

Are You an Online Investor?

The Internet has become a round-the-clock source of financial products, services, and information. Online investing, or electronic trading, is also growing in popularity. As more investors explore the Internet for the purpose of financial management and investing, it is important to remember that it is just a tool.

Due to the creation of online brokerage services and widespread public access to the Internet, individual investors are now able to buy, sell, and manage their own investments online—without personalized investment guidance from a broker or an investment adviser.

Some investors use the Internet to trade frequently with the hope of profiting from a rapidly changing market. This strategy can be risky. Market volatility, inaccurate information about anticipated changes in prices, and delays in the execution of online trades may lead to financial losses.

Investors can also use the Internet to select and manage investments that meet long-term financial goals. Some investors conduct their own research and purchase all of their investment online without any professional guidance. Other investors consult a broker or an investment adviser for guidance in developing a plan and selecting suitable investments and then use the Internet as an alternative method of placing orders and tracking performance.

Online Trading vs Online Investing

Online investing can provide a “hands-on” learning experience for investors, but it is not appropriate for everyone. It is important to remember that while online trading takes only a moment, online investing take time.

A sound knowledge of personal finance and an understanding of the potential risks are essential, especially when investors are looking for investment opportunities on the Internet.

Important Guidelines for Online Investors

The following guidelines were developed by the North American Securities Administrators Association (NASAA) to help investors think carefully about online investing. Before beginning an online investment program, be sure to:

1. Receive **full disclosure** about the alternatives for buying and selling securities and obtaining account information if you cannot access the firm's website.
2. **Understand** that, in most cases, you are not linked directly to the market through your home computer; that the click of your mouse does not instantaneously execute trades or cancel orders.
3. Receive information from the firm to substantiate any **advertised claims** concerning the ease and speed of online trading.
4. Receive information from the firm about significant **website outages, delays, and other interruptions** that may affect your ability to execute trades.
5. Obtain information about **entering and cancelling orders** (market, limit, and stop loss), and the details and risk of margin accounts (borrowing to buy securities).
6. Determine if the stock quotes and account updates you receive are **real-time or delayed**.
7. Review the firm's **privacy and security policies**. Determine if your name will be used for mailing lists or other promotional activities by the firm or any other party.
8. **Receive clear information** about sales commissions, transaction fees, and conditions that apply to any advertised discount on commissions.
9. Know how to **contact a customer service representative** if problems occur. Request prompt attention and fair consideration. Be sure to keep good records to substantiate any problems that you experience.
10. **Contact the Investigator on Duty** at the Arizona Corporation Commission's Securities Division to verify the registration status of the online brokerage firm, or to file a complaint, if appropriate. Call 602-542-0662 or email info@azinvestor.gov.



Online Investment Schemes

As technology continues to evolve, so does fraudulent activity. Nearly any investment scam perpetuated through a newspaper ad, over the telephone or by mail can be mirrored online. Whether they use a sophisticated-looking website, an online bulletin board, a chat room, an Internet ad on a popular website or social media channels, fraudsters have a perceived anonymity and ease of access to potential victims. Indeed, all of these Internet tools cost very little money and are at the fingertips of con artists to reach millions of people.

When it comes to the types of investment fraud an investor might encounter online, the list is only limited by the fraudster's imagination. Perhaps the most important thing to keep in mind is that there will never be enough policing by regulators to keep the online world totally free from fraud and abuse.

How a Typical Online Investment Scheme Works

“Is there anyone out there following Company X?”

“I heard that Company X is about to make a major announcement. Email me or call this toll free number to get an information package...”

“I spoke to Company X's CEO, who confirmed details of next month's big news. I've bought 10,000 shares. Look for share price to double in the next month. Get it now!”

“Big news remains just around the corner. We hear from a friend who has visited Company X that this is going to be even bigger than we thought. There's still time to get in.”

“Short sellers are in the market! Keep the faith...this will bounce back. The smart money will use price drop as an opportunity to buy more and dollar cost average.”

Dos and Don'ts for Online Investors

For investors initiating their own online research to find information about potential investment opportunities, the Internet can offer some timely and educational information.

But unwary online investors are in danger of being taken for a ride to financial ruin. Consider these important dos and don'ts regarding online investment opportunities:

- 1. Do exercise caution.**

Investors should consider any online investment offer with a hefty dose of skepticism, especially if it comes “out of the blue” into your email inbox. Ask: if the investment is so “hot,” why is the promoter contacting me with a mass emailing effort?
- 2. Don’t assume your Internet provider conducts due diligence.**

Most Internet providers do not. When it comes to suspicious or even fraudulent investments, the vast majority of services take a “hands off” approach. Nothing is in place to prevent a con artist from posting multiple pitches for a swindle. It’s up to investors to conduct their own due diligence.
- 3. Don’t invest based on online hype.**

Fraudsters are skilled liars and will make a scam look and sound like a legitimate deal. To protect yourself, avoid promoters who cannot produce audited financials that can be thoroughly evaluated. Do understand the “mechanics” of the investment, and if you don’t understand how the investment makes money, don’t invest.
- 4. Don’t expect to get rich quickly with little risk.**

Beware of the sneaky greed factor. That means keeping your excitement and expectations about the promise of a quick profit in perspective. Investing carries with it inherent risk, and the higher the return, the higher the risk of financial loss. If the offer sounds too good to be true, it probably is.
- 5. Don’t be impressed by claims about “inside information.”**

Investment bulletin boards and discussion groups are crammed with hot “tips” about impending developments sure to send a stock soaring in value. This includes pending news releases, contract announcements and products. Just because they appear anonymously online, these “tips,” are not exempt from federal insider trading laws and rules. It is extremely unlikely that genuine insider information is going to be publicly broadcast on an investment message board.
- 6. Do ask and check before you invest.**

Try to find a seller’s physical address (not just a post office box) and telephone number. With VoIP and other web-based technologies, it’s tough to tell from where someone is calling. Do an online search for the company name and website and look for negative reviews. Most importantly, verify licenses status and disciplinary history by contacting the Arizona Corporation Commission’s Securities Division by telephone at **602.542.0662** or by email, info@azinvestor.gov.

For More Information

For additional information about fraud prevention and wise investing, visit www.azinvestor.gov. Also, the North America Securities Administrators Association (NASAA) has sponsored a helpful website dedicated to online investing, www.investingonline.org.