

Five Questions to Ask Before Buying an Investment

Do Your Own Research **Before**
You Buy into an Investment



Introduction

Whether you're a first-time investor or an experienced one, you should ***always*** ask questions before you commit your hard-earned money to an investment.

The California Department of Financial Protection (DFPI) and the federal Securities and Exchange Commission (SEC) has compiled these 5 questions to help you start your research.

Question 1: Who is the Investment Seller?

Smart investors always check the background of anyone promoting an investment opportunity. This is the first step in protecting yourself from investment fraud and scams.

- **Research a broker's** details, background, and qualifications for free on FINRA's [BrokerCheck](#) website.
- **Research investment advisers** on the SEC's [Investment Adviser Public Disclosure website](#) for the investment adviser's information, details, and state/federal registration.
- Check if the investment adviser or broker has pending legal actions against them:
 - The [SEC Action Lookup tool](#) allows you to search into individuals who have been named as defendants in SEC federal court actions or respondents in SEC administrative proceedings.
 - The DFPI's Enforcement Actions and Orders allows you to search the orders, actions, decisions issued by the DFPI against individuals and firms the laws within the jurisdiction of the DFPI.
- For more help:
 - Call the DFPI's Consumer Services Office at (866) 275-2677.
 - Call the SEC's investor assistance line at (800) 732-0330.



Question 2: Is the Investment Registered?

Smart investors always check whether an investment is registered with their state financial regulator (for California, it's the DFPI) and the SEC.

Any offer or sale of securities in California must be registered with the DFPI and SEC or be exempt from registration. Registration is **important** because it provides investors with access to key information about the company's management, products, services, and finances.

Check an investment by:

- Visiting the DFPI's website: www.dfpi.ca.gov/check-out-your-investment-adviser
- Using the **SEC's EDGAR database** or contacting the SEC's toll-free investor assistance line at (800) 732-0330.

Question 3: What are the Investments Risks?

Smart investors understand the trade-off between risk and reward. Identifying these concepts can help you separate legitimate opportunities from unlawful schemes.

- Investments with greater risk may offer higher potential returns but may expose you to greater investment losses. Keep in mind that every investment carries some degree of risk. **No legitimate investment** is risk-free.
- Many investment frauds are pitched as high return opportunities with little or no risk. Ignore these so-called opportunities and consider [reporting them to the DFPI](#) and [SEC](#).



Question 4: Do you understand the investment?

Many successful investors always follow this rule of thumb:

Never invest in something you don't understand.

Be sure to always read an investment's prospectus or disclosure statement carefully and

Do Your Own Research

If you can't understand the investment and how it will help you make money, ask a trusted financial professional for help. If you are still confused, think twice before investing.

Fraudsters often make investment opportunities confusing so investors, financial professionals, and even regulators have a hard time uncovering the scam.

Question 5: Where Can I Get Help?

Unbiased information can be a great advantage when it comes to investing wisely.

Make a habit of using the information and tools on financial regulators' websites.

Start by checking out the many resources from the California DFPI and other federal agencies.

DFPI's Investor Center

A website dedicated to helping Californians do their research and invest wisely.

Investor.gov

A website from the SEC Office of Investor Education and Advocacy that provides resources to investors.

SEC

The Securities and Exchange Commission (SEC) is an independent federal agency established to regulate the securities markets and protect investors.

FINRA

The Financial Industry Regulatory Authority (FINRA) is a not-for-profit organization that regulates broker-dealers and registered brokers in the United States.

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