



INFORMATION FOR CLIENTS OF TEXAS ATTORNEYS

The information included on this page is for educational and informational purposes only. Please consult an attorney regarding specific legal questions.

Investing Smart from the Start

Whether you're a first-time investor or have been investing for many years, there are some basic questions you should always ask before you commit your hard-earned money to an investment. When you consider your next investment opportunity, start with the following five questions:

Is the seller licensed?

Investors should check out the background of anyone promoting an investment opportunity — even before learning about the opportunity itself. Why? Research shows that con artists are experts at the art of persuasion, often using a variety of influence tactics tailored to the vulnerabilities of their victims. Even a little information about your family, interests, or job can help a skilled con artist swindle your money.

Fortunately, it's easy to find information that can help you protect your investment dollars. Federal and state securities laws require investment professionals and their firms to be licensed or registered and to make important information public. Be sure to ask anyone promoting an investment opportunity if he or she is licensed and then check out the answer with an independent source.

Is the investment registered?

Always check whether an investment is registered with the U.S. Securities and Exchange Commission by using the SEC's EDGAR database. Any offer or sale of securities must be registered, or exempt from registration. Registration is important because it provides investors with access to key information about the company's management, products, services, and finances. Some exemptions from the registration requirement include private offerings to a limited number of persons or institutions, offerings of limited size, intrastate offerings, and securities of municipal, state, and federal governments.



The mere fact that a company registers or files reports with the SEC does not make the company a “good” investment or immune to fraud. Conversely, the fact that a company does not file reports with the SEC does not mean the company lacks legitimacy. The critical difference is that you assume more risk when you invest in a company about which little or no information is publicly available.

If an investment is not registered with the SEC, find out if it is registered with your state securities regulator. If you can't find any record that it is registered with the SEC or your state, or that it's exempt from registration, call or write your

state's securities regulator or the SEC immediately with all the details.

How do the risks compare with the potential rewards?

The potential for greater returns comes with greater risk. Understanding this crucial trade-off between risk and reward can help you separate legitimate opportunities from unlawful schemes.

Investments with greater risk may offer higher potential returns, but they may expose you to greater investment losses. Keep in mind that every investment carries some degree of risk and no legitimate investment offers the best of



both worlds. Many investment frauds are pitched as high return opportunities with little or no risk. Ignore these opportunities and report them to the SEC.

If you're not sure if an investment opportunity is "too good to be true," consider these rules of thumb: Low risk generally means low yield. If you are offered a "no risk" investment opportunity, compare its potential return with a financial choice that is truly guaranteed, such as a federally insured savings account. If the potential return of the investment opportunity is significantly higher, it could be fraudulent or contain risks you haven't considered. High yields typically involve high risk. The stock market, which has produced large investment gains as well as huge losses from year to year, has provided an average annual return of approximately 10 per-

cent since the Great Depression. Any investment opportunity that claims you'll get substantially more could be highly risky. Promises of consistent double-digit returns are consistently frauds. Investments seeking high returns tend to be volatile.

Do I understand the investment?

Many successful investors follow this rule of thumb: Never invest in something you don't understand. Sometimes, even the simplest sounding products or investment opportunities can be pretty complex. Always read an investment's prospectus or disclosure statement carefully. If you can't understand the investment and how it will help you make money, ask a trusted financial professional for help. If you are still confused, you should think twice about investing.

Where can I turn to for help?

Whether checking out an investment professional, researching an investment, or learning about new products or scams, unbiased information can be a great advantage when it comes to investing wisely. Make it a habit of using the information and tools on securities regulators' websites. If you have a question or concern about an investment, contact the SEC (www.sec.gov/investor), Financial Industry Regulatory Authority (www.finra.org/investor), or your state securities regulator (www.ssb.state.tx.us) for help. ⚡

This article is excerpted from *Investing Smart from the Start: Five Questions to Ask Before You Invest*, a publication of the U.S. Securities and Exchange Commission. For a complete copy of the publication, call the U.S. Securities and Exchange Commission, Office of Investor Education and Advocacy at (800)732-0330 or visit www.sec.gov/investor/pubs/fivequestions.htm.



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