INVE$TMENT GUIDE
FOR ILLINOIS CONSUMERS

Jesse White
Secretary of State

Illinois Securities Department

As Secretary of State, one of my responsibilities is to regulate the securities industry in Illinois. The Illinois Securities Department and I are committed to making sure the securities industry complies with the laws as well as accepted standards of business practice and professional conduct.

The Securities Department registers brokers, investment advisers and those offering business opportunities. The department also takes administrative action against violators of securities laws and assists prosecutors in pursuing con artists who defraud investors.

This guide outlines investment options, tips on selecting a broker or investment adviser and the warning signs of investor fraud. Included are sections on business opportunities, loan brokers and business brokers, online trading, and a checklist for investors to use when a broker calls.

While investing can be a great way to enhance your present financial situation and prepare for the future, it is not a venture that should be taken lightly. My personal investment tip is to do your homework, research your options and stay informed.

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For more information or if you believe that Illinois securities laws have been violated, contact the Illinois Securities Department:

Jefferson Terrace, Ste. 300A
300 W. Jefferson St.
Springfield, IL 62702

Ste. 1220
69 W. Washington
Chicago, IL 60602

or call toll-free 800-628-7937

www.cyberdriveillinois.com
(click Departments, then Securities)

Setting Your Investment Goals

Whether you are a novice or an experienced investor, there are several questions you need to consider before setting your personal investment goals and objectives:

- What are my primary investment priorities?
- Am I interested in long-term growth or in generating quick profits?
- Do I plan to use investments for tax savings or as a primary source of income?
- How much risk am I willing to take? **How much of my investment can I afford to lose?**

Which investment objectives are right for you?

1. **SAFETY (low-risk):**
   This conservative approach carries little risk but may generate only a modest return.
2. **INCOME (low- to moderate-risk):**
   These fairly conservative investments are designed to generate regular income payments or tax savings.
3. **GROWTH (moderate- to high-risk):**
   This higher-risk approach is targeted toward long-term growth; short-term losses may occur.
4. **SPECULATION (high-risk):**
   These very risky investments are intended to produce high profits and/or a quick return. The possibility exists of losing your entire investment. **Not recommended for novice investors.**

Be guided by your personal financial situation:

- If you have a comfortable, steady income, or if you are relatively young and able to take more investment risks for larger gains, then certain "growth" or even "speculative" investments may be good choices.
- If you are living on a fixed or retirement income, then "safety" or "regular" income through dividends and interest may be your priority.
- A third alternative, recommended by many experts, is an investment portfolio that includes a combination of low- and moderate- to high-risk investments.
- Be realistic in setting your investment goals, and remember that **no investment is entirely without risk.**

TIP:

The more money you want to make, the more risk you'll have to take.

TIP:

Federal and state laws require companies selling securities to tell you all relevant information about the company, its owners and the investment, including the risk.

Selecting Someone to Manage Your Money

Under Illinois law, any person of a firm offering investment advice to consumers in exchange for compensation and with more than five clients must be registered as an investment adviser with the Illinois Securities Department. Brokers (those who sell securities) also are required to be registered with the department, as is the firm that employs them.

Regulatory oversight of investment advisers is divided between the federal Securities & Exchange Commission (SEC) and the various state securities agencies according to the amount of assets under management. Advisers that manage $25 million or more are regulated by the SEC, while individual advisers and firms managing less than $25 million are overseen by state securities agencies.

1. If you plan to hire an investment adviser or broker, first **contact the Securities Department**. The department can confirm that the professional and the firm are properly registered.

2. The department also can tell you if the individual has any public disciplinary history in any state. A disciplinary history also may be obtained from **The National Association of Securities Dealers (NASD) by calling 800-289-9999.**

3. Before hiring a broker or adviser, interview several and obtain literature from each. Look for:
   - a list of the services offered,
   - investment options offered,
   - commission or fee schedules, and
   - specific investment recommendations, including their performance over the past year.

TIP:

Take your time. Ask several brokers or advisers about their professional background, expertise and education. Request references and check them out! Use the checklist on pages 18 and 19 to ensure you get all the information you need.

Selecting an investment adviser or brokerage firm that best suits your needs

Investment Adviser

An investment adviser provides personalized investment advice, that may include strategies for investing, cutting taxes, buying insurance, building income and providing security for your future. An investment adviser provides these services for compensation.

Full-Service Brokerage Firm

In a full-service brokerage firm, the broker researches and recommends investments tailored to your financial profile and also buys and sells securities on your behalf. The broker/adviser is usually paid a part of the sales commission when you buy or sell investments.

Discount Brokerage Firm

Discount brokerage firms provide limited services, while offering significant discounts from the commission rates charged by full-service firms. In most cases, these firms do not assign a specific broker to your account. Generally, discount brokerages serve solely as order-takers; they do not give advice or make recommendations. Some firms provide this service for an additional fee.

