



SENIORS

Protect Yourself Against
Investment Fraud

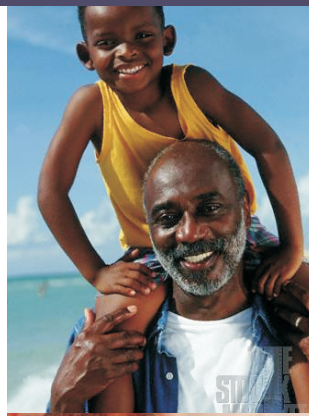


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INTRODUCTION

Our nation's retirees are the largest and fastest growing segment of our population. The statistics tell the story. No fewer than 75 million Americans are due to turn 60 over the next 20 years – that's more than 10,000 every day. Households led by people aged 40 or over already own 91% of America's net worth. The retirement of the baby boomers will mean that, very soon, the vast majority of our nation's net worth will be in the hands of the newly retired. This is why the SEC, along with other regulators and organizations, has initiated a nation-wide program to fight securities fraud perpetrated against seniors.

We prepared this Guide to provide critical information on how to detect and avoid fraudulent schemes as well as descriptions of scams often directed at seniors. Our Guide also includes information about investments commonly marketed to seniors, such as variable annuities, promissory notes, and certificates of deposit.

As the materials on the scams themselves suggest, fraudulent schemes come in many flavors. Keep in mind that fraudsters can turn on a dime when it comes to tailoring their pitches to capitalize on the latest trends, from hedge fund investing to charity schemes. But most frauds are not new. Instead, they're the same old material wrapped up in new packaging. Seniors can use this Guide to help protect themselves from the sometimes tragic consequences resulting from investment fraud and unsuitable investments.

The SEC's Office of Investor Education and Advocacy (OIEA) is available to help seniors and their caretakers. In addition to our web page devoted to seniors, <http://www.sec.gov/investor/seniors.shtml>, we have an online complaint center that we encourage seniors to use to report investment scams, <http://www.sec.gov/complaint.shtml>. Investors also can send their written complaints to:

Office of Investor Education and Advocacy
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-0213

We welcome investors with questions or who would like any of our publications to call OIEA at (800) 732-0330.

How to Avoid Fraud

HOW TO AVOID FRAUD

Seniors are the primary targets of scam artists. Scam artists don't care how you have come across your money. They don't care whether you worked hard all your life to earn your money, or whether you hit the lottery the first time you played. It is your money they want. The only thing that may stand between a fraudster and your money is your preparedness when you are approached.

Seniors are particularly vulnerable to tactics of scam artists who are "nice" or attempt to develop a false bond of friendship. Scam artists prey on seniors who may be too polite to say "no" or feel indebted to someone who has provided unsolicited investment advice.

What can I do to avoid being scammed?

Ask questions and check out the answers.

Fraudsters rely on the sad truth that many people simply don't bother to investigate before they invest. It's not enough to ask a promoter for more information or for references – fraudsters have no incentive to set you straight. Savvy investors take the time to do their own independent research.

Research the company before you invest.

You'll want to fully understand the company's business and its products or services before investing. Before buying any stock, check out the company's financial statements by using the SEC's EDGAR database at <http://www.sec.gov/edgar/searchedgar/webusers.htm>, or contact your state securities regulator. All but the smallest public companies have to file financial statements with us. If the company doesn't file with us, you'll have to do a great deal of work on your own to make sure the company is legitimate and the investment appropriate for you. That's because the lack of reliable, readily available information about company finances can open the door to fraud. Remember that unsolicited emails, message board postings, and company news releases should never be used as the sole basis for your investment decisions.

Know the salesperson.

Spend some time checking out the person touting the investment before you invest – even if you already know the person socially. Always find out whether the

securities salespeople who contact you are licensed to sell securities in your state and whether they or their firms have had run-ins with regulators or other investors. You can check out the disciplinary history of brokers and advisers quickly – and for free – using the online databases of the SEC and the Financial Industry Regulatory Authority (FINRA). Your state securities regulator may have additional information.

Never judge a person’s integrity by how he or she sounds.

