

ESSENTIAL GUIDE TO SAFE INVESTING

provides a concise and comprehensive explanation of how individual investors of all ages can protect themselves against fraud, scams, and other types of wrongdoing. The guide offers an overview of how investing works, explains common kinds of investment fraud, and identifies the danger signs that all investors should know. It also suggests remedies for anyone who has been the victim of securities fraud. With its engaging artwork and straightforward language, the guide helps readers understand the importance of caution and safety when making investment decisions.



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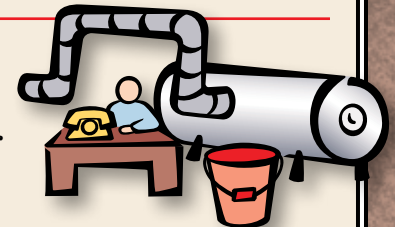
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ESSENTIAL GUIDE TO SAFE INVESTING

• Investor Scams



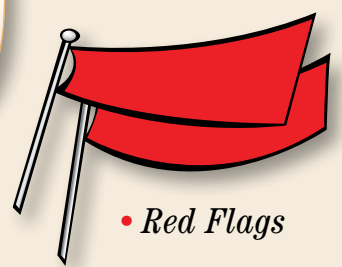
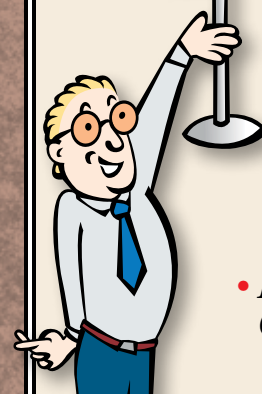
• Types of Fraud

• Understand Risk

• Investor Rights

• Background Checks

• Red Flags



VIRGINIA B. MORRIS AND KENNETH M. MORRIS



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In investigating alleged violations, the Division can suspend or revoke licenses, issue stop orders against securities offerings, issue cease-and-desist orders, and even seek court-ordered injunctions or refer matters to the appropriate district attorney for criminal prosecution. The willful violation of North Carolina's securities statutes may be punished as a felony.

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ESSENTIAL GUIDE TO SAFE INVESTING

CONTENTS

- | | |
|----------------------------------|----------------------------------|
| 2 How Investing Works | 10 Investment Sales Fraud |
| 4 Investment Risks | 12 Red Flags |
| 6 Where You Invest | 14 Where to Get Help |
| 8 Recognizing Stock Scams | 16 Glossary |



How Investing Works

When you invest your money, you're putting it to work—ideally, to make more of it.

When you invest your money, you use it to try to make more money. You expect your investment to grow in value, provide income, or both. And if you invest wisely, you can increase your **principal**, or the amount you've invested, over time.

Investing isn't the same as saving. When you save, you're holding money in a safe place to earn interest—a bank account, for example. That's fine for building an emergency fund or accumulating money for short-term needs. But when interest rates are low, your earnings probably won't keep pace with **inflation**, the gradual increase in the prices of goods and services. On the other hand, while there are no guarantees with investing, there is the expectation that over time you'll have a return greater than the rate of inflation.

You invest your money by buying financial products with goals such as growth, income, or safety. There are three basic types of investment:

- **Stocks** and **stock mutual funds**
- **Bonds** and **bond mutual funds**
- **Cash** and **cash-equivalent investments**, including certificates of deposit, or CDs, and US Treasury bills, or T-bills

While each one of these puts money to work in a different way, they have similarities. They're easy to buy and sell. They're available at a wide range of prices. And they have the potential to provide the primary benefit of investing: the possibility for growth or income or a combination of growth and income.

INVESTING GOALS

You don't need a lot of money to be an investor. But no matter what, you need to understand your investment goals. Along with how much money you can invest, your tolerance for risk and your goals determine what style of investing is best for you.

With all investments, there's an expectation of making money—called your **return**—and a possibility of losing money, which is the element of **risk**. In general, the greater the chance of a

substantial return on an investment, the greater the risk of loss on that investment.

Given your investment goals, you should decide how much risk you can tolerate. You should not invest money you need to live on, and thereby put that money at risk. Your age is a big factor. If you're near retirement age, your goal may be financial security. So your goal would be to preserve your principal and generate a stream of income. If you're young, your goal may

STOCKS

Stocks are **equity** investments, or ownership shares in a business. When you and other investors buy shares, you actually buy part-ownership of the business. If the company prospers, you may make money because you're paid a portion of the profits, known as a dividend, or because the value of the stock increases, or both. While you can't predict the future, stocks have historically been strong long-term investments. But they have also been more volatile—or vulnerable to losing value—than other investments.

OTHER INVESTMENT PRODUCTS

Annuities are savings plans that are designed to provide future income during your retirement, and are usually tax-deferred. This means you don't pay taxes on your earnings until you start withdrawing, usually when you're retired. Annuities, however, can tie up your principal for long periods and have hefty commissions and penalties

BONDS

Bonds are debt securities that you and other investors make to bond issuers, including corporations and governmental units, such as the US Treasury, states, counties, municipalities, or special districts or authorities. When issuers borrow, they promise to pay back the full amount of the loan at a specific time, plus **interest**, or a percentage of the loan amount, for the use of your money. Most investors buy bonds, also known as **fixed-income** investments, because they expect to receive their investment amount back and because they like the regular interest income.

for early withdrawal. Therefore, they may not be suitable for elderly investors.

Insurance policies protect you and your family against financial difficulty due to illness, disability, and death, but some types allow you to choose how your premium payments are invested.

be growth or concentrating on building up the value of your assets. So you can take more risk, because if you lose money in some years, you have time to recover it in other years.

It's important to keep your goals and risk tolerance in mind as you invest, because if you hear about investments that sound enticing—promising big returns—you'll know that they usually come with big risks.

CASH

Cash-equivalent instruments, such as T-bills or certificates of deposit, are low-risk, short-term investments. They usually pay more interest than savings accounts and can be easily sold—that is, they're highly **liquid**. And because they are short term and low risk, they may be more secure than stocks, bonds, or more exotic investments, but you may forfeit some interest if you cash in a CD before its term is up.