Online Brokerage Firms

Online firms also provide a variety of services. Some traditional full-service brokerage firms have Web sites that allow for online trading. Other firms act much the same as discount firms, serving primarily as order-takers. Shop around for the online firm that best meets your needs and your level of experience.

Specialty Brokerage Firm

Some brokerage firms specialize in certain types of investments (i.e. mutual funds, limited partnerships or bonds). Recommendations are geared primarily toward particular products. Only you can decide if these specialty investments are compatible with your needs.

Day Trading Firm

In times of market volatility, day trading captures the attention of some investors. Day trading is not illegal, but it is very risky. A day trader buys and sells stocks in a one-day period, making money on the incremental movements of the market. It has been touted as highly profitable, but the pitfalls are many and severe.

Following are several things investors should know before using this high-risk investment option:

1. Investors should be prepared for severe financial losses and should only invest money they can afford to lose.
2. Day trading is an extremely stressful and expensive full-time job. High commissions and expenses often outweigh financial gains in the market.
3. Do not believe claims of easy profits.
4. Be cautious of "hot tips" and expert advice from newsletters and Web sites catering to day traders.
5. Remember that "educational" classes, seminars and books about day trading might not be objective.
6. Be wary of trading with borrowed money.
7. Check out whether the day trading firm has a disciplinary history by contacting with the Illinois Securities Department.

TIP:

Make sure you know the full name and address of both your investment firm and your broker/investment adviser. Also ask for their CRD or IARD number.

Questions For Your Broker or Investment Adviser

- **Registration/Recommendations**
  What registrations do you hold? Can you provide me specific investment recommendations you have made in the past 12 months? Were those recommendations profitable?
- **Lawsuits/Bankruptcies**
  Are any lawsuits or bankruptcies pending against you, your company or the company's officers and directors?
- **Registration/Listings**
  Are you or your firm registered with the Illinois Securities Department or otherwise exempt from registration? Is the investment you are offering listed on a national exchange? If so, which one?
- **History/References**
  How long have you/your company been in business? Can you provide references from people you have served in my community?
- **Disciplinary**
  Has any state, the NASD, SEC or FTC taken enforcement action against you, and, if so, what was the outcome?
- **Disputes**
  Should disputes arise, how will they be settled?
- **Buying**
  How much risk is there in my proposed investments? How is the investment purchase price determined? Are there cir-

cumstances in which I may be required to come up with additional money?

- **Fees/Compensation**
  What are the fees for the transaction? How are you compensated? Do certain investments pay a greater commission versus others?
- **Prospectus**
  Can you provide me with a prospectus? Are you willing to explain your investment proposal to my attorney or accountant?
- **Selling**
  What happens if I need to get my money back quickly? Am I responsible for finding a buyer? Are there any required fees to pay before I can liquidate my investment?
- **New Account Form**
  How do I set up an account with a broker or investment adviser? Once you have selected a broker or investment adviser, you will be asked to fill out a new account form, including your net worth, annual income, investment objectives, risk tolerance, occupation and investment experience. This financial profile is kept confidential; however, brokers and advisers are required to know your financial situation so that they can provide you with suitable recommendations. You may elect not to divulge this information, but the broker or adviser cannot make proper recommendations without it.
- **New Account Agreement**
  Will I be required to sign a legally binding document? Most brokerage firms require customers to sign a legally binding document known as the *new account agreement*. Before signing, make sure you understand its provisions. Consult an attorney if needed.
- **Statements**
  Will I receive a monthly or quarterly statement showing my account activity? You should carefully review the statement and question anything you do not understand, including any activity you did not authorize. If you have questions, contact your investment firm in writing. Keep all your statements and notes on file in case problems arise.

TIP:

Understand the terminology used in any agreement you sign. What is the difference between a "cash account" and a "margin account?" What is the difference in risk level between "income," "growth" and "aggressive growth?"

Online Trading

Advances in technology have made our lives much easier. Information that was once available only to a privileged few is now at our fingertips. But with this wealth of information comes new responsibilities. The biggest responsibility for the consumer is to be informed. With regard to online trading, investors need to understand:

1. **Limitations of technology** — System failures and delays can affect online trade execution. The price of many stocks, especially volatile Initial Public Offerings (IPOs), can be sharply different in a matter of hours. If the system is not working at its highest efficiency, the trade may take longer to execute and the price may change dramatically. Investors should acquaint themselves with limit and stop orders to ensure against a higher than expected purchase price or lower than expected sale price. As a general rule, it is dangerous to use market orders in the purchase and sale of IPOs when "fast" market conditions prevail. The price you see on your screen may have no relation to the actual execution price you receive.
2. **Sound research** — Investment brokers and advisers are responsible for ensuring that their clients are informed on their stock choices. With online trading, the responsibility for gathering valuable information rests with the in-

vestor. Chat rooms and unsolicited e-mails may offer what sound like great tips and deals, but treat them with caution. Rely on sources the industry uses, such as Standard and Poors and the Dow Jones Averages. Be especially wary of anyone who claims "inside information." Insider trading is against the law.

