

INVESTMENT GUIDE

FOR ILLINOIS CONSUMERS

Jesse White
Secretary of State

Illinois Securities Department





As Secretary of State, one of my responsibilities is to regulate the securities industry in Illinois. The Illinois Securities Department and I are committed to making sure the securities industry complies with the laws as well as accepted standards of business practice and professional conduct.

The Securities Department registers brokers and investment advisers, and takes administrative action against violators of securities laws. The department also assists prosecutors in pursuing con artists who defraud investors.

This guide outlines investment options, tips on selecting a broker or investment adviser and the warning signs of investor fraud. Included is a checklist for investors to use when a broker calls.

While investing can be a great way to enhance your present financial situation and prepare for the future, it is not a venture that should be taken lightly. My personal investment tip is to do your homework, research your options and stay informed.

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For more information or if you believe that Illinois securities laws have been violated, contact:

ILLINOIS SECURITIES DEPARTMENT

Jefferson Terrace, Ste. 300A 69 W. Washington St., Ste. 1220
421 E. Capitol Ave., 2nd Floor Chicago, IL 60602
Springfield, IL 62701

800-628-7937 (toll-free)

WWW.CYBERDRIVEILLINOIS.COM
(click Departments, then Securities)

AVOID THE SCAM.NET

Selecting Someone to Manage Your Money

Under Illinois law, any person of a firm offering investment advice to consumers in exchange for compensation and with more than five clients must be registered as an investment adviser with the Illinois Securities Department. Brokers (those who sell securities) also are required to be registered with the department, as is the firm that employs them.

Regulatory oversight of investment advisers is divided between the federal Securities & Exchange Commission (SEC) and the various state securities agencies according to the amount of assets under management. Advisers that manage \$100 million or more are regulated by the SEC, while advisers managing less than \$100 million are overseen by state securities agencies.

1. If you plan to hire an investment adviser or broker, first **contact the Illinois Securities Department**. The department can confirm that the professional and the firm are properly registered.
2. The department also can tell you whether the individual has any public disciplinary history in any state. A disciplinary history also may be obtained from **www.FINRA.org for broker-dealers or www.SEC.gov for investment advisers**.
3. Before hiring a broker or adviser, interview several and obtain literature from each. Look for:
 - a list of the services offered;
 - investment options offered;
 - commission or fee schedules; and
 - specific investment recommendations, including their performance over the past year.

Questions for Your Broker or Investment Adviser

- **Registration/Recommendations**

What registrations do you hold? Can you provide me specific investment recommendations you have made in the past 12 months? Were those recommendations profitable?

- **Lawsuits/Bankruptcies**

Are any lawsuits or bankruptcies pending against you, your company, or the company's officers and directors?

- **Registration/Listings**

Are you or your firm registered with the Illinois Securities Department or otherwise exempt from registration? Is the investment you are offering listed on a national exchange? If so, which one?

- **History/References**

How long have you/your company been in business? Can you provide references from people you have served in my community?

- **Disciplinary**

Has any state, the FINRA, SEC or FTC taken enforcement action against you, and, if so, what was the outcome?

- **Disputes**

Should disputes arise, how will they be settled?

- **Buying**

How much risk is there in my proposed investments? How is the investment purchase price determined? Are there circumstances in which I may be required to come up with additional money?

- **Fees/Compensation**

What are the fees for the transaction? How are you compensated? Do certain investments pay a greater commission versus others?

- **Prospectus**

Can you provide me with a prospectus? Are you willing to explain your investment proposal to my attorney or accountant?

- **Selling**

What happens if I need to get my money back quickly? Am I responsible for finding a buyer? Are there any required fees to pay before I can liquidate my investment?

What to Expect When Opening an Account

- **New Account Form**

Once you have selected a broker or investment adviser, you will be asked to fill out a new account form, including your net worth, annual income, investment objectives, risk tolerance, occupation and investment experience. This financial profile is kept confidential; however, brokers and advisers are required to know your financial situation so they can provide you with suitable recommendations. You may elect not to divulge this information, but the broker or adviser cannot make proper recommendations without it.

- **New Account Agreement**

Most brokerage firms require customers to sign a legally binding document known as the *new account agreement*. Before signing, make sure you understand its provisions. Consult an attorney if needed.

