A SMART INVESTOR'S GUIDE

SCC Commonwealth of Virginia
STATE CORPORATION COMMISSION

WELCOME TO INVESTING!

The ***State Corporation Commission's Division of Securities and Retail Franchising*** (SRF) promotes fair financial markets. It regulates the securities and franchise industries in Virginia and provides investor education to help investors make informed investment decisions.

Did you know? The economy is constantly changing and few corporations manage pension plans for their workers still. Social Security is expected to replace less and less of the income a retiree earned while working. Instead, workers have to plan for themselves by setting up their own retirement accounts or participating in those offered by employers. This shift requires that individuals learn how to make investment decisions for their future.

SRF has designed *A Smart Investor's Guide* to help you understand the essentials of investing, your investment options, and how each can be used in your financial plan. As an educated investor, you'll be able to make more suitable investment decisions. For additional information, we invite you to use our Investments page on the SCC website.

For questions or concerns, the SRF's contact information is included on the back of this guide. We hope we can be a valuable resource in planning and achieving your financial goals.

CONTENTS

1 GETTING STARTED

DEVELOPING A PLAN

Before investing, address any debt you have that may make it difficult to start saving. In addition to reducing debt, you may need to build an emergency savings fund. This fund can help cover the cost of unforeseen expenses like unemployment, medical bills, or property taxes.

A quick internet search can provide step-by-step resources for family budgeting, building credit, controlling debt, preparing a spending plan, calculating your net worth, and learning about insurance.

GOAL	TIME	EXAMPLE
SHORT-TERM	3 YEARS (OR LESS)	A VACATION 
MEDIUM-TERM	3 TO 5 YEARS	OWNING A HOME 
LONG-TERM	10 YEARS (OR MORE)	RETIREMENT 

ESTABLISHING GOALS

Begin by asking yourself, "What exactly do I want to accomplish with my money?" The answer should help guide you toward financial security. Goal-setting will be determined by your own preferences. There are no "right" or "wrong" financial goals, and most people work toward several goals at once.

When establishing your financial goals, it's important to be specific. It's not enough to say, "I plan to retire someday." You must go one step further. What do you want to do in retirement? Do you intend to work part- time? Do you plan to travel? What is the outlook for your health and future care? Do you want to enter retirement earlier than the normal retirement age or later? The answers will help you determine how much money you'll need to save and invest for the retirement you envision.

Ask similar questions for each of your financial goals. Only by setting specific goals will you be able to make the financial decisions necessary to reach them.

PAY YOURSELF FIRST

Create a budget that suits you, and stick to it. A budget helps you keep track of your finances. The goal is to spend less than you earn every month. By knowing how you are spending your money, you can better determine where you want to make changes. Even small modifications to your spending habits frees up money.

Additional funds in your budget can be applied toward paying down debt and building an emergency fund. Once you accomplish these objectives, you can then direct the extra money into **savings** and **investments**. Consider this an expense in your budget each month—a concept known as paying yourself first.

Consider having savings and investment expenses automatically debited from your account. If you know these funds are going to be withdrawn, you are less likely to spend them elsewhere. The pay-yourself-first concept also helps you make saving and investing a habit.

By adding to your investments monthly, you can grow your investment account. When you add a monthly fixed dollar amount to an investment account, you buy more shares when the prices are low and fewer shares when the prices are high—providing you with an average per-share price. This method will help you build your investments over time, but it is not a guarantee. Securities are speculative in nature and fluctuate in value. There is no way to know whether your account will gain or lose value.

SAVING
Putting money aside to meet short-term goals and needs.

INVESTING
Putting your money into a financial product with the expectation of making additional money.

SAVING & INVESTING

Saving is not the same as investing. Saving may include putting aside money for an emergency or a down-payment on a new car. The money must be readily available when you need it. Think of savings as a short-term parking space for your money.

Basic accounts at local banks and credit unions are a good option for

short-term savings. **Savings accounts**, **money market accounts**, and **certificates of deposit** (CDs) allow you to earn **interest** at a particular rate on a regular schedule. Just make sure the financial institution you choose is insured by the ***Federal Deposit Insurance Corporation*** (FDIC) (see pg. 69) if it is a bank, or the ***National Credit Union Share Insurance Fund*** (NCUSIF) (see pg. 69), if it is a credit union. This insurance protects deposits up to $250,000 in bank or credit union

SAVINGS ACCOUNT

A deposit held at a bank or other financial institution in order to save money while earning a modest interest rate.

MONEY MARKET ACCOUNT

An interest-bearing account that requires a higher balance, pays a higher rate than a regular savings account and limits check- writing.

CERTIFICATE OF DEPOSIT (CD)

A monetary deposit with fixed terms, typically ranging from three months to five years. Traditional bank CDs earn interest at a fixed rate. Funds withdrawn before maturity incur a penalty and forfeiture of interest earned.

INTEREST

A percentage of your account balance.

accounts in case those institutions run into financial difficulties.

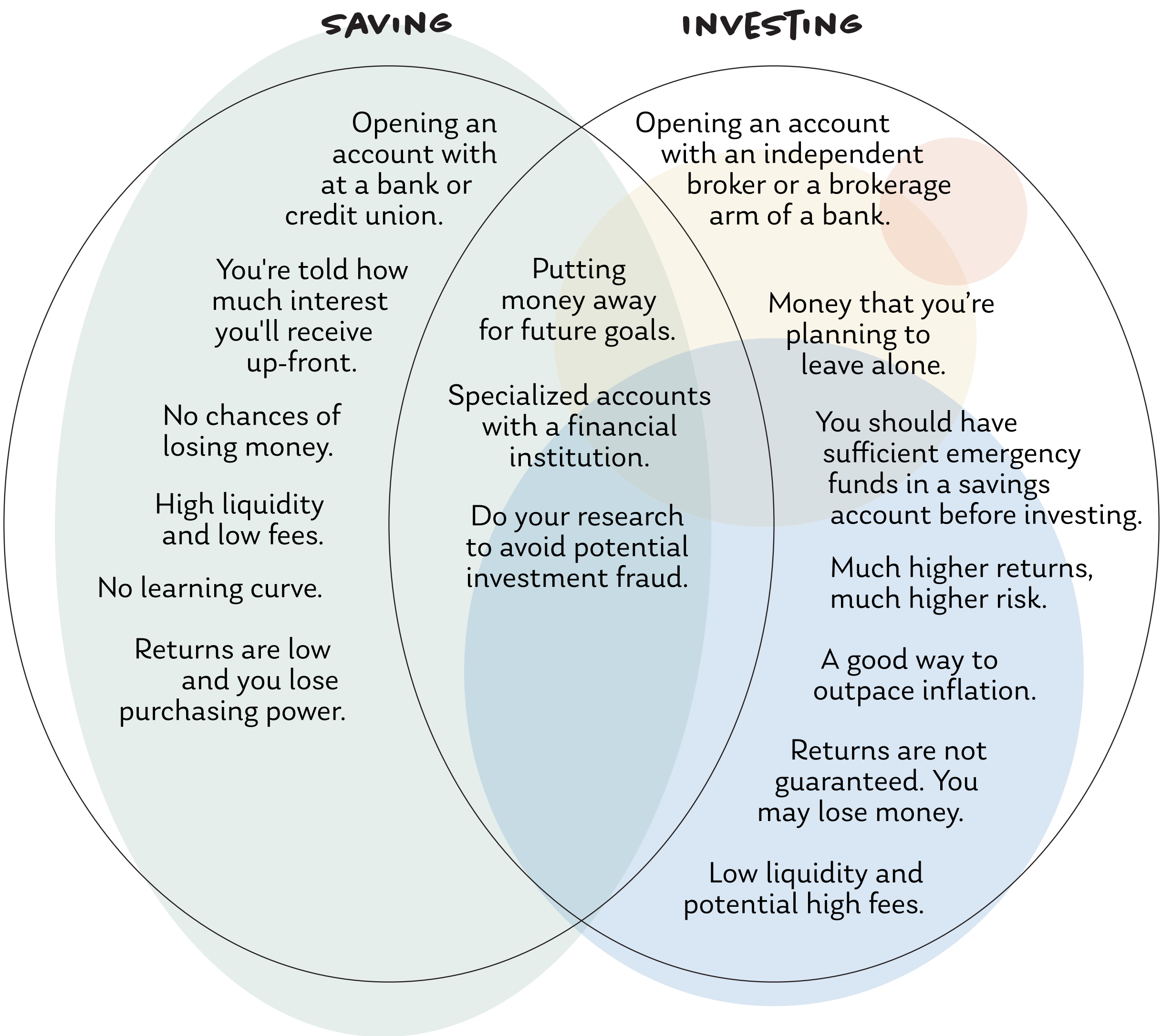
You will often hear basic short-term savings accounts referred to as "cash equivalents." They are highly liquid, meaning you can easily convert them into cash, and they are considered low-risk, ensuring your money will be there when you need it.

In investing, however, there is no guarantee your funds will increase, nor is there any guarantee they won't decrease.

While saving is essential to your financial success, many people consider investing a better option for achieving long-term goals. Investments provide the potential for your money to grow, helping you buy a home, pay for college, or finance a secure retirement. Additionally, investments provide more protection against inflation than CDs and money market accounts.

You do not need to be wealthy in order to invest. Starting with a small amount and investing regularly can help you build wealth over time. The sooner you start to invest, the more time your money has to grow—though, investing at any age is wise.

Some people are not interested in investing. Investments are not insured, and earnings are not guaranteed. The value of your investments may shrink; your account could lose value, especially short-term. However, over time (several decades) you do have a chance to achieve a greater rate of return.


SAVING
INVESTING
Opening an account with at a bank or credit union.
You're told how much interest you'll receive up-front.
No chances of losing money.
High liquidity and low fees.
No learning curve.
Returns are low and you lose purchasing power.
Putting money away for future goals.
Specialized accounts with a financial institution.
Do your research to avoid potential investment fraud.
Opening an account with an independent broker or a brokerage arm of a bank.
Money that you're planning to leave alone.
You should have sufficient emergency funds in a savings account before investing.
Much higher returns, much higher risk.
A good way to outpace inflation.
Returns are not guaranteed. You may lose money.
Low liquidity and potential high fees.

INVESTING BASICS

STARTING NOW

A dollar in your pocket today is worth more than that same dollar will be worth next month or next year. Money loses value and buying power as a result of **inflation**. Almost anything you buy now costs more than it once did. In fact, since about 1970, average inflation rate has risen much faster than the average **disposable personal income (DPI)**. Meaning all of us have lost a lot of buying power. If the inflation rate is higher than the interest rate you are earning in a savings account, then inflation is actively reducing your savings.

Therefore, you may want to invest your money so you can outpace inflation.

If the value of your investment **portfolio** increases more rapidly than prices rise (because of inflation) you'll increase your net worth. You have the potential of becoming more financially secure if you achieve an **annualized rate of return** higher than the **annualized rate of inflation.**

If a dollar in your pocket today is worth more than that same dollar will be worth next year, then any money you

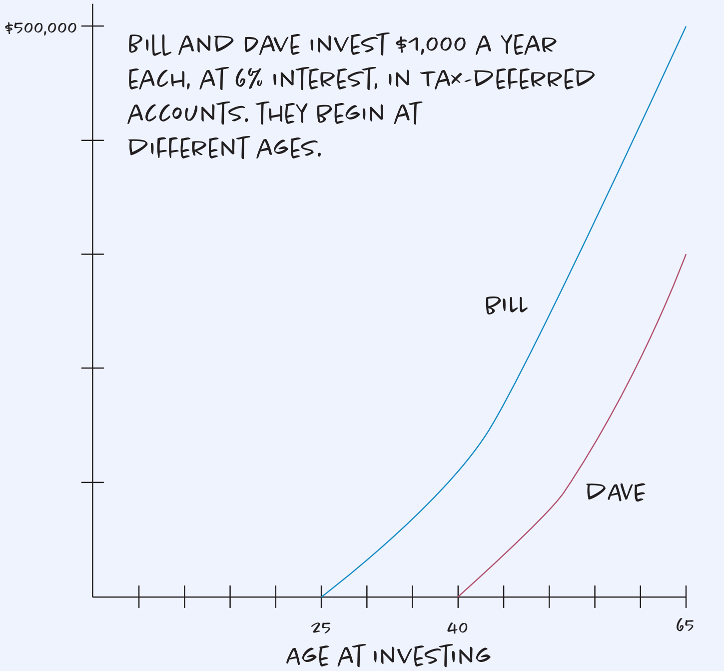
INFLATION:
A price increase, accompanied by a fall in the purchasing value of money.

DISPOSABLE PERSONAL INCOME: (DPI)

Income remaining after deduction of taxes and other mandatory charges, available to be spent or saved as one wishes.

PORTFOLIO

A grouping of financial assets such as stocks, bonds, mutual funds and cash equivalents. Portfolios can be held directly by investors or managed by financial professionals.



THE IMPORTANCE OF INVESTING EARLY

invest today has greater potential for growth than any money you invest next year.

By investing early, you benefit from the power of **compounding**. Therefore, you create a bigger base on which to grow future earnings.

ANNUALIZED RATE OF RETURN

An estimated rate of annual return for a given period that is less than one year. It's calculated by multiplying the change in rate of return in one month by 12.

ANNUALIZED RATE OF INFLATION

The general increase in the price of goods and services per year. This is found in the consumer price index or retail price index, both of which measure the inflation rate.

COMPOUNDING

You earn a return not only on the amount you invest, but also on the earnings you accumulate.

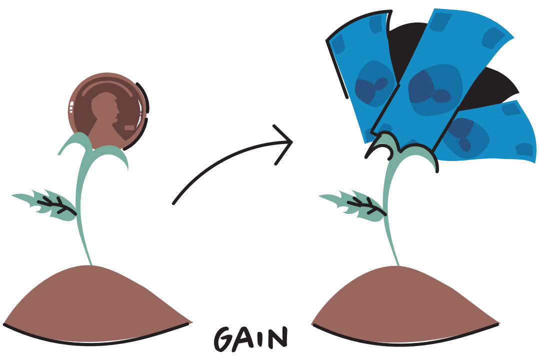
RISK

All investments involve some degree of risk. Successful investing is a balance between risk and return. Risk is the potential to lose money instead of making it.