3. **Suitability of purchase** — Be mindful of your investment goals when purchasing stocks online. If you are seeking a comfortable retirement, it might be tempting to risk money on high-yield stocks and IPOs, but the risk of loss often outweighs the potential gains. Keep your goals in mind.

4. **Stay informed** — In the back of this booklet is a listing of sources on online investing. Make note of the Web addresses or bookmark them so you can easily access the sites. If you have any questions, contact the Illinois Securities Department.

Online Tip

Beware of claims of low fees in online trading. Most of the time these fees are volume discounts only or for specific types of trades. The actual fee for a single trade can be considerably higher. Read all the disclaimers and instructions at the Web site before making an online trade.

Investment Options

The most common types of securities are stocks, bonds and mutual funds (see Glossary). But securities also can include promissory notes, limited partnerships, oil and gas leases and investment contracts. With the many investment options available, you may feel overwhelmed. Don't get discouraged. Proper planning and careful research can produce the results you seek.

Points To Consider Before You Invest:

- What is the prospective **yield**?
- What is the **return** you hope to achieve?
- What is the **risk**?
- Can the investment easily be sold or converted to cash? Is there a **charge** to do so?

Business Opportunities, Loan Brokers and Business Brokers

In addition to the Illinois Securities Law, the Secretary of State also administers the following three consumer protection acts: The Business Opportunities Sales Law of 1995, The Loan Brokers Act of 1995 and The Business Brokers Act of 1995. These laws were enacted to protect Illinois citizens against fraudulent practices in the area of "turn key" business opportunities, "easy credit" or advanced-fee loans, and fraudulent business brokers.

Business Opportunities

Sellers of business opportunities must register with the Securities Department and comply with provisions of the law requiring complete disclosure to purchasers. While there are certain exceptions to registration (e.g., if the company sells the opportunity for less than $500), if you see a company you are interested in, call the Securities Department to research its registration and whether it has a disciplinary history.

All business opportunities that make earnings claims (i.e., "you will earn $2,000 in just 2 weeks"), regardless of initial payment, must comply with the Federal Trade Commission's regulations and provide documentation of actual people who have made these earnings. Before investing in a business opportunity, be sure you fully understand the time commitment that is required. A sound business plan, a firm understanding of the market for the product and adequate resources and capital are required for a successful venture.

In the past, the Securities Department has taken action against companies offering business opportunities in areas such as: home travel agencies, Web site creation, depressed real estate sales and medical claims processing. Although there are many legitimate business opportunities in these areas, beware of those that promise more than they can deliver.

Loan Brokers

Advance-fee loans often appear as newspaper advertisements offering "easy credit." The ads nearly always guarantee "24-hour approval," regardless of the credit history of the borrower. Upon contact, a short application is taken over the phone. The approval comes within the stated 24 hours, but frequently there is a catch. The loan company will require the purchase of an "insurance policy," which often is as much as 10 percent of the loan amount. This fee for the insurance policy must be paid in full before the loan disbursement can be made to the borrower. These loan companies and their brokers are nearly always fraudulent and often move on once they receive your money.

Take extra precautions if:

1. The loan papers do not include full disclosure of annual percentage rates of interest (APR) or if the total payments do not add up to the amount borrowed plus the interest.
2. The company has offices outside the United States (several fraudulent advance-fee loan companies have been traced to offices in Canada, the Bahamas and Antiqua).

3. You are required to pay more than a reasonable fee for checking credit and obtaining appraisals of properties to secure the loan.

Business Brokers

Business brokers aid in the selling or buying of an existing business. They usually perform the selling and buying functions for their clients using established contacts or special knowledge of their field. The Illinois Business Brokers Act of 1995 is designed to provide protection for Illinois consumers in this area. Every person engaging in business brokering is required (unless otherwise exempt) to register with the Securities Department.

The best protection when choosing a business opportunity, loan broker or business broker is to be informed. If a question arises, contact the Securities Department.

Fees You Should Expect to Pay

Consumers should understand all fees and charges associated with their investments. All fees should be summarized in the fee table in the prospectus. Understand how the broker or investment adviser is paid and ask for a copy of the firm's **commission** schedule.

In general, brokers collect the highest commissions on complicated and risky investments that require some effort to sell. For example, commissions may run 6 percent or more on limited partnerships that invest in speculative ventures, less than 1 percent on common ventures like U.S. Treasury bonds, and just 1-3 percent on actively traded stocks. Whatever the investment, the broker typically keeps 30-40 percent of the sales charge, while the brokerage house gets the rest.

Investment advisers can be compensated in several ways. They may charge a flat fee, an hourly fee, a percentage of assets under management, commissions from product sales, or any combination of these. **Account management fees** also may be charged to the consumer. These fees can range from an annual charge to maintain an account to a charge for accounts that fail to generate any commission within a year.

