Getting Help With Your Investments

Help

By the Editors of *Kiplinger's Personal Finance* magazine

In partnership with

Investor Protection Trust

Investor Protection Institute

Investor Education in Your Community

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About the Investor Protection Trust

The Investor Protection Trust (IPT) is a nonprofit organization devoted to investor education. Over half of all Americans are now invested in the securities markets, making investor education and protection vitally important. Since 1993 the Investor Protection Trust has worked with the States and at the national level to provide the independent, objective investor education needed by all Americans to make informed investment decisions. The Investor Protection Trust strives to keep all Americans on the right money track. For additional information on the IPT, visit www.investorprotection.org.

About the Investor Protection Institute

The Investor Protection Insititute (IPI) is a nonprofit organization that promotes investor protection by conducting and supporting research and education programs.

Kiplinger's PERSONAL FINANCE

Even the most knowledgeable investor needs help from someone sometimes, even if that's just someone to handle a stock purchase. This booklet provides the information you need to find and work with reputable brokers and financial advisers. We'll tell you the kind of help you can get from brokers—full-service, discount and online—and financial advisers and investment clubs. And we'll arm you with information that will help you spot early warning signs of broker misconduct and what you can do about it.

Choosing & Using a Broker

Before you're ready to choose a stock broker, you'll have to do a little thinking about what kind of investor you are and how you like to operate. Consider your investing style. Which of these statements best describes you?

You like to talk things over, weigh all the angles, check every source of information you can before you make a decision. You are a good candidate for a full-service broker.

You have no trouble making decisions on your own, you prefer to do your own research and don't want to pay someone to do it for you. A discount broker could work for you.

You fit the second description, and you use the Internet a lot to shop and track down information. You'd probably be happiest with an online broker.

Whatever type of broker you decide to work with, be sure to check the firm out for its reputation and reliability. Advisers who deal in securities must be registered with the U.S. Securities and Exchange Commission (SEC) and/or the State Securities Regulator as investment advisers (see page 10).

Full-Service Brokers

Most of these are the high-profile national firms with armies of analysts who produce, buy and sell recommendations for a long list of stocks, bonds and mutual funds. Their fee structures reflect the expense of maintaining those research departments. Commissions vary according to the number of shares, type of shares and dollar amount involved, but on average you can expect to pay about 2% or so of the value of the shares each time you buy or sell. In general, the bigger the transaction, the smaller the bite taken out of it by the broker's commission.

Full-service firms also pride themselves on their comprehensive asset management services. They may include a money-market account, check-writing privileges, a substantial line of credit, a debit card or credit card tied to the account; and a comprehensive monthly statement that makes investment record-keeping a breeze. Minimum account size that qualifies for such deluxe service ranges from $5,000 to $25,000, depending on the broker.

A LITTLE HELP FROM YOUR FRIENDS.

The best way to start your search for a broker who's right for you at a full-service firm is to ask friends who are investors about whom they use. Quiz them as closely as you comfortably can about their investment goals and styles. Are they buy-and-hold types or do they trade frequently? Do they favor stocks or bonds? Small companies or large? Are they in contact with their broker frequently, or only once in a

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while? Are their phone calls returned? What do they think of the firm's account statements? Are they easy to understand or are they confusing? What about research reports—does the broker provide them and other backup for investment recommendations? Finally, knowing what they do about you, would your friends recommend their broker to be your broker?

This process will produce a few names for you to pursue. Call the most promising of the recommended brokers and tell them where you got their names. Outline your investment goals and make an appointment to meet at the brokers' offices. At the meetings, inquire into the brokers' experience and educational background, both academic and professional. Ask about their approach to investments in general: Do they specialize in any particular area, or do they generalize?

Note what kinds of questions each broker asks about you and your financial situation. A broker should know your goals, your resources and your risk tolerance before he or she is in a position to advise you. Your interests and the broker's interests should be the same: to lay the seeds for a long-term, mutually beneficial relationship. If a broker shows little interest in finding out your financial position and goals, and instead presses you with a sales pitch on getting rich, scratch that one off your list and make plans to interview the next one.

The quality of advice is what you pay for—the whole reason for turning to a full-service broker in the first place. It's a moving target, but be sure to ask for information about how various kinds of stocks picked by the firm's analysts have performed for investors with goals, assets and risk tolerance similar to yours. You can't predict the future, but you can draw some conclusions from the past.

