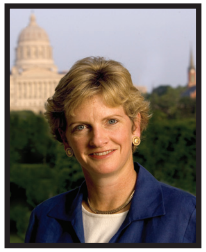

Missouri Securities Division
Office of Secretary of State
Robin Carnahan

Investor Protection Hotline: 800-721-7996
www.MissouriSafeSavings.com

The 3 Knows of

Investing

Know Yourself. Know Your Advisor.
Know Your Investment.

Missouri Investor Protection Center
Secretary of State Robin Carnahan

So you don't spend your day tracking business journals and stock tickers. You're still an investor. People throughout the state of Missouri invest their earnings every year in a number of different ways, including through their 401(k) at work, an IRA, direct investments in stocks and bonds, mutual funds or even annuities. Missourians have many different reasons for investing, from turning a quick profit to investing for retirement. There are hundreds of methods and strategies for investing, and while each has different features, it is crucial to realize that in any investment, there is the possibility that you might lose money.

Because your financial well-being is at risk, it's important to educate and protect yourself from people who might take advantage of you. The best approach for protecting yourself is to understand how various investments work, what questions you need to ask of people offering you an investment, and who you can contact for information and resources when making crucial decisions.

Our office is here to provide education, to protect you from people who pitch a questionable or fraudulent investment and to investigate any misconduct that may occur. With the right information, you can make wise, safe and informed decisions.

Know Yourself.

In making wise investment decisions, you should think about your current and future needs, as well as the risk you can tolerate. Ask yourself these questions about your goals and your nature:

- What do I want to receive from the investment?
- Am I investing long-term or short-term?
- How will this affect my future lifestyle and spending habits, and in terms of retirement, what will be left for my family and other plans?
- When do I want to withdraw the money?
- How much will I invest?
- How often do I plan to contribute to my investment account each year?
- How much loss can I tolerate?
- What current debt, bills and payments am I making that might affect my ability to contribute?
- What might I do with the money once I get it?

As an investor, you are putting money into an ever-changing global financial landscape where world events, large economic fluctuations, inflation, interest rates and currency value changes all impact one another. While these twists and turns might lead to strong performance by some investments, other investments might be negatively impacted by those same factors. A particular securities instrument shooting to record high values one day could be undercut by an unforeseen factor and fall in value the next. In the constantly changing market, the possibility that you could lose your money is always present. This is commonly called risk.

Before you invest your hard-earned money, you'll want to determine just how much risk you are willing to take over time.

Prior to investing, you'll want to think about any expenses you have now and those you're likely to have in the future. These will help determine what type of investments you should consider. In addition, many investment advisers advocate diversification, meaning spreading your investment dollars among a variety of different investments and products, with the idea that if one investment loses money or decreases in value, a different investment with different features might ***make*** money, offsetting the losses.

Understanding Types of Risk

Here's a guide to help decide what kind of risk you'd like to take. Consider how these statements might describe your feelings about investments:

- **Safety (low risk):** I do not want to lose my hard-earned money, so I want a plan where there is little chance I could lose my original investment. I will get only modest returns.

- **Income (low to moderate):** I'd like to make a steady stream of money and receive regular payments. I may or may not lose the money I originally put up. I might save on taxes this way.

- **Growth (moderate to high):** I have a long time to work and invest, and I have long-term growth goals and will wait for my money to grow in the market. I know this involves more risk and might even cause me to lose money in the short-term.

- **Speculation (high):** I like to do short-term trading and don't mind looking at new and unproven companies. I understand that this means a lot more risk and perhaps larger gains or losses over the short-term than with other investment options. I understand that I might even risk my entire investment.

Know Your Advisor.

It's important not to take the task of choosing a financial advisor lightly. You should seek a person whom you trust and from whom you feel comfortable asking advice. The more your financial professional knows about you, your goals and your finances, the better you will be served. This means your advisor will have access, granted only by you, to your private financial information. You'll want to stay in control in order to avoid involvement with con artists, shady advisors and others who don't have your best interests in mind. Don't let anyone pressure you into buying or signing anything – you don't have to do anything or give anyone your money, and you can always say "No." You should never feel guilty about leaving an uncomfortable or high-pressure situation.

Tips on Choosing An Advisor

Here's how to get comfortable with your search for a trusted financial advisor:

1) **Get some suggestions from people you trust.** Ask other people you know, such as family, friends, colleagues, neighbors, professional groups you're involved in, your accountant or attorney. Their ideas might help you begin the search.

2) **Do your homework.** Find out from the advisor how long they have been in the industry. Read any materials you can find, including company brochures, reports, annual reports and any other information. Check with the Financial Industry Regulatory Authority (FINRA, formerly NASD) and call the Missouri Investor Protection Hotline at 800-721-7996, to make sure your broker or investment adviser is properly registered, and to learn about complaint history, regulatory actions, civil suits or criminal records. Almost anyone can use the title of advisor, so check the education, registration, licenses and professional designations claimed by anyone you are considering hiring as your advisor.

