How to Ask and Check Before You Invest

Before making any investment, make certain the person selling it to you is registered with a securities regulator. Many investors, however, neglect this important step because either they do not know where to get background information or they think that they already know the salesperson and don't think a check is necessary. As a result, some investors are surprised to find out that the person, investment opportunity, or company is not authorized to sell investments. The guidelines below highlight the important questions you need to ask and where you can verify the answers before handing over your investment dollars.

Get it in Writing!

Whatever the agent tells you about him or herself, about the investment being offered to you, or about the company offering the investment, get what you are told in writing. Anyone offering an investment opportunity should give you an *offering memorandum*—a complete description of the investment and the people and risks involved with the investment. Read it. If the memorandum makes your eyes glaze over, ask an accountant, a lawyer knowledgeable in securities law, or another objective third party to read the offering memorandum.

Ask Questions about Your Adviser or Agent

When you are dealing with someone who is offering you an investment opportunity, insist that he or she answer your questions in writing. Ask the following:

- Are you registered or licensed to sell securities? If so, what is your registration number? If not, why not?
- What commission or fee will you earn if I buy the investment?
- Who or what entity will be paying you?
- Will you be receiving any benefit other than your commission or fee?
- Are you related to or involved with the investment in any other way than recommending that I buy it?
- Have you ever been sued, disciplined, or had any complaints filed relating to your work as a agent or adviser?

Do Your Due Diligence—Verify License Status and Disciplinary History

As an online resource, you can conduct a background check of an individual professional and the company with a CRD/IARD report from the Financial Industry Regulatory Authority's BrokerCheck. For investment advisers and their representatives, Investment Adviser Public Disclosure (IAPD) database. When conducting your search, look for public disclosures regarding BOTH the individual and the company as the company may have legal actions taken against it that are not disclosed by the individual.

Ask Questions about the Investment

Besides inquiring about the type of business in which you are investing, ask your salesman or adviser to explain how the investment will generate the promised returns. If you don't understand how the investment works or if the person selling the investment tells you that it's too complicated and not to worry about it, don't invest.

One of the important questions about the investment is whether it is registered with a state or federal securities regulator.

Remember, the fact that a particular investment is registered, or exempt from registration, is not a guarantee as to how that investment will perform or if it's appropriate for your financial situation. To determine if the investment is appropriate for you in terms of risk and return, seek the assistance from an accountant, attorney, or independent adviser.

Additionally, ask the person selling the investment to show you in writing the answers to the following questions:

- Is the investment liquid? Can I sell it whenever I want?
- Do I have to hold the investment for a specific period of time?
- Will I receive a dividend, interest, or stream of income? If so, how much?
- Will I pay a penalty if I need to sell the investment earlier than expected?
- What other factors may jeopardize the ability to recover my investment and make a return?
- Do the managers responsible for operating the business have the necessary skills, experience and training to do so?
- Does the business entity have an established and verifiable business history?
- What are my rights as a creditor or an owner if the company goes bankrupt?