Successful con artists know how to sound professional. They can make even the flimsiest deal sound like a “sure thing.” Con artists know that the appearance of professionalism combined with polite manners or overtures of friendship may lead many older investors to accept their advice.

Watch out for salespeople who prey on your fears.

Con artists know that many seniors worry about the adequacy of their retirement savings, especially if they are faced with costly medical expenses. As a result, fraudsters know to pitch their schemes as a way to increase the older investor’s financial security to the point where such fears are no longer necessary.

Take your time – don’t be rushed into investment decisions.

Just because someone you know made money, or claims to have made money, doesn’t mean you will too. Be especially skeptical of investments that are pitched as “once-in-a-lifetime” opportunities, particularly when the promoter bases the recommendation on “inside” or confidential information. Remember that a fraudster does not want you to think too much about the investment because you might figure out the scam.

Be wary of unsolicited offers.

Be especially careful if you receive an unsolicited fax or email about a company – or see it praised on an Internet bulletin board – but can find no current financial information about the company from other independent sources. Many fraudsters use email, faxes and Internet postings to tout thinly traded stocks, in the hopes of creating a buying frenzy that will push the share price up so that they can sell their shares. Once they dump their stock and quit promoting the company, the share price quickly falls. And be extra wary if someone you don’t know and trust recommends foreign or “off-shore” investments. When you send your money abroad, and something goes wrong, it’s more difficult to find out what happened and to locate your money.

Don't throw good money after bad.

Beware of “reload” scams. Unfortunately, many people fall for similar schemes more than once. This is particularly true for older Americans who are unlikely to “bounce back” from financial losses. Fraudsters often promote another “sure thing” to those people panicked by a sudden financial loss, often promising to make good on the original investment and to generate even greater returns.

Don't lose sight of your investments.

Don't rely on a financial professional who says “leave everything to me.” Always monitor the activity on your account and request regular statements. You should never feel uncomfortable about questioning any trading activity that you don't understand. Remember – it's your money. You also should keep all records of conversations that you have about any of your investments.

Question why you cannot retrieve your principal or cash out your profits.

If your broker, financial adviser or other person with whom you have invested stalls when you request your principal or profits, this may be because that person has already pocketed your money. Don't be fooled by explanations as to why your money is inaccessible or by suggestions that you roll over your “profits” into other investments.

Never be afraid to complain.

If you suspect fraud or a questionable practice and the explanations that you receive are not satisfactory, do not let embarrassment or concern that you will be judged incapable of handling your own affairs prevent you from filing a complaint with the SEC, FINRA, or your state regulator.

WHERE TO CALL FOR HELP

SEC: (800) 732-0330

FINRA: (800) 289-9999

State Regulators: See the Appendix to this Guide for the telephone number of your state securities regulator

Here are some **RED FLAGS** warnings of fraud:

- *If it sounds too good to be true, it is.* Compare promised yields with current returns on well-known stock indexes. Any investment opportunity that claims you'll get substantially more could be highly risky. And that means you might lose money.
- *"Guaranteed returns" aren't.* Every investment carries some degree of risk, and the level of risk typically correlates with the return you can expect to receive. Low risk generally means low yields, and high yields typically involve high risk. If your money is perfectly safe, you'll most likely get a low return. High returns represent potential rewards for folks who are willing and financially able to take big risks. Most fraudsters spend a lot of time trying to convince investors that extremely high returns are "guaranteed" or "can't miss." Don't believe it.
- *Beauty isn't everything.* Don't be fooled by a pretty website – they are remarkably easy to create.
- *Pressure to send money RIGHT NOW.* Scam artists often tell their victims that this is a once-in-a-lifetime offer, and it will be gone tomorrow. But resist the pressure to invest quickly, and take the time you need to investigate before sending money. If it is that good an opportunity, it will wait.

Con artists are experts at gaining your confidence. So be certain to treat all unsolicited investment opportunities with extreme caution. Whether you hear about the opportunity through an email, phone call, or a fax, be certain to check out both the person and firm making the offer and the investment they are pushing.