TYPES OF COMMISSIONS.

In a recent study, *Kiplinger's Personal Finance* magazine found little difference in commissions for similar trades at full-service firms. And, in fact, prized customers—those with big accounts who make lots of trades or who use a number of the firm's products or services—can often get discounts on commissions. Deciding on a full-service broker means you're willing to pay for that service. But you're not out to throw money away. Ideally, you'll find the best combination of good service (quality of advice, chiefly) and low price.

ASSET-BASED FEES. Most full-service brokers offer premium services at a savings to investors who sign up for what are called asset-based fees, or for a related service, the "wrap" account (see page 3). They allow clients to pay a fee based on the percentage of assets under management instead of paying commissions for each trade.

A typical account might have no individual account charges and no per-trade commissions on most transactions. The account could include the services of a personal financial adviser and permit you to consult, plan, invest and bank—all for a simple, annual asset-based fee. For an equity portfolio, fees might range from 1.5% down to 0.75%, depending on assets. Fees could be lower for fixed-income assets. There wouldn't be an account minimum, but there would be a minimum annual fee, in the neighborhood of $1,500.

An account could include a credit card, unlimited ATM transactions, electronic bill paying and unlimited check writing as well as discounts on mortgage origination fees, trust management fees and insurance premiums.

Asset-based fees eliminate the conflict of interest inherent in a commission-based relationship, in which the more trades you make, the more the broker earns. But you have to think carefully about whether such an arrangement would save you money. If you don't trade much, or if the amount of your assets is under $100,000, it probably won't.

WRAP ACCOUNTS. With a wrap account, you pay the same way as with asset-based pricing. But with wrap programs you get an independent, outside money manager instead of a stockbroker to monitor your portfolio. Wrap programs are usually more expensive, and you may not get much individual attention from your manager.

Whichever account you choose, as it grows, be sure to ask about discounts.

Discount Brokers

Discounters don't make specific buy and sell recommendations for your account. What you usually get is fulfillment of your order, although some discounters also offer a range of investor services. Because they don't have to support research departments and because most of their business is done over the phone or on the Internet, discounters can charge considerably less than full-service brokers to accomplish your transactions. Depending on the size of the transaction, commissions can be a fraction of what you'd pay a full-service broker.

Despite their common devotion to bare-bones order-taking, it would be a mistake to think that discount brokers are interchangeable. Some offer a limited amount of research, some have investment-oriented libraries open to their customers, and some even offer all-in-one accounts that rival those offered by full-service brokers.

Still, it is lower commissions that put discounters on the map, and it is largely on that basis that they must be evaluated. In some cases, small trades may be cheaper at a full-service firm because discounters typically charge minimum commissions that can be more than what a full-service broker would charge.

Because it's savings you're after, it's important to know that commissions aren't necessarily the only charges you'll pay at a discount broker. Compare brokers on the following factors, too.

NUISANCE FEES. Commissions may be the most important part of the equation, but charges for postage or issuance and delivery of stock certificates can mount up.

PRODUCTS AND SERVICES. Some discounters are distinguishing themselves by adding frills such as credit or debit cards and other services.

MUTUAL FUND PROGRAMS. One big attraction of discount firms is the opportunity to buy and sell no-load mutual funds, often with no transaction fees.

INVESTOR TOOLS. You should be able to read your statement and find information you need easily. The company's Web site should be easy to navigate.

Online Brokers

Because many discounters and a few full-service brokers offer online trading these days, the lines between them aren't so clearly drawn. But there are important differences. Your choice of an online broker should depend mostly on how fast you turn over your portfolio—that is, how often you buy and sell.

> Your choice of an online broker should depend mostly on how often you plan to turn over your portfolio.

If you're a frequent trader, you'll probably be happiest with a firm whose commissions are $10 or less per trade.

SERVICE. Online brokers are giving investors quicker service. Most respond in less than five minutes. Quality service also depends on knowledgeable brokers.

FUNDS AVAILABLE. Different online brokers offer different funds, and different numbers of funds.

FEES. Some brokers charge a fee if you have a small balance in your account or don't place enough trades that pay a commission within a specified period of time, usually six months.