3) **Schedule an in-person interview to evaluate their offices and services.** At the first meeting, which should take place for free, you'll want to find out about services offered. The type and level of services varies among different companies. Find out who will be your advisor specifically, his or her qualifications, degrees, designations and professional affiliations. Be sure to double-check those claims with the Securities Division or another regulator. Ask whether the person will be paid an hourly rate, a commission, or both. Inquire about extra fees or costs. Ask for references from current customers. See that the

person advises you of the key risks involved with the investment you are considering, rather than talks about how investing with them is a "sure thing." Finally, get all information you hear in writing and make sure you feel comfortable with the professional.

4) Shop around for the best fit. Meet with several professional advisors and ask the same questions of each. Compare the responses. Don't hesitate to schedule more than one meeting with the same advisor. One meeting might not be enough to judge qualifications and experience. Ask new questions at subsequent meetings and make comparisons between advisors.

Duties and Designations of an Advisor

Broker-dealer agent and **investment adviser representative** are very specific professional designations that can only be claimed by professionals who are licensed and registered with the State of Missouri and have met very specific qualifications, including passing scores on certain tests and affiliations with registered firms. If a professional is not registered, or doesn't know what that means or whether or not he or she meets these qualifications, you should be wary. While certain investment products can be sold by individuals who are not registered with the Securities Division, only those professionals registered with our office have been reviewed and approved by Missouri's securities regulators.

Here is a list and explanation of some of the advisors and professionals whose advice and expertise you might want, and their functions and some special designations (Note: these are not intended to be a complete list of designations or duties. The Missouri Secretary of State's Securities Division does not participate in the approval of, or endorsement of, these designations.):

Stockbroker: buys and sells stocks, bonds, annuities and mutual funds at brokerage firms. Sometimes, they can help with parts of your financial plan. They are licensed and registered by the state and usually earn commissions. *Designations: Certified Financial Planner, CFP; Certified Financial Analyst, CFA; Chartered Financial Consultant, ChFC.*

Investment adviser: provides advice on investments and securities, beyond the completion of transactions (like a broker), but might not be licensed to perform broker duties. Investment advisers can help implement the financial plans that you make with a financial planner. Investment advisers must register with the Securities Division and FINRA. *Designations: Registered Investment Adviser, RIA.*

Financial planner: matches your life goals, your needs, budget, investments, retirement plans and other income, in combination with tax information, to come up with a customized plan for you. They continue to monitor your investment strategies over time. Financial planners must be licensed by the state if they want to sell you insurance and can also be registered as "investment advisers." *Designations: Certified Financial Planner, CFP; Registered Financial Planner, RFP; Registered Investment Adviser, RIA.*

Accountant: can give you advice on taxes, help you prepare/submit tax returns, plan for taxes before you invest and review your options. Accountants are not necessarily registered to give investment advice or conduct securities transactions, and often do not have special financial or investment training. They might work for a large accounting firm or a small partnership. *Designations: Certified Public Accountant, CPA.*

Insurance agent: talks to you about risk management and can sell investment products, including life insurance, health insurance and annuities. They are licensed by the Department of Insurance, and if they want to advise you to buy or sell securities such as mutual funds, stocks or bonds, they must be registered with the Securities Division. They earn commission. *Designations: Chartered Life Insurance Underwriter, CLU; Certified Professional Insurance Agent, CPIA; Certified Insurance Counselor, CIC.*

Know Your Investment.

When you talk to investment professionals, keep in mind there are a number of different ways to build your financial plan. All investments vary as to where the money is invested, how you receive a return and what kind of return you receive. Here are a few different types of investments:

Stocks represent a share of ownership in a corporation. With certain shares, called **common stock**, you have the right to vote at stockholders' meetings, sell the stock, purchase additional shares the first time they become available and take part in certain dividends. **Dividends** are payments made to stockholders when profit is earned. Other stock, called **preferred stock**, allows you to be the first one to be paid dividend payments, but these are not as readily transferable and usually offer more modest growth.

Bonds are usually issued by corporations and governments, and represent a debt payable by that company or government to the bondholder. These are essentially a way for the issuer to borrow money from you, the buyer. You buy a bond certificate in an amount that the issuer sets. In addition, the organization sets a fixed interest rate for the bond and a maturity date. At the maturity date, the person who owns the bond can redeem it for face value and any interest that has been built. Bonds carry ratings for quality comparison, based on the relative strength, track record and performance of the issuer. Many government bonds feature certain tax advantages. Of course, you could lose your money if the company should go bankrupt; however, you would be paid before any stockholders.

Mutual funds allow a group of investors to pool their money in one place to create greater buying power. These funds consist of many different securities that have different earnings; your portfolio can be changed often to maximize earnings and to ensure diversification. Mutual funds make money for you by earning profits, interest on reinvestments and selling investments that increase in value. As a holder, you could be investing in stock funds, bond funds or money market funds.