AVOID TROUBLE: TEN QUESTIONS TO ASK

With any investment, whether promoted in person, by mail, telephone, or on the Internet, a wise investor should always slow down, ask questions, and get written information. Take notes so you have a record of what you were told, in case you have a dispute later.

1. Is the investment registered with the SEC and the state securities agency in the state where I live or is it subject to an exemption?
2. Is the person recommending this investment registered with my state securities agency? Is there a record of any complaints about this person?
3. How does this investment match my investment objectives?
4. Where is the company incorporated? Will you send me the latest reports that have been filed on this company?
5. What are the costs to buy, hold, and sell this investment? How easily can I sell?
6. Who is managing the investment? What experience do they have?
7. What is the risk that I could lose the money I invest?
8. What return can I expect on my money? When?
9. How long has the company been in business? Are they making money, and if so, how? What is their product or service? What other companies are in this business?
10. How can I get more information about this investment, such as audited financial statements?

GETTING INFORMATION ABOUT A COMPANY

Information is the investor's best tool when it comes to investing wisely. But accurate information about the smallest of companies can be extremely difficult to find. Many of these very small companies do not register their securities or file financial reports with the SEC, which makes it almost impossible for investors to get the facts about the company's management, products, services, and finances.

Far too often, the lack of reliable, readily available, current information also opens the door to fraud. It's much easier for the unscrupulous to spread false information and to manipulate a stock's price when accurate information about the company is scarce. All it takes for a fraudster to make a killing is a handful of unwary investors who believed what they saw in spam emails, unsolicited faxes, chat room or bulletin board postings, newsletters, or questionable press releases.

The mere fact that a company files reports with the SEC does not make the company a "good" investment or immune to fraud. Conversely, the fact that a company does not file reports with the SEC does not mean the company lacks legitimacy. Many of the companies that don't file reports with the SEC are honest businesses with real products or services. The critical difference is the extra measure of risk you assume when you invest in a company about which little or no information is publicly available.

Below we describe the information you should review before you invest, provide tips on how to find information about companies, and list several "red flags" to avoid.

Which Companies File Reports With the SEC?

In general, the federal securities laws require all but the smallest public companies to file reports with the SEC – including companies with 500 or more investors and \$10 million or more in assets, companies that list their securities on a major national exchange (such as the New York Stock Exchange or the Nasdaq Stock Market), and companies whose securities are quoted on the OTC Bulletin Board.

These reports that a company files with the SEC – including annual reports (with audited financial statements) on Form 10-K, quarterly reports on Form 10-Q, and periodic reports of significant events on Form 8-K – contain important information about the company's management, business, and financial condition and can tell you whether the company is making money or losing money and why. Any investor

can access (for free) these and other documents by searching the SEC's EDGAR database of company filings.

What Information Do I Need?

Especially if you are investing on your own, be sure to research each investment opportunity thoroughly and ask questions – about both the company itself and the person or entity promoting it. These simple steps can help you make an informed investment decision:

1. **Research the Company:** If you can't find the company on EDGAR, be sure to contact your state securities regulator. Read carefully the most recent reports the company has filed with its regulators. Make sure you understand the company's business and its products or services. And pay attention to the company's financial statements – particularly if they are not audited or not certified by an accountant. If the company does not file reports with the SEC, be sure to ask your broker for what's called the "Rule 15c2-11 file" on the company. That file will contain important information about the company.
2. **Know the Owners:** Contact your state securities regulator to check out the people running the company. Be sure to find out whether they have a history of investor complaints or fraud charges. It pays to know whether the company's management has made money for investors in the past – or not.
3. **Check Out Your Broker:** Make sure the broker and his or her firm are registered and licensed to do business in your state. And ask your state securities regulator whether the broker and the firm have ever been disciplined or have complaints against them.

Elsewhere in this Guide, we spelled out many additional questions you'll need to ask. When you ask these questions, write down the answers you received and what you decided to do. If something goes wrong, your notes can help to establish who said what and when. Let your broker or investment adviser know you're taking notes. They'll know you're a serious investor and may tell you more – or give up trying to scam you.

How Do I Get Information About Companies?