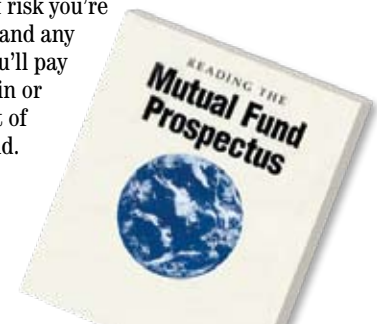
MUTUAL FUNDS

A mutual fund invests money that you and other people put into the fund. With this money, a fund can buy many different investments, usually either stocks or bonds but sometimes both stocks and bonds. Because each mutual fund is managed by a professional, you benefit from that expertise. Before you buy shares in a fund, you should read its **prospectus**, which describes the investments the fund makes, its goals, and management style, as well as the level of risk you're taking and any fees you'll pay to buy in or sell out of the fund.

INVESTMENT VOCABULARY

Stocks, bonds, and notes are common types of **securities**, a term that once referred to the actual documents issued to represent investment ownership. Today that information is recorded electronically, but the name securities is still used.

Investments are sometimes referred to as **products** or **vehicles**. These terms usually mean you get access to a number of securities in a single package. Often that package includes—for a fee—something else, such as professional management.



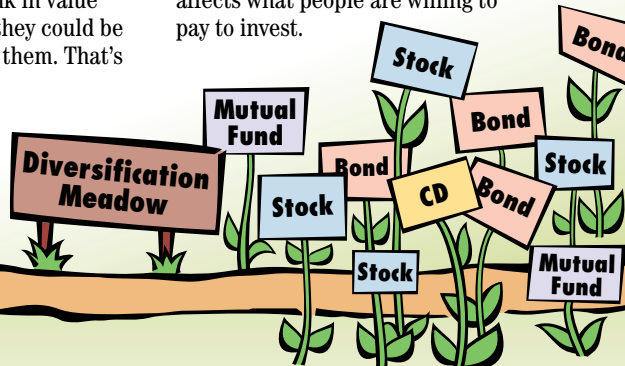
Investment Risks

When you invest, you can lose money as well as make it.

If you want the rewards of successful investing—greater financial security and the confidence that comes with taking important steps toward meeting your goals—you have to be willing to take some **risk**. This means accepting the fact that you might lose money on certain investments.

All investments can shrink in value as well as grow, so at times they could be worth less than you paid for them. That's

true in part because investments don't have a fixed price. Instead, they change in value to reflect investor demand. That demand is based, in large part, on how much money potential buyers are willing to pay for a particular investment. What's happening in the economy and the world at large also affects what people are willing to pay to invest.



LIMITING RISK

While taking some risk is normal in investing, there are ways to balance various risks to produce a potentially greater return, or profit, on your investment.

You can spread your money, or **diversify** it, among different types of investments. One of the riskiest ways to invest is to put all your money in just one or two investments. If that investment goes down in value, your money goes down with it. But by spreading your money out

and owning a number of investments with different levels of risk, you might protect yourself. That's because as the value of some investments goes down, the value of others usually goes up. For example, when stocks are providing strong returns, bond returns often slump. But when investors are buying bonds, stock prices tend to slide. Owning a mix of both types of investments can balance out the risk of owning just one type.

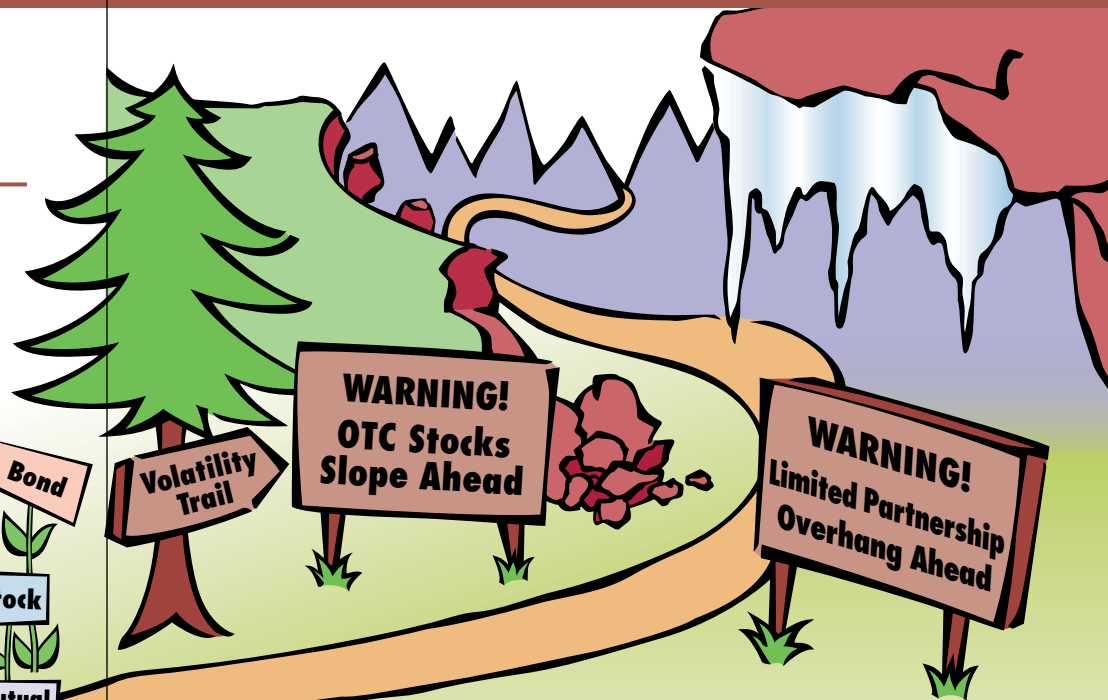
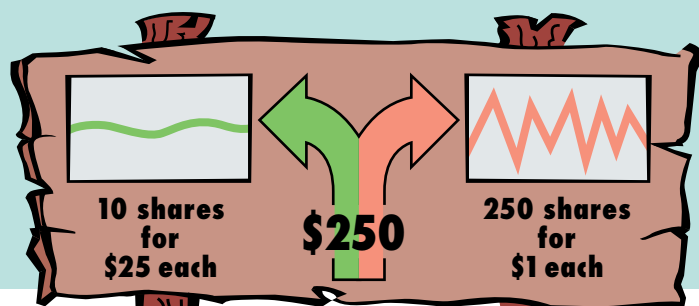
When you invest, it's also smart to watch **volatility**, or the degree to which

UNDERSTANDING PRICES

Just because an investment is cheap, it's not necessarily a good value. An investment's price does not mean that it is suitable for your goals.

