

Chapter 1

So You Want to Sell Securities: Introducing the Series 7 Exam

In This Chapter

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Congratulations on your interest in becoming a stockbroker! But before you can lose yourself in the energy of the office, the eager voices of your clients, and the warm glow of success, you have to face the Series 7. In this chapter, I give you an overview of the Series 7 exam, including its purpose, structure, format, scoring, and some helpful tips to guide you through the registration procedure.

What Is the Series 7 Exam, Anyway?

The Series 7 exam qualifies you to hold the title General Securities Registered Representative (stockbroker), to sell many different types of securities, and to hopefully make stacks of money for your clients (and a bit for yourself). Series 7–licensed individuals are qualified to solicit, purchase, and/or sell securities products, including

- ✓ Corporate stocks and bonds
- ✓ Municipal bonds
- ✓ U.S. government bonds
- ✓ Options
- ✓ Direct participation programs (limited partnerships)
- ✓ Investment-company securities
- ✓ Variable contracts

The exam's purpose is to protect the investing public by ensuring that the registered reps who sell securities have mastered the skills and general knowledge that competent practicing stockbrokers need to have.

The Series 7 itself is a computer-based exam given at Prometric and Pearson VUE (Virtual University Enterprises) test centers throughout the United States. The 250-question exam, administered by the Financial Industry Regulatory Authority (FINRA), is six long, arduous hours in duration. A score of 70 percent or better can get candidates a passing grade and put big smiles on their faces.

The sections later in this chapter explain the setup of the Series 7 and give a rundown of how to register for the exam. If you have other questions, contact the NASD Call Center (Main NASD Telephone Number) at 301-590-6500 or visit www.finra.org/industry/compliance/Registration/QualificationsExams/RegisteredReps/index.htm.

Profiling the Series 7 Exam-Taker

The Series 7 exam is for people who want to

- ✓ Enter the securities industry
- ✓ Become registered representatives
- ✓ Work for a securities broker-dealer

Although some less-prestigious exams (for example, the Series 6 and 62) can qualify you to sell some securities, most broker-dealers want their rising stars (that's you) to have the Series 7 license. That way, you can work with almost the whole kit and caboodle — corporate stocks and bonds, municipal and U.S. government bonds, options, direct participation programs, investment companies, variable contracts, and so on.

People who have a long and sordid history of embezzlement, forgery, and fraud are generally disqualified and weeded out and precluded from taking the exam. Candidates must disclose any prior criminal records, and the FINRA reviews each application on a case-by-case basis.

One's Not Enough: Tackling the Series 63 or Series 66

You don't have to pass any prerequisite exams before you can take the Series 7; however, you do need to pass the Series 63 or Series 66 to be able to work in the securities industry because these exams and the Series 7 are co-requisites in most states. You can take them in any order (in conjunction with the Series 7), but most people start studying for the Series 63 or 66 and register to take it right after passing the Series 7.

Note: Even if you live in a state that doesn't require either of these licenses, you still need to obtain one if you want to sell securities to someone who lives in a state that does require it. Just figure that your firm will require you to obtain the 63 or 66 to sell securities — your firm should tell you which one to take. The following sections explain what the two state-licensing exams cover.

Series 63: Uniform Securities Agent State Law Exam

The Series 63 is a 65-question test that the North American Securities Administrator Association (NASAA) developed, and it's designed to qualify candidates as securities agents. The Series 63 exam covers state securities regulation rules as well as rules prohibiting unethical and dishonest business practices (not that you'd do anything like that). The Series 63 is the most common test taken along with the Series 7, although the Series 66 is becoming more popular.

Series 66: Uniform Combined State Law Exam

The Series 66 is a 100-question NASAA exam that combines the Series 63 and the Series 65 (Uniform Investment Adviser). The Series 66 is designed to qualify candidates as both securities agents and investment adviser representatives (IARs). The Series 65 portion of the Series 66 allows you to collect a fee for just giving investment advice. This license is relatively new, and it'll most likely be required if you work for one of the bigger broker-dealers. More and more firms are requiring the Series 66 because it gives their registered reps an additional service to provide for their clients.