BELLS AND WHISTLES. Although online brokers seem to have stopped lowering their prices, they have increased their services. For instance, real-time stock price quotes, as opposed to quotes that are delayed 20 minutes or more, can be very helpful when you're about to place a trade. Almost all online brokers offer free quotes these days.

Most online brokers now trade mutual funds as well as stocks.

Many brokers now offer year-end cost-basis information on mutual funds and stocks you sell, which makes doing your taxes a lot simpler. And most brokers now trade mutual funds as well as stocks. Many onliners even make initial public offerings available, although you'll typically need an account worth $100,000 to $500,000 or be an extremely active trader to have a chance of getting one.

If from time to time you would rather use your telephone keypad or an automated voice-recognition system, most online brokers can accommodate you, although you'll probably pay a little more.

OPENING YOUR ACCOUNT.

When you have selected a broker, you'll be asked to fill out a new-account information form. On that form you'll have to make some choices about the kind of account you want.

A single account is one in which you, and only you, can authorize purchases, sales and other transactions.

A joint account works in much the same way as a joint bank account and is often the choice for married couples because of its flexibility.

A cash account may be the most sensible choice for new customers. It requires that all trades be settled on a cash basis, which means that if you want to buy $500 worth of stock, you've got to deliver the $500 to the broker within a few days of the transaction.

A margin account permits you to trade "on margin," meaning with money that you borrow from the brokerage firm. The size of the loan depends on the current "margin requirement," which for some years has been 50%. That means that you can borrow up to 50% of the cost of the purchase. If the cash (nonmargined) portion of the securities you buy on margin dips below a certain level (usually about 30%), you will have to come up with the difference, either by sending the broker more cash or by selling enough of the underlying securities to get your cash position back over the minimum. Meanwhile, you pay interest at a rate of 1% to 3% over the prime rate. Only experienced investors should consider trading on margin.

A discretionary account is one in which you authorize a full-service broker to buy and sell securities without getting your permission first. For most investors, this can be a bad idea.

STREET NAME OR YOUR NAME?

When you open your brokerage account, you'll also be asked whether you want the broker to hold your stock and bond certificates at the firm in "street name" or send them to you, in which case the certificates will be sent to you, and you'll be responsible for their safekeeping. If you leave them at the firm, no certificates will actually be issued in your name. Instead, the firm keeps track of each customer's claim on the shares through a book-entry system. When dividends are paid by the company, they are sent to the brokerage, which parcels them out according to its records of who owns what.

The main advantages of keeping your shares in street name are liquidity and safety. If you want to sell, all you have to do is call your broker and direct the sale of as many shares as you wish. That's it.

> The main advantages of keeping your shares in street name are liquidity and safety.

If you have shares issued in your name and keep them yourself, you have to get the certificates delivered to the broker within three days in order to complete any transaction. Nevertheless, you are entitled to take possession of your shares, and many investors choose to do so. If you do, tell the broker so when you open your account, and arrange to rent a safe-deposit box in which to store the certificates.

RECORDS YOU SHOULD KEEP.

The paperwork generated by a brokerage account can swamp you if you don't keep it sorted. Hang on to all purchase and sales slips, monthly account "activity" statements and annual 1099 forms that summarize the year's activity for tax purposes. Annual and quarterly reports from companies whose shares you own can also be kept in these files.

Set up a master file for each brokerage account, plus separate file folders within it for each stock, bond, mutual fund or other investment bought or sold through that firm. This system will make transaction slips, income statements and other pertinent documents easy to find when you need them. After you get your yearly 1099s, you can get rid of some interim reports, but hang on to the year-end account summary statements. If by chance your broker does not supply a year-end statement, keep the monthly account statements. Keep records of capital gains, dividend distributions and other payouts because you'll need them for tax purposes long after the transactions are completed.

It's especially important to keep records that show the cost of investments, such as transaction slips and canceled checks. Most banks no longer send canceled checks. If yours doesn't, save the relevant list of checks or substitute checks or small reproductions of your checks. Without them you may not be able to document profits and losses. It's also important to keep records showing amounts and dates of reinvested dividends, and amounts and dates of principal payments from unit trusts.

HOW TO DEAL WITH YOUR BROKER.

In the best of all possible worlds, you and your broker work out a good investment plan—a nice mix of stocks and bonds and such—and the plan works beautifully. Your broker keeps you posted on the progress of your holdings, and the two of you chat amiably from time to time about the general direction of the market.