- **Statements**

You should carefully review the statement and question anything you do not understand, including any activity you did not authorize. If you have questions, contact your investment firm in writing. Keep all your statements and notes on file in case problems arise.

Investor Bill of Rights

When You Invest, You Have the Right to:

- Ask for and receive information from a firm about the work history and background of the person handling your account, as well as information about the firm itself.
- Receive complete information about the risks, obligations and costs of any investment before investing.
- Receive recommendations consistent with your financial needs and investment objectives.
- Receive a copy of all completed account forms and agreements.
- Receive account statements that are accurate and understandable.
- Understand the terms and conditions of transactions you undertake.
- Access your funds in a timely manner and receive information about any restrictions or limitations on access.
- Discuss account problems with the branch manager or compliance department of the firm and receive prompt attention to and fair consideration of your concerns.
- Receive complete information about commissions, sales charges, maintenance or service charges, transaction or redemption fees, and penalties.
- Contact the Securities Department to verify the employment and disciplinary history of a securities salesperson and the salesperson's firm, find out if the investment is registered to be sold, or to file a complaint.

When Your Broker Calls, Take Notes!

Make copies of this form to take notes of conversations with your broker or adviser. Be sure to record details of the recommendations you receive and the instructions you give. Keep the notes in your files.

Date: _____ Time: _____

Call made Call received Meeting

Broker's Name: _____ Phone: _____

Address: _____

Broker's Firm: _____ Phone: _____

CRD/IARD #: _____ Obtained Report

1. Investment Recommendation

Buy Sell

Name of Security: _____

Reasons for Recommendations: _____

How does this meet my investment objectives?: _____

What are the risks?: _____

I asked to receive written information about the investment before making a decision: Yes No

I will get:

- prospectus
- offering memorandum
- most recent annual report
- most recent quarterly or interim report
- recent news releases
- research reports
- other information

Proposed Trade

Number of shares: _____

Price per share: _____

Total cost: _____

Commission: _____

My Instructions

Do nothing Buy Sell

Number: _____

Price: \$ _____

2. Additional Investment Recommendations on same date

Buy Sell

Name of Security: _____

Reasons for Recommendations: _____

How does this meet my investment objectives?: _____

What are the risks?: _____

I asked to receive written information about the investment before making a decision: Yes No

I will get:

- prospectus
- offering memorandum
- most recent annual report
- most recent quarterly or interim report
- recent news releases
- research reports
- other information

Proposed Trade

Number of shares: _____

Price per share: _____

Total cost: _____

Commission: _____

My Instructions

Do nothing Buy Sell

Number: _____

Price: \$ _____

Notes: _____

Notes made by: _____

Date: _____ Time: _____

Illinois Securities Department
800-628-7937
www.cyberdriveillinois.com

Common Securities Scams

- 1. Ponzi Schemes** — Swindlers promise high returns to investors, but the only people who consistently make money are the promoters who set them in motion, using money from previous investors to pay new investors. Inevitably, the schemes collapse when the flow of “new money” dries up and the promoters cannot be found.
- 2. Unlicensed Individuals Selling Unregistered, Fraudulent Securities** — Scammers often target independent, unlicensed insurance agents to sell their “products.” They often claim that a product is NOT a security. These agents generally are working on high commission payouts and have very little knowledge of the investment they are peddling.
- 3. Unregistered Investment Products** — Scammers bypass state and federal regulation requirements to pitch investments with the promise of “limited or no risk” and high return. The products are often pitched as “alternatives” to the stock market. They are usually fraudulent and the investments worthless.
- 4. Risky or Fraudulent Promissory Notes** — Short-term debt instruments issued by little-known or sometimes nonexistent companies may promise high returns but offer higher risk. Before investing in any investment involving a promissory note, contact the Securities Department to check the promoter’s registration.
- 5. Senior Investment Fraud** — Senior citizens are frequent targets for con artists. The schemes may change from victim to victim but one thing remains the same — the promises made are never kept and the money invested is lost. Seniors should use caution when choosing their investments as well as their investment professionals.
- 6. Gold and Precious Metals** — Gold attracts a crowd of promoters who would like to take investors’ money. Beware of “exploration” companies. Some may offer official-looking geological surveys or financial statements, when in reality there is little or no current production, just an appetite for new money. Beware of any seller who offers to sell actual gold bullion placed in a “secure” vault. In most cases, the gold does not exist. Also beware of anyone who encourages investors to cash out of poor-performing investments to

purchase gold — often the investor ends up with a bag of gold-colored worthless coins.