Securing Sponsorship and Signing Up

All candidates (that's you) must have a sponsoring broker in order to register for the Series 7 exam. After passing the exam, your license will be in your own name; however, you have to be working for a firm in order for your license to be active. Generally, a firm hires you and then acts as your sponsor.

The following sections explain the basic exam requirements and help you navigate your way through the exam registration process.

Filling out an application to enroll

For you to obtain admission to the Series 7, your sponsoring firm has to file an application form (called a *U-4*) and pay the required processing fees with the Central Registration Depository (CRD). The U-4 is an annoying little form with about a gazillion pages that requires you to remember where you were ten years ago. You're also required to submit your fingerprints, and you have to complete this step through an approved facility. Your firm will likely recommend the place they use — often the local police precinct. (Be advised that your sponsoring firm will probably frown upon your fingerprints if they're attached to your mug shot.)

If you want to see a preview of the U-4 registration form that you're responsible for filling out and that your firm has to submit, visit the FINRA Web site (www.finra.org) and search for U-4.

It's a date! Scheduling your exam

After your firm files the application with the Central Registration Depository and receives your enrollment notification, you can schedule an appointment to take the exam by contacting the Prometric or Pearson VUE Testing Center. Locate the test center nearest you by

calling either the Prometric center (800-578-6273) or the Pearson VUE center (866-396-6273) during business hours. Or you can visit www.pearsonvue.com/finra or www.prometric.com/finra/default.htm to schedule online.

Your Series 7 exam enrollment is valid for 120 days — you have to take the exam within this time frame. When scheduling your exam appointment, be ready to provide the exam administrators with

- ✓ Your name and Social Security number
- ✓ The name of your firm
- ✓ A telephone contact to reach you and your employer
- ✓ The name of the securities exam you're registering to take
- ✓ Your desired test date

Getting an appointment usually takes about two weeks, depending on the time of year (you may wait longer in the summer than around Christmas time). Prometric and Pearson VUE will confirm your appointment on the phone or via e-mail.



I suggest putting pressure on yourself and scheduling the exam a little sooner than you think you may be ready to take it; you can always move the test date back. You know yourself best, but I think most students study better when they have a target test date.

You have a choice of locations to take the exam. If you're a travelin' man (or woman), you may want to schedule your exam at a location far away (maybe even in a different state) to get the test date that you want.

After you have your test date set, you may find that you're ready sooner or will be ready later than your scheduled appointment. The exam center administrators are usually pretty accommodating about changing appointments and/or locations as long as you call before noon at least two business days before your test date.

You can get an extension from the 120-day enrollment only if you call within ten days of your enrollment expiration and if no earlier test dates are available.

Planning ahead for special accommodations

If you require special accommodations when taking your Series 7 exam, you can't schedule your exam online. You have to contact the FINRA Special Conditions Team at 800-999-6647. Read on for info on what the test administrators can do if you have a disability or if English isn't your first language.

Asking about test center luxuries

Series 7 test centers are required to comply with FINRA site guidelines; however, some of the older centers may not have the amenities that the newer ones do (such as lockers and earplugs). To protect yourself from a whole variety of unpleasant, unexpected site surprises on exam day, the FINRA Web site (www.finra.org) offers general information, including *Test Center*

Security Guidelines (including candidate ID requirements, personal items allowed, and provided aids), *Test Center Rules of Conduct*, and so on. For more site-specific questions, like whether a cafeteria, vending machines, or lockers are on site, ask the center's administrator when you schedule your test date.



Depending on your testing center, the FINRA may have to authorize you to bring medical devices and supplies — such as insulin pumps, eye drops, and inhalers — into the testing room. If you need authorization, call FINRA Field Support Services (FSS) at 800-999-6647 after scheduling the exam.