In the real world, if you own stocks, bonds, unit trusts, mortgage-backed securities or anything else sold by a broker, the person or the company that sold it to you will eventually be calling you or sending you information to interest you in buying something else. A good full-service broker will keep you informed about market developments that may affect your portfolio. But that does not mean you have to approve every suggestion, or even respond right away. Nothing is so urgent that a decision can't wait until you have time to investigate the broker's recommendation. And if you get a call from a stranger you know nothing about, the question of what to do is simple: Tell the caller thanks very much but you already have a broker and you're quite satisfied with the service you're getting. Here's how to deal with unsolicited investment suggestions from a broker you know and trust.

GIVE THE TOPIC YOUR FULL ATTENTION. If you're distracted, tell the broker to call you back or arrange to return the call. Don't be tempted to authorize the transaction just so you can get back to what you were doing.

CONSIDER WHETHER THE SUGGESTION FITS INTO YOUR INVESTMENT PLAN. A broker with your interests in mind will know better than to push you in a direction you've said you don't want to go. But the broker may occasionally call with what he or she considers a genuinely superior opportunity that deviates from your plan. Take the time to review the suggestion. Remember, if you decide to buy it's your responsibility if you lose money.

GET MORE INFORMATION. Ask the broker to send you written research on the recommendation. With so many kinds of investments to handle, no broker can be expert on everything. Most rely on written analysis by others, either within the firm or independent of the firm. Ask the broker to share this research with you. If you don't understand it, let this one pass.

PROBLEMS WITH YOUR BROKER.

Most brokers make an honest effort to serve their customers well. They don't "churn" customers' accounts by engaging in excessive trading just to generate commissions. They don't misrepresent the risks involved in the investments they recommend. They don't initiate transactions without the customer's authorization.

But all those things and worse do happen. If they happen to you, you have the right to strike back. If you feel you've been cheated, it's possible to battle your broker and win. The most common customers' complaints fall into these categories:

INAPPROPRIATE INVESTMENT RECOMMENDATIONS. A broker should know your financial situation and investment objectives, and recommend only investments that fit them.

MISREPRESENTATION OF RISK. This happens when a broker fails to inform you of the risks involved in an investment or misleads you about the nature of the risks.

Churning your account. It's illegal for brokers to trade excessively in order to run up commissions. You're probably being churned if you find yourself paying 10% to 12% or more in stock commissions and the stocks in your portfolio are turning over several times a year at the broker's recommendation.

UNAUTHORIZED TRADING. Unless you sign a contract giving your broker discretionary authority over your account (which you shouldn't do), the broker can make no trades without your permission. If your broker makes an unauthorized trade, don't waste any time before complaining. In the past, brokers' attorneys have argued successfully that a customer's failure to complain right away constitutes evidence that the customer "ratified" the broker's action.

FAILURE TO EXECUTE. "Failure to obey" is how the industry describes a broker's failure to execute a trade you called in or a lengthy delay that caused you to miss an opportunity. Even if it's a mistake, you have grounds for a complaint.

WHAT TO DO IF YOU'RE WRONGED.

If you suspect that something illegal or unethical is going on with your account, the first step is to notify the broker. There may be an explanation or a way to resolve the matter to your satisfaction right away.

If you don't get satisfaction, the next step is to complain to the broker's boss: the branch manager. Call and ask for an appointment and take along a written account of what happened. Take notes on what happens at that meeting.

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The next level up is the firm's headquarters office. Address your complaint to the compliance director and send it by certified mail. Your success at this level will depend on how well you have documented your case. Determine ahead of time how much money it will take to make you whole again, and be prepared to discuss a reasonable offer of settlement from the firm.

If the brokerage firm's compliance director can't or won't settle the matter to your satisfaction, your choice may well be predetermined. The agreement you signed when you opened your account at the firm probably restricts your avenue of complaint to the arbitration process set up by the industry to resolve such disputes. You can't sue in court if your agreement bars it—a legal restriction that has been upheld by the Supreme Court. Nearly all brokerages include a mandatory arbitration clause in their customer contracts, whether you read it or not. Consumers have been complaining about this and the American Arbitration Association (AAA) has been listening (www.adr.org). The AAA is named in many contracts as the organization responsible for overseeing arbitration. It has adopted a 15-principle"Consumer Due Process Protocol" and will no longer participate in arbitration programs that "substantially and materially" deviate from them. In contracts that meet the AAA standards, you must be given the following:

- **Clear and adequate notice of what you are signing,** and a statement indicating whether arbitration is mandatory or optional under the contract.

