

# Protecting Your Nest Egg

## Investigate before you invest

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### Nothing But the Blue Sky

Think back to the days of Jesse James and lawlessness when it ran thick as bison over the prairies. Scoundrels like James weren't the only thieves on the prowl. These clever crooks looked professional, sounded honest and claimed to represent solid companies with legitimate investment opportunities.

What trusting investors got was nothing more than a piece of the blue sky. The so-called "investments" were worthless. The money usually disappeared into thin air along with the salesperson.



### How Kansas Drove Out a Set of Thieves

The State of Kansas took action. In 1911, Kansas became the first state to enact a law to protect its citizens from worthless securities and dishonest salespeople. The new "Blue Sky" law established three requirements:

- 1) Companies issuing securities had to register their offerings with the State before soliciting investors. They had to prove that the company was in good financial standing and the investment was fair and equitable;
- 2) People selling securities had to obtain a license from the State before soliciting investors; and

- 3) Companies and salespeople had to be honest and ethical. False and misleading information intended to defraud investors was not allowed.

Other states soon passed similar laws. The U.S. Securities and Exchange Commission was created in 1934 to regulate the national securities markets. We now have a system of state, federal, and industry regulation. There is a securities regulator in each of the 50 United States, the District of Columbia, Puerto Rico, Mexico and the Canadian provinces and territories.

State regulators are often the first to detect illegal and unethical activity through investigations and customer complaints. States may suspend and revoke securities licenses, order fines and sanctions and pursue criminal prosecution in a court of law. States also work to obtain restitution for investors.

Securities laws are still known as blue sky laws today.

### What is a security?

When people hear the word "security," they most likely think of stocks, bonds and mutual funds. Even if you don't trade on the major stock exchanges, you might still be investing in securities. Unusual securities have included:

- Leases in oil and gas wells;
- Farming and ranching operations;

- Sale and leaseback agreements for pay telephones, ATM machines, kiosks and similar equipment;
- Viatical settlement contracts and “senior life settlement” contracts;
- Charitable gift annuities;
- Coins;
- Art; and
- Pyramid schemes.

There are many others. Any type of passive investment is probably a security. A passive investment is one in which the investor relies on another person to make a profit.

### Assessing Your Risk Tolerance

Risk tolerance is one way to gauge whether or not a particular investment is right for you. It shows how well you handle the potential loss of money from your investments and can change as your life circumstances change. When you determine your risk tolerance, you take into account your personality, personal goals, current investing style and your “gut reaction.” When you take a risk assessment, there aren’t any right or wrong answers. Investors are classified in three general investment styles:

- **Aggressive:** These investors are after big returns and are willing to take the necessary risks in order to get them. They might like to gamble or invest in capital ventures (brand-new companies just out on the market) or international and high-growth stocks.
- **Moderate:** These investors understand there are risks involved when a person invests. They don’t mind taking some risk, as long as they know there’s a pretty sure bet their initial investment will still be there when they need it. They tend to do a lot of thinking before they invest and prefer solid, blue chip companies and maybe indexed mutual funds as well.
- **Conservative:** These investors are also known as “risk-averse investors.” They want to ensure their money is still there when they need it. They don’t want any potential for loss and prefer secure investments like bonds and government-issued securities to investing in the stock market.

### Most Retirees Have Issues Like These:

- They have an investment goal of savings preservation (i.e. they’re more conservative investors).
- They are, in general, the most common victims of fraud because they have nest eggs built up.
- They may lack confidence in asking tough investment questions.

### Investigate Before You Invest

Many different professionals offer financial products or services that that involve securities and investing. You have the right to know what qualifies that person to sell you that product. Before you put money into an investment, check it out.

Contact your state securities regulator to:

- Make sure the salesperson is properly licensed;
- Make sure the investment is registered (if it is not exempt);
- Find out if the person or firm has a history of complaints or regulatory violations.

State securities regulators rely on a system of nationwide databases to track licensing, registration and disciplinary actions. That means that if a person or company outside the state in which you live solicits you to invest, you can check them out.

