any customer, upon request, information relevant to member's financial condition, by disclosing most recent balance sheet.
- **Disclosures of Investment Policies (Objectives)**
 - Investment companies must publish their investment objectives.
 - Can only be changed by a vote including shareholders.
- **Disclosures of fees**
 - Investment Companies must disclose standardized performance information, the maximum sales charge, and the total annual fund operating expense.
 - Investment Advisers must disclose their fees, amounts, prepayment requirement, and it must be in writing.

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Required Disclosures (Cont...)

- Disclosure of fiduciary responsibility
 - The fiduciary duty is an obligation of loyalty and good faith to someone or some entity that is the highest duty known to the law
 - Full disclosure of conflict of interests
- Proxies and proxy voting
 - Voting in absence, by giving their voting power to a representative, the one they gave their "proxy" to, or who is standing in "proxy" of them.
 - Mutual Fund shareholders have voting rights on the assets in the portfolio, and would vote by proxy if needed, but generally lets the fund vote by proxy for them.
 - Basically an absentee ballot

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Privacy requirements (Reg S-P)

- Nonpublic personal information
 - Personally identifiable financial information, any list/description/grouping of consumers that is derived using any personally identifiable financial information not publicly available
 - Doesn't include: publicly available information or any list derived from publicly available information
- Confidentiality of information
 - Describe in general terms who is authorized to have access to the information and state whether you have security practices and procedures in place to ensure confidentiality of the information in accordance with the privacy policy.
- Privacy notifications
 - Notified at time of account opening and annually.
 - Can opt out of annual updates

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Trustees, Custodians, Executor/Executrix

- The fiduciary, the one with responsibility to act in the best interests as stated in the documents, of a trust or similar entity
- They are a fiduciary and must act in the best interest of the stated purpose of the trust, not necessarily any given beneficiary or owner.
- Custodians are generally trustees of an account for a minor.
- Trustees are more legally assigned, Custodians are more chosen, but not necessarily always.
- Executor/Executrix is for an Estate.
 - Only difference is gender.

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Chapter 4: Economics
All about the economics needed in the industry

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Monetary and Fiscal Policy

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Monetary Policy

- Controlled by the **Federal Reserve Board**
- FOMC (buys/sells treasuries)
- Discount Rate (all other rates based on discount)
- Reserve Requirement
- Regulation T
 - Margin Requirements
 - Currently 50% must be down payment (min \$2,000)
 - Must pay BD within 4 business days or account frozen for 90 days
 - Only cash trades, no borrowing

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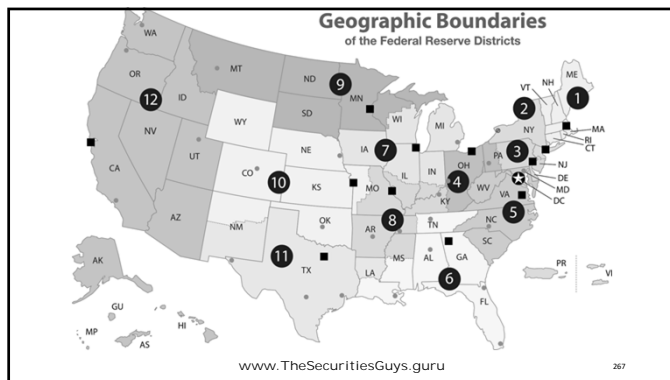
Monetary Policy Continued...

- Primary focus to control inflation
- Supervises and regulates banks
- Maintains stable financial system
- Tighten/Loosen money policy

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Fiscal Policy

- Controlled by President and Congress
- Primary focus to stabilize economic growth and high levels of employment

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Interest Rates

- **Discount Rate** – The rate members banks borrow from the Fed at. The only rate directly set by the Federal Reserve Board.
- **Federal Funds Rate** – The rate member banks borrow from each other at, and the rate commercial banks borrow from members firms is based on. Target is set by the Fed, but the rate itself is set by the individual banks.
- **Broker Call Loan Rate** – The rate for margin accounts.
- **Prime Rate** – Rate lenders charge to their best, highest credit borrowers. Normal people pay points above Prime depending on their credit scores.