7. **Social Networking Fraud** — Scammers use the wide reach of social networking sites to perpetrate "pump and dump" schemes. They promote thinly traded securities over which they have controlling interest, promote bogus offshore "prime bank" notes and publicize pyramid and ponzi schemes. As a general rule, any investment advice generated from an unaccredited source should be avoided.
8. **Affinity Fraud** — Many scammers use their shared religious or ethnic identity to gain a victim's trust. Each year, individuals are indicted for mail and wire fraud, money laundering and conspiracy in connection with securities fraud. Illinois investors have lost millions to these unscrupulous promoters who promised unrealistic returns and fabulous wealth based upon their faith.
9. **Foreign Exchange Currency (Forex) Fraud** — Forex scams attract customers with sophisticated-sounding offers, luring investors with the concept of leverage: the right to "control" a large amount of foreign currency with an initial payment that is only a fraction of the total cost. Forex contracts purport huge returns over a short time with little or no risk, but because of the volatility in the price of foreign currency losses can happen very rapidly. Often, the investor's money is never actually placed in the market through a legitimate dealer, but rather simply diverted — stolen — for the personal benefit of the scammer.
10. **Oil and Gas Scams** — With oil prices rising and continued instability in the Middle East, schemes promising quick profits on oil and gas ventures are on the rise. These schemes are almost always fraudulent and often used in connection with other scams, promissory notes, affinity fraud, etc.

Glossary of Terms

ANNUITY: A life insurance product paying periodic income benefits for a specific period of time or over the course of the investor's lifetime. **Deferred annuities** allow assets to grow tax deferred before being converted to payments. **Immediate annuities** allow payments to begin within about a year of purchase.

APPRECIATION: An increase in the basic value of an investment.

ARBITRATION: A system for resolving disputes between two or more parties who submit their disagreement to a panel. Signing an arbitration agreement generally means the parties are giving up their right to sue in court.

BEAR MARKET: A market characterized by generally falling prices over a period of several months or years.

BLUE CHIP: Common stock of a company known nationally for the quality of its products and its profitability.

BOND: Certificate representing a loan of money to a corporation or government for a specific period, in exchange for a promise to repay bondholder the amount borrowed plus interest.

BROKER: A representative who handles transactions related to investors' orders to buy and sell securities.

BULL MARKET: A market characterized by generally rising prices over a period of several months or years.

CAPITAL GAIN: The gain realized when a security is sold for more than the purchase price.

CAPITAL LOSS: The loss incurred when a security is sold for less than its purchase price.

CAVEAT EMPTOR: Latin phrase meaning "Let the buyer beware."

CFP: Certified Financial Planner — an individual who has completed the educational requirements of the International Board of Certified Financial Planners (IBCFP).

ChFC: Chartered Financial Consultant — a designation earned by individuals who successfully complete the financial training program offered by the American College in Pennsylvania.

CHURNING: Excessive trading of a client's account in order to increase commissions.

CFTC: Commodity Futures Trading Commission — the federal regulatory agency that monitors the futures and options market.

COLLATERALIZED DEBT OBLIGATION (CDO): Investment-grade security backed by a pool of bonds, loans or other assets.

COMMISSION: A broker's or adviser's fee charged for buying or selling securities for an investor.

COMMON STOCK: The most basic form of corporation ownership. Owners of common stock have a claim on the assets of a company after those of preferred stockholders and bondholders.

COMPOUND INTEREST: Interest earned on interest that is added to the principal.

CONVERTIBLE BOND: A bond that an owner can exchange for stock before maturity.

COUPON RATE: Fixed annual interest rate quoted when a bond is issued.

DEEP DISCOUNT BOND: See Zero Coupon Bonds.

DERIVATIVE: A financial contract whose value is based on, or "derived" from, a traditional security, an asset or a market index.

DISCOUNT: Sale of a bond at a price less than face value.

DIVERSIFICATION: Spreading investment funds among different types of investments and industries.

DIVIDEND: Payment received by stockholders from the earnings of a corporation.