Investors who request background checks also alert state securities regulators to people or companies who are operating illegally. This helps protect others from getting scammed.

## Before You Invest

- Get everything in writing.
- Make sure you understand the risks.
- If you do not understand how an investment works, avoid it.

## After You Invest

- Keep good records of your accounts.
- Stay in touch with your financial adviser.
- Make sure you are receiving regular statements and reports.
- Check your statements for inaccurate information.
- Report problems immediately.

## Recognizing Fraud and Abuse

Look for common themes and red flags to alert you to potential problems with an investment.

- Unlicensed Salespeople
- Unregistered Securities

This is a common tactic used to defraud investors. Always verify that the salesperson is licensed and authorized to sell securities. Make sure the investment is properly registered before you invest.

**Note:** Certain exemptions from licensing and registration are permitted. If a person or company tells you that they are exempt, they must be able to tell you why. Follow up with a call to your state securities regulator to verify this information.

- Unsuitable Investments

Brokers and investment advisers are required to make appropriate recommendations based on factors such as your age, net worth and risk tolerance. Tell your broker your needs and goals.

- Misrepresentation

The people selling investments must tell investors the truth about the risks and

terms of an investment. Beware of buzz words like “guaranteed,” “safe as a CD,” “risk-free,” and “sleep at night.”

- Unauthorized Trades/Churning

Check your statements for any unauthorized trades. Watch out for “churning”—excessive trading to generate sales commissions.

- Theft of Client Funds

Investors trust that their money will be used as specified. Get receipts for all deposits. Never pay in cash or make a check payable to the salesperson’s personal account.

## If You Have Problems

- Act quickly.
- Communicate in writing.
- Gather your records and receipts.
- Keep copies of everything for yourself.
- Notify your state securities regulator.

If the problem is with the salesperson or an investment you already have...

Send a letter describing the problem to the branch manager or compliance officer of your broker-dealer or investment adviser. Use information from your account statements and reports to support your claim. If the problem is not corrected, contact your state securities regulator to file a complaint.

## Questions To Ask When You Are Thinking About Buying A Security

- Is the SECURITY registered?
- Is the SALESPERSON licensed and authorized to sell securities?
- Are there any disciplinary actions against the salesperson or company?
- Do you understand the investment?
- Do you understand the risks?

If you suspect a scam...

Notify your state securities regulator immediately.

### IN KANSAS:

Office of the  
Kansas Securities Commissioner

Topeka Office:  
618 S. Kansas Avenue  
Topeka, KS 66603-3804  
Phone: 1-800-232-9580  
www.securities.state.ks.us

### OUTSIDE OF KANSAS:

North American Securities  
Administrators Association, Inc.  
10 G Street, N.E., Suite 710  
Washington, D.C. 20002  
Phone: 202-737-0900  
www.nasaa.org

## Privacy Issues: Are You Walking on Eggshells?

In order to process your financial account information, your advisor must obtain detailed information about you, including bank account numbers, social security numbers, credit card numbers, birth dates and other identifying information. They must collect this personal information in order to comply with the US Patriot Act and the Gramm-Leach-Bliley Act.

You should obtain and read a copy of their privacy policy to find out with whom your information will be shared.

*Protect your nest egg.  
Investigate before you invest!*

## Protecting Your Nest Egg Participant Survey

Date: \_\_\_\_\_ Your County: \_\_\_\_\_

Are you you?: Male \_\_\_\_ Female \_\_\_\_

Your age category: Teen \_\_\_\_ 20-40 \_\_\_\_ 41-60 \_\_\_\_ 61+ \_\_\_\_

What types of financial products do you own?:

\_\_\_\_ Stocks \_\_\_\_ Bonds \_\_\_\_ Mutual Funds \_\_\_\_ CD's

\_\_\_\_ Annuities \_\_\_\_ Insurance \_\_\_\_ Other \_\_\_\_\_

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