For instance, if you have just \$250 to invest, you would almost always be better off buying ten shares of an established, well-regarded company at \$25 a share than buying 250 shares

of a \$1 stock in a company you have never heard of. An established company offers investors full **disclosure**—information about the company's business, outlook, and the stock itself. Thus that \$25 stock usually poses less overall risk than the \$1 penny stock, which is probably unlisted, much more volatile, thinly traded, and less likely to be around in a few years.



an investment gains or loses value and the frequency of those changes. The more volatile an investment is, the more you can potentially make or lose in the short term. If you have a low risk tolerance and a short time to meet an investment goal, you might want to avoid volatile investments.

SPECIAL RISK

While all investments present some risk, it's important to note that there are some types that are especially risky. In fact, these kinds of investments pose such high risks that many investors steer clear of them completely. Many professionals discourage people from buying these types of investments:

OTC stocks: Shares in companies that aren't listed on a major stock market like the New York Stock Exchange or the Nasdaq Stock Market are called "over-the-counter," or OTC, stocks. OTC stocks are often thinly traded, which means they're not traded often or in large quantities. That makes these stocks risky because they can be difficult to sell, if necessary. OTC stocks are also risky because public information on their prices, available quantities, and on the companies themselves is much less accessible than on stocks listed on stock exchanges.

Penny stocks: A specific type of OTC stock, penny stocks sell for less than \$5 a share. While some penny stocks may produce big returns over the long term, many of them turn out to be worthless.

Penny stocks are often falsely promoted to unsuspecting buyers, who are led to believe they are getting a bargain and the shares will be worth far more someday. Professional investors such as mutual fund managers tend to avoid penny stocks, and responsible brokerage firms warn their clients of the risks involved before handling transactions in these stocks.

Investments with withdrawal restrictions or large fees: Some investments may prevent you from withdrawing your money for a certain period of time or charge a steep fee upon early withdrawal. While the investments may be perfectly legal, you should always know up front if there is a withdrawal restriction, how long it lasts, and what the penalty would be. Deferred variable annuities, for instance, are legitimate investments but most charge steep withdrawal fees for up to seven, or sometimes ten, years after you purchase them.

Investments with little liquidity: An investment with little liquidity cannot be easily converted to cash without losing value. An example of such an investment is a limited partnership, which pools people's money into real estate or some other venture. Limited partnerships are not traded on stock exchanges or similar marketplaces, so if you need your money, you could have trouble finding someone to buy your portion of the partnership at the price you want. For this reason, limited partnerships and other illiquid investments are considered risky.

Where You Invest

Investing safely starts by finding the right place to open an account.

When you invest, you buy and sell, or **trade**, securities. Usually you trade investments through an intermediary, who places your order in exchange for a commission or fee. The intermediary you choose will depend on the investments you want to make and whether you want financial advice as well.

You can buy almost any kind of investment by setting up an account at a securities brokerage firm. **Brokerage firms**, also called broker-dealers, must be licensed, and the brokers, also known as agents or registered representatives, who work there must be registered. Brokers receive commissions on what they sell. Some brokerage firms operate only online, but they must still be licensed, and you still pay for their services. Many **banks** operate subsidiaries separate from their regular banking operations where brokers trade securities.

An **investment adviser** provides advice, helping you develop a plan for meeting your financial needs and goals. Like securities broker-dealers, investment advisers and investment adviser representatives must be registered, though the rules governing their responsibilities differ. Most investment advisers get paid with fees, not commissions. And some don't trade investment products at all, but just provide advice for a fee—so you need to set up a brokerage account somewhere else to actually buy and sell investments.

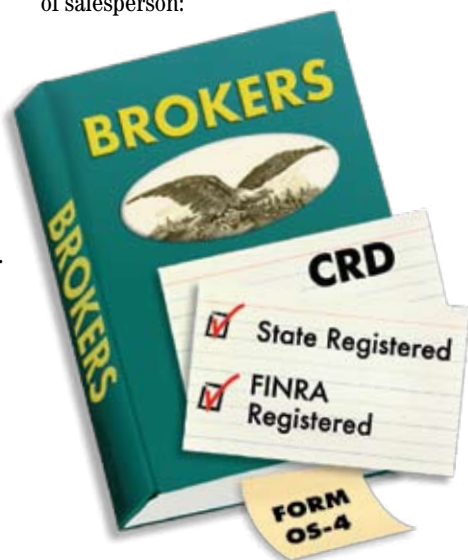
If you want to invest just in mutual funds, you may open an account with a mutual fund **investment company** and purchase shares in the fund directly. Or you may buy funds through your broker or adviser. And if you want to buy only insurance products, like annuities, you can work with an **insurance agent**. Insurance agents must be licensed by each state in which they sell products, and most are paid with commissions.

DOING YOUR HOMEWORK

Unfortunately, some investment professionals don't act responsibly, or might even try to rip off clients. Responsible brokers, investment advisers, and insurance agents will show you records proving their legitimacy. But, to avoid becoming a victim, no matter where you

invest you can—and should—run your own background check. If there are problems or if any of these professionals has been accused of wrongdoing, these records will show that.

There are several ways to check a particular investment salesperson's background. For starters, get their office phone number and address to be sure they actually have a place of business. Then check that they're properly licensed and registered. Doing that depends on the type of salesperson:

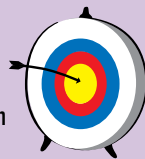


Brokers: Whether they work at brokerage firms or banks, brokers are called registered representatives or agents, and must be registered in the states where they work and with The Financial Industry Regulatory Authority (FINRA). To see information on a particular broker, you

GETTING STARTED

Never invested before? It can be intimidating, but here's how to start:

Step 1: Identify your goal for investing and one type of investment that may help you reach it, such as a mutual fund or stock.



Step 2: Find a financial adviser or broker to help

can review records held in a national database called the **Central Registration Depository**, or CRD. The CRD contains information such as licensing status and disciplinary history. To obtain a CRD form call your state securities bureau. You can find it by contacting the North American Securities Administrators Association at www.nasaa.org, or 202-737-0900. In addition, you can also speak to a supervisor, called the **branch manager**, for more information on a particular broker.