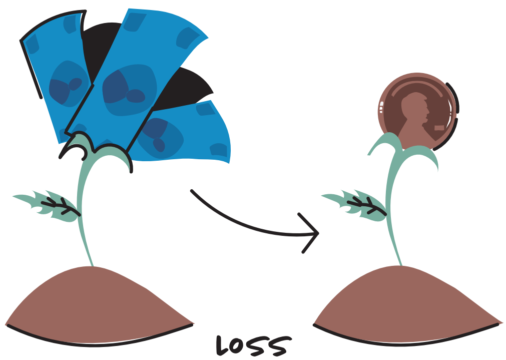
Return is based on change in investment value, plus any earnings that investment produces.

The more risk you are willing to take, the greater your potential for a substantial return—or a disappointing loss. On the other hand, lower risk usually results in a lower return

It's possible you'll experience a loss in the value of your portfolio, especially over a short period of time. But keep in mind that it's entirely possible for a declining investment to regain its value and eventually be worth more than you invested.



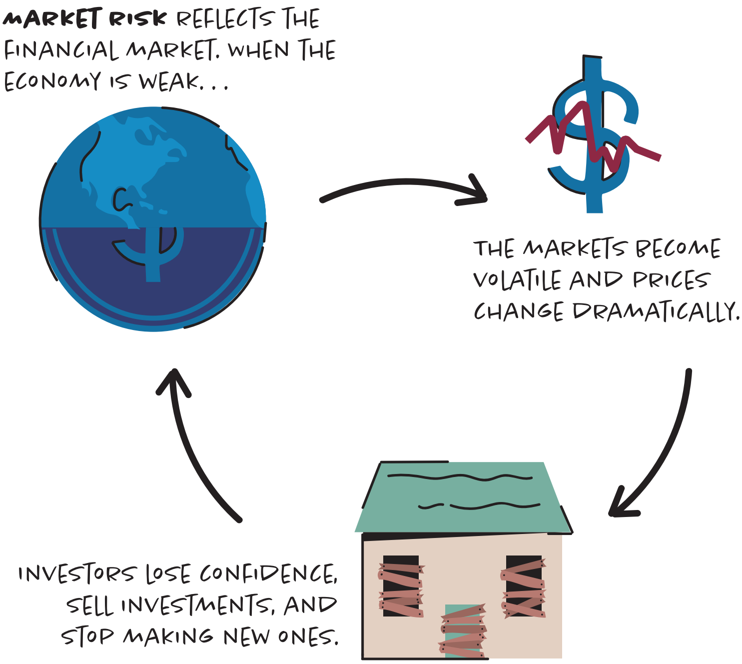
YOU SELL AN INVESTMENT FOR MORE THAN YOU BOUGHT IT FOR.

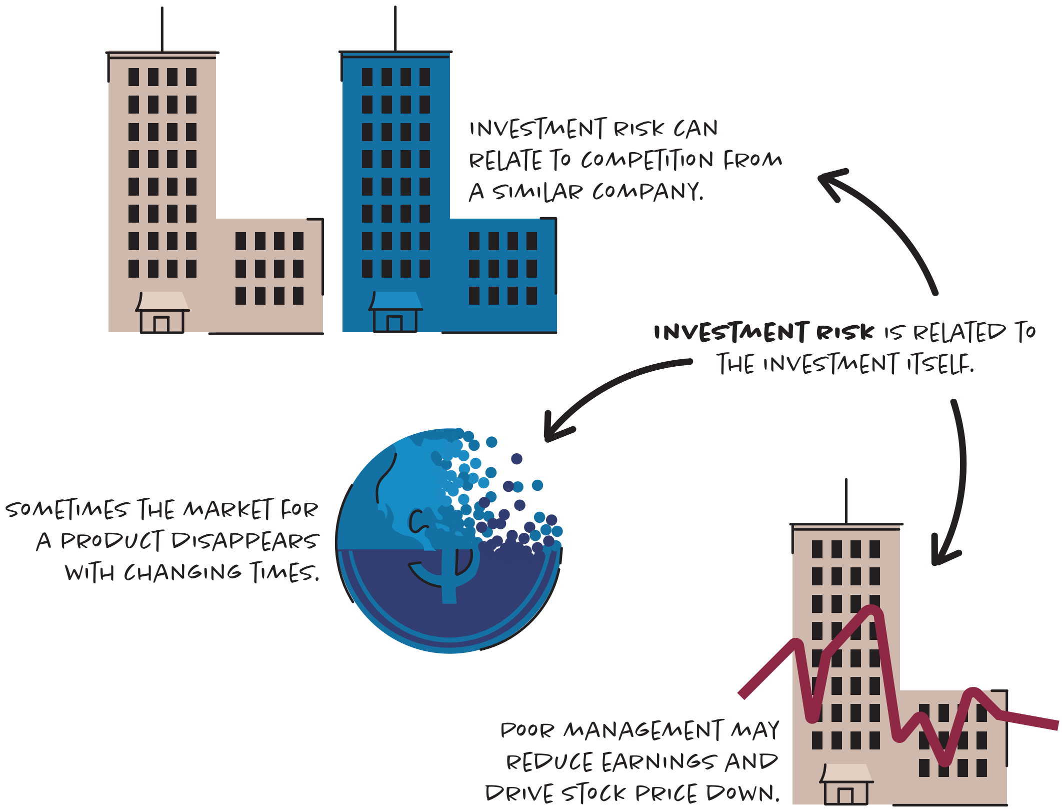


YOU SELL AN INVESTMENT FOR LESS THAN YOU BOUGHT IT FOR.

TWO KINDS OF RISK

Market risk reflects what's happening in the financial markets as a whole. Investment risk occurs when an individual investment loses value for some reason related to the investment itself. You can learn more about how these work on the next page.


MARKET RISK REFLECTS THE FINANCIAL MARKET. WHEN THE ECONOMY IS WEAK. . .
THE MARKETS BECOME VOLATILE AND PRICES CHANGE DRAMATICALLY.
INVESTORS LOSE CONFIDENCE, SELL INVESTMENTS, AND STOP MAKING NEW ONES.


INVESTMENT RISK IS RELATED TO THE INVESTMENT ITSELF.
INVESTMENT RISK CAN RELATE TO COMPETITION FROM A SIMILAR COMPANY.
SOMETIMES THE MARKET FOR A PRODUCT DISAPPEARS WITH CHANGING TIMES.
POOR MANAGEMENT MAY REDUCE EARNINGS AND DRIVE STOCK PRICE DOWN.

MANAGING RISK

While neither market nor investment risk can be eliminated, there are techniques to help you manage both. Two of the most effective strategies are **asset allocation** and **diversification**. Essentially, they help you avoid putting all your eggs in one basket.

In asset allocation, the idea is to avoid putting all your money in the same place. Different **asset classes** react differently to the economy, so when stocks are flourishing, bonds may falter, and when stocks are doing poorly, bonds usually do well.

Asset allocation allows you to offset losses in one class with gains in another because putting all your money into one asset class is more likely to produce a major loss than spreading it across several classes.

Keep in mind, there's no allocation that's right for everyone and nothing works perfectly in every market.

ASSET ALLOCATION:

Divides your investment principal among several different types of investments, or asset classes, on a percentage basis.

DIVERSIFICATION

Putting your money in several investments within each subclass of an asset class.

ASSET CLASS

A group of securities that exhibit similar characteristics, behave similarly in the marketplace, and are subject to similar laws and regulations.

MEET HANNA

SINGLE, 25 YEARS OLD

GOALS

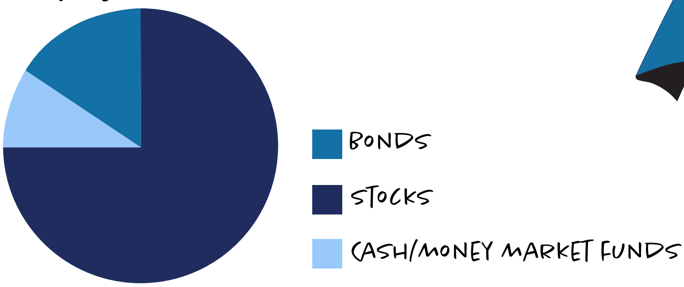
- Save regularly.
- Access cash through a money market fund.
- Invest for a retirement far in the future.

ABOUT

Hanna has a small emergency fund and has almost paid off her student loans.

HANNA IS THE ASSISTANT MANAGER OF A CATERING COMPANY.

PORTFOLIO

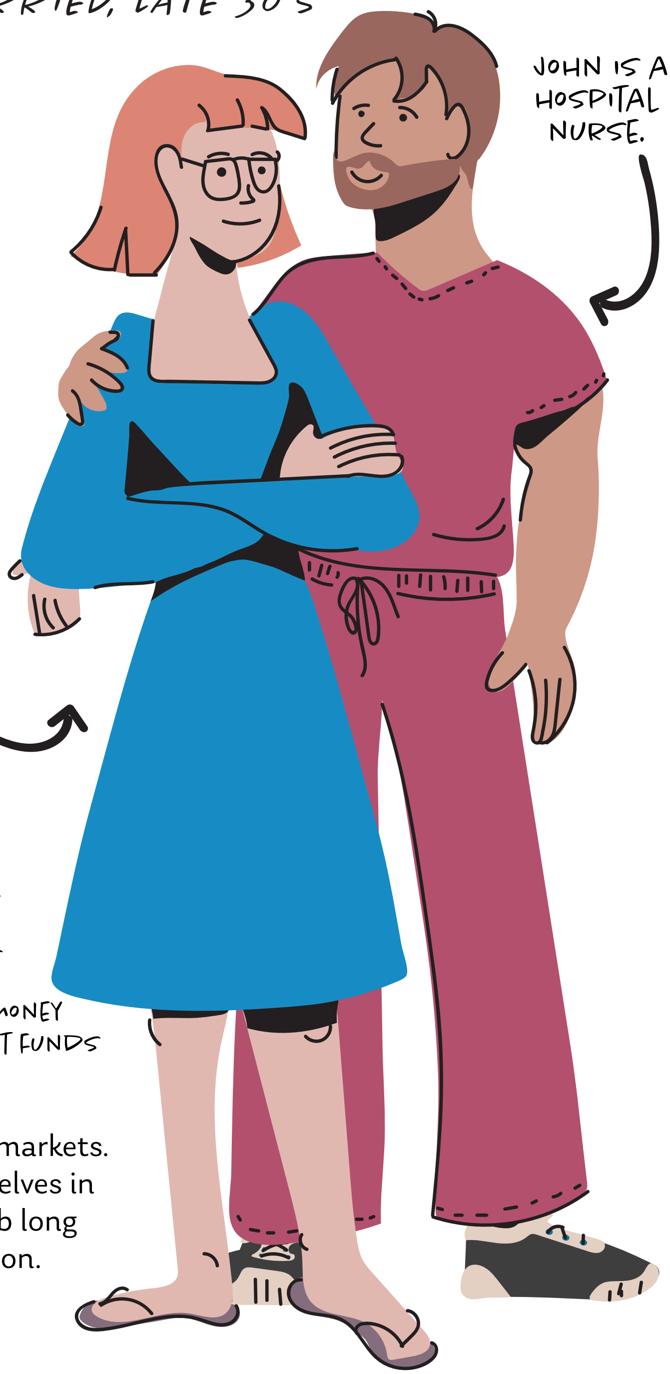


STRATEGY

Allocate a large percentage to stocks (domestic & international) and a small percentage to fixed income to achieve a higher rate of return in the long term.

MEET LIZZIE AND JOHN

MARRIED, LATE 30'S



GOAL

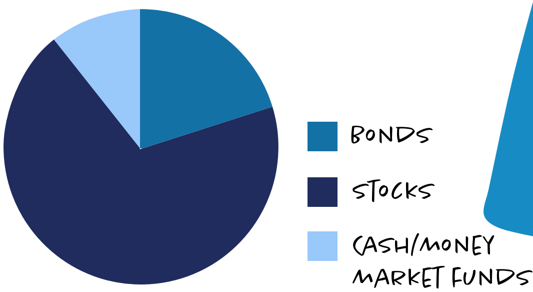
- Ride out extreme market fluctuations.

ABOUT

Lizzie and John have two kids in elementary school. Both have stable jobs with earning potential.

LIZZIE WORKS A MID-LEVEL OFFICE JOB.