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Business Economic Factors

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Balance Sheet

- Assets and Liabilities
- Networth is Assets – Liabilities
 - Shareholder Equity is the “networth” of a company.
- Stocks and Bonds that are owned are Assets.
- Credit Card Balances are Liabilities

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Income Statement

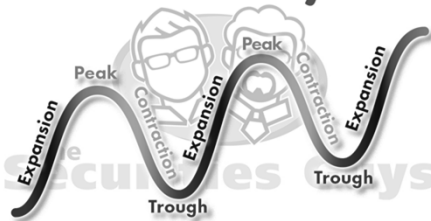
- Income and outflows of money
- *The stock we own is an **ASSET**, the dividend we receive from it is a **CASH IN***
- *The bond we issued is a **LIABILITY** (we owe the creditors), the interest we pay semiannually is a **CASH OUT***

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Business Cycle



Recession: 2 down quarters
Depression: 6 down quarters

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- **Expansion** – GDP Increasing, Unemployment around target, inflation near target, Stock market Bullish, Lower inventories due to higher sales, higher consumer demand
- **Peak** – Economy overheating, GDP growing above target, inflation greater than target
- **Contraction** – Growth weakens, GDP falls below target, Higher inventories due to lower sales, lower consumer demand
- **Trough** – The bottom; opposite of peak. Economy at bottom, GDP below target, inflation less than target
- *Generally these are only known in hindsight.*

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Principal Economic Theories

- **Keynesian** – In short run, especially during recessions, economic output strongly influenced by aggregate demand. (Demand-Side)
- **Monetarist** – Changes in money supply are most significant determinants of economic growth and business cycles
- **Supply-Side** – Economic growth can be most effectively created by lowering taxes, deregulation, and work on the “Supply Side” of the market.

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Gross domestic product (GDP), gross national product (GNP)

- **GDP** – All production within a COUNTRY
 - Consumption + Investment + Government Spending + (exports - imports)
- **GNP** – All production by all CITIZENS
 - GDP + Money coming in - Money going out

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Example:

- German citizen works in United States.
- American citizen works in Germany.
- German Citizen works in US so adds to US GDP, but is German Citizen, so Germany GNP
- American Citizen works in Germany, so contributes to Germany GDP, but is American Citizen, so US GNP.

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Economic/Money Stuff

(thank you Investopedia)

- **Inflation**
 - Inflation refers to a general increase in the price of goods and services. This occurs when demand for these items grows faster than the supply. The result is more money chasing fewer goods, and therefore prices increase.
- **Deflation**
 - Deflation is a general decline in prices, often caused by a reduction in the supply of money or credit. Deflation can also be caused by a decrease in government, personal or investment spending.
- **Stagnation**
 - This is a condition of slow economic growth and relatively high unemployment
- **Stagflation**
 - A time of stagnation accompanied by a rise in prices, or inflation. Stagnation and Inflation

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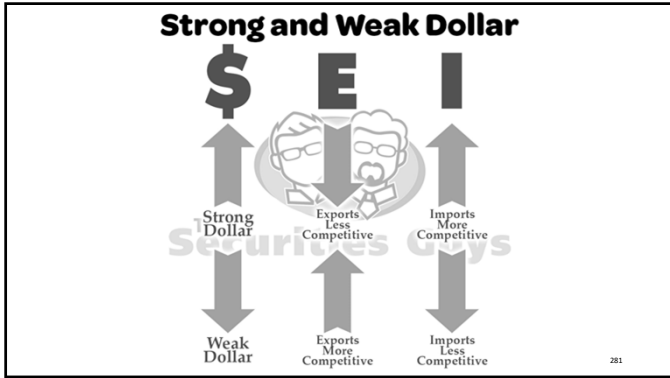
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International Economic Factors

