

How to Avoid Investment Fraud

To invest wisely and avoid investment scams, research each investment opportunity thoroughly and ask questions. Get the facts *before* you invest, and only invest money you can afford to lose. You can avoid investment scams by asking – and getting answers to – these three simple questions:

1. Is the investment registered?

Many investment scams involve unregistered securities. So you should always find out whether the company has registered its securities with the Securities and Exchange Commission (SEC) or your state securities regulators. You can do this by checking the SEC's Electronic Data Gathering, Analyses and Retrieval (EDGAR) database.

Some smaller companies don't have to register their securities offerings with the SEC, so always check with your state securities regulator. You'll find the number for your state securities regulator in the government section of your phone book. In Louisiana, the state securities regulator can be accessed at the Louisiana Office of Financial Institutions (225-925-4660) or visit www.ofi.louisiana.gov/. You also may call the North American Securities Administrators Association (NASAA) at 202-737-0900 or visit NASAA's Web site at www.nasaa.org. One simple phone call can make the difference between investing in a legitimate business or squandering your money on a scam.

2. Is the person licensed and law-abiding?


Find out whether the person or firm selling the investment is properly licensed in your state and whether they've had run-ins with regulators or received serious complaints from investors. This information is available from the Financial Industries Regulatory Authority's Central Registration Depository (CRD), a computerized database also known as BrokerCheck that contains information about most brokers, some investment advisers, their representatives and the firms they work for. The CRD/BrokerCheck also contains information about the broker's educational background and previous employment history.

You can get CRD/BrokerCheck information from your state securities regulator. Or call the FINRA public disclosure hotline at 1-800-289-9999 or visit their Web site at www.finra.org/investors/toolscalculators/brokercheck/p085698. Your state securities regulator may provide more information from the CRD than FINRA, especially when it comes to investor complaints, so you may want to check with them first.

3. Does the investment sound too good to be true?

If it does, it probably is. High-yield investments tend to involve extremely high risk. Never invest in an opportunity that promises "guaranteed" or "risk-free" returns. Watch out for claims of astronomical yields in a short period of time. Be skeptical of "offshore" or foreign investments. And beware of exotic or unusual sounding investments. Make sure you fully understand the investment before you part with your hard-earned money. Always ask for – and carefully read – the company's prospectus. You should also read the most recent reports the company has filed with its regulators and pay attention to the company's financial statements, particularly if they do not say they have been audited or certified by an accountant.

The SEC has spelled out all the questions you'll need to ask in the following publications: "Ask Questions, Internet Fraud and Microcap Stock." When you ask these questions, write down the answers you received and what you decided to do. If something goes wrong, your notes can help to establish what was said. Let your broker or investment adviser know you're taking notes. They'll know you're a serious investor and may tell you more – or give up trying to scam you. The SEC has developed "Form for Taking Notes" to help you. You can get these and other useful publications on the Investor Information section of the SEC's Web site at www.sec.gov or by calling 1-800-SEC-0330.

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