PORTFOLIO

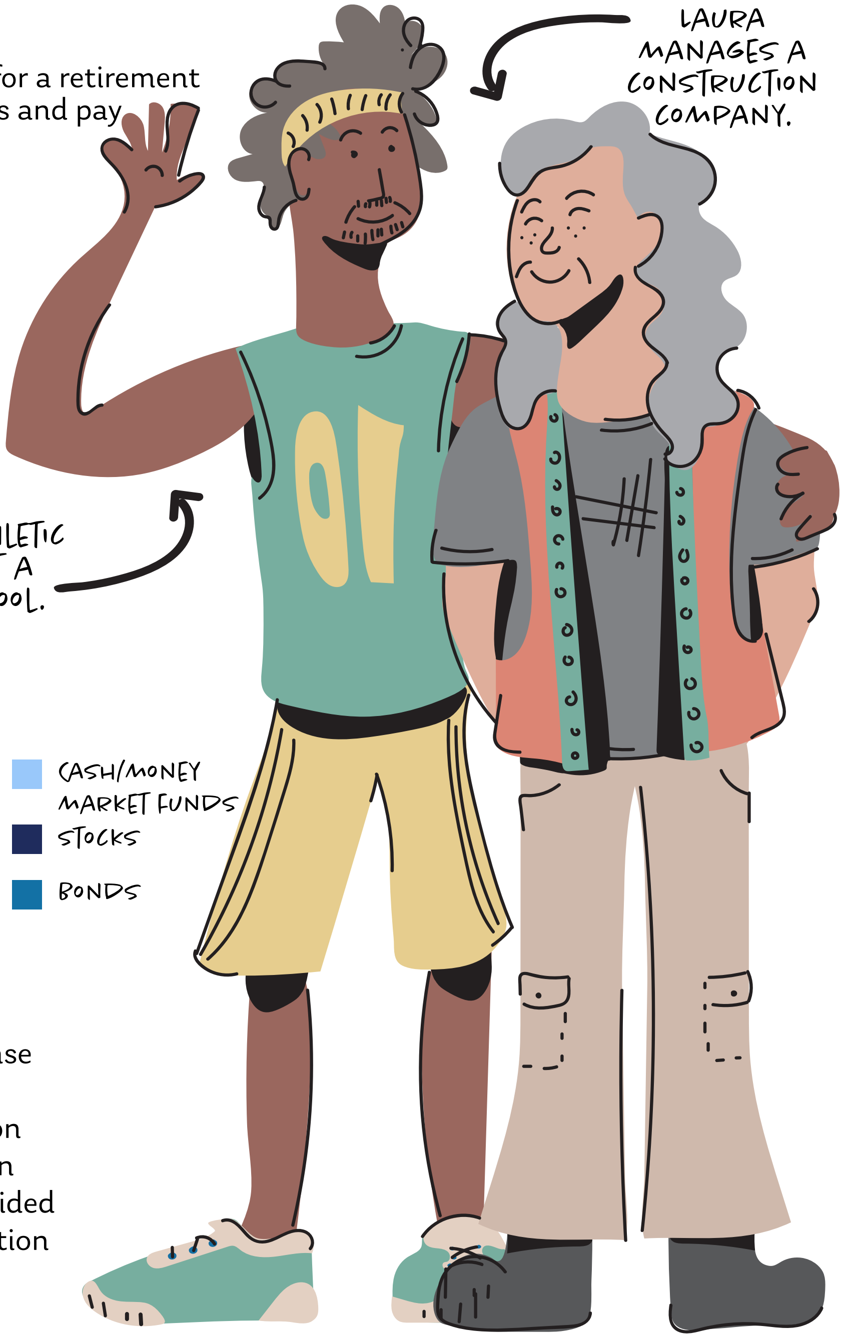


STRATEGY

React to possible decline in the markets. Allocate funds to protect themselves in case Lizzie doesn't stay at her job long enough to qualify for a full pension.

MEET DON AND LAURA

MARRIED, EARLY 50'S



LAURA MANAGES A CONSTRUCTION COMPANY.

DON IS AN ATHLETIC DIRECTOR AT A PRIVATE SCHOOL.

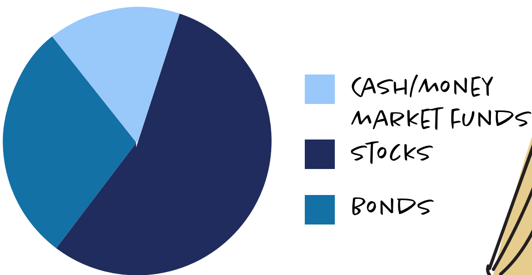
GOALS

- Continue to Save for a retirement in 15 or more years and pay a mortgage.
- Pay college bills.
- Afford healthcare.

ABOUT

Don and Laura have One kid in college.

PORTFOLIO



STRATEGY

Reallocate funds in case of market downturns. Then, they can draw on fixed income. Maintain growth potential provided by equities in preparation for future retirement.

MEET BOB

SINGLE, 66 YEARS OLD

GOALS

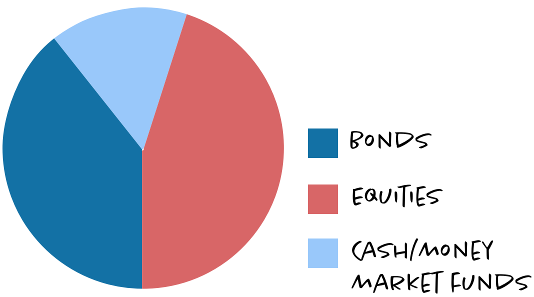
- Minimize the chances of losing retirement funds.
- Maintain easy access to cash for vacation and gifts.

ABOUT

Bob has three sources of income: monthly annuity from his corporate pension, social security, and an IRA.

BOB RECENTLY RETIRED FROM A PHARMACEUTICAL COMPANY.

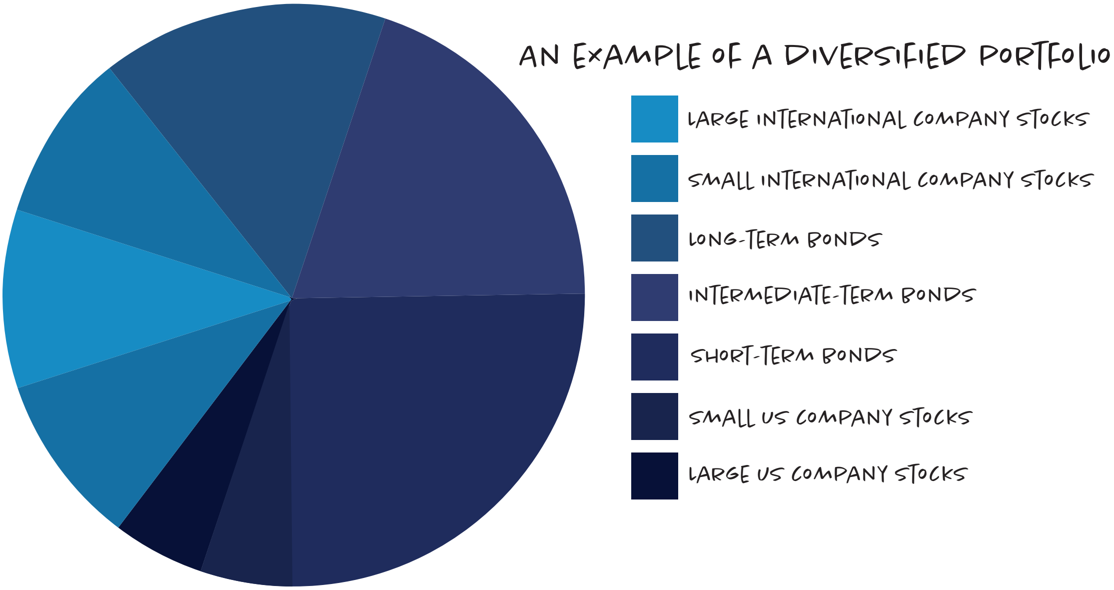
PORTFOLIO



STRATEGY

Allocate a larger percentage to bonds to protect retirement funds.

While asset allocation helps you manage market risk, diversification helps you manage investment risk. For example, a large-company stock and a small-company stock are both stocks, but may increase value at different rates, react differently to economy changes, and expose you to different levels of risk. Similarly, bonds have different terms, ratings, and interest rates. They also have different issuers: the U.S. Treasury, various cities and states, and small and large corporations.



REALLOCATION

As your goals or circumstances change, you will need to consider reallocation. Investors of any age may rebalance their portfolio if any asset class has done particularly well or poorly over a year or two. The goal of **reallocation** is to restore the allocation you originally selected.

Assume you began with a portfolio composed of 60% stocks and 40% bonds. If your stocks lost value and shrunk to less than 60% of your total investment, you might need to reallocate, or re-balance, your portfolio until you have restored your original 60/40 balance.

Reallocation isn't easy, because everyone wants to stay with a winner. Yet selling assets that have soared in value and buying assets with declining prices is one way to bring your portfolio into balance. Another approach is changing the way you allocate your new investment money. For instance, you could choose to put any additional funds into the asset class that has lost value until you have restored your portfolio to its original allocation.

REALLOCATION

Re-balancing your investments.

TO REVIEW: CONSIDER...

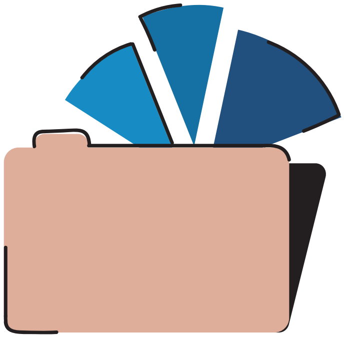
Time available to achieve your goal. Investing to cover a down-payment on a house is different from investing for eventual retirement.

Risk you are willing to tolerate. People have varying levels of risk tolerance. Even a diversified portfolio frightens some people.

Other sources of income. You may collect Social Security, a pension, or income from family business interests. When investing for retirement, assets can minimize the need to take on a risky investment.

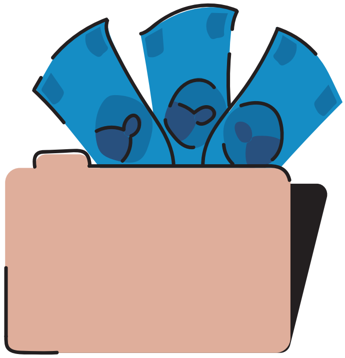
HOW TO ESTABLISH AN ACCOUNT

OPEN AN ACCOUNT TO PURCHASE YOUR INVESTMENTS. CHOOSE WHICH ACCOUNT TO OPEN BASED ON THE GOALS YOU'RE INVESTING TO MEET.



CHOOSE YOUR INVESTMENTS. YOU CAN START SLOWLY, PERHAPS BY OPENING AN ACCOUNT AT A MUTUAL FUND COMPANY AND CHOOSING A MUTUAL FUND OR TWO. THEN, BROADEN YOUR INVESTMENT BASE.

AS YOUR INVESTMENTS PROVIDE EARNINGS, USE THAT INCOME TO BUY ADDITIONAL SHARES. THIS IS COMMONLY REFERRED TO AS THE **DIVIDEND REINVESTMENT PLAN.**



CONTINUE TO INVEST. DEPOSIT MONEY TO YOUR ACCOUNT EVERY MONTH OR QUARTER. YOU CAN DO THIS BY ARRANGING FOR DIRECT DEPOSIT INTO YOUR INVESTMENT ACCOUNT.

3 INVESTMENT PRODUCTS

WHAT'S NEXT?

Now that you have set goals and understand the market and investment risks, it's time to understand the investment choices you have. The three most common investment options are stocks, bonds, and mutual funds. Each investment puts your money to work and generates a return that fluctuates based on current market conditions.

Let's talk about each.

STOCKS

Of all the investment options, stocks hold the most potential over the long run. Since 1926, stocks of large companies have produced an annual rate of return that exceeds all other possible investment vehicles. However, they also experience a high level of short- term **volatility**.

Owning stock makes you a **stockholder** or a shareholder and gives you partial ownership of the company that issued it. If the company does well, your stock value increases. If the company does not do well, your stock value decreases.

> **VOLATILITY**
>
> The rate at which the price of a security moves up and down.

> **STOCKHOLDER**
>
> A partial owner of the company that issued the stock.

Most stock in the U.S. is **common stock**. Not only does the price of common stock fluctuate, but **dividends** paid by the company may fluctuate as well.

Many companies also issue **preferred stock**, which sets a fixed dividend amount. This provides a regular stream of income and carries a reduced level of risk. If a company goes out of business, preferred stockholders may claim their assets right behind creditors. While preferred stock is a safer investment, it also limits return. If a company does especially well, owners of preferred stock are locked into their predetermined dividend, whereas common stockholders receive the potentially higher dividend.

You buy stock expecting an increase in value over time. The difference between the price you pay for the stock and the price at which you sell the stock is your **capital gain**, or profit. That old saying, "buy low and sell high" sounds ideal, but there is no guarantee the price of the stock will not decrease—in which case you will lose money.

Larger, established companies typically choose to share a portion of profits with their shareholders on a quarterly basis by paying a dividend. On the other hand, newer companies do not, since they are

COMMON STOCK

A security that represents ownership in a corporation. Stockholders receive whatever assets remain after creditors, bondholders, and preferred stockholders are paid.

DIVIDENDS

The distribution of corporate earnings to eligible shareholders.

PREFERRED STOCK:

Company stock with dividends that are paid to shareholders before common stock dividends are paid out.

CAPITAL GAIN

The positive difference or surplus between the purchase price and the sale price of an asset.

still using all their profits to grow their company. A stock that pays dividends provides income. The amount of the dividend is determined by the company and paid according to the number of shares each shareholder owns.

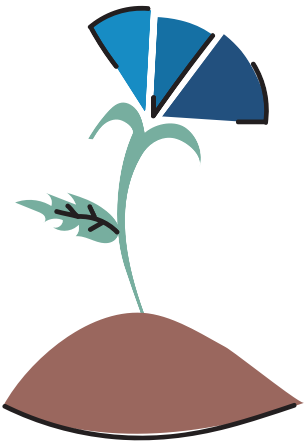
As an alternative to receiving a quarterly dividend, you may be able to enroll in the company's **dividend reinvestment plan** (DRIP). In this case, the company automatically reinvests your dividends by purchasing additional shares of company stock. For investors who value growth over current income, a DRIP is a good option. You may have to ask the company if they provide a DRIP program, however, because few promote them. Finally, as with any financial product, make sure you understand all the rules and restrictions of any DRIP.

DIVIDEND REINVESTMENT PLAN (DRIP)

A plan that allows stockholders to automatically reinvest dividend payments.

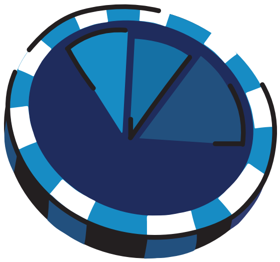
TYPES OF STOCK

GROWTH



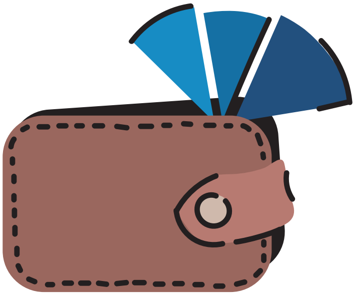
Investors are interested in these type of stocks because growth stocks have a good earnings record, are expected to continue generating a profit over the long-term, and have the potential to increase in value faster than the market in general.