DOLLAR COST AVERAGING: Investing the same fixed dollar amount in the same investment at regular intervals over a long period of time.

DOW JONES INDUSTRIAL AVERAGE: Price-weighted average of actively traded stocks.

EXCHANGE-TRADED FUND (ETF): A security that tracks an index, a commodity or a basket of assets like an index fund but trades like a stock on an exchange.

FACE VALUE: The amount a bond is worth when it matures.

FDIC: Federal Deposit Insurance Corporation — an agency of the federal government created to guarantee bank deposits.

FEE: A charge for professional services. Common fee terms are:

- a) **Front-end “load”** (or asset-based charge): May not exceed 8.5 percent of the total purchase price, and it usually serves as a commission to compensate the broker or sales agent who assisted in the purchase of a mutual fund. You may be able to eliminate this charge by buying the same or comparable fund directly from an investment company.
- b) **Back-end charge** (or contingent deferred sales charge): The fee declines over time and is collected when you sell your shares in a mutual fund. (There also may be other redemption fees).
- c) **Management fees** (also called 12b-1 fees): Such fees may be imposed by a mutual fund to cover marketing and distribution expenses of the fund. Some mutual funds have no front-end load but make up for it by imposing back-end charges and a 12b-1 fee.
- d) **Wrap fees:** Charges for an investment program that bundles or “wraps” a number of services (brokerage, advisory, research, consulting, management, etc.) together and covers them with a single fee based on the value of assets under management. Payment schedules vary, but the most common involve regular quarterly fees or individual transaction brokerage commissions.

FINANCIAL PLANNER: A person who advises others about financial issues. A financial planner may need to be registered as an investment adviser if he/she provides investment advice for a fee.

FINRA: Financial Industry Regulatory Authority — the self-regulating organization of the securities industry in the U.S.

FIXED ANNUITY: An annuity that guarantees a specific rate of return. In the case of a deferred annuity, a minimum interest rate is guaranteed during the savings phase. During the payment phase, a fixed amount of income, paid on a regular schedule, is guaranteed.

FULL-SERVICE BROKERS: People who buy and sell securities or commodities to investors and offer information and advice.

FUTURES CONTRACT: A legal commitment to buy or sell a commodity at a specific future date and price.

HEDGING: The process of protecting an investment against price increases.

INFLATION RISK: The risk that the financial return on an investment will lose purchasing power due to a general rise in prices of goods and services.

INSIDER TRADING: The illegal use of investment information not generally known to the public.

INTEREST: For the investor, interest is the payment received from a financial institution for lending money to it.

INTEREST RATE RISK: The risk that the value of a long-term, fixed return investment will decrease due to a rise in interest rates.

IRA: Individual Retirement Account — a tax-deferred savings account.

JUNK BONDS: High-risk bonds issued by corporations of little financial strength. Interest rate is high, but default rate is also high.

LIMITED PARTNERSHIP: An investment vehicle formed of a general partner and limited partners.

LIQUIDITY: The ease with which an investment can be converted into cash.

LOAD FUND: A mutual fund purchased directly by the public that charges a sales commission when bought.

MARKET RISK: The risk that the price of stocks, real estate or other investments will go down due to business cycles or other causes.

MUTUAL FUND: A company that invests the pooled money of its shareholders in various types of investments.

NASAA: North American Securities Administrators Association — an organization of securities administrators charged with enforcing securities laws and protecting investors from fraudulent investments.

NASDAQ: The world's largest screen-based stock market built totally out of telecommunications networks and computers.

NFA: National Futures Association — a congressionally authorized, self-regulatory organization for the futures industry.

NO-LOAD FUND: A mutual fund purchased directly by the public; does not have a charge for buying.

ODD LOT: A unit of less than 100 shares of stock.

OFFERING CIRCULARS: Disclosure documents provided to investors by the company seeking capital.

P/E RATIO: Price/earnings ratio — the price of a stock divided by per share earnings. A figure used to evaluate the value of a stock. Also referred to as the “multiple,” — the number of times by which the company's latest 12-month earning must be multiplied to obtain the current stock price. Obtained by dividing the current earnings into current market value.

PENNY STOCKS: High-risk stocks that generally sell for less than \$3 and are not listed and traded on any exchange or stock market. (Con artists often deal in penny stock frauds.)

