



# HOW TO ASK AND CHECK BEFORE YOU INVEST

**B**efore making any investment, make certain the person selling it to you is registered with a securities regulator. Many investors, however, neglect this important step because either they do not know where to get background information or they think that they already know the salesperson and don't think a check is necessary. As a result, some investors are surprised to find out that the person, investment opportunity, or company is not authorized to sell investments. The guidelines below highlight the important questions you need to ask and where you can verify the answers before handing over your investment dollars.

## Get it in Writing!

Whatever the salesperson tells you about him or her, about the investment being offered to you, or about the company offering the investment, get what you are told in writing. Anyone offering an investment opportunity should give you an offering memorandum—a complete description of the investment and the people and risks involved with the investment. Read it. If the memorandum makes your eyes glaze over, have an accountant, a lawyer knowledgeable in securities law, or another objective third party to read the offering memorandum.

## Ask Questions about Your Adviser or Salesperson

When you are dealing with someone who claims to be a registered or licensed investment professional, insist that he or she answers your questions to your satisfaction. Ask the following:

- ✓ Are you registered or licensed to sell securities? If so, what is your registration number? If not, why not?
- ✓ What commission or fee will you earn if I buy the investment?
- ✓ Who or what entity will be paying you?
- ✓ Will you be receiving any benefit other than your commission or fee?
- ✓ Are you related to or involved with the investment in any other way than recommending that I buy it?
- ✓ Have you ever been sued, disciplined, or had any complaints filed relating to your work as a salesman or adviser?

## Do Your Due Diligence—Verify License and Disciplinary History

If you are dealing with an investment adviser, investment adviser representative, securities salesperson, or a securities dealer, check their registration or license status by contacting the Arizona Corporation Commission's Securities Division at **602-542-0662** or toll free within Arizona at **1-866-VERIFY-9 (837-4399)** and speak with the Investigator on Duty. Email your inquiry to: [SecuritiesDiv@azcc.gov](mailto:SecuritiesDiv@azcc.gov).

As an online resource, you can obtain a CRD/IARD report from the Financial Industry Regulatory Authority's (FINRA) BrokerCheck at [www.finra.org](http://www.finra.org) to determine license status and disciplinary history of an investment professional and company. It is important to check on both the individual and company as the company may have legal actions taken against it that do not necessarily name any individuals.

## **What Information is in a CRD/IARD report?**

The Central Registration Depository (CRD) and the Investment Adviser Registration Depository (IARD) are two computerized databases where you can turn for license or registration status, employment history, and pending and final legal actions regarding the investment professional and the company.

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### **Available Disciplinary History**

Besides employment history, licensing or registration status, the CRD/IARD report will contain the following types of disciplinary information:

- Final disciplinary actions taken by a securities regulator (state, federal or FINRA, a self-regulatory organization).
- Civil judgments and arbitration decisions in securities and commodities disputes involving public customers.
- Criminal convictions or indictments against registered brokerage firms and licensed investment advisers and their associated persons.
- Settlements of \$10,000 or more (prior to 5/18/09) among the parties of arbitration, civil litigation or investment-related complaints.
- Settlements of \$15,000 or more (after 5/18/09) among the parties of arbitration, civil litigation or investment-related complaints.
- Employment terminations after allegations involving violations of investment-related statutes or rules, fraud, theft, or failure to supervise investment-related activities.
- Bankruptcies filed within 10 years and outstanding liens and judgments.
- Pending investment-related complaints initiated by a customer that involve \$5,000 or more in damages.
- Pending investment-related complaints initiated by a customer that involve forgery allegations, theft, misappropriation or conversion of funds/securities.
- Pending disciplinary actions taken by industry regulators that relate to securities or commodities business.

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## **How to Request a CRD/IARD Report**

To obtain a CRD/IARD report, you can contact FINRA by telephone, **1-800-289-9999** or visit its website, **[www.finra.org](http://www.finra.org)**. Keep in mind, however, that FINRA does not report certain types of information such as disciplinary action on unregistered individuals and companies. To gain this type of information, contact the Investigator on Duty at the Commission's Securities Division by telephone, **602-542-0662** or by email, **[SecuritiesDiv@azcc.gov](mailto:SecuritiesDiv@azcc.gov)**.