BLUE-CHIP

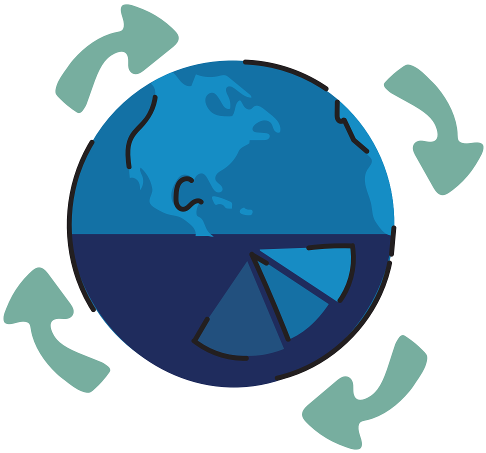


Issued by industry-leading companies with outstanding financial credentials. While blue-chip stocks do generate some growth, it is moderate in comparison to growth stocks. However, they do tend to pay decent, steadily rising dividends.

INCOME

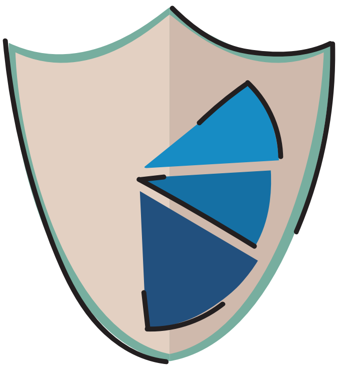


These stocks are issued by mature, slow-growing companies and tend to pay out a much larger portion of their profits in the form of quarterly dividends. The share price of income stocks typically does not grow rapidly. They're favored by investors in retirement but can also be advantageous to any investor during a down-market.



CYCLICAL

These stocks are offered by companies where success tends to mirror the economy. Cyclical stocks do well when the economy prospers, but they do poorly when it stumbles.



DEFENSIVE

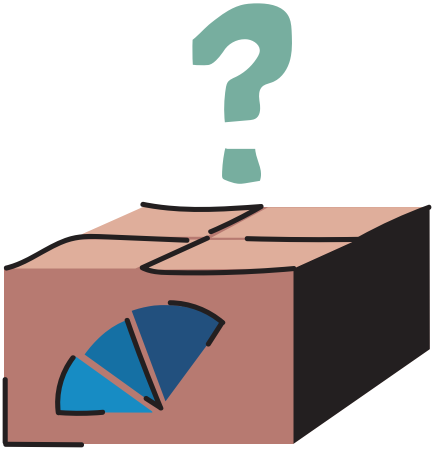
Defensive stocks are usually issued by companies in the utility and healthcare industries. In theory, they are not subject to economic fluctuations, since consumers will continue to buy their products and services.

VALUE

These stocks can be under-priced. If a company is economically viable but its stock price is low in relation to its earnings, value stock may be a good buy.

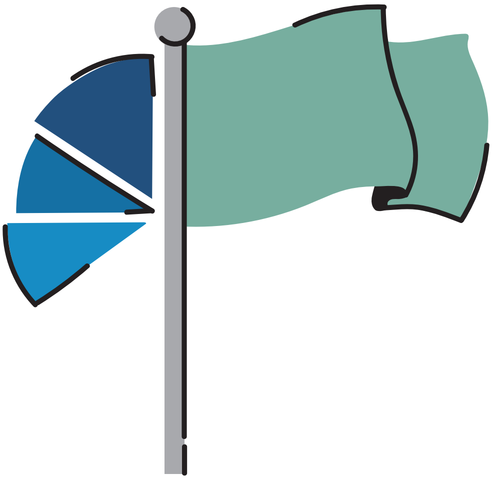
SPECULATIVE

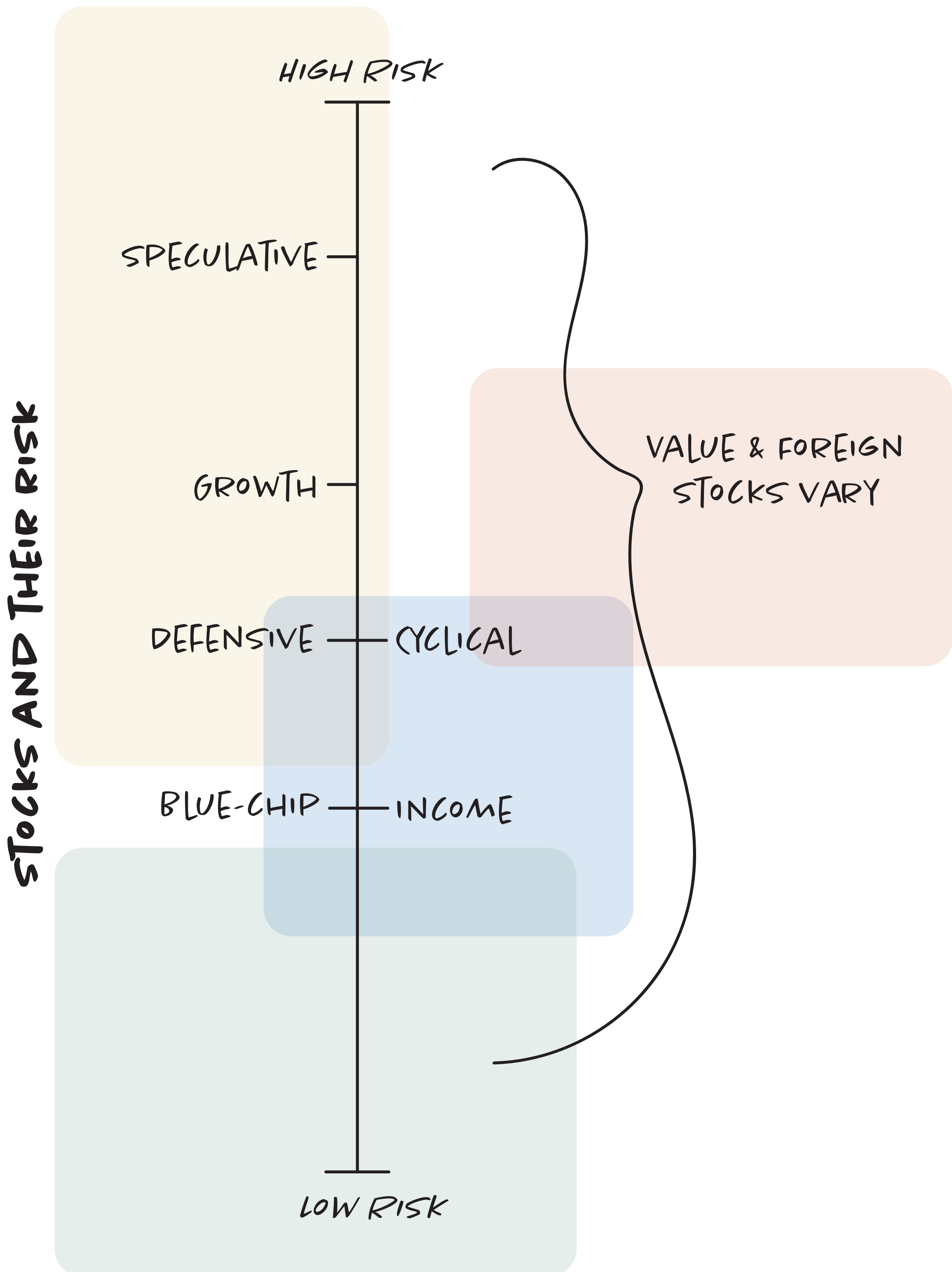
These stocks are issued by young, unproven or down-on- their-luck companies that nonetheless have something to recommend them. Those who invest in speculative stocks are hoping to make a big profit, but with big profits come big risks.



FOREIGN

The U.S. and foreign stock markets generally do not move in tandem. Foreign stocks provide exposure to overseas currencies, economies, and business cycles. They're divided into two subsets: developed markets (such as Western Europe, Japan, and Canada) and fast-growing, emerging markets (such as China, India, and Brazil).




STOCKS AND THEIR RISK
HIGH RISK
SPECULATIVE
GROWTH
DEFENSIVE
CYCLICAL
BLUE-CHIP
INCOME
LOW RISK
VALUE & FOREIGN STOCKS VARY

Buying & Selling Stock

To buy stock, you will need to open an investment account with a traditional or online brokerage firm. Your order will be handled by a stockbroker. Few companies allow investors to open an account directly.

Almost all the facts you need to make educated decisions when buying stocks are found in the company's **prospectus**. Ask for a copy or download it online.

What's in a Prospectus?

- A summary of the company's background and financial information
- The name of the company issuing the stock
- The number of shares
- The type of securities offered
- Whether the offering is public or private
- The company's principals
- Risks
- Companies performing the underwriting

You will want to understand the industry's outlook, where the company stands within the industry, and if it is committed to future expansion.

Deciding when to sell a stock is just as important as deciding which stock to buy. Long-term investors do not sell stock every time its value goes up or down. However, it may be time to sell if research department analysts downgrade your stock, the company's annual reveal its core is weakening, or the dividend is cut.

You can also decide to sell because you've reached your personal target price or you simply need the money. To determine your actual profit when you sell, remember to deduct the commissions and taxes you have paid.

PROSPECTUS

A written document, required by law, that describes the security being sold, the financial operations of the issuing corporation, and the investment or risk attaching to the security.

WHAT'S A STOCK SPLIT?

When the price of a stock is especially high, investors may be hesitant to purchase that stock either because the per-share price is out of reach or because they think the price has peaked. In this case, the company may choose to split the stock to lower its per-share price in the hope this will stimulate more trading.

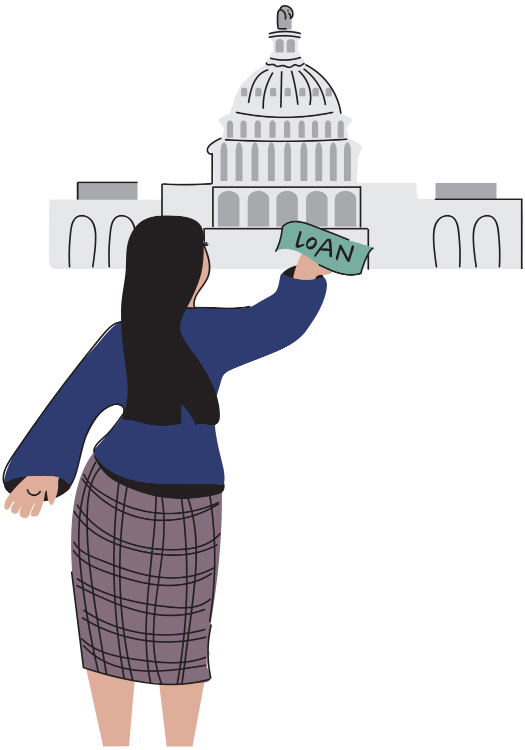
During a stock split, the number of shares increases, but the total market value remains the same. For example, if a company's stock is trading at $100 per share and the company institutes a two- for-one split, stockholders receive two shares (valued at $50 each) for each one share (valued at $100) they own.

Stock splits can be beneficial. They make the share price more affordable and give stock the potential to move back up toward its former price. This increase in value appeals to prospective investors and existing stockholders alike.

BONDS

Bonds are a fixed-income investment. They belong in every investor's portfolio because they balance the volatility of stocks. When stocks are slow or declining in value, bonds tend to increase in value. Even those investing for long-term growth may want to have a portion of their funds devoted to bonds in order to balance out their risks.

When you buy a bond, you are in effect lending money (called the **principal**) to the corporation, government, or government agency issuing that bond. The issuer promises to repay the principal plus interest over the term of the loan. **Terms** vary.



BOND	TIME
SHORT-TERM	1 YEAR (OR LESS)
MEDUIM-TERM	UP TO 10 YEARS
LONG-TERM	10 YEARS (OR MORE)

PRINCIPAL

The original amount of money loaned or invested on which interest is paid or additional money is earned.

TERM

Refers to the period of time assigned to the lifespan of any investment and falls into one of two main categories: short-term and long-term.

Bonds can be held until they mature, but they are often bought and sold before maturity on a secondary bond market that operates much like the stock market. When bonds are bought, sold or traded before their maturity date, the interest rate realized fluctuates.

For example, if you own a bond with an interest rate of 3% and interest rates rise, the price of your bond will fall. Investors won't pay as much for a bond with a lower interest rate when they can buy a new bond with a higher rate. Conversely, when interest rates fall, bond prices rise. That same 3% interest rate bond is going to be more attractive to investors when new bonds are being issued at a 2% interest rate. Profit on a fixed income investment includes the interest you earn plus a capital gain, if you sell it for more than you paid for it.

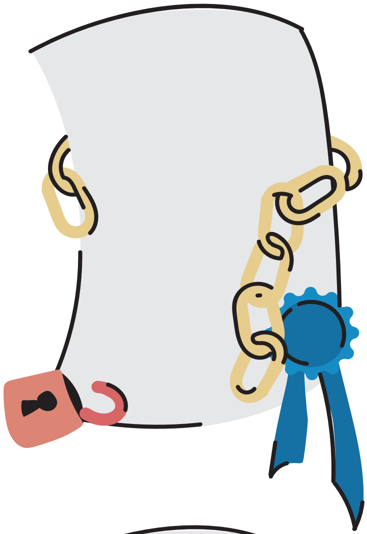
TYPES OF BONDS

SECURED

These are backed by collateral such as a company's manufacturing facility, equipment or other assets. If the company defaults, it can sell off its assets to pay the holders of its secured bonds.