If you're working with a broker or an investment adviser, he or she can provide you with information about the company and its disclosure documents. Be sure to read

carefully the prospectus and the company's latest financial reports. Remember that unsolicited emails, message board postings, and company news releases should never be used as the sole basis for your investment decisions. You can also get information on your own from these sources:

- **From the company.** Ask the company if it is registered with the SEC and files reports with us. If the company is small and unknown to most people, you should also call your state securities regulator to get information about the company, its management, and the brokers or promoters who've encouraged you to invest in the company.
- **From the SEC.** A great many companies must file their reports with the SEC. Using the EDGAR database, you can find out whether a company files with us and get any reports in which you're interested. For companies that do not file on EDGAR, check with the SEC's Office of Investor Education and Advocacy by calling (202) 551-8090 to see whether the company has filed an offering circular under Regulation A.
- **From your state securities regulator.** We strongly urge you to contact your state securities regulator to find out whether they have information about a company and the people behind it. We provide contact information for each state regulator in the Appendix to this Guide. Even though the company does not have to register its securities with the SEC, it may have to register them with your state. Your regulator will tell you whether the company has been legally cleared to sell securities in your state. Too many investors could easily have avoided heavy and painful financial losses if they only called their state securities regulator before they bought stock.
- **From other government regulators.** Many companies, such as banks, do not have to file reports with the SEC. But banks must file updated financial information with their banking regulators. Call the Federal Reserve at (202) 452-8693, the Office of the Comptroller of the Currency at (800) 613-6743, or the Federal Deposit Insurance Corporation at (877) 275-3342.
- **From reference books and commercial databases.** Visit your local public library or the nearest law or business school library. You'll find many reference materials containing information about companies. You can also access commercial databases for more information about the

company's history, management, products or services, revenues, and credit ratings. The SEC cannot recommend or endorse any particular research firm, its personnel, or its products. But there are a number of commercial resources you may consult, including: Bloomberg, Dun & Bradstreet, Hoover's Profiles, Lexis-Nexis, and Standard & Poor's Corporate Profiles. Ask your librarian about additional resources.

- **From the secretary of state where the company is incorporated.** Contact the secretary of state where the company is incorporated to find out whether the company is a corporation in good standing. You may also be able to obtain copies of the company's incorporation papers and any annual reports it files with the state. Call the National Association of Secretaries of State at (202) 624-3525 for contact information regarding a particular secretary of state.

What Are the "Red Flags"?

It can be extraordinarily difficult to detect fraud or a manipulative scheme. However, you can protect yourself from potential fraudsters if you refuse to rely on unsolicited information or allow yourself to be pressured into making an immediate decision. Remember, if you can't find any independent and current financial information about the company, don't invest. When you're researching a company, watch out for these "red flags":

- **SEC Trading Suspensions.** The SEC has the power to suspend trading in any stock for up to 10 days when it believes that information about the company is inaccurate or unreliable. Think twice before investing in a company that's been the subject of an SEC trading suspension. You'll find information about trading suspensions on the SEC's website. You also can call us at (800) 732-0330.
- **Assets Are Large But Revenues Are Small.** Companies will sometimes assign high values on their financial statements to assets that have nothing to do with their business. Find out whether there's a valid explanation for low revenues, especially when the company claims to have large assets.
- **Odd Items in the Footnotes to the Financial Statements.** Many fraud schemes involve unusual transactions among individuals connected to the company. These can be unusual loans or the

exchange of questionable assets for company stock that may be discussed in the footnotes.

- **Unusual Auditing Issues.** Be wary when a company's auditors have refused to certify the company's financial statements or if they've stated that the company may not have enough money to continue operating. Also question any change of accountants.
- **Insiders Own Large Amounts of the Stock.** In many fraud cases – especially “pump and dump” schemes – the company's officers and promoters own significant amounts of the stock. When one person or group controls most of the stock, they can more easily manipulate the stock's price at your expense. You can ask your broker or the company whether one person or group controls most of the company's stock, but if the company is the subject of a scam, you may not get an honest answer.