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U.S. Balance of Payments

- The record of all economic transactions between the residents of the US and of the world in a particular period (usually quarter or a year).
- **Trade Deficit**
 - More money going out than coming in, but more materials coming in than going out
 - Getting cheaper materials to have better life for citizens
- **Trade Surplus**
 - More money coming in than going out, but less materials coming in and more going out
 - Producer for the world, but not necessarily benefiting from their production ability

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Investment Returns

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Components

- **Interest** – Taxed as ordinary income
- **Dividends** – Taxed as ordinary income
- **Cost Basis** – All the after tax dollars you place into your investment
- **Capital Gains** – The gain that is received from selling an asset

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Cost Basis/Principal

- Any nondeductible investment creates a cost basis.
- Individual cost basis per shares is affected by stock dividends and splits.
- The only way to change the overall value of cost basis is to invest more money or take out money.
- Transferring;
 - Gifts keep same Cost Basis
 - Inheritance steps up to fair market value at death

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Ordinary Income (OI)

- All Earned Income
- Earnings from employment, dividends, interest, and annuity payment.
- Taxed at marginal rates, progressive

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Capital Gains

- The type of income from selling securities. Long Term over 1-year, Short Term 1 year or less
- Capital Losses go against Capital Gains Dollar for Dollar.
- **Excess Long-Term Capital Losses** can be written off against Ordinary Income \$3,000 a year until used up.
- **Unrealized Gains/Losses** are those that exist before a sale has occurred. No taxes are owed until they are realized.
- **Realized Gains/Losses** are those once a sale has occurred.
 - Short-Term realized gains charged Ordinary Income
 - Long-Term realized gains charged Capital Gains rate

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Types of Dividends

- Only declared by Board of Directors
- **Cash Dividends**
 - Given in the form of cash. Can be reinvested (at no sales charge) or can be received in cash. Either way Ordinary Income Tax will be paid that year.
- **Stock Dividends**
 - A stated percentage of stock will be given, so number of shares will increase.
 - A 10% stock dividend, with someone owning 1,500 shares, means they get 10% more, or 150 shares more, so after the dividend they have 1,650 shares.
 - Not directly taxable, but will effect cost basis for capital gains calculations if portions of the portfolio are sold.

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Dividend Payment Dates

- **Declaration Date**
 - The day the Board of Directors authorizes the dividend
- **Payment Date**
 - The date on which the declared dividend will be paid
- **Record Date**
 - The day the shareholder must officially own shares to receive the dividend
- **Ex-Dividend Date**
 - First day you purchase the security, and will NOT get the upcoming dividend
 - ONE business days prior to the Record Date
 - Must purchase shares before EX-date if you want to receive the dividend

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NOVEMBER <small>Updated for Sept-2017</small>						
Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
4	5	6	7	8	9	10
11	12 Last Day To Buy (A)	13 Ex-Date (A)	14 Record Date (A)	15 Last Day To Buy (B)	16 Ex-Date (B)	17
18	19 Record Date (B)	20 Last Day To Buy (C)	21 Ex-Date (C)	22 	23 Record Date (C)	24

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Corporate Actions

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Types of Corporate Actions

- Most requires Votes of both Board and Shareholders
- Splits (Forward or Reverse)
 - Requires shareholder approval
- Buybacks
 - Only the Board approves
 - The company purchases its shares on the open market to turn them into Treasury Stock.

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Types of Corporate Actions (Cont...)

- **Tender Offers**
 - Requires shareholder approval
 - Type of public takeover bid
 - Offer to all stockholder of a publicly traded company to tender their stock for a specified price during a specific time, subject to tendering of a minimum and maximum number.
 - Usually at a premium
- **Exchange Offers**
 - Requires shareholder approval
 - Like a Tender Offer, but securities are offered instead of cash; trading.

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Types of Corporate Actions (Cont...)

- **Rights Offers**
 - Requires shareholder approval
 - An issue of Rights to existing shareholders that entitle them to buy additional shares from the issue in proportion to their existing holdings, within limited period of time.
- **Mergers and Acquisitions**
 - Requires shareholder approval
 - When two companies combine into 1 (Exxon and Mobil), or when one company takes over another company (acquisition)

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Adjustments to Securities

- The total value of the portfolio won't change, simply the number of shares.
- Cost basis per share is always (Total Cost Basis) divided by (Total number of shares). Unless you invest more, or sell, the Total Cost Basis never changes. Only the number of shares changes.