DEBENTURES

These are not backed by any type of company collateral. If the company defaults, debentures will not be paid off until the secured bond holders are paid first.

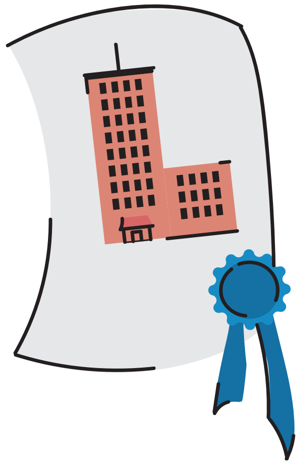


ZERO-COUPON

These bonds are issued at a discount from their face value. They pay all the interest at maturity rather than periodically. For example, an investor could buy a $1,000 bond for $900, yet receive the full $1,000 at maturity. Zero- coupon bonds can be either secured or unsecured.

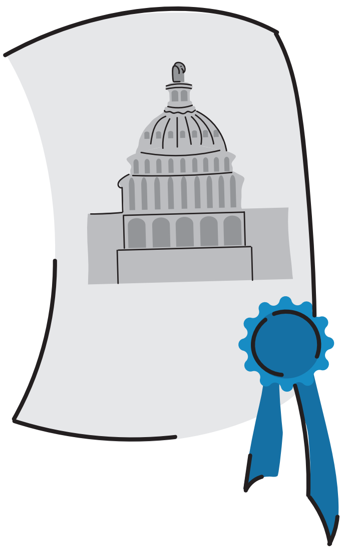
CORPORATE

These are issued by corporations for the purpose of expanding their operations. The company may need funds to build facilities, buy equipment, or step up their research and development efforts.



MUNICIPAL

These are issued by a state or city government or its agencies. There are two types: general obligation bonds, backed by the full taxing authority of the government, and less secure revenue bonds, backed only by receipts from the specific source of revenue, such as a toll road. Municipal bonds have a tax advantage because the interest paid is exempt from federal income taxes and usually from state income taxes as well.



AGENCY SECURITIES

These are issued by various U.S. government-sponsored organizations. Although they are not technically backed by the full faith of the federal government, agency securities have historically been moral obligations the government will not allow to fail.

CALLABLE

These can be redeemed or "called" by the issuer before the maturity date. A company might decide to call its bond if, for example, interest rates fall so far that the company can save money by issuing new bonds at a lower rate.

CONVERTIBLE

These are corporate bonds that can be swapped for the same company's common stock at a fixed ratio. For example, if the price of the company's stock rises enough after you buy its convertible bond, you can profit by swapping your bond for stock.

US SAVINGS

There are currently two varieties. EE-bonds pay a fixed rate of interest for the life of the 30-year bond. I-bonds are inflation-adjusted.

US TREASURY BILLS, NOTES, & BONDS

The investments that mature in a year or less are called Treasury bills; those that mature in less than 10 years are called Treasury notes; those that mature in more than 10 years are called Treasury bonds. Each is backed by the full faith and credit of the federal government.

BUYING & SELLING BONDS

When a new bond is issued, the interest rate it pays is called the **coupon rate**. This is a fixed payment expressed as a percentage of its face value. For example, a 3% coupon bond pays $30 interest per year on each $1,000 of its face value. That is the fixed amount the investor receives in interest each year for the life of the bond.

The real potential in bonds lies in the relationship between yield and price. As interest rates rise, bond prices fall; as interest rates fall, bond prices rise. The further away from the bond's maturity or call date it is, the more volatile its price tends to be.

You can buy bonds individually; though, many investors find the price prohibitive. An alternative is to diversify bond holdings across several different issuers through bond mutual funds.

COUPON RATE

The nominal yield paid by a fixed-income security.

MUTUAL FUNDS

A mutual fund is an account that consists of a group of individual investments, usually stocks or bonds or both. The investments are chosen according to the fund's objectives. If the goal is long-term growth, the fund is likely to be invested primarily in stocks. If it's current income, the fund is likely to be invested heavily in bonds. Investment companies will usually form a group, or family, of mutual funds, with each fund devoted to a specific objective.

ADVANTAGES OF MUTUAL FUNDS:

- AUTOMATIC DIVERSIFICATION
- EXPERT PORTFOLIO MANAGEMENT
- EASILY ACCESSIBLE
- AUTOMATIC DRAFT PLANS
- AUTOMATIC REINVESTMENT OF EARNINGS

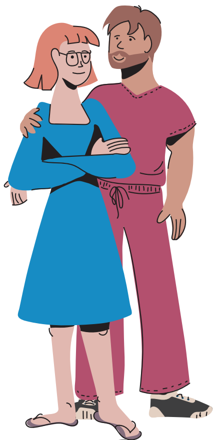
Once a fund is created, it sells shares to investors. When you buy shares in a mutual fund, you are investing indirectly in the securities held within that fund, a process that is easier and less expensive than buying them individually on your own. You may be able to purchase shares online, through a company representative, banks, credit unions, your employer retirement savings plan, or other routes.

NET ASSET VALUE (NAV)

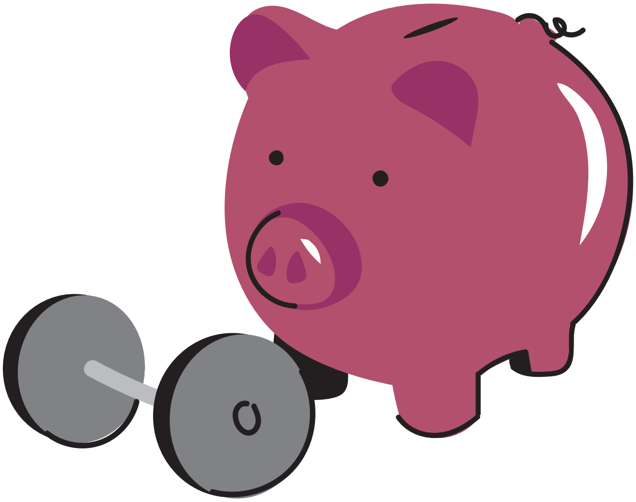
A fund's price at the close of that business day.

Mutual funds make it easy to invest and equally easy to liquidate. Initial minimum investments are relatively low, and you can make additional investments of as little as $50 or $100 on a regular basis or at any time you choose. A mutual fund will also buy back any shares you want to sell based on the **NAV**.

CHOOSE THE MUTUAL FUND THAT ALIGNS WITH YOUR FINANCIAL GOALS:



LONG-TERM INVESTORS	INCOME-ORIENTED INVESTORS	AGGRESSIVE INVESTORS
• GROWTH FUNDS	• HIGH-QUALITY CORPORATE BOND FUNDS	• AGGRESSIVE-GROWTH FUNDS
• GROWTH-AND-INCOME FUNDS	• GLOBAL BOND FUNDS	• HIGH-YIELD BOND FUNDS
• BALANCED FUNDS	• US GOVERNMENT BOND FUNDS	• SINGLE-INDUSTRY FUNDS
• INDEX FUNDS	• GINNIE MAE FUNDS	
• FLEXIBLE PORTFOLIO FUNDS	• MUNICIPAL BOND FUNDS	
• GLOBAL FUNDS		
• INTERNATIONAL FUNDS		
• SOCIALLY RESPONSIVE FUNDS		



ACTIVELY MANAGED

An actively managed fund aims to provide stronger returns than the **index**. For example, a fund that invests in large-company stocks typically wants to outperform the **Standard & Poor 500 Index.** The fund's manager chooses investments and trades stock in order to achieve high returns. This strategy, however, increases the fund's costs, which are passed on to shareholders as fees.

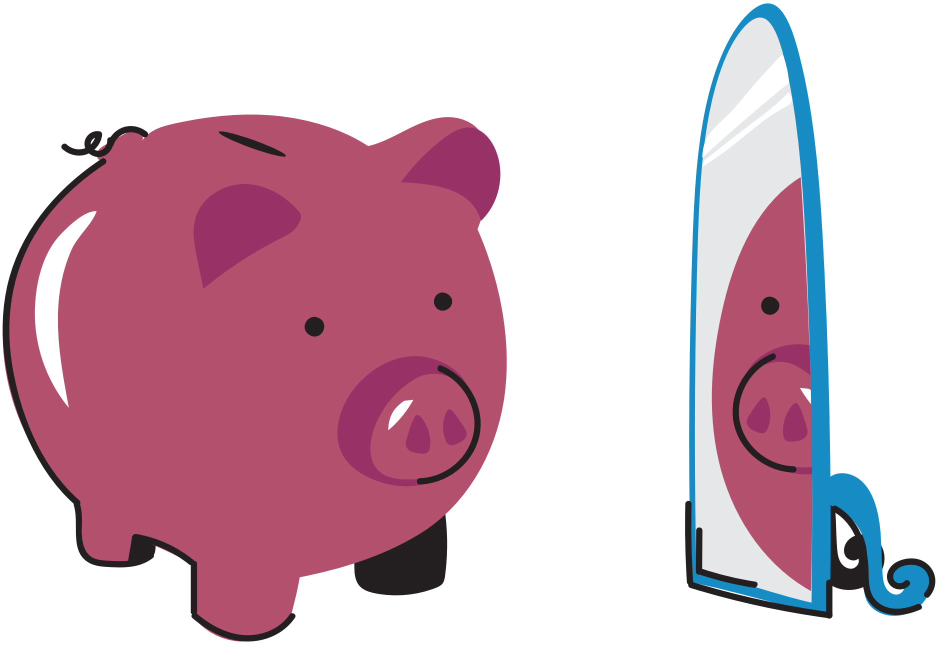
An actively managed fund might do significantly better than its benchmark in one, three, or even five years, but it almost never does so consistently. Many investors mistakenly pick an actively managed fund based on its recent track record. Yet funds that are stellar performers one year may not shine as brightly the next year. Investors will benefit more by focusing on long-term performance: a mutual fund's annual fees, transaction costs, and sales charges.

INDEX

Provides a broad representative portfolio of investment holdings. Indexes are used as benchmarks to gauge the movement and performance of market segments.

STANDARD & POOR 500 INDEX (S&P 500)

This index tracks the performance of 500 widely-held, large-cap U.S. stocks in the industrial, transportation, utility, and financial sectors.

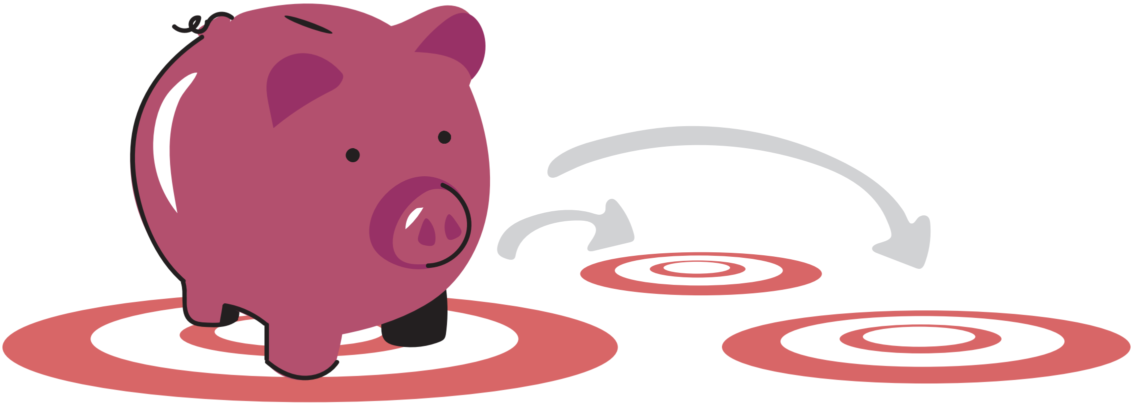


INDEX

An index fund invests to replicate the performance of the index the fund tracks, not to beat it. If the fund tracks the S&P 500 Index, for instance, it owns the 500 stocks in that index. If a stock drops out of the S&P 500, the index fund also drops that stock and buys whichever stock replaces it. The same theory governs the performance of a mutual fund tracking the index of 2,000 small-company stocks called the Russell 2000 Index. The fund drops and adds stocks as the underlying index changes.

An index fund, then, does not have to pay a manager to choose investments. And there are few trading costs because the portfolio changes only when the index changes.

Therefore, index funds involve lower fees for the fund's shareholders. They also provide stronger returns than actively managed funds over the long term, usually because of their lower costs.



TARGET DATE

Investors select a target date fund (TDF) based on their expected year of retirement or year in which the money will be needed.

The fund starts with a portfolio mostly composed of stocks, then shifts over time to increase the percentage of fixed income. In theory, the funds become less risky as retirement approaches.

Target date funds are promoted as an easy choice for investors perplexed by the overly complex financial marketplace. You may want to consider a target date fund (TDF) if allocating assets and re-balancing your portfolio seems more complicated than you are prepared to handle.

However, TDFs also expose the investor to potential risks, as all investments do. So, in choosing target date funds, it's important for investors to determine whether the allocation is appropriate for their goals and risk tolerance, rather than just picking a fund based on a certain year.

Many investors have dangerous misconceptions about target date funds and don't realize that TDFs are just funds that invest in other mutual funds. That means target date funds share the same risks as other mutual funds.

Buying & Selling Mutual Funds

The cost of a mutual fund varies. You can find the information you need in the fund's prospectus.

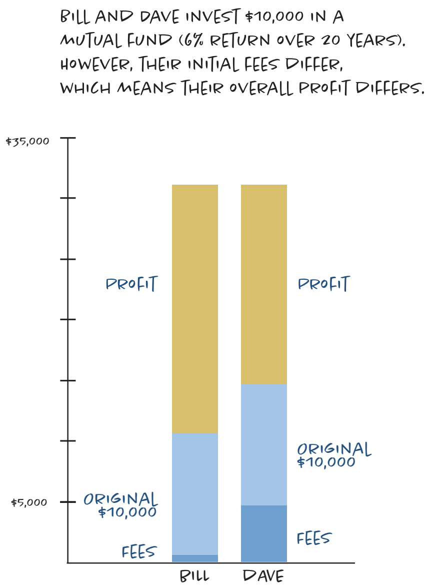
To get the best deal for your investment dollar, carefully review all charges. While mutual funds can charge a load or a percentage fee, many no-load funds have no sales charge, yet they perform quite well.

