



INVESTOR TRAPS—COMMON PITFALLS TO AVOID

Investing your money can be a daunting task. The road to finding the right investment for you can be littered with confusion that can translate into high costs and worst yet—fraud. A few simple actions can potentially help investors sidestep the financial devastation promoted by a con artist or unscrupulous investment professional. Here are some common pitfalls to avoid:

Commissioned salespeople posing as impartial advisers with “credentials.”

When choosing an investment professional, investors may get confused with the use of titles such as “investment consultant,” “financial adviser” and “senior specialist.” Ask what the title means and what education is required to obtain the designation. Take the time to determine the education and experience requirements by either contacting the organization that issued the credential and/or utilizing the “Professional Designations” database located in the Investor section of www.finra.org to verify the information.

Lack of disclosure regarding uninsured products sold at banks.

While it is not unusual for the average investor to place particular trust in their banks as sellers of mutual funds, it should be made clear that bank-sold mutual funds are uninsured and can result in loss of principal. Another special category is “insured” mutual funds in the tax-exempt municipal fund market. Do not be confused by the reference to insurance, which is not extended by the FDIC. The limited, private insurance in such funds extends only to credit risk for the mutual fund issuer and is not intended to return money to investors in the event of a decline in the value of mutual fund shares.

Poor quality of oral and printed disclosure about investment products.

Be on guard about unwarranted claims that some investment professionals may make in their sales pitches. This “bad information” problem is compounded by prospectuses (and other investment disclosure documents) that are difficult for typical investors to understand. Consult with an independent, objective third party such as an accountant or lawyer to explain the parameters of the investments.

Hidden derivatives in funds touted as “safe.”

Some of the uninsured investment products that are most likely to be sold to investors are also more likely to feature risky and volatile investments in derivatives. In some cases, the use of derivatives is obscured through legal, industry jargon, and other barriers to clear disclosure. While some mutual funds make legitimate use of derivatives for hedging purposes, the use of these risky investments by funds for speculation is not always made clear. Ask for clarification about the use of derivatives.

Account statements that don’t clearly indicate performance, fees, and commissions.

Some brokerage and mutual fund account statements reveal very little about performance, ongoing fees, and commissions. Find out what affiliation the financial professional has with the proposed investment and how he or she is compensated. Ask for written disclosure about the investment’s past performance and ongoing fees prior to investing.

Unauthorized investment products sold by a registered securities salesperson.

Sometimes a registered securities salesperson may offer you an investment product that is not authorized by his or her securities dealer, which is considered dishonest and prohibited conduct in the securities industry. Ask for written verification that the investment is on the approved list of the securities dealer. Also, check with the Commission's Securities Division to verify the registration status and disciplinary history of the securities salesperson.

Sales pitches with exaggerated claims about guaranteed profitability within a short time period.

Beware of ANYONE who is offering you a quick, above-market return with no risk. Investing is putting your money at risk of financial loss and personal guarantees are only as good as the person and company who is offering them. As the old adage says, "If it sounds too good to be true, it probably is."

Free Investor Resources

For more info request a presentation for your group call the Investor Education Coordinator at 480-204-4180 and for more information on wise investing and avoiding investment fraud, visit the Investor Resource Center, www.azcc.gov/az-investor 602-542-0428 or email at info-azinvestor@azcc.gov