- **The right to sue in small-claims court.** When the dollar amount of a claim is within the small-claims-court jurisdiction, you retain the right to go to court.

For information and details on the 15 principles, go to www.adr.org. Search for "Consumer Due Process Protocols."

Despite problems thousands of small investors have turned to arbitrators to settle disputes with the giants of the financial world, and many have come away winners.

Most contracts require you to take your case before the industry's selfregulatory organization, the Financial Industry Regulatory Authority (FINRA). It is sponsored by the New York Stock Exchange (NYSE), the American Stock Exchange and several regional exchanges. A few are heard by representatives of the American Arbitration Association (AAA), which has the advantage of having no direct affiliation with the securities industry.

Be sure to check that your broker is a member of SIPC.

The rules governing these procedures are similar, although filing fees for AAA cases, starting at $500, are considerably higher than for FINRAs, which are subsidized by the industry and start as low as $15. Both hold hearings in most major cities, and both have streamlined procedures for small claims. To get information about the process, along with the forms you need to file a claim, contact:

- **The Financial Industry Regulatory Authority (FINRA 800-289-9999; www.finra.org)**
- **The New York Stock Exchange** (NYSE Regulation, Complaints & Inquiries, 20 Broad St., 18th floor, New York, NY 10005; 212-656-2772; www.nyse.com/Arbitration)
- **The American Stock Exchange** (FINRA Market Regulation - Amex Division, One Liberty Plaza, 52nd Floor. New York, NY 10006; Fax 212-306-1896; www.amex.com)

At any time during this process, you can also lodge a complaint with the U.S. Securities and Exchange Commission (SEC) or with your State Securities Regulator (see page 12).

WHAT IF YOUR BROKER GOES BROKE?

What would happen if the brokerage firm where you do business went out of business? Your account should be protected by the Securities Investor Protection Corp. (SIPC), a federally chartered but private, nonprofit corporation that levies assessments on its members to protect brokerage customers in the event a member becomes insolvent.

Be sure to check that your broker is a member. Broker-dealers who sell securities are required by law to be members of SIPC. Some SIPC members have affiliated or related companies or persons who conduct financial or investment businesses but are not members of SIPC themselves. You can check by calling or writing the SIPC Membership Department or checking its Web site at www.sipc.org. (Securities Investor Protection Corp., 805 15th Street, N.W., Suite 800, Washington, DC, 20005-2215; 202-371-8300; www.sipc.org).

SIPC provides insurance for securities accounts of up to $500,000 per customer, with a limit of $100,000 per customer on cash being held by the firm. Many brokerages purchase additional coverage, often up to a couple of million dollars. It's important to know that the SIPC coverage applies only in the case of financial insolvency. It doesn't cover you in case of broker theft or fraud; you must turn to the courts for redress in such cases.

Because it takes a lot of time to sort through a brokerage firm's records, it may be weeks, even months, after a shut-down before the firm completes its business and gets the proper securities distributed to the proper customers. In the meantime, the markets keep moving up and down but customers' assets are frozen. If the delay costs you money because the market moves against you, you're out of luck. SIPC protection is better than none, but it isn't perfect.

What a Financial Adviser Can Do for You

Financial and investment planning often consists of creating a comprehensive overview of your current financial condition, along with recommendations for achieving your financial goals. Depending on its complexity, such a plan can cost you from several hundred to several thousand dollars.

People are also likely to turn to an adviser for help with less sweeping challenges. What to do with a lump sum received from an inheritance is a common problem, teeming with tax and investment decisions that need to be made in a hurry. As a result of the growing demand for this sort of advice, advisers are likely to charge for their services by the hour rather than by the plan. There is no standard fee system or scale in the planning business. At one end of the spectrum are the advisers who work for fees only, much as lawyers do, and may charge $200 or more an hour. At the other end are firms that operate entirely on commissions. In between are the larger number, who depend on a combination of fees and commissions. In some cases the adviser might partly credit commissions against the fee to encourage the client to buy insurance or other financial products through the adviser's company.