Americans with Disabilities Act (ADA) candidates

If you're disabled or learning impaired, the FINRA provides testing modifications and aids in compliance with the provisions of the Americans with Disabilities Act (ADA). To qualify for ADA provisions, your disabilities have to permanently limit a major life activity, such as learning, speech, hearing, or vision.

To apply for special accommodations, you need to submit documentation from your physician or licensed health care professional to the FINRA, along with a letter from your sponsoring firm requesting the special arrangements. Additionally, you have to submit the FINRA Special Accommodations Eligibility Questionnaire and Special Accommodations Verification Request Form for all special arrangement requests (you can find links to the forms at www.finra.org/Industry/Compliance/Registration/QualificationsExams/RegisteredReps/Qualifications/p010830).

You may request the accommodations you want approved; possible aids include

- ✓ Extra time
- ✓ A written exam (pencil and paper)
- ✓ A reader, writer, or recorder
- ✓ A sign language interpreter
- ✓ A large-print exam booklet
- ✓ Wheelchair-accessible locations

The FINRA reserves the right to make all final decisions about accommodations on a case-by-case basis.

English as a second language (ESL) candidates

If English is your second language, you can request additional time to take the exam when you schedule your Series 7 test date. If the FINRA approves, you receive an extra 30 minutes to complete each part (one hour total) of the Series 7 exam.

To qualify for this extra time, you have to provide the test center administrator with a letter from your firm, written in English on company letterhead, signed by your supervisor or manager, with your name and Social Security number. The letter should indicate that English is your second language. The supervisor's original signature has to be on the letter; a photocopy without the original signature won't be accepted.

Just in case: Cancelling as an option

If something comes up or if you feel you're just not ready, you can cancel your appointment to take the Series 7 exam without penalty if you do so before noon at least two business days before the exam date. If a holiday falls within the two-day cancellation period, you have to cancel an additional business day earlier. For example, if you're scheduled to take the exam Wednesday, January 17, you have to cancel before noon on the previous Monday, January 15. If Monday is a holiday, however, you have to cancel before noon on Friday, January 12.



If you're cancelling after the proscribed deadline, if you don't show up to take the exam, or if you show up too late to take the exam, FINRA will charge your firm a cancellation fee equal to the Series 7 exam fee paid by your firm. Don't try the old "I forgot" excuse, because not only is it ineffective, but I'm somewhat sure that it's illegal in all 50 states, Canada, and the U.S. territories.

Taking a Peek at the Tested Topics

As a practical exam, the Series 7 requires you to master vocabulary, handle customer accounts, understand the rules and regulations that govern the securities industry, and yes, work with some math formulas. For ease of use (and because humans have a limited life span), this book focuses on the most commonly tested topics on the Series 7 exam. Here's an overview of what to expect:

- ✓ The underwriting process (how new securities come to market) (Chapter 5)
- ✓ Common and preferred stock (Chapter 6)
- ✓ Corporate bonds and U.S. government securities (Chapter 7)
- ✓ Securities issued by local governments (municipal bonds) (Chapter 8)
- ✓ Margin accounts (using money borrowed from broker-dealers to purchase securities) (Chapter 9)
- ✓ Investment companies (including mutual and closed-end funds) (Chapter 10)
- ✓ Direct participation programs (limited partnerships) (Chapter 11)
- ✓ Options (Chapter 12)
- ✓ Analyzing the benefits and risks associated with investments; making appropriate recommendations to customers (Chapter 13)
- ✓ Following how new securities are brought to the market and how existing securities are traded in the market (Chapter 14)
- ✓ Risk considerations and income-tax implications that stock market investors face (Chapter 15)
- ✓ Rules and regulations governing the purchase and sale of securities and the registered representative's responsibility for maintaining accurate recordkeeping (Chapter 16)

The FINRA released a listing of the distribution of questions on the Series 7 exam. See Table 1-1 for the number of questions devoted to each activity that a registered rep performs.