In general, fees on funds that invest in small companies tend to be higher than funds that invest in large, well-known companies. That's because identifying appropriate small companies takes more time and research.

Fees can have a substantial impact on your mutual fund investment return. Basically, the higher a fund's expense ratio and sales charges, the lower your return.

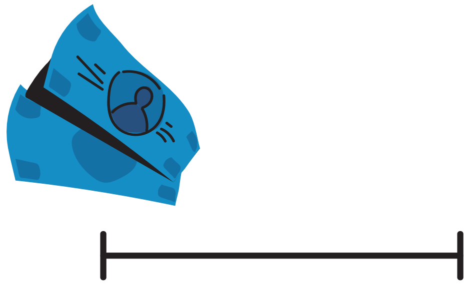
Higher cost investments do not produce superior returns. In fact, the opposite is often true. The ***Financial Industry Regulatory Authority*** (FINRA) (see pg. 69) has a tool on their website called the Fund Analyzer, which runs a comparison of the impact of fees, returns, and investment amounts on the future values and costs of different mutual funds.

You have little control over your investments, but you do have control over what you pay to purchase them—and every fee reduces your return.



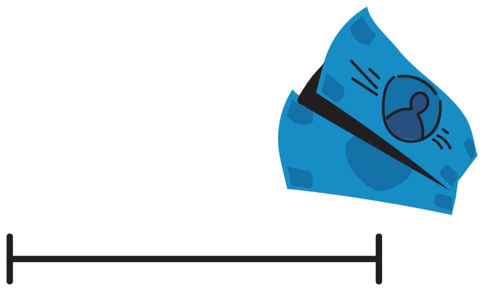
THE IMPACT OF FEES ON INVESTMENT RETURNS

FRONT END LOAD



A sales charge paid to compensate investment professionals for their advice. For example, if a mutual fund charges a 4% front-end load and you have $1,000 to invest, $40 will be deducted from your $1,000 investment to pay the investment professional. This leaves you with a $960 investment in that mutual fund. By law, a front-end load can be up to 5.75% but is often less. It may offer a lower percentage fee for a higher dollar investment.

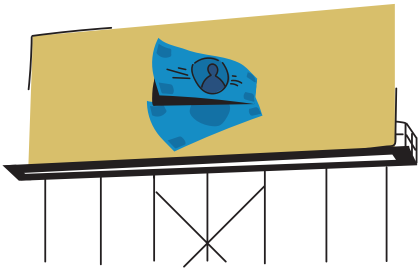
BACK END LOAD



Also known as redemption fees, back-end loads are charged when you sell shares of a mutual fund. Since back-end loads are charged against the net asset value of the shares you sell, they can reduce your profit or add to your loss.

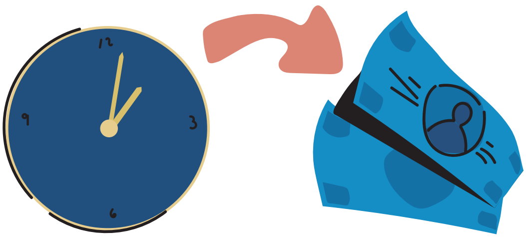
MANAGEMENT FEES

Management fees are paid to portfolio managers and charged to purchasers of all mutual funds. A typical management fee is 1% to 2% of the fund's assets. It can be a flat rate or a sliding-scale rate that decreases as the value of the fund's portfolio increases.



MARKETING FEES

Mutual funds spend money to advertise their funds. If these fees are not absorbed by the fund, they are charged to the investor under the name 12b-1 fees. These marketing fees are typically between 0.25% and 1.25%.



DEFERRED LOAD

These are deducted from your original investment if you sell your shares within a pre-determined amount of time. If you hold your shares beyond the specified time, you are not charged any fees.

COMBINATIONS

Some funds combine fees and create several different fee structures. Make sure you fully understand the fee structure before you buy the mutual fund.

EXPENSE RATIOS

This is the cost of running the fund expressed as a percentage of that fund's assets. Because it includes all fees except sales load, it is the best way to compare the management costs of different funds. The rule is: the higher the expense ratio, the less the profit for investors.

INVESTING FOR RETIREMENT

SECURE RETIREMENT

When you start thinking about retirement, one of the first things to consider is what it will cost for you to live comfortably. You may have some reduced expenses. You won't be commuting. Your mortgage may be almost or completely paid off. Your children may have moved out.

On the other hand, health insurance and out-of-pocket health care costs will probably increase. Real estate taxes and property insurance may go up. You may want to spend more on travel, hobbies, or other activities. And of course, you'll still be spending money on food, clothing and other necessities.

Inflation is your primary concern when planning for retirement because your costs will increase over time. Each year you're retired, you're likely to need more income than the year before.

The distinguishing feature of a retirement account is how income taxes are handled.

WHAT IS A RETIREMENT INVESTMENT?

ANY INVESTMENT (STOCK, BOND OR MUTUAL FUND) THAT YOU OWN WITHIN A RETIREMENT ACCOUNT.

LET'S COMPARE:

NON-RETIREMENT ACCOUNTS	RETIREMENT ACCOUNTS
• INCOME TAX DUE WITHIN THE YEAR YOU RECEIVE THE EARNINGS. • INCLUDES CAPITAL GAINS AND QUALIFIED DIVIDENDS.	• INCOME TAX DUE ONCE YOU WITHDRAW THE FUNDS. • CAN INCREASE IN VALUE. • TAXES DUE AT WITHDRAWAL

If your employer offers a **pension plan** (also referred to as a defined benefit plan), the amount you'll receive in payments depends primarily on the number of years you worked and the salary you received. Check with the Human Resources Department well in advance of your retirement about payout options, plan details and any other decisions you will need to make.

PENSION PLAN

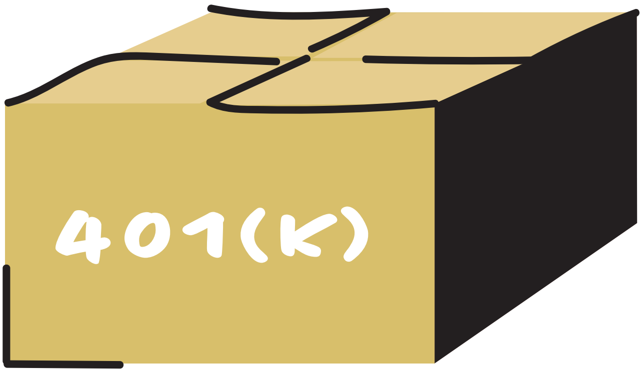
A retirement plan that requires an employer to contribute to a pool of funds set aside for a worker's future benefit.

DEFINED CONTRIBUTION PLANS

WHAT'S A 401(K)?

- A common, employer-sponsored retirement savings plan.
- You allocate a specific amount of your pay into your account every pay period.
- This isn't included in the gross income an employer reports to the IRS.
- Contributions are tax deferred and not subject to income tax until you withdraw the money.
- Visit the IRS website for yearly cap updates.
- May come with high fees.

COLLECTING A SMALLER PAYCHECK TODAY FOR A LARGE RETIREMENT IN THE FUTURE!



WHY USE A 401(K)?

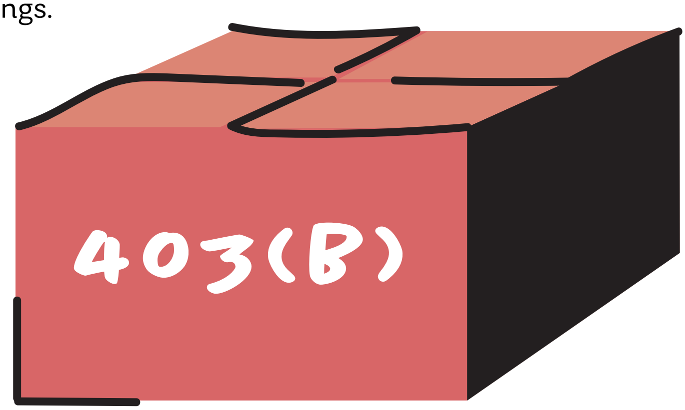
- Employers may match a percentage you contribute.
- Contributions reduce taxable income.
- Investing regularly helps build the account balance.
- Tax deferral means savings compound faster.
- Allows the highest contributions you're eligible to make.

DEFINED CONTRIBUTION PLAN

Retirement plan in which the employee and/or the employer contribute to the employee's account. Includes 401(k) and 403(b) plans.

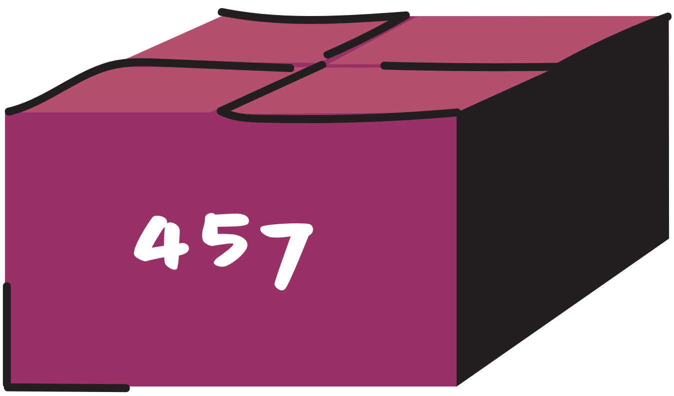
WHAT'S A 403(B)?

- Similar to a 401(k).
- Specific to not-for-profit organizations.
- Contributions are tax deferred and so are earnings.
- Your employer may match a percentage of the money you contribute.



WHAT'S A 457?

- Available to state and municipal employees.
- Your contributions and earnings are not taxed until you withdraw the money.
- May allow for larger "catch-up" contributions.



Increasing numbers of workers are sabotaging their retirement planning by cashing out a retirement account without rolling the money into another qualified retirement account. They face stiff tax penalties, capital gains taxes, and possible income taxes. Workers also face tax penalties and other charges if they fail to repay a loan from a retirement account. Any money withdrawn from a retirement account, even temporarily, is no longer growing tax-deferred.

Rolling over your retirement account to a new employer is the best way to make sure your money continues to grow tax-deferred. If you're comfortable with your former employer's plan, you may be able to keep your assets there, but cashing out your retirement account will irreparably damage your retirement savings.

Social Security

If you have worked and contributed to ***Social Security*** (see pg. 69), you can expect to receive benefits when you retire—any time between the ages of 62 and 70. How much you receive depends on the number of years you participated, the amount you paid in, and the age at which you start to collect.

Although you may take benefits as early as age 62, the longer you wait, the higher your monthly payments. For those born in 1960 or later, 67 is considered "full retirement age" — the age when you start to collect full benefits. For people born between 1943 and 1954, the full retirement age is 66. And for those born from 1955 to 1959, the age increases in two-month increments, from 66 and 2 months to 66 and 10 months.

Between ages 62 and 70, each year you wait to collect benefits will result in a bigger benefit check. If you decide to take payments before you have reached full retirement age, however, your benefit amount will be permanently based on the age at which you began receiving payments.

IRAs

If you receive a salary, wages, commissions, or other income for work you do, you can contribute to an individual retirement account (IRA). You can open this retirement account through a brokerage firm, bank, credit union or mutual fund company. You can contribute to an IRA in addition to or instead of an employer-sponsored retirement account.

Earnings in your IRA are tax-deferred, meaning no tax is due as those earnings compound. You choose your own custodian—a mutual fund company, bank, credit union, brokerage firm, or other financial services company—and then select from among the investments that custodian offers. If you invest with a mutual fund company, you will have more choices than a typical employer provides through a 401(k). You can buy and sell as often as you like without tax consequences, though you will pay trading costs.

IRAs have an annual contribution limit and catch-up provisions (see pg. 69). You can make catch-up contributions, helping to jump-start your IRA retirement savings dramatically. Even if you didn't start saving until age 50, you could contribute the standard yearly limit and add a catch-up contribution every year from age 50 to 65.

Roth IRAs

A Roth IRA provides the same tax-deferred earnings as a traditional IRA. However, with a Roth, you are not required to start making withdrawals at age 70½ as you are with a traditional IRA. Your contributions to a Roth IRA are never deductible. They're always made with after-tax income. The amount you are allowed to contribute to a Roth IRA is based on your Modified Adjusted Gross Income (MAGI) and whether you file a single or joint tax return up to the maximum that is also allowed with the traditional IRA.

Did you know?

You should visit the IRS website (see page 69) for more details and up-to-date guidelines.

TRADITIONAL IRAS	ROTH IRAS
• ELIGIBILITY TO CONTRIBUTE BASED ON MAGI. • CONTRIBUTIONS MAY BE TAX-DEDUCTIBLE. • BOTH CONTRIBUTIONS AND EARNINGS TAXED AT WITHDRAWAL. • WITHDRAWAL IS MANDATORY AFTER 72. • FOR 2020 AND LATER, THERE IS NO AGE LIMIT ON MAKING REGULAR CONTRIBUTIONS TO TRADITIONAL OR ROTH IRAS	• ELIGIBILITY TO CONTRIBUTE BASED ON MAGI. • CONTRIBUTIONS NEVER TAX-DEDUCTIBLE. • CONTRIBUTIONS AND EARNINGS CAN BE WITHDRAWN INCOME TAX FREE IF AGE 59 1/2 AND ACCOUNT HAS BEEN OPEN 5+ YEARS. • WITHDRAWALS NEVER REQUIRED. • CONTRIBUTIONS AFTER 72 PERMITTED.

BUT SHOULD YOU USE AN EMPLOYER'S PLAN OR AN IRA...?