A good adviser will see to it that your investments are diversified and appropriate for your goals and stage in life: growth funds for an IRA, for example, or municipal bonds to generate tax-free income. A good adviser can also help you anticipate the tax consequences of your investment decisions.

Many offer wrap accounts (see page 3). More common are simple fee-based accounts. Like wrap accounts, they may include stocks, bonds, mutual funds and cash. The investment choices are worked out between you and your adviser. You pay a fee that is a fixed percentage of assets, usually from 0.75% to 2.5%. There may or may not be additional charges for transactions. Through accounts, advisers can serve as money managers for their clients, creating and managing investment portfolios.

Even if your adviser is going to make your investment decisions, keep informed about what's happening to your account, and you don't hesitate to disagree when you become uneasy about what's being done with your money. It is up to you to make sure that the adviser stays in tune with your goals and risk tolerance.

> A good adviser will see to it that your investments are diversified and appropriate for your goals and stage in life.

HOW TO PICK AN ADVISER.

An adviser's credentials are the most obvious clue to his or her preparation for the job. The best-known credential is the Certified Financial Planner (CFP) designation. In addition to the CFP, other leading planning credentials indicating extensive training include the ChFC (Chartered Financial Consultant), and the CPA/PFS (Certified Public Accountant, Personal Financial Specialist).

The Yellow Pages are full of the names of advisers, but you should start your search with a reference of some kind, most likely from friends, family or co-workers. Lawyers, accountants and insurance agents are also good people to ask. A number of organizations can provide names of local members.

THE FINANCIAL PLANNING ASSOCIATION (800-322-4237, www.fpanet.org), to which more than 27,000 planners belong, has a registry service called PlannerSearch, which you can use to get names of CFP members in your area.

THE NATIONAL ASSOCIATION OF PERSONAL FINANCIAL ADVISORS
(3250 North Arlington Heights Rd., Suite 109, Arlington Heights, IL 60004;

800-366-2732; www.napfa.org) will provide a list of fee-only practitioners in your area. A fee-only adviser earns no commissions for the mutual funds, insurance or other financial products he or she may recommend that you buy.

THE AMERICAN INSTITUTE OF CPAS (Personal Financial Planning Division, 220 Leigh Farm Road, Durham, NC 27707; 888-777-7707; http://pfp.aicpa.org) will provide the names of certified public accountants with the CPA/PFS credential.

SOCIETY OF FINANCIAL SERVICE PROFESSIONALS (www.financialpro.org; 888-243-2258) is an organization of a variety of financial service professionals including CFPs, CPAs, insurance specialists, employee benefits specialists, attorneys and more that will send you the names of professionals who are advisers, or you can request names via its Web site.

WHAT TO ASK AN ADVISER.

Once you've got a list of advisers with recognized credentials, call or visit two or three, comparing their fee structures and their competence as investment advisers.

FEE STRUCTURE. Advisers earn their keep in one or more of three ways. Some work on a fee-only basis, charging you by the hour or by the specific task. Others collect commissions on the products they sell you, such as stocks, bonds, mutual funds and insurance policies. Many charge a mixture of fees and commissions.

An adviser's fee structure is no indicator of competence. Just because a commission-based adviser is likely to pick a fund with a sales load and a fee-only adviser would probably choose a no-load fund, it doesn't mean that the commission-based adviser isn't acting in your best interest. However, in the end, while you might not pay the commissioned adviser any more than you pay the fee-based adviser, in the case of that fund load, the sales load is coming out of your investment, leaving less working for you in the market.

INVESTMENT RECORD. An adviser you're considering should be willing to give you information on how other clients' portfolios have performed. Compare those records with one another and the performance of the markets as a whole before making a choice. Often the adviser will provide you with comparable performance benchmarks to give you an idea where to look on your own. Pay special attention to how well the adviser has done in achieving the objective you'll be pursuing, whether it's for growth, income or a combination. Ask the adviser to sketch out how he or she would deploy your financial resources, and decide whether you like the result.

Protect Your Money: How to Check Out a Broker or Adviser

Federal or state securities laws require brokers, advisers, and their firms to be licensed or registered, and to make important information public. But it's up to you to find that information and use it to protect your investment dollars. The good news is this information is easy to get, and one phone call or web search may save you from sending your money to a con artist, a bad broker, or disreputable firm.