Investment advisers: A firm that gets paid for providing investment advice must

If you invest through a 401(k), 403(b), or similar account offered through your employer, you must deal with the company your employer has chosen to run the plan. Called a **plan provider**, this is usually a brokerage firm, a bank, an investment company, or an insurance company.

summary of the adviser's background and fees. You can see an adviser's Form ADV by contacting your state securities bureau. Investment advisers who buy and sell securities must also be licensed as registered representatives.



register as an investment adviser, either with the state or Securities and Exchange Commission (SEC). Registered investment advisers are required to file a document called **Form ADV**, which lets you check their backgrounds. One part of Form ADV lists any disciplinary actions against the adviser—but not current complaints, if there are any. The other part contains a

Insurance agents: Insurance agents are licensed by the state or states in which they sell their products. Independent insurance agents sell products for at least two different insurance companies, while exclusive insurance agents represent only one company. Most insurance agents are paid with commissions on the products they sell.

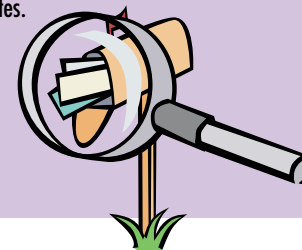
narrow your choice to a particular investment. Go with someone you are referred to rather than finding someone through the phone book or ads. Talk to friends, coworkers, and family, or even your bank manager. Never respond to strangers' solicitations to invest.

Step 3: Write a check for your first investment to your new brokerage, bank, mutual fund, or other account, not to an individual. You can sometimes invest as little as \$50 or



\$100 with a direct deposit account, but getting started may require a certain minimum, such as \$1,000 or more.

Step 4: Track your investment by reading the information you get in the mail and asking your adviser for updates.

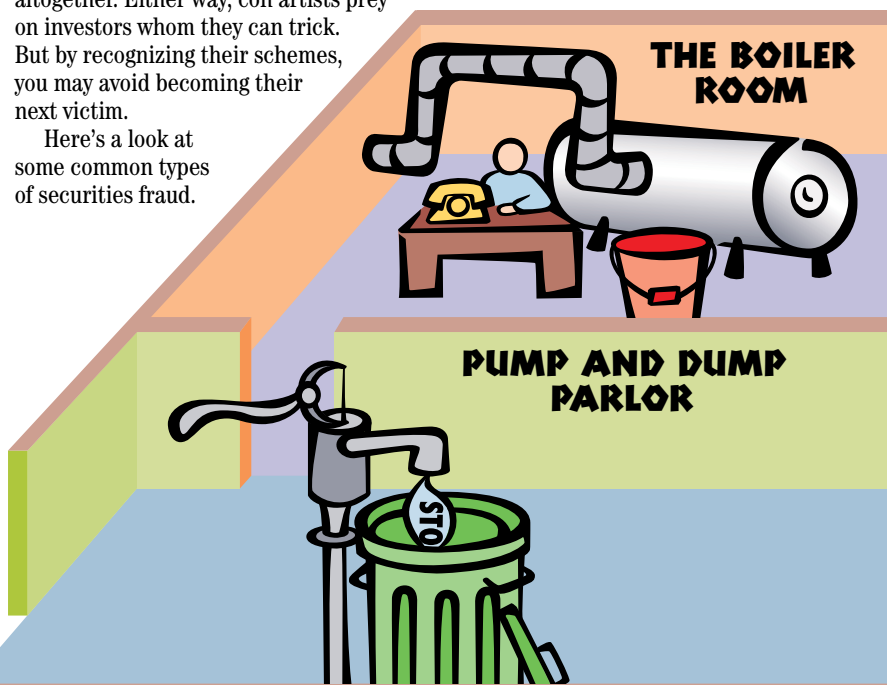


Recognizing Stock Scams

Illegal schemes lurk out there, but understanding how they work can help you spot and avoid them.

An investment scam might involve legitimate products, but the way they are sold might be illegal. Or a scam might be based on selling illegal investments altogether. Either way, con artists prey on investors whom they can trick. But by recognizing their schemes, you may avoid becoming their next victim.

Here's a look at some common types of securities fraud.



THE SCAM SHACK

- **Pump and dump** is a stock scam in which the scammer buys shares in low-priced stocks of small companies, known as penny stocks. He or she then spreads false information, often through a cold call or on the Internet, to pump up the price of these stocks. After investors caught up in the hoax buy shares, the scammer sells—or dumps—the stock at the highest price, and disappears with the profit, leaving other investors holding almost worthless shares. In an Internet chat room—where this scheme often takes place—you might identify a pump and dump scam by a surge of undocumented information on a particular penny stock, urging you to buy it. Steer clear of an investment if you hear about it only in chat rooms or in a phone call out-of-the-blue from a broker you have never talked to before.
- **Boiler rooms** and **bucket shops** are locations from which con artists launch

fraudulent stock scams or sell stocks illegally. The locations range from rented office space that might seem legitimate to private homes or even overseas sites.

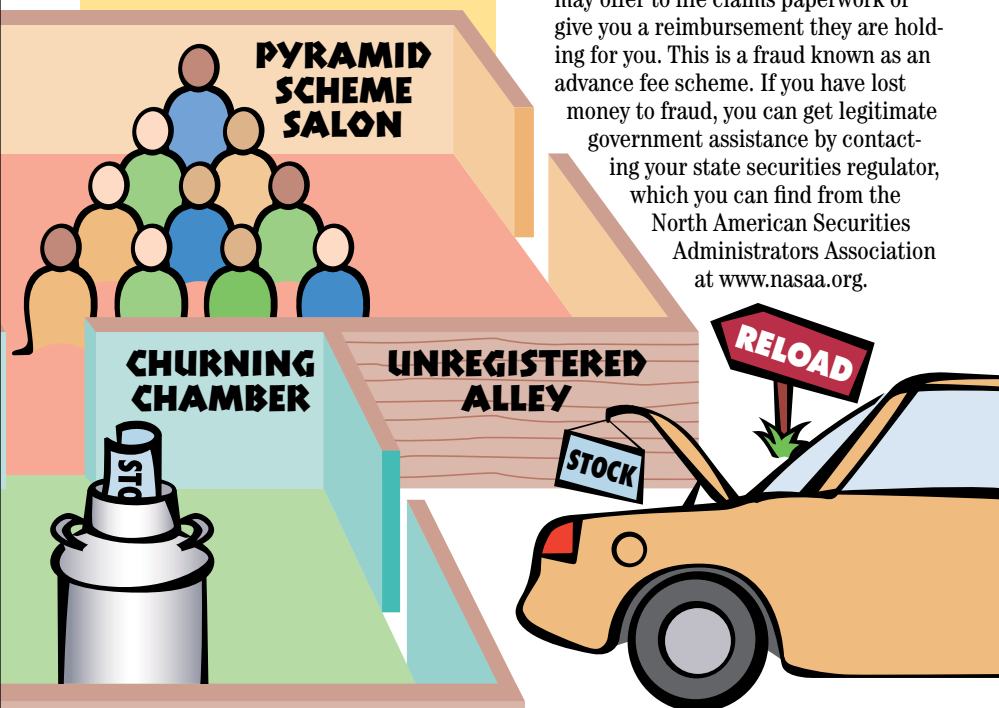
Typically, boiler rooms feature rows of telephones used by cold callers. Cold callers phone potential victims randomly, using unscrupulous, high-pressure tactics and sometimes false information, to try to sell high-risk stocks or other investments.