If you do not trade frequently, a fee-based account may not be appropriate for you. Talk to your broker or investment adviser about various types of accounts and which are most suitable for you.

TIP:

It is your responsibility as a consumer to make informed investment decisions. Fraud is illegal; making a bad or careless investment is not.

Investor Bill of Rights

When You Invest, You Have The Right To:

- Ask for and receive information from a firm about the work history and background of the person handling your account, as well as information about the firm itself.
- Receive complete information about the risks, obligations, and costs of any investment before investing.
- Receive recommendations consistent with your financial needs and investment objectives.
- Receive a copy of all completed account forms and agreements.
- Receive account statements that are accurate and understandable.
- Understand the terms and conditions of transactions you undertake.
- Access your funds in a timely manner and receive information about any restrictions or limitations on access.
- Discuss account problems with the branch manager or compliance department of the firm and receive prompt attention to and fair consideration of your concerns.
- Receive complete information about commissions, sales charges, maintenance or service charges, transaction or redemption fees, and penalties.
- Contact the Securities Department to verify the employment and disciplinary history of a securities salesperson and the salesperson's firm, find out if the investment is registered to be sold, or to file a complaint.

When Your Broker Calls, Take Notes!

Make copies of this form to take notes of conversations with your broker or adviser. Be sure to record details of the recommendations you receive and the instructions you give. Keep the notes in your files.

Date: ____________________ Time: ____________________

❑ Call made ❑ Call received ❑ Meeting

Location: ____

Broker's Name: ____________________ Phone: ________________

Broker's Firm: ____________________ Phone: ________________

Broker's CRD No. ________________ Obtained CRD Report*

1. Investment Recommendation

❑ Buy ❑ Sell

Name of Security: ____

Reasons for Recommendations: ____________________________

____

How does this meet my investment objectives?: ____________

____

What are the risks?: _____________________________________

I asked to receive written information about the investment before making a decision: ❑ Yes ❑ No

I will get:

- ❑ prospectus
- ❑ offering memorandum
- ❑ most recent annual report
- ❑ most recent quarterly or interim report
- ❑ recent news releases
- ❑ research reports
- ❑ other information

Proposed Trade

Number of shares: ____________

Price per share: ____________

Total cost: ____________

Commission: ____________

My Instructions

❑ Do nothing Buy ❑ Sell

Number: ____________

Price: $____________

2. Additional Investment Recommendations on same date

❑ Buy ❑ Sell

Name of Security: ______________________________________

Reasons for Recommendations: ___________________________

____

How does this meet my investment objectives?: ___________

____

What are the risks?: ____________________________________

____

I asked to receive written information about the investment before making a decision: ❑ Yes ❑ No

I will get:

- ❑ prospectus
- ❑ offering memorandum
- ❑ most recent annual report
- ❑ most recent quarterly or interim report
- ❑ recent news releases
- ❑ research reports
- ❑ other information

Proposed Trade

Number of shares: __________

Price per share: ____________

Total cost: ________________

Commission: ______________

My Instructions

❑ Do nothing Buy ❑ Sell

Number: __________________

Price: $__________________

Notes: ____

____

____

Notes made by: ____

Date: ____________________ Time: ____________________

If you suspect any wrongdoing on the part of your adviser, broker or brokerage firm, please contact:

Illinois Securities Department
800-628-7937
www.cyberdriveillinois.com

(*Call your securities regulator to obtain the CRD Report, which discloses any disciplinary incidents on a salesperson.)

Understanding Disclosure

When securities are offered to the general public, they are accompanied by a document of disclosure called the **prospectus**. These disclosure documents inform you about the investment opportunity, the company and the people who run it, and can help avoid possible disputes between you and the company.

Investment advisers also must disclose information about their firm and any investment adviser representatives. Most investment advisers must file Form ADV and be registered with the state. These forms detail the work history, education and training, investment approach and disciplinary history of the investment adviser or financial planner.

TIP:

Read your prospectus carefully and understand its contents. If information is not contained in the prospectus, you cannot assume it to be true.

Securities Practices to Avoid

- **Unlicensed activity:** All brokerage firms, salespersons and investment advisers who conduct business in Illinois must be registered with the Securities Department (unless specifically exempt by law). **Any unlicensed activity is a violation of the Illinois Securities Law.**
- **Unregistered securities:** Every securities product offered for sale in Illinois must be registered with the Securities Department (unless exempt). **It is against the law to sell unregistered securities in Illinois.**
- **Unauthorized trading:** Brokers may not trade on the investor's behalf unless specifically authorized to do so.

