Investor Education Quiz

1 Which of the following phrases should raise your concern about an investment?

a. High rate of return
b. Risk-free
c. Your investment is guaranteed against loss
d. You must invest now
e. All of the above

2. 2. Securities laws protect investors by requiring companies to:

a. Show profits before they can sell stock
b. Provide investors with specific information about the company
c. Pay dividends
d. Repay investors who have lost money

3. In which situation are you taking the least amount of risk?

a. Buying a Certificate of Deposit (CD) from a bank
b. Investing with someone you know through your church or community association
c. Investing offshore
d. Investing with someone who contacted you by phone

4. A fellow book club member tells you about an investment opportunity that has earned returns of 20% during the past year. Your investments have been performing poorly and you're interested in earning higher returns. This person is your friend and you trust them. What should you do?

a. Ask your friend for more information about the investment so that you can understand the risks before you make a decision
b. Invest only a small amount to see how things go before making a larger investment
c. Call your securities regulator to see if the investment has been registered or is properly exempted for sale
(a) and (c)

Which of the following should you rely upon when making an investment decision?

a. Testimonials of other investors
b. Advertisements and news stories in the media or on the Internet
c. Technical data that you don't really understand
d. Information filed with your securities regulator

6. Ways to protect yourself from investment fraud include:

a. Read all disclosure documents about an investment
b. Seek advice from an independent and objective source
c. Be skeptical and ask questions
d. Never write the check for an investment in the name of your salesperson
e. All of the above

7. When dealing with a securities salesperson who is considered reputable, you should do all the following except:

a. Request copies of opening account documentation to verify that your investment goals and objectives are stated correctly
b. Open and review all correspondence and account statements when you receive them
c. Verify your written account statements with information you can obtain online
d. Allow the salesperson to manage your assets as they see fit because they are the expert
e. Evaluate your salesperson's recommendations by doing your own independent research

8. Which of the following are frequently used to defraud the public?

a. Short-term promissory notes
b. Prime bank investments
c. Offshore investments to avoid taxes
d. Foreign advance fee letters
e. All of the above

9. The role of government securities regulators is to:

   a. Sell shares to investors
   b. Act as an association for securities dealers and advisers
   c. Regulate securities markets, the investment industry and protect investors
   d. All of the above

10. You have been working closely with your securities salesperson for years. Recently your salesperson asked you to invest in a product that he/she is really excited about, however, the recommendation seems very different from financial products you have invested in previously. Which of the following should you do?

   a. Agree to make the investment because you have done business with your salesperson for years and trust them implicitly
   b. Check with the Attorney General's Investment Protection Bureau to see if they have any information on the investment product
   c. Check with the Attorney General's Investment Protection Bureau to see if the securities salesperson is authorized to sell the product in question
   d. Rely upon the written material the salesperson gives you
   e. (a) and (d) only
   f. (b) and (c) only

11. An investment is likely to be legitimate if:

   a. The promotional materials and company website look professional
   b. The company has a prestigious office location
   c. Other investors are receiving quick the up-front returns
   d. The company has an official-sounding name
   e. None of the above

12. Who insures you against investment losses?

   a. No one; this is the risk you take when you invest
   b. My securities regulator
   c. The company selling the investment
   d. The Securities Investor Protection Corporation (SIPC)

Answer Key

1. (e) *Unusually high rates of return should be viewed as a cause for concern about an investment and would indicate a high-risk investment. Investigate all risk-free promises. Guarantees should also raise concern. Legitimate investments are not guaranteed against loss. Suggesting that you must invest "now" is generally a high-pressure tactic used by swindlers to get the money before investors can change their minds or obtain more information.*

2. (b) *Securities regulation is based on a disclosure system - laws requiring companies to provide investors with specific information. This ensures that investors have access to the information they need in order to make sound investment decisions. Companies do not have to show profits nor pay dividends in order to sell stock to investors. Also, companies are not required to repay investors who have lost money by investing in their shares.*

3. (a) *Buying a CD is low risk, but you should investigate insurance levels in the event of the bank's failure. You should also consider inflation risk when dealing with low return investments. If you are going to invest with someone you know through your church or community association, you should ensure that both the person and the investment are properly registered with the Attorney General's Investment Protection Bureau. You should thoroughly investigates before investing your hard-earned money. Investing offshore is not a guarantee of tax benefits. In addition, when you invest offshore, you are giving up some of the protections provided by New York law. Investing with someone who calls you with an investment opportunity is also very risky. You should always be skeptical of telephone pitches.*

4. (d) *You should never made an investment based simply on word-of-mouth, even if the recommendation comes from a family member, friend*

or acquaintance. Fraudulent schemes are frequently perpetuated this way. The promise of quick, high returns should also alert you to a possible scam. As a general rule, risk and return are proportional; the higher the return, the higher the risk. Even if a company looks and sounds legitimate, you should always check it out. Therefore, ask for more information about the investment and call the Attorney General's Investment protection Bureau.to see if the investment has been registered (or exempted) for sale.