Table 1-1 **Distribution of Series 7 Exam Questions**

<i>Activity Performed by a Registered Rep</i>	<i>Number of Questions</i>	<i>Percent of Exam</i>
Prospecting for and qualifying customers	9	4%
Evaluating customer needs and objectives	4	2%
Providing customers with investment information and making suitable recommendations	123	49%
Handling customer accounts and account records	27	11%
Understanding and explaining the securities markets' organization and participants to customers	53	21%

<i>Activity Performed by a Registered Rep</i>	<i>Number of Questions</i>	<i>Percent of Exam</i>
Processing customer orders and transactions	13	5%
Monitoring economic and financial events; performing customer portfolio analysis and making suitable recommendations	21	8%
Total	250	100%

Each of these activities falls under multiple areas of study. For example, to correctly answer questions that address the topic of handling customer accounts, you have to know enough about different types of stocks, bonds, and so on to be able to guide your customers, including which investments are more beneficial to retirees and which work better for investors who are just entering the workforce.

Although Table 1-1 shows the outline of the exam, I (and most other study material providers) break the chapters down by similar content to keep you from having to jump back and forth through your study material.

Understanding the Exam Format and Other Exam Details

To make sure you don't walk into the testing center, take one look at the computer screen, go into shock, and start drooling on the keyboard, I use the next few sections to cover some of the things that you should expect from the Series 7 exam.

Reviewing the exam basics

The Series 7 exam is a computerized, closed book (no book), six-hour exam. The exam is graded on 250 multiple-choice questions, and it's divided into two three-hour sessions. You take a mandatory 30–60 minute break between sessions.



You can take bathroom breaks at any time, but the clock continues to tick away, so you may want to reconsider drinking a mega-jumbo iced latte in the morning before you arrive at the exam center.

For information on the types of questions to expect, see Chapter 3. Flip to Chapter 4 for an overview of how your exam day may progress.

Practicing on ten additional trial questions

To ensure that new questions to be introduced in future exams meet acceptable standards prior to inclusion, you answer ten additional, unidentified questions that don't count toward your score. In other words, you get 260 questions to answer (130 in each half), but only 250 are scored.

Note: If you see a question on the Series 7 that doesn't seem even remotely similar to anything that you've studied (or even heard about), it may very likely be an experimental question.

Mastering the computerized format and features

Although you don't need any previous computer experience to do well on the exam, your first encounter with a computerized exam shouldn't be on the date of the Series 7. Being familiar with the way the questions and answer choices will appear on the screen is essential. Figure 1-1 and the CD-ROM that comes with this book can help you prepare for exam day.

A friendly exam center employee will give you an introductory lesson to familiarize you with how to operate the computer before the exam session begins. Although the computer randomly selects the specific questions from each category, the operating system tracks the difficulty of each question and controls the selection criteria to ensure that your exam isn't ridiculously easier or harder than anyone else's.