This is very important, because if you do business with an unlicensed securities broker or a firm that later goes out of business, there may be no way for you to recover your money— even if an arbitrator or court rules in your favor.

BROKERS AND BROKERAGE FIRMS.

The Central Registration Depository (or "CRD") is a computerized database that contains information about most brokers, their representatives, and the firms they work for. For instance, you can find out if brokers are properly licensed in your state and if they have had run-ins with regulators or received serious complaints from investors. You'll also find information about the brokers' educational backgrounds and where they've worked before their current jobs.

You can ask either your State Securities Regulator or the Financial Industry Regulatory Authority (FINRA) to provide you with information from the CRD. Your State Securities Regulator may provide more information from the CRD than FINRA, especially when it comes to investor complaints, so you may want to check with them first. You'll find contact information for your State Securities Regulator on the North American Securities Administrators Association (NASAA) Web site (www.nasaa.org). To contact FINRA, go online to www.finra.org, or call 800-289-9999.

INVESTMENT ADVISERS.

People or firms that get paid to give advice about investing in securities must register with either the SEC or the State Securities Regulator where they have their principal place of business. Investment advisers who manage $25 million or more in client assets generally must register with the SEC. If they manage less than $25 million, they generally must register with the State Securities Regulator.

Some investment advisers employ investment adviser representatives, the people who actually work with clients. In most cases, these people must be licensed or registered with your State Securities Regulator to do business with you. So be sure to check them out.

To find out about advisers and whether they are properly registered, read their registration forms, called the "Form ADV," which has two parts. Part 1 has information about the adviser's business and whether they've had problems with regulators or clients. Part 2 outlines the adviser's services, fees and strategies. Before you hire an investment adviser, always ask for and carefully read both parts of the ADV.

You can view an adviser's most recent Form ADV online at http://brokercheck.finra.org. The database contains Forms ADV only for investment adviser firms that register electronically using the Investment Adviser Registration Depository, but will expand to encompass all registered investment advisers—individuals as well as firms.

You can also get copies of Form ADV for individual advisers and firms from the investment adviser, your State Securities Regulator (see box on page 12), or the SEC, depending on the size of the adviser. To contact your State Securities Regulator go online to www.nasaa.org. If the SEC registers the investment adviser, you can get the Form ADV for $ .24 per page (plus postage) from the SEC.

INVESTMENT CLUBS.

Another way you can get help with your investments is to join an investment club. These clubs are small groups of people—15 is a typical number—who get together once a month, pool their ideas and money, and invest regularly in stocks and bonds they choose. Members may be friends, neighbors or co-workers and are assigned different tasks. One team may be responsible for tracking economic conditions; another may report on the investment climate; a third may present charts, graphs and other material to back up specific investment recommendations, which are usually decided

Investment clubs meet regularly, pool their ideas and money and invest in stocks and bonds they choose.

by majority vote.

To fund the portfolio, club members typically put in about $85 a month, although in some clubs the amount may be a little smaller or much larger. With the money, a typical club accumulates a portfolio of about 15 stocks, ownership of which the members share in proportion to their contributions.

For most members, the club is not the only place they invest. In fact, they tend to have individual portfolios that are much larger than what they have tied up in the club. That makes investment clubs popular with brokers, who like the thought of serving all those individual members' portfolios.

How well do clubs do? BetterInvesting, formerly known as the National Association of Investors Corp. (NAIC) reports that over the years more than half of its member clubs regularly beat the S&P 500-stock index—and that's about as well as professional portfolio managers do. Teamwork is very important to the success of an investment club. BetterInvesting has found that if club members aren't willing to share responsibilities within the club and work together to achieve success, the club will fail in the first two years.

You can get guidance in starting and running a club from BetterInvesting, Box 220, Royal Oak, MI 48068; 877-275-6242 or 248-583-6242; www.better-investing.org.

WRAP UP.

Help is readily available if and when you need it. You can put your trust in the hands of a full-service broker or financial adviser, who can provide you with the information you need to make informed investing decisions or rely on less assistance from other brokers and do more of the research on your own. The important thing

STATE SECURITIES REGULATORS

State Securities Regulators have protected investors from fraud for nearly 100 years. Securities markets are global but securities are sold locally by professionals who are licensed in every state where they conduct business. State Securities Regulators work within your state government to protect investors and help maintain the integrity of the securities industry.