A bucket shop, or illegal brokerage firm, may never buy the securities for you that you ordered. Rather, the con artists pocket your money, figuring that you won't notice the scheme right away. Then the entire operation disappears—sometimes literally overnight—before authorities can track down their whereabouts.

You should hang up if you receive an unsolicited phone call about an investment and the caller pressures

Pyramid schemes are another type of scam. A con artist recruits people who pay to participate in a supposed investment. To recoup their money, these new recruits are told to find more people, who in turn put in money. Each new recruit then is expected to recruit additional players. Be careful of any offering in which you have to not only put money up front but also find other investors.

- A **reload scam** takes place after you have been tricked on an investment and then told you can recoup your money by investing more money or rolling over your initial investment into a new investment. This way you're "reloaded" and set up for a second scam. You may be told you can get your funds back if you try again. Or for a fee, scammers may offer to file claims paperwork or give you a reimbursement they are holding for you. This is a fraud known as an advance fee scheme. If you have lost money to fraud, you can get legitimate government assistance by contacting your state securities regulator, which you can find from the North American Securities Administrators Association at www.nasaa.org.



you into making a decision on the spot. You should also hang up if you ask the caller for written information, and he or she refuses to provide it or evades questions.

You can avoid being scammed this way by never investing in anything over the phone without reading a prospectus first and understanding the risks of the investment. You should also know and feel comfortable with the person attempting to sell you the investment. One way to establish some level of comfort is to check out the person or firm with your state securities regulator to be sure they are properly registered or licensed.

- **Churning** is a type of fraud in which a stockbroker or investment adviser to whom you have granted control of your account buys and sells securities without explaining why so much trading is necessary. If you end up paying more in commissions than you earn on your investments because of your broker's frequent trading you might suspect your account is being churned. Fear of

churning is one reason to avoid turning control of your account over to a broker or investment adviser (known as giving them discretionary authority over your account). Always carefully review your monthly statements for illogical or overly frequent transactions.

- If a broker sells **unregistered securities**, he or she is not dealing in legitimate investment products. Investments must be registered at the state level before they can be sold, unless they are traded on a national stock exchange like the New York Stock Exchange, American Stock Exchange, certain regional exchanges, or the Nasdaq. Most unregistered securities promise low risk and high returns. Usually their promoters are the only ones who make any money. You can check the registration statement of a security by accessing a free database run by the Securities and Exchange Commission, at www.sec.gov/cgi-bin/srch-edgar. Don't invest in any securities unless they're properly registered or exempt from registration.

Investment Sales Fraud

Dishonest salespeople can cause you a lot of trouble.

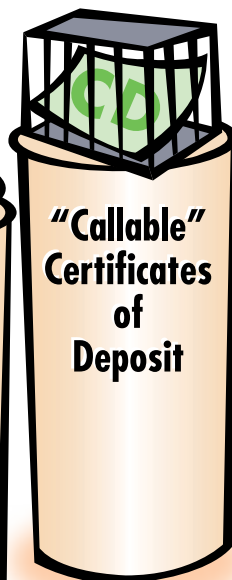
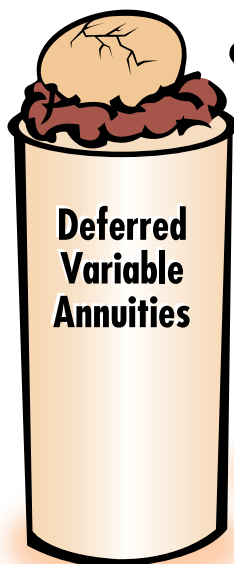
While most brokers, investment advisers, financial planners, and insurance agents are honest, some aren't. But if you're alert and follow some basic rules, you can protect yourself against fraudulent or inappropriate investments by avoiding salespeople who pressure you for immediate decisions and by checking salespeople's credentials before you work with them. What may be harder is to decide whether an otherwise legitimate product is right for you.

LICENSING AND REGISTRATION

In cases of investment fraud, a salesperson is operating illegally. **Unregistered brokers and investment advisers** might appear to be legitimate and they may even sell genuine products, but they operate without being properly licensed to do business, which is illegal. Everything may seem fine at first, but then they might disappear. Your best protection is to never work with an investment professional before you check whether he or she is registered or licensed with the

state where you invest or the Securities and Exchange Commission. Always review a firm's and broker's CRD registration, employment and disciplinary record, and an investment adviser's Form ADV to check qualifications and to see if he or she has any prior disciplinary history.

In other cases, the way in which investment products are sold may be a problem. Many salespeople offer **investment seminars** at a hotel or other public facility, focusing on financial or retirement planning. Some seminars can be educational and useful, but others are high-pressure sales pitches intended to sell investment products. If you attend a seminar, it's unwise to buy anything there. And you shouldn't reveal detailed personal or financial information, such as your Social Security number.