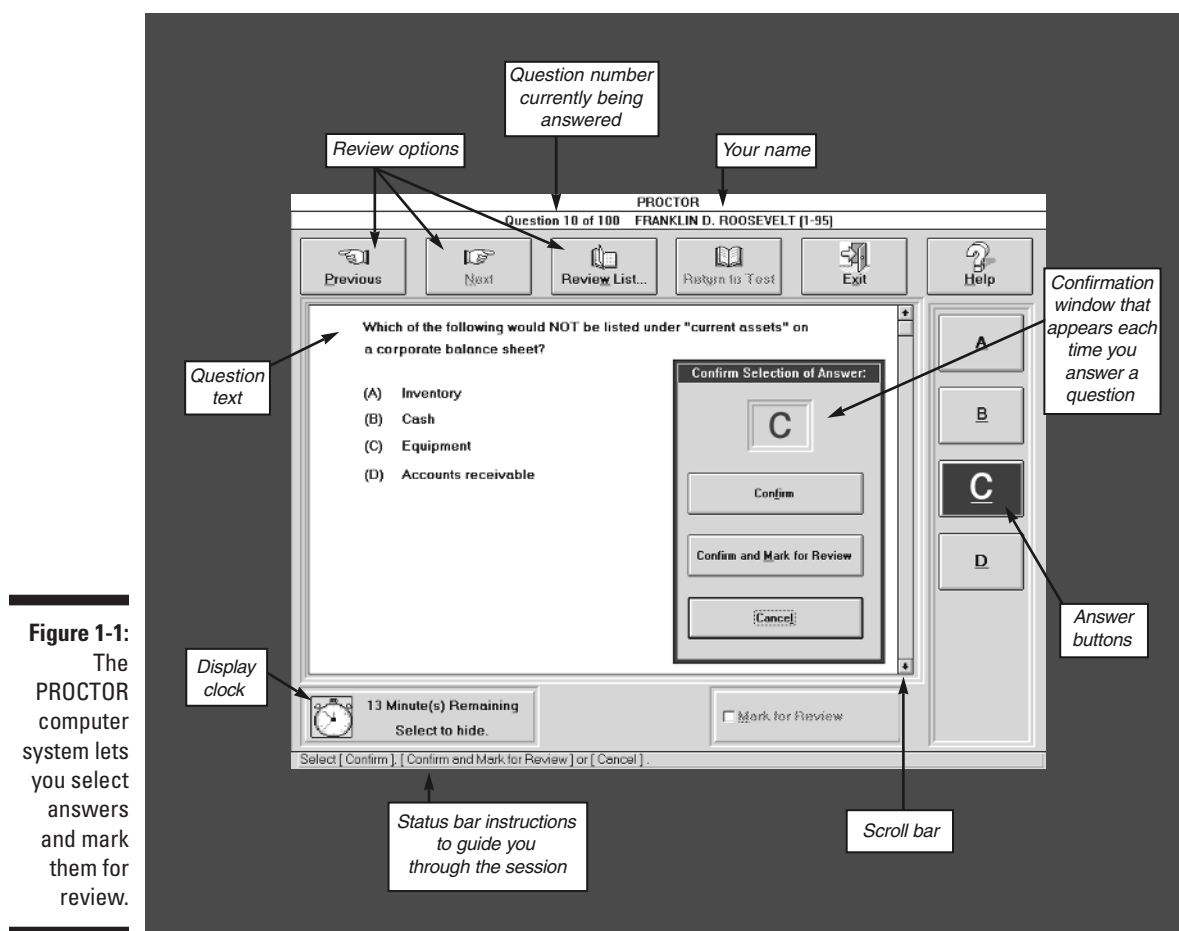


Figure 1-1:
The PROCTOR computer system lets you select answers and mark them for review.

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The following list describes some important computer exam features:

- ✓ Scroll bars for moving the questions on the screen
- ✓ A clock to help you track how much time you have left during each part (if the clock is driving you batty, you can hide it with a click of the mouse)
- ✓ A confirmation box that requires you to approve your answer choice before the computer proceeds to the next question

- ✓ An indication of which question you're currently on
- ✓ A choice of answering the questions by
 - Typing in the letter for the correct answer on the keyboard
 - Using the mouse to point and click on the correct answer
 - At some test centers, using a computer with a touch screen that lets you select the answer by pressing lightly against the monitor with your fingertip
- ✓ The capability of changing your answers or marking questions that you're unsure of for later review, which allows you to go back and answer them at any time during that particular part



You can mark answers for review or change responses only for the part of the test you're currently taking. In other words, after you begin the second part, you can't go back and change answers from the first part.



Although you can review and change all your answers at the end of each half, don't. Your brain is going to feel like it went through a blender by the time you get there. Review only your *marked* questions and change the answers only if you're 100 percent sure that you made a mistake. As an instructor, I know that people change a right answer to a wrong one five times more often than a wrong one to a right one.