5. (d) Information filed on an investment with the Attorney General's Investment Protection Bureau can include disclosure documents, such as a prospectus or offering memorandum, and is meant to provide you with valuable information in order for you to make a wise investment decision. This is your best source of information about the history of the company and the risks associated with the investment.

When shopping for investments, you should base your decisions on your own financial situation. If you don't understand an investment or if it feels too risky, don't invest in it. News stories may be factual, but may not provide investors with enough information on which to base an investment decision. Ads are not necessarily factual. Be aware that con artists use advertisements, technical language, fake testimonials, and news stories to make their schemes appear legitimate.

6. (e) Before making an investment, do your research and ensure that you understand what you are buying, the risks involved and if it is suitable for your personal financial situation. You can obtain written materials from your salesperson, go to the library, use the Internet, and/or get an opinion from another professional. Contact the Attorney General' Investment Protection Bureau to ask about the salesperson's background and to verify proper registration of the investment and salesperson. Never transfer money in the name of a salesperson. Your check or fund transfer should always be directed to *the company in which you are investing or to your brokerage/investment firm to settle your account.*

7. (d) *Registered/licensed securities salespeople and tneir administrative staff can and do make errors. These errors and mistakes can be costly and need to be caught and corrected as soon as possible. More importantly, there have been instances where salespeople have intentionally abused their clients' trust through excessive trading in their accounts, selling them inappropriate financial products and outright fraud. Generally speaking, your salesperson should never buy or sell a security without first getting your approval.*

8. (e) *With the presence of con artists and the ever-increasing complexity of financial products and markets, today's investors need to be well informed. The above-mentioned items are all "scams" but represent only a small number of fraudulent investments that are currently being* ***sold to*** *unwriting* ***investors.*** *NA SAA a membership organization of state securities regulators, provides a current list of these scams that you can review at www.nasaa.org. Consumers need to maintain a heightened sense of caution when investing. Additionally, if the investment is something you are not familiar with, be sure to gather information and understand the product prior* **to** *investing. Consult with the Attorney General's Investment Protection Bureau and review the Attorney General's website www.ag.ny.gov for additional investor education materials and information on scams.*

9. (c) *The Attorney General's Investment Protection Bureau administers the securities law in New York. One of its key mandates is to protect investors by ensuring that the rules and regulations are followed. Securities regulators such as the Attorney General do not sell shares directly to the public, but oversee the companies that do. They do not represent the industry, but provide protection to investors through rules, regulations and educational programs.*

10. (t) It is important to ask for and obtain written details of the investment recommendations you receive before you make any decisions. This could include a prospectus, an offering memorandum, research reports and other information. You should also contact the Attorney General's Ir. vestment Protection Bureau for information relating to the registration or exemption status of the securities product in addition to checking to see if your salesperson is registered to sell the investment product. You should always assess your investment objectives before making an investment in this, or any other product, to determine the risks involved, even if the recommendation comes from someone that you have done business with for many years.

11. (e) You should not judge the legitimacy of an investment by the following: the look of the written promotional materials you receive; where the company's office is located; its website; whether other investors received quick up-front returns; or the name of the company. All of these things may be done to lure investors into a scheme. Do your homework. Obtain information about the company from reputable sources such as the SEC's EDGAR website for U.S. public securities filings (www.sec.gov/edgar.shtml) and call the Attorney General's Investment Protection Bureau before you invest.

12. (a) Any investment involves some degree of risk. You should know what degree of risk you are willing to take in order to meet your financial goals and objectives. The Attorney General's Investment Protection Bureau protects investors by enforcing securities laws and rules but, it does not insure investments. Be aware that there have been many problems with companies that falsely inform investors that their investments are guaranteed or insured. S/PC (www.sipc.com) does not insure investments or cover declines in investment value or fraudulent sales. S/PC provides coverage in limited circumstances and with set dollar limits in the event of insolvency of a member brokerage firm. Investigate before you invest since you alone are bearing the risk involved with your investments.