- **Unsuitable recommendations:** Brokers and advisers are required to make suitable recommendations based on your financial situation and investment goals.
- **Account churning:** Excessive trading of a customer's account is an illegal practice done for the sole purpose of inflating the salesperson's commissions.
- **Untimely trades:** Brokers are required to promptly execute customer orders.
- **Failure to deliver:** At the request of the customer, delivery of securities (and any uninvested funds) must be made within a reasonable period of time.
- **Unauthorized transfer of assets:** No funds or securities may be withdrawn from an investor's account without his/her written authorization.

TIP:

Fraud may include outright misrepresentation or a scheme that includes no legitimate investment at all. It may involve trading on "inside information" or "manipulating" the market price of certain securities. A shrewd investor takes the time to guard against fraud.

Do's and Don'ts of Investing

DO

- Beware of testimonials.
- Beware of schemes in which the recruitment of new members is more important than the product being sold.
- Obtain and review a written proposal or prospectus on the venture and the company, including financial statements.
- Contact the Securities Department to find out whether the company and the promoter have any history of problems with the authorities.
- Consult an accountant, attorney or other knowledgeable person you trust.

- Deal only with firms and individuals you have researched.
- Insist on transaction confirmations, regular account statements and information in writing.
- Save all records of transactions and correspondence, and take notes of all conversations with the broker or investment adviser and the firm.

DON'T

- Send cash or a cashier's check through the mail or give it to a messenger sent by the salesperson.
- Send checks to addresses that are different from the brokerage firm address, especially P.O. Box addresses.
- Give your credit or debit card number over the phone.
- Write a check payable to the sales representative.
- Allow yourself to be pressured into buying by "tomorrow will be too late" tactics.
- Invest on the basis of tips and rumors.
- Invest in something you don't understand.
- Invest more than you can afford to lose.

If in doubt, do not invest and contact the Securities Department immediately. If after careful consideration you decide to invest, keep your initial investment small. Pressure to put all your savings into a single investment is a sign of a scam. Most reputable stockbrokers believe that diversification is a wise safeguard. Protect yourself. Do your homework and don't become a victim of fraud.

How to Spot Fraudulent or Abusive Practices

You may occasionally encounter problems in your account(s). Sometimes, these mistakes are simple clerical or accounting errors that can be corrected easily. However, abusive and fraudulent practices can — and do — happen, and you need to be able to spot these situations so you can take immediate action.

Resolving Disputes

Most arrangements between investors and their brokers or advisers are trouble-free. Your broker or adviser cannot be held responsible if your investments were simply not as successful as you would have liked.

Occasionally, though, legitimate problems do arise. If you are not satisfied with the proposed solution to your complaint, speak with your broker's manager or the firm's compliance officer. Put your complaint in writing and ask for a written response to your problem. This correspondence serves as documentation and is essential if your complaint goes to arbitration or other dispute proceedings.

Arbitration is a less costly and generally faster means of resolving a dispute than traditional litigation. **Those who choose arbitration generally forfeit their right to pursue the matter in court. Arbitration awards are almost always final.**

If you believe securities laws have been violated, contact the Securities Department. The department can investigate complaints, help prosecute violators and impose administrative sanctions against the broker and/or firm. **However, the Securities Department cannot provide legal representation to individual investors.**

Top 10 Securities Scams

1. **Ponzi Schemes** — Swindlers promise high returns to investors, but the only people who consistently make money are the promoters who set them in motion, using money from previous investors to pay new investors. Inevitably, the schemes collapse when the flow of "new money" dries up and the promoters cannot be found.

2. **Unlicensed Individuals Selling Unregistered, Fraudulent Securities** — Scammers often target independent, unlicensed insurance agents to sell their "products." They often claim that a product is NOT a security. These agents generally are working on high commission payouts and have very little knowledge of the investment they are peddling.

3. **Unregistered Investment Products** — Con artists bypass stringent state and federal regulation requirements to pitch viatical settlements, pay telephone and ATM leasing contracts, and other investment contracts with the promise of "limited or no risk" and high return. The products are usually fraudulent and the investments worthless.

4. **Risky or Fraudulent Promissory Notes** — Short-term debt instruments issued by little-known or sometimes nonexistent companies may promise high returns but offer higher risk. Independent insurance agents often sell these notes to investors. In recent years, Illinois investors and investors from other states have lost about $7 million investing in high-yield promissory notes sold by independent insurance agents.

5. **Senior Investment Fraud** — Senior citizens are frequent targets for con artists. The schemes may change from victim to victim but one thing remains the same—the promises made are never kept and the money invested is lost. Seniors, especially women, should use caution when choosing their investments as well as their investment professionals.

6. **High-Yield Investment Schemes** — When interest rates are low and stocks appear sluggish, the lure of high-yield investments is often too good for some investors. Remember that **high yields come only with high risks**. If an investment is promoted as "high-yield/risk free" or has "guaranteed" returns in the double or triple digits, chances are the investment is fraudulent.