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Splits/Reverse Splits Quick Cheat

	Price per Share	Number of Shares
Forward Split	↓	↑
Reverse Split	↑	↓

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Stock Splits/Reverse Splits

- Stock Splits to increase shares, and then lower the market price.
 - Used to decrease stock price to increase marketability
- Reverse Splits to decrease shares, and increase market price.
 - Used to increase stock prices, to potentially get on certain exchanges, or more marketable in general

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Stock Splits

- Remember: The total value never changes.
- With a split, the number of shares **INCREASES**, the value of each individual share **DECREASES**.
- Example: 3 to 2 Split. Start with 200 shares at \$60 a share.
 - Shares increase to 300
 - Price decreases to \$40

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Reverse Splits

- Remember: The total value never changes.
- With a reverse split, the number of shares DECREASES, the value of each individual share INCREASES.
- Example: 5 for 2 Reverse Split. Start with 6000 shares at \$5.
- Shares decrease to 2400 shares
- Price increases to \$12.50

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Dilution/Antidilution

- Dilution means your number of shares is fixed, so when more shares are issued, your power goes down.
 - *If you had 3,000 of 10,000 shares, you own 30% of the company, but if the company issues 10 million more shares, and you still only have 3,000 shares, you just got diluted to almost no control.*

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Dilution/Antidilution

- Antidilution is a property of certain investments to make sure the ownership control percentage won't decrease when additional shares are issued.
 - **Common Stock:** Has rights offerings designed to allow current shareholders to maintain their proportional ownership
 - **Convertible Securities:** Will convert to more shares, so that the fixed number of shares it converts to at issue, that percentage of all shares will be the same percentage the bond converts to after issue. Decreases the conversion price.
 - With stock splits, the number of shares the convertible converts to is affected the same way as a split and reverse split; The bond converts to more shares, at a lower conversion price in a stock split, and converts to fewer shares, at a higher conversion price in a reverse split.

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Types of Risks

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Systematic Risks

- Risks that cannot easily be diversified away.
 - **Market Risk**
 - The market as a whole falls in value
 - **Interest Rate Risk**
 - The risk that changes in interest rates will affect the security
 - **Inflation (Purchasing Power) Risk**
 - The risk in fixed income securities that over time the value of the principal is losing purchasing power.
 - Bonds, Fixed annuities
 - **Reinvestment Risk**
 - The risk at maturity that you won't be able to put your money back and get as good an investment.
 - Callable securities are common examples that have this risk.

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Non-Systematic risks

- Risks that can be easily diversified away, generally by simply purchasing more issuers
 - **Capital Risk**
 - The risk of loss of principal.
 - **Business/Credit Risk**
 - The risk the issuer will go out of business, or default on debt.
 - Business Risk relate to stock.
 - Credit Risk relates to bonds.
 - **Call Risk (a type of Prepayment Risk)**
 - The risk that a security's issuer will call the security; returning principal and ending income.
 - Only on preferred stock or bonds
 - Does come with higher income on the bonds though
 - Only get called during falling interest rates.

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Non-Systematic risks continued

- Liquidity
 - The risk that the investment can't be turned to cash at CMV quickly.
 - Minimal/nonexistent in exchange listed securities, government securities, mutual funds and similar.
 - Certain specialty investments have major liquidity problems; Real estate, hedge funds, and similar.
- Regulatory
 - The risk that a regulation, "rule", from a federal agency will negatively impact the investment:
 - FDA, FCC, EPA, etc
- Legislative
 - Risk that laws will change
- Political/Sovereign
 - The risk in foreign investments that the political climate, changes. Also called sovereign risk.

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Currency/Exchange Risk

- The risk that exchange rates will change and effect the investment.
- ADRs, and any other foreign investment.