Additional Warning Signs. Don't deal with anyone who refuses to provide you with written information about the investments they're promoting. Never tell a cold caller your social security number or numbers for your banking and securities accounts. And be extra wary if someone you don't know and trust recommends foreign or “off-shore” investments.

What About Bankruptcy?

Watch out for ticker symbols ending with a fifth letter “Q.” The addition of a “Q” to a company's stock ticker symbol indicates that the company has filed for or is involved in bankruptcy proceedings. Investors often snatch up the low-priced shares of companies that have filed for Chapter 11 protection, speculating that the price will rise once the company emerges from bankruptcy. But that's not how bankruptcy typically works.

Be cautious when buying common stock of companies in Chapter 11 bankruptcy. Doing so is extremely risky and will likely lead to financial loss. Although a company may emerge from bankruptcy as a viable entity, in most instances, the company's plan of reorganization will cancel the existing equity shares. It is generally the creditors and the bondholders who become the new owners of the company's new shares – not the stockholders. This happens in bankruptcy cases because creditors are paid from the company's assets before common stockholders. And in situations where shareholders do participate in the plan, their shares are usually subject to

substantial dilution. If you have questions about what happens when a company declares bankruptcy, you can call us for a copy of our online brochure.

Where Can I Turn for Help?

If you've been asked to invest in a company but you can't find any record that the company has registered its securities with the SEC or your state, or that it's exempt from registration, you may have come face to face with a scam. Call or write your state's securities regulator immediately with all the details. You can also contact us about your complaint.

Types of Fraud and Abuses

AFFINITY FRAUD

Affinity fraud refers to investment scams that prey upon members of identifiable groups, such as religious or ethnic communities, the elderly, or professional groups. The fraudsters who promote affinity scams frequently are – or pretend to be – members of the group. They often enlist respected community or religious leaders from within the group to spread the word about the scheme, by convincing those people that a fraudulent investment is legitimate and worthwhile. Many times, those leaders become unwitting victims of the fraudster's ruse.

These scams exploit the trust and friendship that exist in groups of people who have something in common. Because of the tight-knit structure of many groups, it can be difficult for regulators or law enforcement officials to detect an affinity scam. Victims often fail to notify authorities or pursue their legal remedies, and instead try to work things out within the group. This is particularly true where the fraudsters have used respected community or religious leaders to convince others to join the investment.

Many affinity scams involve “Ponzi” or pyramid schemes, where new investor money is used to make payments to earlier investors to give the false illusion that the investment is successful. This ploy is used to trick new investors to invest in the scheme and to lull existing investors into believing their investments are safe and secure. In reality, the fraudster almost always steals investor money for personal use. Both types of schemes depend on an unending supply of new investors – when the inevitable occurs, and the supply of investors dries up, the whole scheme collapses and investors discover that most or all of their money is gone.

RECENT SEC CASES

Ponzi scheme solicited elderly members of Jehovah's Witnesses congregations

The SEC complaint alleges that the defendants operated a Ponzi scheme and used investor funds to pay lavish personal expenses. The defendants raised over \$16 million from more than 190 investors nationwide. Many of the victims were elderly members of Jehovah's Witnesses congregations and were promised returns of up to 75 percent.

Fraudulent real estate investment scheme directed at retirees

The SEC charged various real estate investment companies and their principals with defrauding senior citizens and retirees out of \$15 million by conducting transactions in which they issued promissory notes in real estate investments they owned and operated. To make the sales, the defendants made gross misrepresentations about the financial conditions of their investment companies.

\$2.5 million stolen from 100 Texas senior citizens

The fraudsters obtained information about the assets and financial condition of the elderly victims who were encouraged to liquidate their safe retirement savings and to invest in securities with higher returns. In reality, the fraudsters never invested the money and stole the funds.