7. **Internet Fraud** — Scammers use the wide reach and supposed anonymity of the Internet to perpetrate "pump and dump" schemes via investment forums, chat rooms and message boards. They promote thinly traded securities over which they have controlling interest, promote bogus offshore "prime bank" notes and publicize pyramid and ponzi schemes. As a general rule, any investment advice generated from an unaccredited source should be avoided.

8. **Affinity Fraud** — Many scammers use their shared religious or ethnic identity to gain a victim's trust. Each year, individuals are indicted for mail and wire fraud, money laundering and conspiracy in connection with securities fraud. Illinois investors have lost millions to these unscrupulous promoters who promised unrealistic returns and fabulous wealth based upon their faith.

9. **Variable Annuity Sales** — Variable annuities are attractive to many people and are perfectly legitimate. However, investors often are pressured into changing their annuities to ones that promise higher yields. Changing annuities usually comes with a price — higher surrender fees and steep commissions — and the higher yields soon evaporate. Be aware of all fees and costs involved in the trade.

10. **Oil and Gas Scams** — With oil prices rising and continued instability in the Middle East, schemes promising quick profits on oil and gas ventures are on the rise. These schemes are almost always fraudulent and often used in connection with other scams, promissory notes, affinity fraud, etc.

Glossary of Terms

ANNUITY: A life insurance product paying periodic income benefits for a specific period of time or over the course of the invester's lifetime. **Deferred annuities** allow assets to grow tax deferred before being converted to payments. **Immediate annuities** allow payments to begin within about a year of purchase.

APPRECIATION: An increase in the basic value of an investment.

ARBITRATION: A system for resolving disputes between two or more parties who submit their disagreement to an impartial panel. Decisions of the panel are binding.

BEAR MARKET: A market characterized by generally falling prices over a period of several months or years.

BLUE CHIP: Common stock of a company known nationally for the quality of its products and its profitability.

BOILER ROOMS: Fraudulent schemes operated by high-pressure salespersons working out of rooms equipped with many telephones, offering phony investment opportunities.

BOND: Certificate representing a loan of money to a corporation or government for a specific period, in exchange for a promise to repay bondholder the amount borrowed plus interest.

BROKER: A representative who handles transactions related to investors' orders to buy and sell securities.

BULL MARKET: A market characterized by generally rising prices over a period of several months or years.

BUSINESS FAILURE RISK: The risk that the business will fail and the investment will be worthless, or that a business will be less profitable than expected.

CAPITAL: The wealth of a business or an individual in terms of money or property.

CAPITAL GAIN: The gain realized when a security is sold for more than the purchase price.

CAPITAL LOSS: The loss incurred when a security is sold for less than its purchase price.

CAVEAT EMPTOR: Latin phrase meaning "Let the buyer beware."

CERTIFICATE OF DEPOSIT: A form of time deposit at a bank or savings institution, which cannot be withdrawn before a specified maturity date without being subject to an interest penalty. Small-denomination CDs are often purchased by individuals; large CDs of $100,000 or more are often in negotiable forms, meaning they can be sold or traded among holders before maturity.

CFP: Certified Financial Planner — an individual who has completed the educational requirements of the International Board of Certified Financial Planners (IBCFP), which covers all facets of financial planning, from taxes to investments.

ChFC: Chartered Financial Consultant — a designation earned by individuals who successfully complete the financial training program offered by the American College in Pennsylvania.

CFTC: Commodity Futures Trading Commission — the federal regulatory agency that monitors the futures and options market.

COMMISSION: A broker's or adviser's fee charged for buying or selling securities for an investor.

COMMODITY: An article of commerce or a product that can be used in commerce, such as agricultural products, metals, petroleum, foreign currencies, financial instruments and indexes.

COMMON STOCK: The most basic form of corporation ownership. Owners of common stock have a claim on the assets of a company after those of preferred stockholders and bondholders.

COMPOUND INTEREST: Interest earned on interest that is added to the principal.

CONVERTIBLE BOND: A bond that an owner can exchange for stock before maturity.

COUPON RATE: Fixed annual interest rate quoted when a bond is issued.

DEEP DISCOUNT BOND: See Zero Coupon Bonds.

DISCOUNT: Sale of a bond at a price less than face value.

DIVERSIFICATION: Spreading investment funds among different types of investments and industries.

DIVIDEND: Payment received by stockholders from the earnings of a corporation.

DOLLAR COST AVERAGING: Investing the same fixed dollar amount in the same investment at regular intervals over a long period of time.

DOW JONES INDUSTRIAL AVERAGE: Price-weighted average of 30 actively traded stocks.

EXCHANGE-TRADED FUND (ETF): A type of investment company whose investment objective is to achieve the same return as a particular market index.

EXCHANGES: Marketplaces for transactions such as the New York Stock Exchange, the American Stock Exchange and the Chicago Board of Trade.

FACE VALUE: The amount a bond is worth when it matures.

FDIC: Federal Deposit Insurance Corporation — an agency of the federal government created to guarantee bank deposits.

