

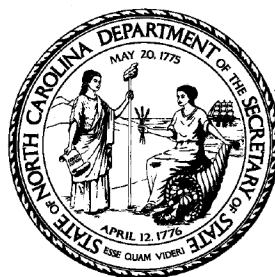
6. Risk no more than you can afford to lose. If you can't afford to lose the money you have in the stock market, put it someplace else that has less risk.
7. Avoid "cold-calling" salesmen. Be wary of strangers who contact you by phone or e-mail, through unannounced visits or with junk mail. Remember! If a deal or opportunity sounds too good to be true, it is probably a bad investment.
8. Recognize that there is no such thing as risk-free investing. Any claim to the contrary is a clear sign of an unscrupulous broker who may place you in an unsuitable investment. If you sense that risk is being misrepresented, get yourself a new broker.
9. If you suspect an unsuitable investment, get your concerns on record. If the investment strategy isn't appropriate for you, raise the matter with your broker orally and in writing. Keep a copy of the letter. If you aren't satisfied with the response, speak with the office manager. Forward your concerns to the firm's compliance office and the Securities Division at PO Box 29622, Raleigh, NC 27626-0622. (For more information, read our brochure entitled *Resolving Problems with Securities Firms.*)

### Don't think you can become a victim of fraud?

Every week there are new reports of victims being cheated out of their money. To read some of these stories, visit our web site at:  
<http://www.secretary.state.nc.us/sec/nasaa.aspx>.

## North Carolina Department of the Secretary of State

Hon. Elaine F. Marshall  
Secretary of State



*For more information,  
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## NORTH CAROLINA DEPARTMENT OF THE SECRETARY OF STATE SECURITIES DIVISION

# UNSUITABLE INVESTMENTS



How do you know if an investment is right for *you* and *your* specific financial needs? The vast majority of securities professionals are quite capable and honest. However, you still need to be careful *and* educate yourself about those things investors may encounter.

## THE CONCEPT IS SIMPLE

All too often, individual investors have limited knowledge and little time to master the complex issues in the rapidly expanding and increasingly busy world of investments. Registered stockbrokers are professionals who understand the ins and outs of securities markets. Stockbrokers bear a legal and ethical burden to act in the best interests when offering investment recommendations. The NC Department of the Secretary of State and other agencies, courts and arbitration panels enforce brokers' responsibilities in these matters.

A "*know your customer*" rule forbids brokers from putting an investor in an invest-

“...stockbrokers bear a legal and ethical burden to act in the best interests of the investor when offering investment recommendations.”

ment for which the investor is “unsuited” in terms of depth of investment experience, net worth, annual income, investment objectives and other related factors.

Every customer who opens a brokerage account normally sits down with a sales representative and fills out a customer agreement form. This also can be done over the telephone. The customer must provide personal information (name, address, phone

number, spouse's name, employer, etc.), investment objectives and the degree of risk he is willing to assume in an investment strategy. This exchange of information has very important consequences and deserves a lot of thought. Some investments are riskier than others. For example, options trading is usually

“This exchange of information has very important consequences and deserves a lot of thought.”

riskier than trading common stock. An investor interested in trading options faces more probing questions than an investor interested in trading a stock certificate. This process helps brokers satisfy suitability requirements so they can best provide the services you desire. (For more information, please see our brochure entitled *Choosing A Stockbroker*.)

## HOW TO PROTECT YOURSELF

Cautious investors should do their homework to make sure that their brokers are able to and do make suitable investment recommendations:

1. Be realistic in setting your investment objectives. You are the only person who knows the right answers for you. Are you seeking maximum protection of your savings? Quick growth? Regular income? Tax savings? These questions might be easier to answer with advice from a lawyer, bank officer, accountant, and registered financial adviser, or even from reputable financial publications, adult education programs or college courses.
2. Choose a broker compatible with your goals and objectives. You should have



a high degree of comfort with the firm and the sales representative you choose. Interview several brokers and question them in detail. Ask for a brochure describing the firm's investment alternatives and services, copies of specific recommendations over the past year and a copy of the firm's commission rate schedule.

3. Check out your broker. Contact your local Better Business Bureau and the Securities Division of the NC Department of the Secretary of State (1-800-688-4507). If the broker has a disciplinary or enforcement history, it will be on file.
4. Tell your broker about your financial circumstances. Be truthful and candid in filling out the forms used to determine the suitability of investments. Incorrect information can result in your broker placing you in unsuitable investments that could cause devastating losses. In these circumstances, the losses would be your responsibility, not your broker's.
5. Avoid investments you don't understand. Steer clear of anything you can't explain in simple language to yourself or a friend. Read about investments, ask questions of brokers and other professionals and attend courses.