PRODUCT RECALLS

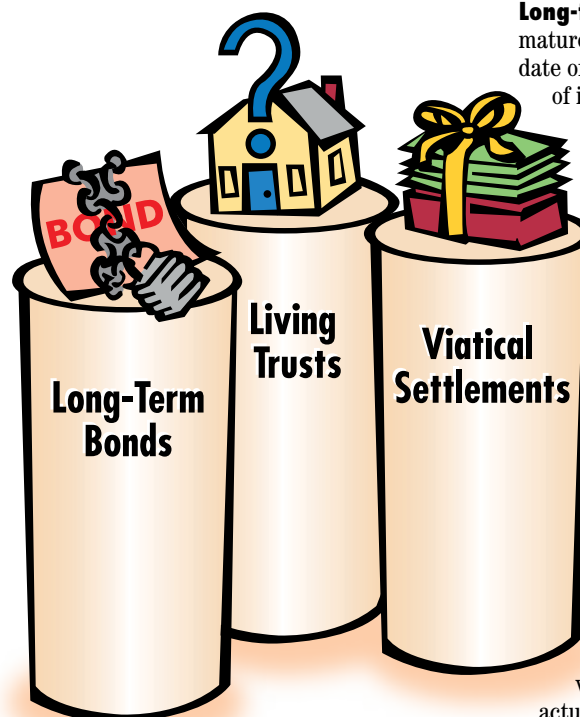
Certain types of investment products may be a problem, depending on how and to whom they're sold.

Deferred variable annuities may be inappropriately marketed to people who should not buy them. These products are not usually suitable for older clients because they build value over a long period, tying up the assets for years. If you do buy a deferred annuity and realize later that the product is inappropriate for you, you are likely to face stiff **surrender fees**, sometimes as high as 7% to 10% of the amount invested, to get your money back. You will have also lost what you paid in fees and commissions.

HOW FRAUD FINDS YOU

Con artists might track you down in a variety of ways:

- **Buying your information:** Many scam artists will call you, email you, or mail you letters, all unsolicited, offering unrealistic promises of guaranteed returns or no-risk investments. Some con artists buy names and addresses of people who subscribe to magazines to target potential new victims.
- **Luring you in:** Other scammers try to hook you in online investment chat rooms by raving about a hot stock that sparks your curiosity. Some place ads in newspapers offering guaranteed returns on can't-miss investments. Even mainstream publications might carry these ads.
- **Talking to you:** You might even meet a scam artist in person, because some go where they think likely targets might congregate. Never discuss your personal financial situation with a stranger, even if he or she seems helpful. If someone offers you an investment, turn it down or ask for a business card. Then thoroughly check the qualifications of the person and the firm named on the card by contacting your state securities regulator.



Long-term bonds—which typically mature in more than 10 years from the date of issue—usually offer higher rates of interest than other types of bonds.

But some salespeople don't say that the greater income is in exchange for locking up your money for a lengthy period. If you need your investment principal before the bond matures, you will be able to get it, but you might have to sell for less than you paid for the bonds if interest rates in general have increased or if the bond's rating has been lowered. You'll also have to pay a second commission when you sell.

BUYER BEWARE

Living trusts, a tool you can use to pass assets to your heirs and to hasten the settlement of your estate after you die, can be

very useful. But some scam artists actually operate living trust mills, exaggerating the benefits of the products while churning out documents that are false and misleading. In pitching the trusts over the phone or in a visit to your home, the salesperson may say, for instance, that these products replace the need for a will and eliminate estate taxes—neither of which is true. If you wish to explore a living trust, work only with an experienced attorney whose references you can check with the state or county bar association.

Viatical settlements provide lump sums of cash in exchange for the death benefits of a life insurance policy. Companies that market these products sometimes take advantage of consumers by underpaying for the benefits or by charging excessive fees.

"Callable" certificates of deposit

(CDs) are very different from regular bank CDs. Most conventional CDs mature in terms of three months to five years, earning interest in that period. Then you can take your money out. But callable CDs might not mature for as long as 10 to 30 years. In that period, your money may be inaccessible unless you pay a steep penalty—an important fact that some dishonest investment salespeople conceal.

Certificates of deposits (CDs) are timed investments offered by banks on which you generally earn interest at a fixed rate. The rate is usually determined by current interest rates and the CD's term.

Red Flags

How can you spot trouble? Certain warning signs can point the way.

While scams and frauds can be complicated, it's not necessarily hard to spot trouble. Certain red flags may warn you of problems. Although these warning signs aren't foolproof, you could lower your chances of becoming a fraud victim if you pay attention. Bottom line: Avoid any salespeople, financial products, and investments associated with these red flags.

SHADY SALES TACTICS

No reputable, trustworthy broker or investment adviser will pressure you to make an **immediate decision** about an investment. If your investment salesperson puts on the pressure, won't explain things, or rushes you to make decisions, he or she is acting inappropriately—and might even be doing something illegal. In general, it's smart to avoid investing with anyone who makes you feel even slightly uncomfortable.

Another red flag: You may be contacted by an investment salesperson based on your affiliation with an organized group, such as a church, club, support group, charity, or veterans group. While some investments can be legitimately sold this way, so many financial scams start out like this that there's a name for the activity—**affinity fraud**. This term applies to dishonest brokers or investment advisers who swindle people by preying on their affinity with a group. People in a group tend to naturally trust other members—and disreputable brokers

and advisers may abuse that trust by posing as participants. You're best off staying away from anyone who contacts you through an organization you belong to.

BIG PROMISES

Bypass any broker or investment adviser who **guarantees** that your investments will earn a certain amount of money in a specific time period, or who offers a **no-risk investment**. These salespeople are not acting legitimately. Investment results cannot be guaranteed—not even those of cash investments. And while some investments pose less risk than others, the fact is, *all* investments can lose as well as earn money.

By the same token, steer clear of someone who promises unrealistically **high investment returns**. If a broker insists that a certain investment will return, say, 25%, you'd be smart to walk away—he's probably dishonest. Historically, very few securities have managed to obtain such high returns consistently. What's a realistic return? That depends on the investment, but many experts think even an average annual return of 10% on a diversified portfolio is relatively high. Over the past five decades, the average annual total return of the Standard & Poor's 500 Index—a measure gauging large-company stock market performance—was 11%.

ACT NOW

25% RETURN

NO-RISK GUARANTEED



SPOTTY STATEMENTS

You might also spot red flags in documentation about your investment account. If records and paperwork are missing, incomplete, or seem altered, that could mean trouble.

When you open an investment account, you should receive copies of all completed forms and agreements. If an investment salesperson refuses to give you these documents, you're better off opening your account elsewhere. This could be a sign you're dealing with an illegitimate brokerage or advisory firm.

You should get regular monthly or quarterly investment account statements, which show how much money you have invested and how your investments have performed. Your statement should also show any commissions, sales charges, maintenance or service charges, and transaction or redemption fees.