EMPLOYER PLAN	IRAS
INVESTMENT CHOICES DETERMINED BY PLAN.	MORE, OFTEN BETTER CHOICES BASED ON CUSTODIAN.
FEES ARE GENERALLY HIGHER.	FEES ARE GENERALLY LOWER.
WITHDRAWAL FLEXIBILITY VARIES BUT IS USUALLY MANDATORY AT RETIREMENT.	REQUIRED AFTER 70 1/2 IN TRADITIONAL IRA.
CONVENIENT TO SIGN UP AND CONTRIBUTIONS ARE AUTOMATIC.	CHOOSE CUSTODIAN, SELECT INVESTMENTS, AND ARRANGE FOR DEPOSITS.

ANNUITIES

Another source of retirement income is an annuity, an insurance company contract intended to provide regular income payments, often for life. There are two types of annuities:

An *immediate annuity* converts a single, upfront payment into a steady stream of income. A *deferred annuity* converts premiums paid during your working years into regular income after you retire. Earnings in your account are tax-deferred until you start withdrawals.

Annuities are complicated products. While advocates point to the regular income they guarantee, critics maintain that the costs eat into the benefits they provide. There's always the risk that the company issuing the annuity will fail or become unable to meet its financial obligations.

DID YOU KNOW?

Annuities are not securities and are regulated in the Commonwealth of Virginia by the ***State Corporation Commission, Bureau of Insurance (BOI).***

scc.virginia.gov/boi

5 INVESTMENT PROFESSIONALS

INVESTMENT ADVISORS & BROKER-DEALERS

Before you begin the search for a trustworthy investment professional, identify the type of help you need. To do that, it is important to understand the distinction between two investment professionals—investment advisors and brokers. Finally, research financial professionals *before* you invest.

As a state regulatory agency, the SRF can disclose if a firm or individual is licensed to conduct business in the Commonwealth of Virginia. They can also provide background information about that firm or individual. To check the registration status of a firm or financial professional, use our contact information found on the back of this guide.

FIDUCIARY DUTY

A legal requirement to act in an investor's best interest, not for their own personal gain.

ASSETS UNDER MANAGEMENT (AUM)

Total market value of the investments managed by a person or entity on behalf of investors.

INVESTMENT ADVISOR FIRMS AND THEIR REPRESENTATIVES

WHAT DO THEY DO?

- Help you make investment decisions, create a plan, and manage your portfolio.
- They have a **fiduciary duty,** or legal requirement, to act in your best interest, not for their own personal gain"
- Receive compensation (a fee) for their services
- They may work as sole practitioners or they may work for an advisory firm
- Financial planners may also be Investment Advisors.

DO YOUR RESEARCH

Investment advisors/representitives are required to register with one of two regulatory authorities:

- Investment advisor firms that manage less than $100 million AUM **must be registered with their state securities agency.**
- Those with more than $100 million AUM **must register with the U.S. Securities and Exchange Commission.**

Additionally, All investment advisors are required to provide background information in the ***Investment Advisor Registration Depository*** (see page 69).

BROKER-DEALERS AND THEIR AGENTS

WHAT DO THEY DO?

- Buy and sell securities on behalf of customers.
- They may use other unofficial titles.
- Often, compensation is based on the commission a client pays each time they buy or sell a security.
- Conflicts of interest can occur when brokers sell products for which they receive especially high commissions.
- They are not Fiduciaries but must conduct trades that are suitable and in their client's best interest.

DO YOUR RESEARCH

Brokers may be required to register with more than one regulatory authority. Brokers engaged in the offer and sale of securities in Virginia, for example, are required to register with the Commonwealth through SRF. Brokers are also subject to oversight by the FINRA (see page 69).

DID YOU KNOW?

You can **always** contact our office with questions about financial professionals, their registration status, or their background.

WHAT IS BROKERCHECK?

Investors should check with FINRA's BrokerCheck (see pg. 69), a database that holds information on registered representatives and securities dealers and brokerage firms. The information will include:

- EMPLOYMENT HISTORY (PAST 10 YEARS)
- DISCIPLINARY ACTIONS
- PROFESSIONAL DESIGNATIONS
- CIVIL JUDGMENTS AND ARBITRATIONS IN SECURITIES DISPUTES
- PENDING COMPLAINTS
- CRIMINAL CONVICTIONS OR INDICTMENTS
- BANKRUPTCY FILINGS
- OUTSTANDING LIENS AND JUDGMENTS

It's far from a complete record, however. It relies on self-reporting by securities regulators, firms, and individuals, not all of whom submit complete information to FINRA. A broker can request to have a complaint expunged if the case was settled before a ruling. In recent years, FINRA has granted hundreds of requests to wipe complaints off the record.

OTHER FINANCIAL PROFESSIONALS

A financial professional may use various titles and credentials. There are at least 150 designations in use. A recent investor bulletin from the SEC and the ***North American Securities Administrators Association*** (NASAA) (see pg. 69) pointed out, "The requirements for obtaining and using [professional designations] vary widely, from rigorous to nothing at all."

Investors should always look beyond a financial advisor's designation. On *www.finra.org*, under *For Investors: Tools and Calculators*, there is an overview of more than 100 designations.

QUESTIONS TO ASK YOUR FINANCIAL PROFESSIONAL

HOW MANY CLIENTS DO YOU HAVE, AND WILL YOU PERSONALLY MANAGE MY ACCOUNT? HOW MUCH TIME SHOULD I REASONABLY EXPECT YOU TO DEVOTE TO ME OVER THE COURSE OF A TYPICAL YEAR?

ARE YOU REGISTERED IN THE STATE OF VIRGINIA?

WHAT INVESTING GOALS DOES YOUR TYPICAL CLIENT HAVE?

WHAT IS YOUR PHILOSOPHY OF INVESTING AND HOW DO YOU MANAGE RISK?

HOW ARE YOU COMPENSATED FOR YOUR INVESTMENT-RELATED SERVICES?

WHEN RECOMMENDING INVESTMENTS, DO YOU ACCEPT ANY FORM OF COMPENSATION FROM ANY THIRD PARTY? WHY OR WHY NOT?

WHAT EDUCATION, TRAINING, EXPERIENCE, AND LICENSES DO YOU HAVE IN THESE PRACTICE AREAS?

CAN YOU PROVIDE ME WITH YOUR RESUME, YOUR FORM ADV, AND AT LEAST THREE REFERENCES?

WHAT IS YOUR INVESTMENT STRATEGY REGARDING INDIVIDUAL STOCKS, BONDS AND MUTUAL FUNDS? HOW OFTEN ARE THESE CHANGED?

DO YOU FOCUS EXCLUSIVELY ON INVESTMENT ADVICE, OR DO YOU ALSO HAVE EXPERTISE IN OTHER PERSONAL FINANCE SECTORS SUCH AS TAXES, RETIREMENT, AND ESTATE PLANNING?

QUESTIONS A FINANCIAL PROFESSIONAL MAY ASK YOU

HOW KNOWLEDGEABLE ARE YOU ABOUT INVESTING AND FINANCIAL MATTERS, AND HOW CONFIDENT ARE YOU IN YOUR KNOWLEDGE?

WHAT WOULD IT TAKE FOR YOU TO FEEL OUR WORKING RELATIONSHIP IS SUCCESSFUL?

WHEN SOMEONE PRESENTS YOU WITH EVIDENCE THAT YOUR OPINIONS MAY BE MISTAKEN, HOW DO YOU RESPOND?

HOW MUCH TIME AND ENERGY ARE YOU WILLING TO INVEST IN ANY INVESTMENT PLAN WE DEVELOP?

WHAT ARE YOUR BIGGEST FEARS? WHAT ARE YOUR FONDEST HOPES?

HOW DO YOU DEAL WITH CONFLICTS OR DISPUTES?

Invest time selecting a good investment professional who will meet your particular needs. It will be one of the most important decisions you make and one of the most significant relationships you ever have.

Do your research. You may call us or visit our Consumer page listed on the back of this guide to check the registration status of your investment professional.

Regardless of the type of investment professional you choose to help you, there is one absolutely critical step to take beforehand: carefully read the agreement or opening account form. Knowing the precise terms of the contract can forestall misunderstandings, disagreements, and even lawsuits down the line. Clear up any questions with the prospective investment professional ahead of time. If necessary, consult with a lawyer, accountant, or trusted third party to review the contract terms.

AVOIDING INVESTMENT FRAUD

SCAMS & FRAUD

Investment fraud is the illegal activity of providing false information to convince someone to invest. Most investment scams contain the same basic premise—a promise or guarantee of higher-than-average returns for little to no risk of losing money.

You should *always* investigate any investment professional you might want to hire. Deal only with registered representatives or advisors, since those selling securities must be registered or they are in violation of the law.

SRF is responsible for the registration of representatives and advisors in Virginia. Note that investment advisors located in another state are required to register with SRF if they conduct business with a minimum of 6 Virginia residents.

SIGNS OF FRAUD

Skilled liars will approach anyone of any age if they think a person has assets to invest. Protect yourself by learning to recognize the warning signs of a fraudulent investment pitch.

YOU SHOULD ALWAYS INVESTIGATE ANY INVESTMENT PROFESSIONAL YOU MIGHT WANT TO HIRE.


INVESTMENT FRAUD RED FLAGS
GUARANTEED HIGH RETURNS WITH NO RISK.
PRESSURE TO ACT.
ACT!
ACT!
ACT!
CONFUSING OR UNCLEAR INVESTMENTS.
OFFER OF A FREE MEAL. THIS IS USUALLY A HIGH-PRESSURE, FRAUDULENT, SALES PITCH.
UNSOLICITED CALLS, E-MAIL SPAM AND JUNK MAIL.
TIPS FROM THOSE YOU KNOW (AFFINITY FRAUD).
ADS FOR INVESTMENTS THAT SOUND MISLEADING OR FRAUDULENT.
NO DOCUMENTS SUPPORTING COSTS, RISKS, AND OBLIGATIONS OF THE INVESTMENT.
UNSOLICITED INVESTMENT OPPORTUNITIES VIA SOCIAL MEDIA.
CREATING TRUST WITH FALSE CREDENTIALS OR EXPERIENCE.
[TAX FREE]
ALLEGED TAX-FREE INVESTING. YOU CANNOT ALWAYS LEGALLY AVOID PAYING TAXES.

BEWARE OF RISKY INVESTMENTS

The following is a list compiled by NASAA containing the most persistent investor threats seen throughout North America.

ACCREDITED INVESTORS

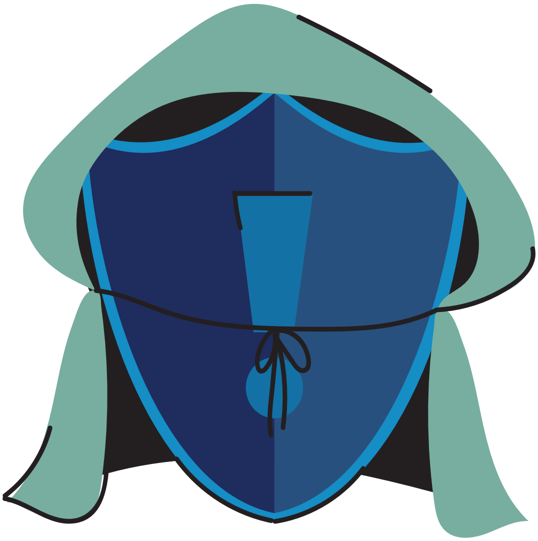
Those who have a net worth of $1 M, excluding the value of their primary residence, an annual income of $200,000 (if single) or $300,00 (if married), or be financially sophisticated enough to assess the risks associated with an investment.

NON-TRADED REIT

A non-traded Real Estate Investment Trust (REIT) invests in the same assets as a publicly traded REIT—large pieces of real estate in everything from hotels and hospitals to shopping centers and apartment complexes. However, non- traded REIT's are riskier.

Non-traded REIT's generally require investors to meet certain minimum net worth and/or annual income standards. These trusts are long-term investments that typically must be held for seven to 10 years. Since regulatory bodies don't control these programs, non-traded REIT's may shut down their redemption programs at any time.

To protect yourself, always read the prospectus. The summary or Q & A section at the beginning of the prospectus should provide enough basic information to help you determine if investing in a non-traded REIT is the right decision for you. Non-traded REITs and the broker-dealers who sell them charge significant front-end fees and commissions. Beware of high-pressure sales tactics. Also note that the person selling this product cannot legally complete the sale until you have the prospectus.



PRIVATE PLACEMENT OFFERINGS

Private placement offerings allow companies to raise capital without complying with the registration requirements of securities laws.

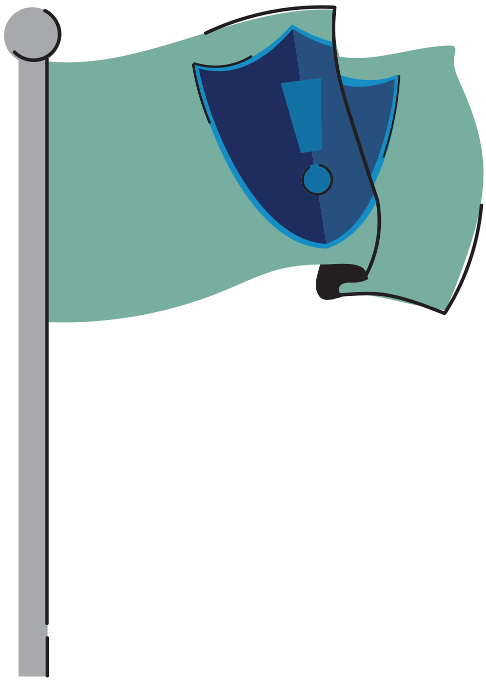
Federal law allows companies to make these largely unregulated offerings to accredited investors. Those who raise capital through private placement offerings often have a limited operating history, making their investments inherently risky.

Prior to 2013, federal law said private placement offerings couldn't be advertised in a general solicitation to the public. Today, they can be advertised through print advertisements, free lunch seminars, telemarketing, cold calls and online solicitations.