“PONZI” AND PYRAMID SCHEMES

“Ponzi” Schemes

Ponzi schemes are a type of illegal pyramid scheme named for Charles Ponzi, who duped thousands of New England residents into investing in a postage stamp speculation scheme back in the 1920s. Ponzi thought he could take advantage of differences between U.S. and foreign currencies used to buy and sell international mail coupons. Ponzi told investors that he could provide a 40% return in just 90 days compared with 5% for bank savings accounts. Ponzi was deluged with funds from investors, taking in \$1 million during one three-hour period – and this was 1921! Though a few early investors were paid off to make the scheme look legitimate, an investigation found that Ponzi had only purchased about \$30 worth of the international mail coupons.

Decades later, the Ponzi scheme continues to work on the “rob-Peter-to-pay-Paul” principle, as money from new investors is used to pay off earlier investors until the whole scheme collapses.

Keep in mind that con artists use various legitimate products as part of their Ponzi schemes. Various fraudsters, for example, have used **charitable gift annuities** to defraud older investors. In this type of scheme a fraudster will pose as a charitable organization offering monthly annuity payments in exchange for payments which purportedly will be invested to both pay an annuity to the investor and to benefit charitable organizations. Unbeknownst to the investor, a significant portion of the monies are not being invested for charitable purposes, but go directly to the fraudsters’ personal account. The charitable organization is merely a front. When investing in charitable annuities, investors should make sure that the salesperson is representing a legitimate charitable organization and that the organization is fully aware of the salesperson’s activities.

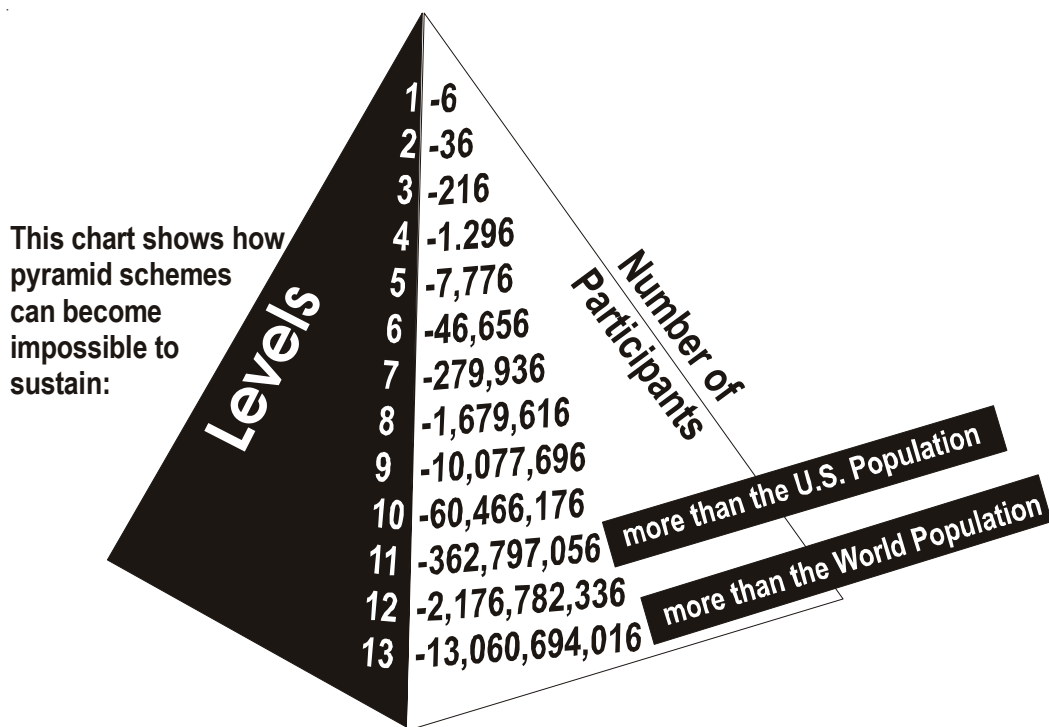
The SEC found one fraudster who raised at least \$52.9 million through the sale of charitable gift annuities. He represented to investors that their funds would go into stocks, bonds and money market accounts. However, the fraudster diverted \$19.2 million of the monies raised to a hidden account that afforded him a luxurious lifestyle. To keep the Ponzi scheme running, he used \$7.9 million of investors’ money to pay earlier investors and spent \$3 million in commissions to sales agents. When the plan collapsed, he told investors that the company selling the charitable gift annuities had “disbanded due to inadequate assets.”