When you review the statements, look for **discrepancies**, such as unauthorized trades or missing funds. While they could be the result of a misinterpretation or error, discrepancies could also indicate that your investment professional is engaging in misconduct. Ask immediately if information on your statement doesn't seem right.

TRUST ME

GET THE FACTS

In other cases, the information made available to you on a particular investment might be incomplete—and this could hint at an unregistered, or illegal, investment.

While the actual information you'll see on legitimate investments varies, you are always entitled to certain basic data. This includes the name of the company issuing the security, the security's prior performance, terms of the investment, any fees you must pay, and—with bonds or CDs—the maturation date.

To ensure you have complete information, always obtain a **prospectus**—a document explaining fees, returns, and risk, among other things—before buying shares in a mutual fund. Before buying stocks, get a **stock symbol**, and check it out on the Internet, in the newspaper financial pages, or at the library. When buying bonds, ask to see the **offering circular**, which describes the bond issuer and its objectives.

If you are not given or can't obtain basic information like this, it's wise to turn down an investment, no matter how good it seems. And if a broker or investment adviser won't give you the information you ask for, it may be smart to avoid both the salesperson *and* the investment.



PUT IT IN WRITING

Keeping track, in writing, of all your conversations and correspondence with your broker or financial adviser about your investment decisions, as well as any problems you experience, is essential. If your relationship goes sour, you'll have material to help bolster your claims.

In fact, keeping all of your records is very important. Any documentation you provide could help securities regulators investigate fraud or misconduct. The better and more complete documentation you possess, the easier it could be for officials to prosecute lawbreakers.

Where to Get Help

Regulators can help you fight back against fraud.

If you think you're the victim of an investment scam, fraud, or deception, you can take action. Depending on the outcome, you might get your money back, although unfortunately in many cases you won't. But with your cooperation, securities regulators can shut down illegal operations and may put criminals behind bars.

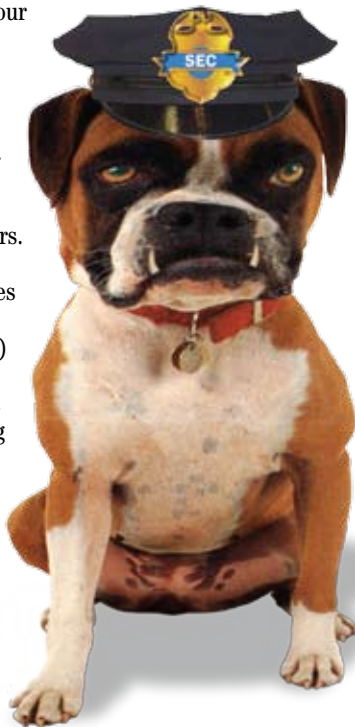
STATE AND FEDERAL PROTECTION

Certain laws—both state and federal—are designed to protect you and other investors from fraud, scams, misconduct, and other types of wrongdoing.

In each state, a regulatory agency enforces the securities laws, regulates securities broker-dealers and investment advisers, and investigates fraud.

If you suspect investment fraud or a scam, your first stop should be the securities agency, which responds to consumer complaints. The agency's primary mission is protecting investors.

At the federal level, the Securities and Exchange Commission (SEC) regulates the nation's securities markets, including the stock exchanges, bond issuers, and mutual funds as well as brokerage and investment advisory firms.



MEDIATE OR ARBITRATE?

If you think that a specific stockbroker defrauded you, you have an additional resource. You can file a complaint for arbitration or mediation with FINRA. This self-regulatory organization oversees broker-dealer firms and stockbrokers.

If you want to file a complaint with FINRA, you must do it within a certain time limit, usually two to five years from discovery of the problem. The limit depends on whether the fraud violates state or federal law.

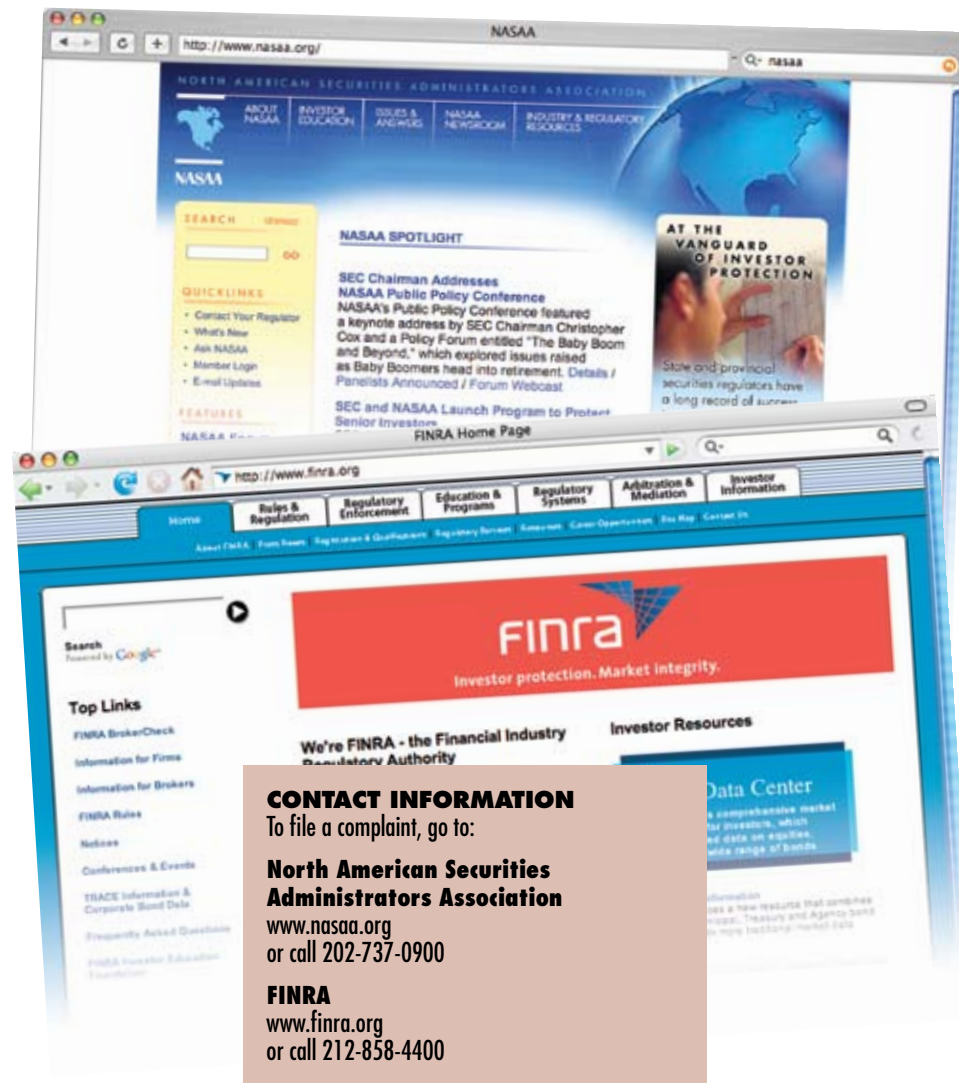
Once you have filed a complaint, you usually have two options:

