
Addendum: for use with Series 65 and 66 online ExamFX courses and study guides version #23663en (Series 65) and 20567en (Series 66).

The following are content additions to supplement your existing text:

Please note that the term “specialist” has been replaced with “**a designated market maker (DMM)**.” It is important to know both terms for your exam.

Economic Factors and Business Information

C. Trading Securities

2. Quotes – Bid vs. Ask

Best Execution

In addition to the above it is important to remember best execution.

Best execution is not purchasing a security at the lowest price or lowest commission rate as it involves both quantitative and qualitative factors. The goal of best execution is not the lowest possible commission cost but whether the qualitative and quantitative factors represent the best qualitative execution for the managed account.

Examples of qualitative factors include execution capability, financial responsibility and responsiveness of the trading platform/custodian. Quantitative factors include the commission rates and actual price of the transaction as compared to other similar transactions of the same security at or about the same date and time.

All investment advisers should have best execution policies and procedures in effect and documentation should be maintained.

Investment Vehicle Characteristics

B. Types and Characteristics of Fixed Income Securities

Asset-Backed Securities

Asset-backed securities, or ABSs, are typically bonds or notes backed by assets other than mortgages. Mortgage-backed securities, or MBS, are a separate class than ABS. ABSs are often backed by a group of illiquid, income-generating assets, such as loans, leases, credit card debt, royalties, or receivables, that cannot be traded individually. Asset-backed securities are an alternative to investing in corporate debt.

F. Types and Characteristics of Pooled Investments

Real Estate Investing

Investing in real estate is an alternative to investing in stocks and bonds and provides additional diversification for the client. Investors can choose to invest in real estate directly through real estate development projects or by choosing to purchase and manage real estate and then rent and/or sell it for a profit. There are increased risks to this practice. For many investors, investing in public REITs, limited partnerships or other security types backed by real estate provides additional diversification for their portfolio with less risk.

Investment Suitability

A. Type of Client

3. Wills, Trusts, and Estates

Wills govern how an individual's assets are to be distributed after their death and can be used alone, or in conjunction with one or more trusts. In most cases a client should consult with an estate planning attorney for completion of these documents.

A will should name an executor, the individual's beneficiaries and guardians for minor children or disabled adult dependents, if applicable. The will also spells out how to distribute the assets. All wills go through probate and both spouses in a marriage must have their own individual will.

For more complex financial situations, a trust is often used. The trust is a legal entity that owns the property and assets placed in it. A trustee (and sometimes a successor trustee) is named. There are many different trust formats, but all offer privacy, since trusts do not go through probate) and increased control over the transfer of assets. Trusts also enable the assets to transfer property almost automatically upon death, without the delays or public scrutiny of probate court.

B. Client Profile

1. Financial Goals and Strategies

Current Income

The federal **marginal tax rate** increases in the United States as income rises, and is the tax rate paid on the next dollar of income. Also known as progressive taxation, the marginal tax rate helps ensure low-income earners are taxed at a lower rate than higher income earners.

Laws, Regulations, and Guidelines, Including Prohibition on Unethical Business Practices

A. State and Federal Securities Acts and Related Rules and Regulations

6. Post-Registration Requirements of Broker/Dealers, Investment Advisers, Investment Adviser Representatives, and Agents

Although not yet adopted, a proposed SEC rule from 2016 would require federally registered investment advisers to adopt and implement written business continuity and transition (i.e., succession) plans. This is often expected during exams and will generally be on the document request list provided by the regulators. Some states have already adopted NASAA's Model Rule 203(a)-1A so always check your state's requirements.

Business continuity plans cover different scenarios, including disaster recovery and transition/succession plans to simpler scenarios such as the inability to access your offices. Disaster recovery plans are often quite detailed and lengthy while the inability to access your office may cover only the basics such as how to log in from your home office or change the firm's voice mail. Succession planning will, in most instances, have one or more legal contracts and an explanation of what happens should the owner of the firm become incapacitated or die.

It is important to ensure your business continuity and succession plans are current and are communicated to all necessary personnel within your firm. Leaving your plan stored only in electronic or hard copy at your office won't be terribly helpful if you can't access the building (or your network) during a time of crisis. Be sure to keep current copies in your home office and that your key employee(s) do the same. And do at least an annual run-through of your business continuity plan updating and clarifying as necessary.

B. Ethical Practices and Fiduciary Obligations

1. Communications with Clients and Prospects

Discretion

Investment advisers often trade with discretion in their clients' accounts allowing them to place trades in multiple accounts timely and efficiently. To do so, the adviser must have written permission from the client for each account they are authorizing to be traded with discretion. Clients should always have the ability to rescind the permission at any time.

Trading with discretion allows the investment adviser to enter trades without contacting the client for permission in advance of entering the trade. Often called discretionary trading authority (DTA), the authority rarely extends to the withdrawal of funds or securities, other than for payment of management fees. The trades entered by the

adviser must meet the adviser's fiduciary requirements as well as the client's suitability and risk profile.

5. Code of Ethics

The Code of Ethics must include initial, quarterly and annual reporting requirements for all covered persons. Failing to submit these reports for a timely review constitutes a violation of the Code.