Your State Securities Regulator can:

- Verify a broker-dealer or investment adviser is properly licensed;
- Provide information about: prior run-ins with regulators that led to disciplinary or enforcement actions; serious complaints that may have been lodged against them; their educational background and prior work history
- Provide a computer link or telephone number or address where you can file a complaint; and
- Provide non-commercial investor education and protection materials.

For contact information for your State Securities Regulator, visit the North American Securities Administrators Association (NASAA) Web site at www.nasaa.org and click on "Contact Your Regulator."

GLOSSARY

Bond— An interest-bearing security that obligates the issuer to pay a specified amount of interest for a specified time, usually several years, and then repay the bondholder the face amount of the bond.

Capital gain (or loss)— The difference between the price at which you buy an investment and the price at which you sell it.

Churning— Excessive buying and selling in a customer's account undertaken to generate commissions for the broker.

Dividend— A share of company earnings paid out quarterly to stockholders, usually in cash, but sometimes in the form of additional shares of stock.

Load— A sales commission charged by many mutual funds. Some are front-end loads (fee paid when the shares are purchased) or back-end loads (fees paid when the shares are sold)

Money-market account— Offered by full-service brokers, these are similar to checking accounts but usually pay higher rates. Minimum deposit levels are higher than checking, and access to the account may be limited.

Mortgage-backed securities— Securities issued by government-related agencies that buy up mortgage loans from lenders such as banks and savings and loan associations.

Mutual fund— A professionally managed portfolio of stocks and bonds or other investments divided up into shares.

Risk tolerance— The degree to which you are willing to risk losing some (or all) of your original investment in exchange for a chance to earn a higher rate of return. In general, the greater the potential gain from an investment, the greater the risk is that you might lose money.

Stock— A share of stock that represents ownership in the company that issues it. The price of the stock goes up and down, depending on how the company performs and how investors think the company will perform in the future.

Street name— The term used to describe securities that are held in the name of your brokerage firm but that still belong to you.

Unit trusts— A collection of securities, usually bonds, packaged by brokers and sold to investors.

The following booklets from the Editors of *Kiplinger's Personal Finance* magazine and the Investor Protection Trust are available at your public library through the Investor Education in Your Community™ program and offices of State Securities Regulators.

FIVE KEYS TO INVESTING SUCCESS

- Make investing a habit
- Set exciting goals
- Don't take unnecessary risks
- Keep time on your side
- Diversify

THE BASICS FOR INVESTING IN STOCKS

- What is a stock?
- Types of stocks and their relative risks
- How to buy stocks
- Stock terms you need to know, such as price/earnings ratio (P/E), book value, dividend yield and dollar-cost averaging
- Selling your stocks and determining earnings
- Mistakes even seasoned investors sometimes make—and how to avoid them

A PRIMER FOR INVESTING IN BONDS

- What is a bond?
- How bonds work
- Types of bonds and their relative safety
- Why bonds can be an important part of your investment portfolio
- Yield and how it relates to bond prices
- Bond ratings and how they can help you reduce risk

MUTUAL FUNDS: MAYBE ALL YOU'LL EVER NEED

- What is a mutual fund?
- Advantages of investing in mutual funds
- Cost of investing in mutual funds
- Find the right mutual funds for you
- What to look for in a mutual fund prospectus
- Types of mutual funds and relative risk
- Determining your earnings

GETTING HELP WITH YOUR INVESTMENTS

- Choosing a broker
- Full-service, discount and online brokers
- Opening a brokerage account
- Records you need to keep
- Problems with your broker
- Financial advisers
- How to choose an adviser
- Investment clubs

WHERE TO INVEST YOUR COLLEGE MONEY

- Creating a college fund portfolio based on your time horizon
- College investment vehicles
- State-sponsored college savings plans

MAXIMIZE YOUR RETIREMENT INVESTMENTS

- Three fundamental truths about retirement investing
- Stocks, bonds and mutual funds to consider for your retirement portfolio
- Determining your portfolio mix, depending on your time horizon and risk tolerance
- Retirement investment vehicles

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