- **Mediation**, in which you and the broker-dealer work with a third party to resolve your differences. Usually less expensive and less confrontational than other options, mediation is voluntary and **nonbinding**. This means you and the firm must agree to a settlement before it becomes final.
- **Arbitration** usually involves a panel that hears the issue, reviews evidence, and decides the outcome. It's often smart to hire a lawyer for these proceedings, because the broker-dealer may have legal representation and because an arbitration decision is **binding**, which means you cannot appeal it or try again in court.

Your chance of getting your money back depends on an arbitration panel's decision or a mediation settlement. However, if the broker-dealer or investment advisory firm goes out of business, you may not be able to recover your assets—even if an arbitrator rules in your favor.

When pursuing a FINRA arbitration case against a broker-dealer firm, you won't need to testify before the arbitration panel unless you claim a loss of at least \$25,000. Rather, with **simplified arbitration**, the panel will base its decision on documents and on written explanations from you and the broker.

The brokerage firm where you have an account is known as a **broker-dealer**. This means the firm has a license from the SEC that entitles its agents—who must also be registered—to buy and sell securities for clients as well as for the firm's own account.



CONTACT INFORMATION

To file a complaint, go to:

North American Securities Administrators Association

www.nasaa.org
or call 202-737-0900

FINRA

www.finra.org
or call 212-858-4400

OTHER REMEDIES

Most people handle their complaints with mediation or arbitration. In fact, you probably agreed to use arbitration when you signed your account-opening documents. But if you didn't agree that any disputes must go to arbitration, you might instead be able to sue the firm in state or federal court. Before you go this route, you should probably ask an attorney if he or she thinks your dispute could be successful in court. If it can, you should usually hire a securities attorney to handle your case—which could be costly and long.

Whether you pursue an action with FINRA or in court against your broker or investment adviser, it's generally smart to file a complaint with your state's securities agency. The state may investigate and possibly sue the person who defrauded you, and can help prevent the fraudster from cheating other people in the future.

JUST THE FACTS

Regardless of where you file an investor complaint, it's best to give detailed information and copies of any documents that support your claim to regulators to help their investigation. Ideally you should tell the regulator:

- Your name, telephone number, address, and email address
- The name, telephone number, address, email address, and website of any individual or company named in your complaint
- Specific details of how you were defrauded or misadvised, including specifically what you were told about the investment
- How much money was lost to fraud or a scam

Agent is an individual who handles financial transactions between a person and an institution. Agents may also be called brokers, financial consultants, account executives, registered representatives, or investment executives.

Bond is a type of investment that pays interest over a fixed term. When the bond matures at the end of the term, the issuer repays the principal, or investment amount, to the owner of the bond.

Brokers work for brokerage firms, handling client orders to buy and sell stocks, bonds, and other securities, usually in return for a commission. Brokers become registered representatives by passing a test required by the states and FINRA and are registered in the states in which they do business.

Brokerage accounts allow you to buy and sell securities through a brokerage or other financial services firm.

Brokerage firm is a company registered by the states and The Financial Industry Regulatory Authority (FINRA) to buy and sell securities for clients and for their own accounts. Also known as a broker-dealer, a brokerage firm often offers a range of products and services, including financial planning and educational programs.

Commissions are sales charges levied by brokers and other sales agents for each transaction. With full-service brokers, the charge is usually a percentage of the total cost of the trade. Online brokers may charge a flat fee for each transaction.

Disclosure documents explain how a financial product works, the terms to which you must agree in order to buy it, and the risks in making such a purchase.

Financial planner is someone who evaluates your personal financial situation and develops a plan to meet both your immediate needs and long-term goals. Financial planners may or may not have professional designations and certifications, and may or may not be registered or licensed to sell investments.

Interest is the income, figured as a percentage of your principal, which you're paid for putting money into a savings account, CD, bond, note, or other fixed-income investment.

Insurance agent is a person licensed to sell insurance by the state in which he or she works. Insurance agents are not automatically registered or licensed to sell securities or offer investment advice. Those activities would require

registration with the state and federal securities regulators.

Maturity date is when a bond comes due. On that date, the full face value of the bond (and sometimes the final interest payment) must be paid in full to the investor.

Mutual fund is a professionally managed investment company that pools the assets of many investors to trade in stocks, bonds, and other securities, depending on the fund's investment objectives. Mutual funds charge management fees and in some cases, a sales fee (also known as a load). Details of a fund's objective, management, and expenses are explained in its prospectus.

Portfolio is a group or collection of investments. Expanding your portfolio by purchasing different investments allows you to minimize the risk of investing in only one type of investment. This is known as diversification.

Principal is a sum of money and can refer to an amount you invest, an amount you borrow, or the face value of a bond.

Prospectus is a formal written offer to sell stock to the public, containing information about the issuing company and the risks of making the investment. A mutual fund prospectus describes the objectives, risk level, past performance, fees, and other details about the fund.

Registered representative is a person who has passed exams required by the states and FINRA to qualify for registration. Registered representative is the industry term for agent or broker.

Return is what you get back on an amount you invest. A positive return means you end up with more money than you started with, and a negative return means you end up with less.

Risk is the chance that you will lose all or part of your investment. You should seriously consider the level of risk you would be taking before choosing an investment.

Stock is an equity investment that represents part ownership of a corporation and entitles you to a part of its earnings and assets. Each share of stock is one unit of ownership.

Volatility indicates how much and how quickly the value of an investment changes. The more frequently the value changes and the more quickly the changes occur, the greater the volatility.

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