

**Series 65: NASAA Uniform Investment Adviser Law Exam
Exam Specifications (updated January 1, 2004)**

CONTENT AREA	# OF ITEMS
<p>I. Economics and Analysis</p>	<p align="center">20</p>
<p>A. Understand basic economic concepts</p> <ol style="list-style-type: none"> 1. Inflation/deflation <ol style="list-style-type: none"> a. Definitions b. Causes of inflation/deflation 2. Interest rates and yield curves <ol style="list-style-type: none"> a. Graphs b. Definitions c. Interest rate = cost of money 3. Basic economic indicators <ol style="list-style-type: none"> a. GDP b. Employment indicators c. Trade deficit d. Balance of payments e. CPI 	<p align="center">(4)</p>
<p>B. Identify components of a business's financial statements to determine investment merits</p> <ol style="list-style-type: none"> 1. Income statement <ol style="list-style-type: none"> a. Revenues b. Cost of goods sold c. Pre-tax margins d. Cash flow 2. Balance sheet <ol style="list-style-type: none"> a. Assets b. Liabilities c. Working capital d. Owner's equity e. Footnotes 	<p align="center">(2)</p>
<p>C. Demonstrate understanding of quantitative methods to evaluate investments</p> <ol style="list-style-type: none"> 1. Time value of money 2. Expected return 3. Net present value 4. Internal rate of return 5. Inflation-adjusted return (real return) 6. After-tax return/yield 7. Risk-adjusted return 8. Total return 9. Holding period return 	<p align="center">(7)</p>

<ul style="list-style-type: none"> 10. Yield-to-maturity 11. Yield-to-call 12. Current yield 13. Risk measurements (e.g., Beta, standard deviation, duration) 14. Valuation ratios (e.g., P/E, price-to-book) 15. Benchmark portfolios 16. Annualized return 	
<p>D. Identify risks (i.e. definitions, impact on the market, companies, and personal investments)</p> <ul style="list-style-type: none"> 1. Business 2. Market 3. Interest rate 4. Inflation 5. Regulatory (e.g., tax law changes) 6. Liquidity 7. Opportunity cost 	(7)
<p>II. Investment Vehicles</p>	26
<p>A. Evaluate cash and cash equivalents</p> <ul style="list-style-type: none"> 1. Types and characteristics of cash and cash equivalents <ul style="list-style-type: none"> a. Certificates of deposit b. Money market funds c. Treasury bills 2. Benefits/risks of owning cash and cash equivalents 	(2)
<p>B. Evaluate fixed income securities</p> <ul style="list-style-type: none"> 1. Types and characteristics of fixed income securities <ul style="list-style-type: none"> a. U.S. government and agency securities b. Mortgage-backed securities c. Corporate bonds (i.e., investment grade and high yield) d. Convertible bonds e. Municipal bonds f. Zero-coupon bonds 2. Benefits/risks of owning fixed income securities 	(5)

<p>C. Evaluate equity securities</p> <ol style="list-style-type: none"> 1. Types and characteristics of equity securities <ol style="list-style-type: none"> a. Common stock (e.g., voting rights, etc.) b. Preferred stock c. Convertible preferred stock 2. Methods used to determine the value of equity securities (e.g., technical and fundamental analyses, dividend discount) 3. Benefits/risks of owning equity securities 	(7)
<p>D. Evaluate investment company securities</p> <ol style="list-style-type: none"> 1. Types and characteristics of investment companies <ol style="list-style-type: none"> a. Open-end investment companies (mutual funds) b. Closed-end investment companies c. Classes of shareholders, expense ratios, sales load, breakpoints, 12b-1 fees 2. Benefits/risks of owning investment company securities 	(5)
<p>E. Recognize derivative securities and their benefits/risks</p>	(2)
<p>F. Understand unique aspects of international investing</p> <ol style="list-style-type: none"> 1. Emerging vs. developed markets 2. American Depository Receipts (ADRs) 3. Currency influences (concept of risk) 	(3)
<p>G. Understand real estate partnerships and investment trusts (REITs) and variable annuities</p> <ol style="list-style-type: none"> 1. Definitions 2. Benefits/risks 	(2)
<p>III. Investment Recommendations and Strategies</p>	39
<p>A. Determine and analyze the financial profile of the client to develop a suitable investment policy and strategy</p> <ol style="list-style-type: none"> 1. Type of client <ol style="list-style-type: none"> a. Individual b. Sole proprietorship c. General partnership d. Limited partnership (including family limited partnership) e. Limited liability company f. C corporation g. S corporation h. Trust 	(12)

<ul style="list-style-type: none"> i. Estate 2. Financial goals 3. Current financial status (e.g., cash flow, balance sheet) 4. Capital needs (e.g., current, retirement, death, disability) 5. Current investments and strategies 6. Time horizon 7. Non-financial investment considerations (e.g., values, attitudes, experience, demographic characteristics) 8. Risk tolerance 9. Tax situation 	
<p>B. Understand portfolio management strategies, styles, and techniques (fixed income and equities)</p> <ul style="list-style-type: none"> 1. Portfolio management styles and strategies <ul style="list-style-type: none"> a. Strategic and tactical asset allocation (e.g., style, asset class, rebalancing) b. Active vs. passive c. Growth vs. value d. Market capitalization (micro, small, mid, large) e. Buy/hold f. Indexing g. Diversification 2. Funding techniques <ul style="list-style-type: none"> a. Dollar-cost averaging b. Income reinvestment (e.g., dividend, interest, cap gain) 	(8)
<p>C. Recognize fundamental taxation issues</p> <ul style="list-style-type: none"> 1. Individual income tax (e.g., capital gains, tax basis, retirement distribution, alternative minimum tax) 2. Corporate, trust, and estate income tax 3. Estate and gift tax 	(5)
<p>D. Recognize types of retirement plans and related issues</p> <ul style="list-style-type: none"> 1. Retirement plans <ul style="list-style-type: none"> a. Individual Retirement Arrangements (IRA) b. 403(b) plans c. Qualified retirement plans (e.g., pension and profit sharing, 401(k)) d. Nonqualified retirement plans 2. Important ERISA issues <ul style="list-style-type: none"> a. Fiduciary responsibility (e.g., 404(c)) b. Investment policy statement c. Prohibited transactions 	(6)