Private placement offerings today still only target accredited investors. However, removing the advertising ban provides opportunities for illegitimate offers, putting more investors at risk.

AFFINITY FRAUD

Scam artists know that people tend to trust someone perceived to have a common interest, belief or background. Thus, they use that trust to exploit members of specific groups—most often people who are elderly, deaf, retired, members of religious groups, or members of ethnic groups. Consequently, affinity fraud often goes unreported. Always remember to make investment decisions based on the underlying merits of the offer, not your affiliation with the promoter.



FOREIGN EXCHANGE TRADING

Foreign Exchange Trading (Forex) scams offer a promise of riches to be made in global currency markets. Forex contracts may involve the right to buy or sell a certain amount of foreign currency in U.S. dollars, so you make a profit as the exchange rate fluctuates.

In a typical scam, investors are assured of profits in a few weeks or months, often in return for a low initial investment. Yet your money may never be placed in the Forex market through a legitimate dealer.

Most participants are large banks, multinational corporations, governments or sophisticated speculators. Because of the volatility of foreign currencies, losses can accrue rapidly and wipe out an investor's initial investment in short order.

GOLD & PRECIOUS METALS

Gold is a speculative investment. Its price reflects the confidence, or lack of confidence, in the world's financial markets. Like any commodity, the price of gold can fluctuate dramatically. When its price is rising, promoters claim their special expertise can generate investor profits. If you want to put a small percentage of assets into precious metals, there are publicly traded mutual funds that hold gold and other precious metals, or large mining companies with a long history of operation.

OIL & GAS DRILLING

Investors may be attracted to the lucrative returns often associated with investments in oil and gas drilling programs. Individual investors increasingly are turning to alternative investments rather than traditional stocks, bonds and mutual funds. Such investments appeal to those frustrated with stock market volatility or skeptical of Wall Street. Unfortunately, energy investments generally prove to be a poor substitute for traditional retirement planning.

Investments in oil and gas drilling programs are typically high risk and are suitable only for investors who can bear to lose their entire principal.

SELF DIRECTED IRA

Scam artists frequently use self-directed individual retirement accounts (IRAs) to increase the appeal of their fraudulent schemes. While self-directed IRAs can be a safe way to invest retirement funds, they can also pose a threat.

Self-directed IRAs allow investors to hold real estate, mortgages, tax liens, precious metals, and private placement securities. Scam artists know the information you need to make a prudent investment decision may not be as readily available for these types of alternative investments.

Scammers count on Custodians and trustees of self-directed IRAs not evaluating the quality, value or legitimacy of an investment or its promoters. Thus, fraudulent promoters can misrepresent the responsibilities of self-directed IRA custodians to reassure investors their investments are legitimate. In some cases, fraud promoters even convince investors to move assets from their existing IRA into a self-directed IRA they themselves own. And because there is a penalty for early withdrawal, many investors end up keeping funds in a fraudulent scheme even after they suspect it is illegitimate.

PROXY TRADING ACCOUNT

Be wary of anyone who claims to have trading expertise and offers to set up or manage a trading account. It is dangerous to give unregistered individuals access to your username and password or allow them to set up a brokerage account in your name.

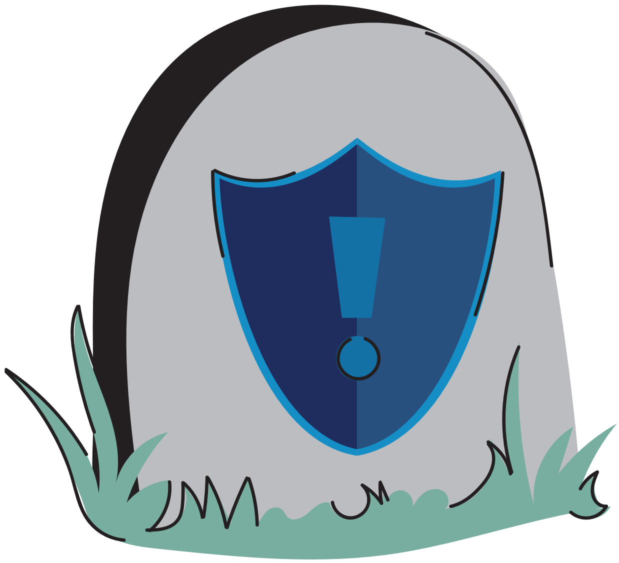
Unfortunately, the same ethical behavior is not present with the unlicensed individual looking to capitalize on an investor's trusting nature.

VIRTUAL CURRENCY

Be aware that cryptocurrency transactions between private users—private wallet to private wallet—are not regulated.

In some instances, cryptocurrency is regulated depending on how and where it is used. Securities regulators, the Chicago Mercantile Exchange, Commodity Futures Trading Commission, and the Financial Industry Regulatory Authority are all involved in some regard.

Cryptocurrencies have no legal tender status, are not supported by any government or central bank, and are highly volatile. The complicated algorithms that govern them are difficult to understand, even for financial professionals.



LIFE SETTLEMENTS

Life Settlements, or viaticals, are complex financial arrangements in which a company sells a third party's life insurance policy to an investor. The investor receives an interest in the death benefits and the benefits are paid to the investor when the third party dies.

A life settlement is not a liquid investment. You will not have access to your principal or any returns until after the insured person dies. In fact, it is impossible for the person brokering the transaction to guarantee you a certain return because there's no way to predict when the insured person will die. In addition, you face a steep commission fee when you purchase a life settlement contract.

Policy premiums must be paid until the insured individual dies, and if they aren't, you risk losing some or all of your investment. If the life insurance policy is still in a contestable period (less than two years old), insurance companies may refuse to pay the death benefit at all.

FILING A COMPLAINT

WHAT TO DO

Check with SRF (see the back of this guide) to confirm that anyone offering to manage your accounts has a clean record and is properly registered. Registered investment professionals pledge to act ethically and honestly. If they do not uphold that obligation, they must answer to state or federal regulators. Unfortunately, the same ethical behavior is not present with the unlicensed individual looking to capitalize on an investor's trusting nature.

If you suspect a violation of the securities law or believe you have received inappropriate investment advice, contact SRF (see pg. 69). SRF responds to all inquiries, though you will be asked to put oral complaints in writing.

Provide as much detail as you can in responding to the questions on the complaint form. If you are writing a letter, be sure to say what happened, who was involved, and when and where the event took place. If you have supporting documentation, include it when you mail your complaint.

If you do not want to file your complaint online or need to provide supporting documentation, you may print the complaint form and mail the correspondence to SRF. For questions or additional information, you may contact SRF by phone or e-mail.

Any information you provide to SRF as part of a complaint is confidential. It is not released to the subject of the complaint.

If SRF determines an alleged violation of the Virginia Securities Act may have occurred and an enforcement action is appropriate, it may initiate formal proceedings against the issuer or sellers or refer the matter for criminal action.

In some civil suits, a company suspected of fraud can be placed in **receivership** by a state or federal judge. Then the judge usually appoints a lawyer or financial expert to oversee the operations of the company.

Note that investors rarely recover significant portions of their losses in a receivership proceeding. You may want to consult a private attorney to determine what remedies may be available to you.

RECEIVERSHIP

A court order whereby all the property subject to dispute in a legal action is placed under the dominion and control of an independent person or entity known as a receiver.

FILE A COMPLAINT

GATHER ALL RELEVANT INFORMATION:

1. THE NAME OF THE ACCOUNT HOLDER
2. THE TYPE OF INVESTMENT INVOLVED, TOTAL DOLLAR AMOUNT OF THE INVESTMENT, WHEN AND WHERE THE INVESTMENT WAS MADE AND TO WHOM THE INVESTMENT FUNDS WERE GIVEN
3. THE NAME OF THE ADVISOR OR REPRESENTATIVE WHO SOLD YOU THE PRODUCT
4. A CHRONOLOGICAL LIST OF EVENTS, STARTING WITH THE INITIAL CONTACT MADE BY THE ADVISOR, REPRESENTATIVE OR SALESPERSON
5. COPIES OF DOCUMENTS IN SUPPORT OF THE COMPLAINT, INCLUDING STATEMENTS, LETTERS, FORMS AND APPLICATIONS
6. A DESCRIPTION OF THE COMPLAINT AND HOW YOU WANT THE COMPANY TO RECTIFY THE SITUATION

8 RESOURCES

WHO CAN I CONTACT?

SCC Commonwealth of Virginia STATE CORPORATION COMMISSION

The State Corporation Commission is a state agency with regulatory authority over many business and economic interests in Virginia. Created in 1902, its powers are outlined in the state constitution and state law. These include regulation of public utilities, insurance, state-chartered financial institutions, securities, retail franchising, and railroads. It is also the state's central filing office for corporations, limited partnerships, limited liability companies and Uniform Commercial Code liens.

Scc.virginia.gov/pages/Contact-Us

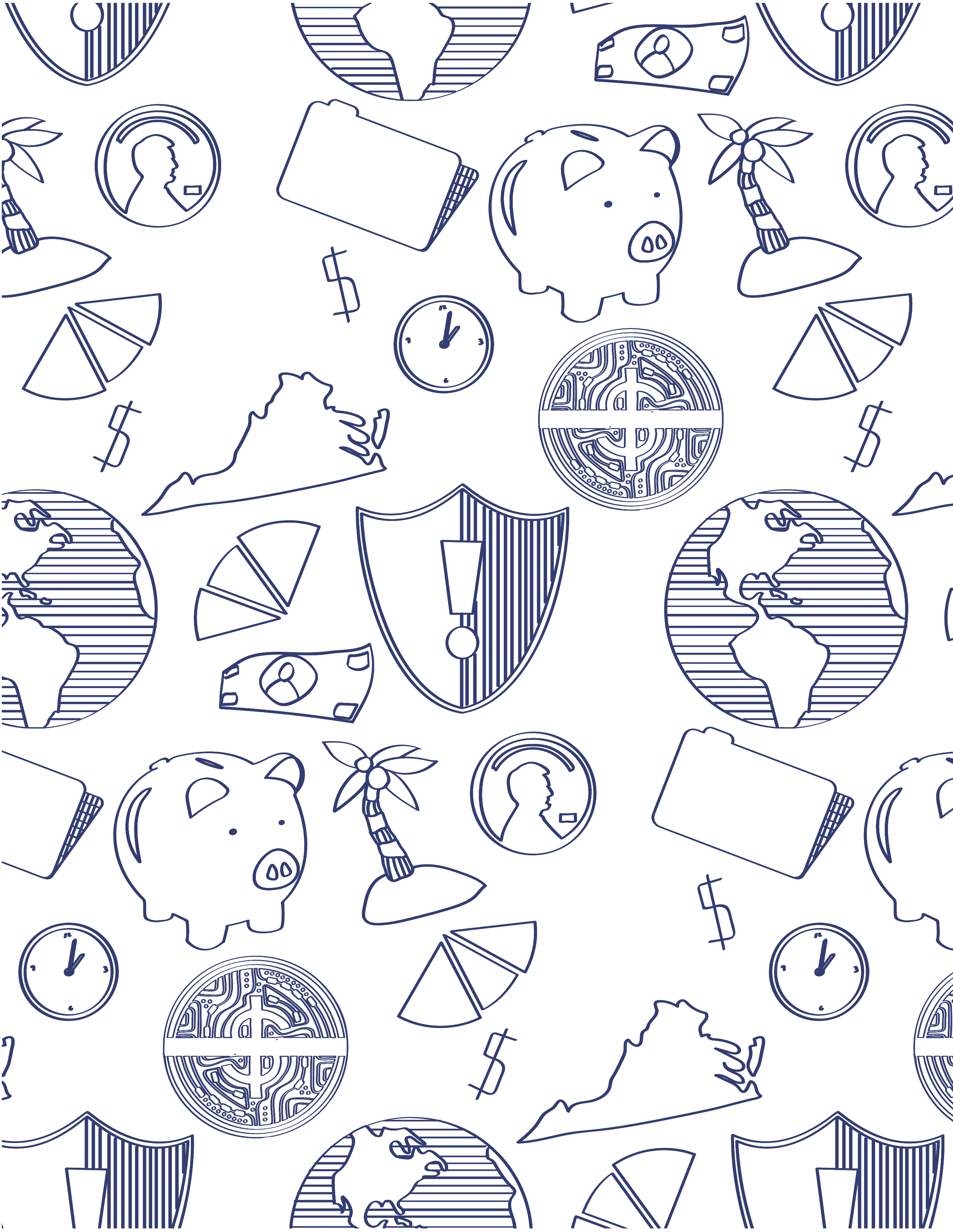
SRF Commonwealth of Virginia SECURITIES AND RETAIL FRANCHISING

SRF's mission is to promote a fair and stable marketplace of investment products and services. This is accomplished through regulatory oversight of the industry to ensure compliance and investor education. To that end, SRF:

- Registers securities and the people and entities that sell them or provide advice about their value.
- Registers retail franchises that are operated in Virginia.
- Audits securities practitioners to verify compliance with Virginia securities laws.
- Investigates alleged violations of securities and retail franchising laws in Virginia.
- Registers Trademarks and Service Marks.
- Provides unbiased Investor Education to Virginians.

Scc.virginia.gov/pages/Consumer-Investments

Federal Deposit Insurance Corporation (FDIC)	Fdic.gov/contact/
National Credit Union Share Insurance Fund (NCUSIF)	Ncua.gov/support-services/share-insurance-fund/contact-us
Investment Advisor Registration Depository (IARD)	Adviserinfo.sec.gov/
Financial Industry Regulatory Authority (FINRA)	Finra.org/investors#/
BrokerCheck by FINRA	Brokercheck.finra.org
Financial Crimes Enforcement Network (FINCEN)	Fincen.gov/msb-state-selector
Social Security Benefits	Socialsecurity.gov



CONTACT US!

Securities and Retail Franchising

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804-371-9051