FEE: A charge for professional services. Common fee terms are:

a) ***Front-end "load"*** (or asset-based charge): May not exceed 8.5 percent of the total purchase price, and it usually serves as a commission to compensate the broker or sales agent who assisted in the purchase of a mutual fund. You may be able to eliminate this charge by buying the same or comparable fund directly from an investment company.

b) ***Back-end charge*** (or contingent deferred sales charge): The fee declines over time and is collected when you sell your shares in a mutual fund. (There also may be other redemption fees).

c) ***Management fees*** (also called 12b-1 fees): Such fees may be imposed by a mutual fund to cover marketing and distribution expenses of the fund. Some mutual funds have no front-end load but make up for it by imposing back-end charges and a 12b-1 fee.

d) ***Wrap fees:*** Charges for an investment program that bundles or "wraps" a number of services (brokerage, advisory, research, consulting, management, etc.) together and covers them with a single fee based on the value of assets under management. Payment schedules vary, but the most common involve regular quarterly fees or individual transaction brokerage commissions.

FINANCIAL PLANNER: Person who advises others about financial issues.

FIXED ANNUITY: An annuity that guarantees a specific rate of return. In the case of a deferred annuity, a minimum interest rate is guaranteed during the savings phase. During the payment phase, a fixed amount of income, paid on a regular schedule, is guaranteed.

FULL-SERVICE BROKERS: People who buy and sell securities or commodities to investors and offer information and advice.

FUTURES CONTRACT: A legal commitment to buy or sell a commodity at a specific future date and price.

HEDGING: The process of protecting an investment against price increases.

INFLATION: A general rise in prices of goods and services. This reduces purchasing power of money.

INFLATION RISK: The risk that the financial return on an investment will lose purchasing power due to a general rise in prices of goods and services.

INFOMERCIAL: Radio or television program with both an information and advertising component.

INSIDER TRADING: The illegal use of investment information not generally known to the public.

INTEREST: For the investor, interest is the payment received from a financial institution for lending money to it.

INTEREST RATE RISK: The risk that the value of a long-term, fixed return investment will decrease due to a rise in interest rates.

IRA: Individual Retirement Account — a tax-deferred savings account.

JUNK BONDS: High-risk bonds issued by corporations of little financial strength. Interest rate is high, but default rate is also high.

LIMITED PARTNERSHIP: An investment vehicle formed of a general partner and limited partners.

LIQUIDITY: The ease with which an investment can be converted into cash.

LOAD FUND: A mutual fund purchased directly by the public that charges a sales commission when bought.

MARKET PRICE: The price the seller will accept and the buyer will pay.

MARKET RISK: The risk that the price of stocks, real estate or other investments will go down due to business cycles or other causes.

MONEY MARKET ACCOUNT: A savings account that shares some of the characteristics of a money market fund, which is insured by the federal government and usually managed by a bank or brokerage firm. Money Market accounts are very safe and highly liquid investments, but offer a lower interest rate than most other investments.

MUTUAL FUND: A company that invests the pooled money of its shareholders in various types of investments.

NASAA: North American Securities Administrators Association — an organization of securities administrators charged with enforcing securities laws and protecting investors from fraudulent investments.

NASD: National Association of Securities Dealers — the securities industry's largest self-regulatory organization and the parent corporation of NASD Regulation and The Nasdaq Stock Market.

NASDAQ: The world's largest screen-based stock market built totally out of telecommunications networks and computers.

NASDAQ COMPOSITE INDEX: Market value weighted index measuring over 5,000 Nasdaq listed common stocks.

NFA: National Futures Association — a congressionally authorized, self-regulatory organization for the futures industry.

NO-LOAD FUND: A mutual fund purchased directly by the public; does not have a charge for buying.

ODD LOT: A unit of less than 100 shares of stock.

OFFERING CIRCULARS: Disclosure documents provided to investors by the company seeking capital.

OPPORTUNITY COSTS: The cost of passing up the next best choice when making a decision. (e.g., If an asset such as capital is used for one purpose, the opportunity cost is the value of the next best purpose the asset could have been used for.) Opportunity cost analysis is an important part of a company's decision-making processes, but is not treated as an actual cost in any financial statement.

P/E RATIO: Price/earnings ratio — the price of a stock divided by per share earnings. A figure used to evaluate the value of a stock. Also referred to as the "multiple," — the number of times by which the company's latest 12-month earning must be multiplied to obtain the current stock price. Obtained by dividing the current earnings into current market value.

PASSBOOK: A book issued by a bank or savings institution to record deposits, withdrawals and interest earned on a savings account.

PENNY STOCKS: High-risk stocks that generally sell for less than $3 and are not listed and traded on any exchange or stock market. (Con artists often deal in penny stock frauds.)

POLITICAL RISK: The risk that government actions, such as trade restrictions, will negatively affect the price of an investment.