<p>E. Define the fundamental terms and concepts of trading securities</p> <ol style="list-style-type: none"> 1. Terminology (e.g., bids, offers, quotes) 2. Role of broker-dealers, specialists, market-makers 3. Types of orders (e.g., market, limit, stop, short sale) 4. Types of accounts (e.g., cash, margin, option) 5. Commissions, markups, spread 	<p>(4)</p>
<p>F. Calculate performance</p> <ol style="list-style-type: none"> 1. Calculate performance <ol style="list-style-type: none"> a. Total return (i.e., yield plus growth) b. Inflation-adjusted return c. After-tax return/yield d. Current yield 	<p>(4)</p>
<p>IV. Legal and Regulatory Guidelines, including Prohibition on Unethical Business Practices</p>	<p>45</p>
<p>A. Understand relevant aspects of securities acts and related rules and regulations</p>	<p>(20 of 45)</p>
<ol style="list-style-type: none"> 1. Regulation of Investment Advisers (Uniform Securities Act, Investment Advisers Act of 1940, and SEC Release No. IA-1092) <ol style="list-style-type: none"> a. State-registered investment advisers <ol style="list-style-type: none"> (i) Definition (ii) Registration (initial, renewal, amendment, termination, and when they are required) (iii) Post-registration requirements <ol style="list-style-type: none"> (a) Books and records (b) Financial reporting b. SEC -registered investment advisers (i.e., federal covered advisers) <ol style="list-style-type: none"> (i) Definition (ii) Registration with the SEC (when eligible) and post-registration requirements (iii) State authority (e.g., notice filing, antifraud authority, limitations on state authority) 	<p>(9)</p>
<ol style="list-style-type: none"> 2. Regulation of Investment Adviser Representatives (Uniform Securities Act and Investment Advisers Act of 1940) <ol style="list-style-type: none"> a. Definition b. Registration (initial, renewal, amendment, termination, and when they are required) 	<p>(3)</p>

<p>3. Regulation of Broker-Dealers, Issuers, and Agents (Uniform Securities Act and Securities Exchange Act of 1934)</p> <ul style="list-style-type: none"> a. Definitions b. Registration (when required) 	<p>(2)</p>
<p>4. Regulation of Securities</p> <ul style="list-style-type: none"> a. Definitions (Uniform Securities Act, Securities Act of 1933, Securities Exchange Act of 1934, Investment Company Act of 1940) <ul style="list-style-type: none"> (i) Security (ii) Federal Covered Security (iii) Offer or sale (iv) Other (e.g., non-issuer, guaranteed, investment company) b. Registration and post-registration requirements (Uniform Securities Act, Securities Act of 1933, Investment Company Act of 1940) c. Exemptions (Uniform Securities Act) <ul style="list-style-type: none"> (i) Securities (ii) Transactions (iii) Scope of exemption d. State authority over federal covered securities (e.g., notice filing, antifraud authority, limitations on state authority) (Uniform Securities Act and Securities Act of 1933) 	<p>(2)</p>
<p>5. Remedies and Administrative Provisions (Uniform Securities Act)</p> <ul style="list-style-type: none"> a. Authority of the Administrator (e.g., investigation, issuing subpoenas and orders, jurisdiction) b. Administrative actions (e.g., denial, revocation, suspension) and basis for disciplinary action (including false, misleading, and/or delinquent filings) c. Other penalties and liabilities (e.g., civil, criminal) available to the Administrator and others d. Other provisions (e.g., filing of sales and advertising materials) 	<p>(4)</p>
<p>B. Demonstrate ability to apply ethical practices and meet fiduciary obligations (NASAA Model Rule on Unethical Business Practices of Investment Advisers and Federal Covered Advisers, Uniform Securities Act, and Investment Advisers Act of 1940, Securities Exchange Act of 1934, Uniform Prudent Investors Act)</p>	<p>(25 of 45)</p>
<p>1. Communications with clients and prospects (e.g., disclosure, unlawful representations concerning registrations, performance guarantees, client contracts)</p>	<p>(8)</p>
<p>2. Compensation (e.g., fees, commissions, performance-based fees, soft dollars, and disclosure of compensation)</p>	<p>(4)</p>

<p>3. Client funds and securities</p> <ul style="list-style-type: none">a. Custody, including required disclosures and comminglingb. Discretion and/or trading authorizationc. Prudent Investor standards, including trustee issuesd. Suitability, including recommendations	<p>(5)</p>
<p>4. Conflicts of Interest and Other Fiduciary Issues</p> <ul style="list-style-type: none">a. Excessive tradingb. Loans to and from clientsc. Client confidentialityd. Insider trading (including policies), front-running, shadowinge. Antifraud provisionsf. Limitations on advice and activities (i.e., when to consult other professionals)g. Fiduciary duty (including fairness, impartiality)	<p>(8)</p>