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## Ask Questions about the Investment

Besides inquiring about the type of business in which you are investing, ask your salesman or adviser to explain how the investment will generate the promised returns. If you don't understand how the investment works or if the person selling the investment tells you that it's too complicated and not worry about it, don't invest.

One of the important questions about the investment is whether it is registered with a state or federal securities regulator. Contact the Securities Division's Investigator on Duty at **602-542-0662** to verify the investment's registration status and if a notice regarding an exemption from registration is on file with a regulator.

Remember, the fact that a particular investment is registered, or exempt from registration, is not a guarantee as to how that investment will perform or if it's appropriate for your financial situation. To determine if the investment is appropriate for you in terms of risk and return, seek the assistance from an accountant, attorney or independent adviser.

Additionally, ask the person selling the

investment to show you in writing the answers to the following questions:

- ✓ Is the investment liquid? Can I sell it whenever I want?
- ✓ Do I have to hold the investment for a specific period of time?
- ✓ Will I receive a dividend, interest, or stream of income? If so, how much?
- ✓ Will I pay a penalty if I need to sell the investment earlier than expected?
- ✓ What other factors may jeopardize the ability to recover my investment and make a return?
- ✓ Do the managers responsible for operating the business have the necessary skills, experience and training to do so?
- ✓ Does the business entity have an established and verifiable business history?
- ✓ What are my rights as a creditor or an owner if the company goes bankrupt?



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## Do your homework!

- ✓ Check the public records of the bankruptcy court to see if any of the people or entities involved have filed bankruptcy.  
**602-640-5800 (Phoenix)**  
**928-783-2288 (Yuma)**  
**520-620-7500 (Tucson)**
- ✓ Contact the Better Business Bureau about them to see if the entities involved are members and if any complaints have been filed.  
**[www.phoenix.bbb.org](http://www.phoenix.bbb.org)**  
**602-264-1721 or toll free, 1-877-291-6222**

- ✓ Contact the Commission's Corporations Division to determine if the corporations involved are in good standing and have filed annual reports, which list financial, officer and director information. Note that Arizona corporations are required by law to file annual reports with the Commission. Also, just because a company is registered as a limited liability company (LLC) with the Corporations Division does not automatically mean the company is authorized to offer and sell investments to the public.

**[www.azcc.gov/divisions/corporations](http://www.azcc.gov/divisions/corporations)  
602-542-3026 (Phoenix)  
800-345-5819 (outside Metro Phoenix)**

- ✓ Contact the Office of the Arizona Attorney General's office to see it has any information about the people or entities involved.

**[www.azag.gov](http://www.azag.gov)  
602-542-5763**

- ✓ Contact Arizona regulators to verify appropriate licenses and registration and if the promoters have any disciplinary histories.

**Arizona Department of Real Estate  
[www.re.state.az.us](http://www.re.state.az.us)  
602-468-1414**

**Arizona Department of Insurance  
[www.azinsurance.gov](http://www.azinsurance.gov)  
602-364-2499 or 1-800-325-2548 (outside Maricopa County)**

**Arizona Corporation Commission—Securities Division  
[www.azcc.gov/divisions/securities](http://www.azcc.gov/divisions/securities)  
602-542-0662**

- ✓ Take some time to review materials from objective sources that discuss the type of investment that you are considering:

**Arizona Corporation Commission—Securities Division  
[www.azinvestor.gov](http://www.azinvestor.gov)**

**Financial Industry Regulatory Authority  
[www.finra.org](http://www.finra.org)**

**U.S. Securities and Exchange Commission  
[www.investor.gov](http://www.investor.gov)**

***Free Investor Resources***

*For more information on wise investing and other investment products, visit the Investor Resource Center, [www.azinvestor.gov](http://www.azinvestor.gov). To request a presentation for your group call the Investor Education Coordinator at 602-542-0428 or email at [info@azinvestor.gov](mailto:info@azinvestor.gov).*