PONZI SCHEME: An illegal investment scam named for its inventor, Charles Ponzi.

PORTFOLIO: The total investments held by an individual.

PREFERRED STOCK: Ownership in a corporation that has a claim on assets and earnings of a company before those of common stockholders but after bondholders. Premium sale of a bond at a price greater than face value.

PRIME BANK SCAM: A scam where investors are sold financial instruments (stocks, notes) allegedly from the top banks of the world. These “prime banks” do not exist.

PROSPECTUS: A document describing an investment offered for sale.

PYRAMID SCHEME: Fraudulent scheme where an investor buys the right to be a sales representative for a “product.” Those in the scheme early may profit; those in late always lose.

RATE OF RETURN: A combination of yield (dividends or interest) and appreciation (increase in basic value of the investment).

REDEMPTION FEE: A charge levied by the mutual fund when shares are sold.

RISK: In an investment, the uncertainty that you will get an expected return. In insurance, the uncertainty whether a loss will occur.

RISK TOLERANCE: A person’s capacity to endure market price swings in an investment.

ROUND LOT: 100 shares of one stock.

SECURITIES: A broad range of investment instruments, including stocks, bonds and mutual funds.

SEC: Securities and Exchange Commission — a federal agency established to license brokerage firms and regulate the securities industry.

SIPC: Security Investors Protection Corporation — a non-profit corporation created by Congress. Insures investors in SIPC-insured firms from financial loss due to financial failure of the brokerage firm. Insures up to \$500,000 per customer.

SRO: Self-regulatory organization, securities industry regulatory bodies are under the jurisdiction of the SEC. Futures industry regulatory bodies are under the jurisdiction of the CFTC.

STOCK: An investment that represents ownership in a company, also known as a share.

STREET NAME: When securities are held in the name of the broker rather than the investor.

TAX-EXEMPT INVESTMENTS: Investments not subject to tax on income earned.

TIME VALUE OF MONEY: Increase in an amount of money over time as a result of investment earnings.

UNIVERSAL LIFE INSURANCE: A flexible premium policy that combines death benefits with a savings vehicle, known as a cash value account, which typically earns a money market rate of interest.

VARIABLE ANNUITY: An annuity whose contract value or income payments vary according to the performance of the stocks, bonds and other investments selected by the contract owner.

WHOLE LIFE INSURANCE: The oldest kind of cash value life insurance that combines protection against premature death with a savings account.

YIELD INTEREST OR DIVIDEND GENERATED BY THE INVESTMENT: Generally calculated as a percentage of the amount invested (see Rate of Return).

YIELD TO MATURITY: The total annual rate of return on a bond when it is held to maturity, considering the purchase price, time to maturity, value at maturity and the annual dollar amount of interest earned.

ZERO COUPON BONDS: Bonds issued for less than face value and pay no interest income. Return to the investor occurs when the bond is sold or redeemed. Also called deep discount bonds.

Where to Get Help and Additional Information

Regulators

Illinois Securities Department Office of Secretary of State Jesse White	800-628-7937
<i>www.cyberdriveillinois.com</i>	
U.S. Securities & Exchange Commission Consumer Information Line	800-732-0330
<i>www.sec.gov</i>	
North American Securities Administrators Association, Inc. (NASAA)	202-737-0900
<i>www.nasaa.org</i>	
Commodities Futures Trading Commission Washington, D.C.	202-418-5000
Chicago Regional Office	312-353-5990
<i>www.cftc.gov</i>	
FTC No-call Registry	888-382-1222
<i>www.donotcall.gov</i>	
FINRA Broker Check Hotline	800-289-9999
<i>www.finra.org</i>	
Investing Online Resource Center <i>www.investingonline.org</i>	

Industry

Certified Financial Planner Board of Standards	888-CFP-MARK
<i>www.cfp-board.org</i>	
Investment Company Institute (Mutual Funds and Unit Investment Trusts) <i>www.ici.org</i>	
National Futures Association	800-572-9400
<i>www.nfa.futures.org</i>	
Securities Investor Protection Corp (SIPC)	202-371-8300

Consumer Organizations

Better Business Bureau (check directory
assistance for local telephone number)

www.bbb.org

American Association of
Retired Persons (AARP)800-424-3410

www.aarp.org

American Association of
Individual Investors312-280-0170

www.aaii.org