Variable annuities have become part of the retirement and investment plans of many Americans, and are essentially a combination of mutual funds and insurance products. An investor in a variable annuity may get both a guaranteed payment from investments at a set date and the death benefit of an insurance product. But, variable annuities are very complex and often have high fees, commissions, restrictions on access to your money and substantial penalties for early withdrawal.

Remember, investing in securities carries risk, so you could lose or gain money throughout all stages of your investment, depending on how the markets perform.

Reviewing Your Choices

You'll want to weigh the advantages and disadvantages of each of the different investment products or methods you are considering. Ask your financial advisor:

- What is my estimated return on the investment? Will it change over time?
- What fees and costs are associated with making the investment?
- How are you paid – in commission, a flat fee, or both? How much of that commission and fee comes out of my investment?
- How long do I have to wait to withdraw the money? Are there penalties involved with taking earnings out early?
- What are my tax benefits and consequences?
- What kind of tax consequences are possible if and when I withdraw the earnings?

Protecting Yourself from Fraud: Red Flags

Your investment is for your financial well-being, so when making investments, ***you*** should drive the effort, not the advisor. His or her anxiety to get you "signed up" right away should not in any way hurry or force you into an important decision. Many people spend months researching the purchase of a $20,000 car, but think nothing of making a much larger investment in the markets with much less research and thought. You'll want to look for suspicious activity and report any issues. When getting to know your investment, also make sure you look out for yourself:

Buzzword traps: Certain words can entice a person to invest. Don't fall into a verbal or written word trap that contains: *invest now, invest today, this offer won't be available for long, this offer is only available to you or a select group of people, you can't lose, free, no risk (low risk is okay).*

Advisor switching or anonymous recipients: You should see the person who will be investing your money. If they send a "courier" to your house or you'll be speaking with a different person whose information and credentials you don't yet have, be careful. If a potential advisor insists on doing all business over the telephone and refuses to meet in person, be wary.

Money control: When investing with a registered investment adviser or broker, your investment funds should be paid to the firm, not the individual representative or agent. If your advisor asks you to make a check payable to him or her, or insists on receiving cash, be wary. If you ask your broker or representative about the status or location of your money, and he or she cannot or will not give you an answer, you should be concerned.

Paperless transactions: Every interaction between you and your advisor should be in writing, including anything that is requested of you, any information you provide and especially anything your advisor tells you. You have a right to copies of each and every document and paper related to your investment accounts. Registered agents and representatives are required to provide you with information about their firm, including a statement of fees and services. If an advisor cannot or will not provide written documentation to you, consider another agent.

Read your prospectus and statements. All investments are described in a prospectus, which you should insist on receiving. Read the prospectus, disclosure statements, and all marketing and other materials carefully. If you decide to invest, make sure there's a written record of the agreement and that you have a copy. ***Do not sign a blank statement or other document, ever!*** Do not do business with someone who refuses to provide frequent statements and reports of how your investment performs. Those reports are issued at least annually, and usually more often than that. Read and reconcile those statements to make sure you understand their contents. Ask questions if confusing or conflicting information arises.

Using Personal Investor Education Resources

Here are some resources you can use to find information regarding professional registration, regulation standards and investment alternatives. In addition to these, you might want to check investment magazines, newsletters and advisories. Keep in mind that not all of these resources list all possible registered companies and that updates to the web sites may be made only periodically.

Financial Industry Regulatory Authority (FINRA, formerly NASD)
www.finra.org

North American Securities Administrators Association, Inc. (NASAA)
202-737-0900
www.nasaa.org

Investing Online Resource Center (IORC)
www.investingonline.org

Investment Adviser Public Disclosure web site (IAPD)
Note: only people who register electronically are on this site; a number of registered businesses might not be listed. Access through the SEC web site.
www.adviserinfo.sec.gov/IAPD/Content/IapdMain/iapd_SiteMap.aspx

Securities Investor Protection Corporation (SIPC)
www.sipc.org

Using Resources to Report Issues

If you have been the victim of securities fraud, or are concerned that you have been taken advantage of in making an investment, contact one of these offices. Government regulators and self-regulating organizations can launch investigations, impose penalties and, most importantly, pursue and secure a return of part or all of your money in some instances. Additionally, some violations are criminal in nature and might be prosecuted in Missouri or Federal courts.

While some enforcement actions could lead to restitution or a return of your money, the majority of cases do not. Providing information on your situation might, however, prevent others from encountering the same problems.

To report any issues you might have, you can contact the following offices:

Office of Secretary of State Robin Carnahan
Missouri Securities Division
Investor Protection Hotline: 800-721-7996
www.missourisafesavings.com

Financial Industry Regulatory Authority (FINRA)
Call Center 301-590-6500
www.finra.org

U.S. Securities and Exchange Commission (SEC)
Consumer Information Line
800-732-0330
www.sec.gov

Once you know what kind of investor you are, know your advisor, and know the features of your investment, you'll rest easier knowing you've taken steps to secure a comfortable financial future.