Instant gratification: Receiving and evaluating your score

Remember having to wait weeks for a standardized test score, hovering somewhere between eagerness and dread? Those days are gone. At the end of the Series 7, the system calculates your score and displays a grade result on the computer screen. Although the wait for your grade to pop up may feel like an eternity, it really takes only 30–45 seconds to see your grade. When you sign out, the test center administer will tackle you (well, approach you) and give

A little testing info from the FINRA

The FINRA Web site (www.finra.org) is certainly worth checking out. It contains all the nitty-gritty details about the Series 7 and related exams. Use this Web site for the following:

- ✓ **FINRA Current Uniform Registration Forms for Electronic Filing In WEB CRD:** This page includes the U-4 Series 7 registration forms and a link to the Uniform Forms Reference Guide, with contact numbers and other explanatory information for filers.
- ✓ **FINRA Test Center Rules of Conduct:** Just in case you're unable to distinguish the Series 7 test center from that third period algebra class you had back in high school, the FINRA gives you the rules and regulations for taking the Series 7 (do not hide a list of equations under the brim of your baseball cap, do not roam the halls during your restroom break, and do not pass notes, no matter how bored you are).
- ✓ **FINRA Registration and Exam Requirements:** This section gives a comprehensive list of the categories of securities representatives and the exam requirements.
- ✓ **FINRA Appointments and Enrollment:** Here you find FINRA tips for scheduling appointments to take the Series 7 exam, info about obtaining extensions, and the exam cancellation policy.
- ✓ **FINRA Registration Exam Fee Schedule:** Check out this page to see the fees for registering for the Series 7.

you a printed exam report with your grade and the diagnostic score results with your performance in the specific topics tested on your exam.

Each question on the Series 7 exam is worth 0.4 point, and candidates need a score of 70 or better to achieve a passing grade. This translates to 175 questions out of 250 that you have to answer correctly. The scores are rounded down, so a grade of 69.6 is scored as 69 on the Series 7. When I took the exam, one of the other students from my class got a 69.6 (which was rounded down to a 69), and he had the NASD (Now called FINRA) review his exam to try and get him the extra point. Needless to say, the FINRA ruled against him and he had to take the exam again.

You passed! Now what?

After you pass the Series 7, Series 63, and/or Series 66 exam, the FINRA will send your firm confirmation that you passed. At that point, you can buy and sell securities for your customers in accordance with your firm's customary procedures.

To continue working as a registered rep, you'll need to fulfill the FINRA's continuing education requirements. Within 120 days after your second anniversary as a registered rep, and every three years thereafter, you have to take a computer-based exam at either the Pearson VUE or Prometric exam center.

So you need a do-over: Retaking the exam

Sorry to end this chapter on a negative note, but the Series 7 is a difficult exam, and certainly a lot of people need a do-over.

If you fail the Series 7, your firm has to request a new test date and pay for you to retake the test. Your sponsors can send in one page of the U-4 requesting a new exam, or they can apply online through the Central Registration Depository (CRD) system. You should reapply immediately, though you have to schedule the new test date for at least 30 days after the day you failed (that's 30 days of prime studying time!). If you fail the exam three times, you're required to wait six months before you can retake the exam.

Use the time between exams to understand what went wrong and fix it. Here are some of the reasons people fail the Series 7 exam and some of the steps you can take to be successful:

- ✓ **Lack of preparation:** You have to follow, and stick to, a well-constructed plan of study. You have your diagnostic printout after you take the exam, and you can use that to focus on the areas of study where you fell short.

Prep courses can help you identify and focus on the most commonly tested topics and provide valuable tips for mastering difficult math problems. Also consider tutoring sessions tailored to accommodate your busy schedule and pinpoint the areas of study where you need the most help.

- ✓ **Nerves won out:** Some people are just very nervous test-takers, and they need to go through the process to get comfortable in unfamiliar situations. Next time around, they know what to expect and pass with flying colors.

The people who are the most nervous about taking the exam tend to be the ones who haven't prepared properly. Make sure that you're passing practice exams on a consistent basis with grades in at least the high 70s before you attempt to take the real exam.

- ✓ **Insufficient practice exams:** You need to take enough practice exams before you take the real test. I think getting used to the question formats and figuring out how to work through them is as important as learning the material to begin with.

Check out Chapter 2 for info on setting up a study schedule and making the most of your practice exams.