SEC
Office of Investor Education and Advocacy

INVESTOR BULLETIN

13 Things Everyone Should Know About Investing

Whether you're a first-time investor or have been investing for many years, there is some basic information you should know about investing. Below is a list of thirteen pieces of investing-related information that may help you make informed financial decisions and avoid common scams.

Checking the background of an investment professional is easy and free. Details on an investment professional's background and qualifications are available through the Investment Adviser Public Disclosure website and FINRA BrokerCheck. If you have any questions on checking the background of an investment professional, call the SEC's toll-free investor assistance line at (800) 732-0330.

It can be costly to ignore the fees associated with buying, owning, and selling an investment product. Expenses vary from product to product, and even small differences in these costs can translate into large differences in earnings over time. An investment with high costs must perform better than a low-cost investment to generate the same returns for you. In addition, some products are designed to be long-term investments. If you need your money early, you may need to pay substantial surrender fees.

Diversification can help reduce the overall risk of an investment portfolio. By picking the right mix of investments, you may be able to limit your losses and reduce the fluctuations of your investment returns without sacrificing too much in potential gains. Some investors find that it is easier to achieve diversification through ownership of mutual funds or exchange-traded funds rather than through ownership of individual stocks or bonds.

Paying off high-interest debt may be your best "investment" strategy. Few investments pay off as well as, or with less risk than, eliminating high-interest debt on credit cards or other loans.

Promises of high returns, with little or no associated risk, are classic warning signs for fraud. Every investment carries some degree of risk and the potential for greater returns comes with greater risk. Ignore so-called "can't miss" investment opportunities or those promising "guaranteed returns" or, better yet, report them to the SEC.

Any offer or sale of securities must be either registered with the SEC or exempt from registration. Otherwise, it is illegal. Registration is important because it provides investors access to key information about the company's management, products, services, and finances. While many companies that do not register or file reports with the SEC may be legitimate investments, you assume more risk when you invest in a company about which little or no information is publicly available. Smart investors will always check whether an offering is registered with the SEC by using the SEC's EDGAR database or contacting the SEC's toll-free investor assistance line at (800) 732-0330.

It can be risky to invest heavily in shares of any individual stock. In particular, you should think twice before investing heavily in shares of your employer's stock. If the value of your employer's shares declines significantly, or the company goes bankrupt, you may lose money and there's a chance you might lose your job, too.

Active trading and some other very common investing behaviors actually undermine investment performance. According to researchers, other common investing mistakes include focusing on past performance, favoring investments from your own country, region, state or company, and holding on to losing investments too long and selling winning investments too soon.

Research shows that con-artists are experts at the art of persuasion, often using a variety of influence tactics tailored to the vulnerabilities of their victims. Common tactics include *phantom riches* (dangling the prospect of wealth, enticing you with something you want but can't have), *source credibility* (trying to build credibility by claiming to be with a reputable firm or to have a special credential or experience), *social consensus* (leading you to believe that other savvy investors have already invested), *reciprocity* (offering to do a small favor for you in return for a big favor) and *scarcity* (creating a false sense of urgency by claiming limited supply).

Some investments provide tax advantages. For example, employer-sponsored retirement plans and individual retirement accounts generally provide tax advantages for retirement savings, and 529 college savings plans also offer tax benefits. Individuals who are interested in learning about the tax impact of their investment decisions should consult their tax adviser or visit the IRS website.

Mutual funds, like other investments, are not guaranteed or insured by the FDIC or any other government agency. This is true even if you buy a mutual fund through a bank and the fund carries the bank's name.

The key to avoiding investment fraud, including scams that target specific groups, is using independent information to evaluate financial opportunities. We see too many investors who might have avoided trouble and losses if they had asked questions from the start and verified the answers with sources outside of their family, community, or group.

Unbiased resources are available to help individuals make informed investing decisions. Whether checking the background of an investment professional, researching an investment, or learning about new products or scams, unbiased information can be a significant advantage for investing wisely. A good starting point for this information is the SEC's Investor.gov website.