Pyramid Schemes

In the classic “pyramid” scheme, participants attempt to make money solely by recruiting new participants into the program. The hallmark of these schemes is the promise of sky-high returns in a short period of time for doing nothing other than handing over your money and getting others to do the same.

The fraudsters behind a pyramid scheme may go to great lengths to make the program look like a legitimate multi-level marketing program. But despite their claims to have legitimate products or services to sell, these fraudsters simply use money coming in from new recruits to pay off early stage investors. But eventually the pyramid will collapse. At some point the schemes get too big, the promoter cannot raise enough money from new investors to pay earlier investors, and many people lose their money.

The chart below shows how pyramid schemes can become impossible to sustain:



OIL AND GAS SCAMS

Henry . . . was a successful business man, married for 30 years, raised a family and had a good life . . . after his wife's death, he received an [overnight] package of materials with all kinds of reports, and it was offering an oil and gas investment . . . And it was unsolicited. . . he ignored it . . . But the next day, a salesman called him and used high-pressure sales tactics . . . to persuade him to invest \$40,000. And here are some examples of what was said to him on the phone: "These gas wells are guaranteed to produce \$6,800 a month in income;" "Some of the most successful investors in the country are interested in these wells;" "There are only two units left in this project;" "We drilled a well in Texas that had these same early gas readings, and the investors all made millions." . . . Over a three-year period, Henry was recontacted 12 times and invested, essentially, his life savings in 4 different gas wells, each time thinking that he had to invest or lose his original investment . . . He ultimately lost over \$500,000 to this oil and gas scam investing in wells that always seemed promising at first . . .

- Description of an oil and gas scam victim at the SEC's first-ever Seniors Summit (July 2006)

If you think you've found the right oil or gas investment to "strike it rich," consider this: it may be a scam. While some oil and gas investment opportunities are legitimate, many oil and gas ventures are frauds. Many of these schemes start in so-called "boiler rooms," where skilled telemarketers use high pressure sales tactics to convince you to hand over your hard-earned money. Oil and gas scams typically increase after highly publicized news item, like volatile gas prices, to lure potential investors and make their "opportunity" sound more legitimate.

Once they have your money, scam artists pay themselves first, often using funds to pay personal expenses. In the end, only some of your money may be invested in an actual oil or natural gas well, or none at all.

As with other investments, you should thoroughly research the company before you invest. In addition to contacting the SEC and the state securities regulators, you may be able to verify information provided in offering materials by contacting the oil and gas regulatory agency in which the wells are allegedly being drilled. For example, these agencies generally have information about a company's drilling history that could confirm claims of prior success. If you can't find the state agency that regulates the oil and gas industry, call the SEC at (800) 732-0330.

PROMISSORY NOTES

A promissory note is a form of debt – similar to a loan or an IOU – that a company may issue to raise money. Typically, an investor agrees to loan money to the company for a set period of time. In exchange, the company promises to pay the investor a fixed return on his or her investment, typically principal plus annual interest.

While promissory notes can be legitimate investments, those that are marketed broadly to individual investors often turn out to be scams. Investors should be careful to determine their legitimacy and should seek the advice of an objective third party when in doubt.

Remember to ask tough questions – and demand answers – before you consider investing in a promissory note. Be sure you understand how they work and what risks they pose. These tips will explain how promissory note fraud can occur and will help you to spot the scams.

Anatomy of a Promissory Note Fraud

Fraudsters across the nation use promissory notes as vehicles to defraud investors, especially seniors, out of hundreds of millions of dollars. Most promissory note scams follow predictable, fraudulent fact patterns:

- The fraudsters – who may or may not be affiliated with the company – persuade independent life insurance agents to sell promissory notes, luring them with lucrative commissions of up to twenty or even thirty percent. These agents often do not have a license to sell securities. And in selling the notes, they frequently rely solely on the information the company gives them – which later proves to be false or misleading.
- Investors purchase the promissory notes, enticed by the promise of a high, fixed-rate return – up to fifteen or twenty percent – with a very low level of risk. The promissory notes may appear all the more attractive because the seller falsely claims that they're “guaranteed” or insured. And few investors ask tough questions about these investments because they know and trust the sellers, insurance agents with whom they've done business in the past.