PONZI SCHEME: An illegal investment scam named for its inventor, Charles Ponzi.

PORTFOLIO: The total investments held by an individual.

PREFERRED STOCK: Ownership in a corporation that has a claim on assets and earnings of a company before those of common stockholders but after bondholders. Premium sale of a bond at a price greater than face value.

PROSPECTUS: A document describing an investment offered for sale.

PYRAMID SCHEME: Fraudulent scheme where an investor buys the right to be a sales representative for a "product." Those in the scheme early may profit; those in late always lose.

QQQ (NASDAQ-100 INDEX): An exchange-traded fund (ETF) comprised of 100 of Nasdaq's largest nonfinancial companies based on their market capitalization.

RATE OF RETURN: A combination of yield (dividends or interest) and appreciation (increase in basic value of the investment).

REDEMPTION FEE: A charge levied by the mutual fund when shares are sold.

RETURN: The total income from an investment; includes income plus capital gains or minus capital losses.

RISK: In an investment, the uncertainty that you will get an expected return. In insurance, the uncertainty whether a loss will occur.

RISK TOLERANCE: A person's capacity to endure market price swings in an investment.

ROUND LOT: 100 shares of one stock.

RULE OF 72: A mathematical tool used to determine the length of time needed to double an investment at a given interest rate. The Rule of 72 formula is: Divide the number 72 by the percentage rate you are paying on your debt or earnings on your investment. 72 divided by the interest percentage is the number of years it takes to double.

SAVINGS ACCOUNT: A deposit account at a bank or savings and loan that pays interest but cannot be withdrawn by check-writing.

SECURITIES: A broad range of investment instruments, including stocks, bonds and mutual funds.

SEC: Securities and Exchange Commission — a federal agency established to license brokerage firms and regulate the securities industry.

SIPC: Security Investors Protection Corporation — a non-profit corporation created by Congress. Insures investors in SIPC-insured firms from financial loss due to financial failure of the brokerage firm. Insures up to $500,000 per customer.

SPDRs: Standard and Poor's Depositary Receipts — An exchange-traded fund (ETF) commonly referred to as "spiders," an SPDR is a unit investment trust that holds shares of all the companies in the Standard and Poors' 500 Composite Stock Price Index (S&P 500).

SRO: Self-regulatory organization, securities industry regulatory bodies are under the jurisdiction of the SEC. Futures industry regulatory bodies are under the jurisdiction of the CFTC.

STOCK: An investment that represents ownership in a company, also known as a share.

STREET NAME: When securities are held in the name of the broker rather than the investor.

TAX-EXEMPT INVESTMENTS: Investments not subject to tax on income earned.

TIME VALUE OF MONEY: Increase in an amount of money over time as a result of investment earnings.

UNIVERSAL LIFE INSURANCE: A flexible premium policy that combines death benefits with a savings vehicle, known as a cash value account, which typically earns a money market rate of interest.

VARIABLE ANNUITY: An annuity whose contract value or income payments vary according to the performance of the stocks, bonds and other investments selected by the contract owner.

WHOLE LIFE INSURANCE: The oldest kind of cash value life insurance that combines protection against premature death with a savings account.

YIELD INTEREST OR DIVIDEND GENERATED BY THE INVESTMENT: Generally calculated as a percentage of the amount invested (see Rate of Return).

YIELD TO MATURITY: The total annual rate of return on a bond when it is held to maturity, considering the purchase price, time to maturity, value at maturity and the annual dollar amount of interest earned.

ZERO COUPON BONDS: Bonds issued for less than face value and pay no interest income. Return to the investor occurs when the bond is sold or redeemed. Also called deep discount bonds.

Where to Get Help and Additional Information

Regulators

Illinois Securities Department
Office of Secretary of State
Jesse White 800-628-7937
www.cyberdriveillinois.com

U.S. Securities & Exchange Commission
Consumer Information Line 800-732-0330
www.sec.gov

North American Securities Administrators
Association, Inc. (NASAA) 202-737-0900
www.nasaa.org

National Association of
Securities Dealers (NASD) 800-289-9999
www.nasd.com

Commodities Futures Trading Commission
Washington, D.C. 202-418-5000
Chicago Regional Office 312-353-5990
www.cftc.gov

Investing Online Resource Center
www.investingonline.org

FTC No-call Registry 888-382-1222
www.donotcall.gov

Industry

Certified Financial Planner
Board of Standards 888-CFP-MARK
www.cfp-board.org

Investment Company Insititute
(Mutual Funds and Unit Investment Trusts)
www.ici.org

National Futures Association 800-572-9400
www.nfa.futures.org

Consumer Organizations

Better Business Bureau (check with directory
assistance for local telephone number)
www.bbb.org

American Association of
Retired Persons (AARP) 800-424-3410
www.aarp.org

American Association of
Individual Investors 312-280-0170
www.aaii.org

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