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Strategies for Risk

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Diversification

- The purpose of mutual funds; to diversify the risk
- Certain risks can be diversified away called “**nonsystematic risk**”; business, credit, etc.
- Some risks can't be diversified away called “**systematic risk**”; market risk, interest risk, etc, if the market crashes, all stocks crash.

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Portfolio rebalancing

- Moving assets around to put it back the original percentages chosen, to ‘rebalance’ the percentages.
- In any given year, some assets will grow, others will shrink; Rebalancing is then selling some of the winners, to buy more of the losers, cause next year things could switch.

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Hedging

- Insurance.
- Buying negatively correlated investments (investments that have historically moved opposite)
- Buying puts when you are long the security (you bought the stock)
 - Buying a call when you are short the security (when you sold borrowed securities and still owe the securities to the person you borrowed them from)

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Benchmarks and indices

- Index
 - Statistical tool designed to measure performance of something over time. Dow Jones Index measures performance of 30 big companies. Consumer price index measures inflation.
- Benchmark
 - Something that serves as a standard by which others are measured or judged, point of reference. Almost all benchmarks are indexes, but not all indexes are benchmarks.

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Beta(β)

- The risk of the security compared to an underlying index or benchmark
 - Negative beta means opposite movements
 - Beta less than 1 means the security is less risky than the underlying index or benchmark
 - Beta of more than 1 means the security is more risky than underlying index or benchmark

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Alpha(α)

- The difference between what is expected (use beta to calculate) and what is actually returned
- Generally used to measure the effectiveness of a money manager.
- $\alpha = \text{actual} - \text{expected}$

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SIPC
Securities Investor Protection Corporation

The Rules

Up to \$500,000 in total protection per account, with maximum coverage of \$250,000 in cash.
 Does not include commodity, futures, or similar
 Very rarely includes margin, only when 100% fully owned.

Cash Account

Cash Account refers to an account that is 100% owned. It does not mean that all the money is "in cash".

Per Account

Per account refers to registration. Individual and Joint are different. Husband, Wife, and Husband & Wife joint account, are 3 different accounts.

Example

Client has Cash Account, with \$200,000 in securities, and \$300,000 in cash, and Spouse has Cash Account, with \$300,000 in securities, and \$200,000 in cash.
 Client has \$450,000 in protection (all \$200k of securities, but only \$250k of cash), while Spouse has \$500,000 in protection (there is \$500k or less, and no more than \$250k in cash).
 Combined they have \$950,000 in protection.

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Federal Deposit Insurance Corporation (FDIC)

- Insurance on bank accounts, guaranteed to not lose money. Not Securities.
- Any bank that has securities on premises must have separate location, and notify customers securities are not FDIC covered.

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Types of Orders

- **Market** – An order to buy or sell at the next available market price.
- **Limit** – An order to buy or sell at a given price or better. Will never be bought or sold at a price 'worse' than the limit price, but even if the market price hits or goes through the limit price, the order may not place if the market price comes back.
- **Stop** – An order to buy or sell once a given price has been reached. Once that price is hit, the order "Triggers", and becomes a market order. Could be bought or sold at prices better or worse than the Triggered price.
 - **Stop-Limit order** - Like a stop order, but instead of becoming a market order at Trigger, it becomes a limit order. A stop price, and limit price are given.

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Types of Orders (Cont...)

- **Good-til-Canceled (GTC)** – An order that will not expire until it is filled
- **Discretionary vs Non-Discretionary** – If any of the 3 A's are missing (Action, Asset, or Amount) it must be in a discretionary account with discretionary authority
- **Solicited** – A client buys a security that the rep recommended to them
- **Unsolicited** – A client requests a security the rep did not recommend, but simply wants to do something themselves.

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And Now What?

So what do we do now that class is over?

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“Big Words”

- Be careful of “universal” words like;
 - Guarantee
 - Minimum
 - Always
 - Must
 - All
 - Never
- More likely to be a “softer”, or “vaguer”;
 - Sometimes
 - May
 - Can
 - Could
 - Might
 - Rarely
 - Usually

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