- The fraudsters use a portion of the money they collect from investors to pay the sellers their commissions. But they typically abscond with the rest, squandering it on personal expenses or high-flying life styles.
- They may also use some of the proceeds to support an elaborate “Ponzi” scheme in which money coming in from the sale of new notes pays the interest on older notes. Some fraudsters try to avoid repaying investors’ principal by convincing investors to “roll-over” their promissory notes upon maturity. These investors may, for at least a time, continue to receive interest payments – but they rarely get their principal back.

Tips To Avoid Promissory Note Scams

Here’s how you can avoid the costly mistake of investing in a sham promissory note:

- Bear in mind that legitimate corporate promissory notes are not usually sold to the general public. Instead, they tend to be sold privately to sophisticated buyers who do their own “due diligence” or research on the company. If someone calls you up or knocks on your door trying to sell you a promissory note, chances are you’re dealing with a scam.
- Find out whether the investment is registered with the SEC or your state securities regulator – or whether it’s exempt from registration. Most legitimate promissory notes can easily be verified by checking the SEC’s EDGAR database or by calling your state securities regulator (see Appendix for contact information). If the promissory note is not registered, you’ll have to do your own thorough investigation to confirm whether the company has the ability to pay its debt.
- Be skeptical if the seller tells you that the promissory note is not a security. The types of promissory notes involved in promissory note scams usually are securities and must be registered with either the SEC or your state securities regulator – or they must meet an exemption.
- Make sure the seller is properly licensed. Insurance agents can’t sell securities – including promissory notes – without a securities license. Call your state securities regulator, and ask whether the person or firm is licensed to sell securities in your state and whether they have a

record of complaints or fraud. You can also get this information by calling FINRA BrokerCheck at (800) 289-9999.

- Beware of promises of “risk free” returns. These claims are usually the bait con artists use to lure their victims. Always remember that if it sounds too good to be true, it probably is.
- Watch out for promissory notes that are supposedly “insured” or “guaranteed,” especially if a foreign insurance company is involved. Be sure to call your state insurance commissioner to find out whether the foreign insurance company can legally do business in the United States. Call the National Association of Insurance Commissioners at (816) 783-3600 if you need contact information for your state regulator.
- Compare the rate of return on the promissory note with current market rates for similar fixed-rate investments, long-term Treasury bonds, or FDIC-insured certificates of deposit. If the seller promises an above-market rate on a short-term note, proceed with caution.

PRIME BANK FRAUD

In a prime bank scheme, fraudsters often claim investors' funds will be used to purchase and trade "prime bank" financial instruments or other "high yield investment programs" ("HYIPs") on clandestine overseas markets in order to generate huge returns in which the investor will share. However, neither these instruments, nor the markets on which they allegedly trade, exist. To give the scheme an air of legitimacy, the promoters distribute documents that appear complex, sophisticated and official. The sellers frequently tell potential investors that they have special access to programs that otherwise would be reserved for top financiers on Wall Street, or in London, Geneva or other world financial centers. Investors are also told that profits of 100% or more are possible with little risk.

PUMP AND DUMP SCHEMES

"Pump and dump" schemes, also known as "hype and dump manipulation," involve the touting of a company's stock (typically microcap companies) through false and misleading statements to the marketplace. After pumping the stock, fraudsters make huge profits by selling their cheap stock into the market.

Pump and dump schemes often occur on the Internet where it is common to see messages posted that urge readers to buy a stock quickly or to sell before the price goes down, or a telemarketer will call using the same sort of pitch. Often the promoters will claim to have "inside" information about an impending development or to use an "infallible" combination of economic and stock market data to pick stocks. In reality, they may be company insiders or paid promoters who stand to gain by selling their shares after the stock price is "pumped" up by the buying frenzy they create. Once these fraudsters "dump" their shares and stop hyping the stock, the price typically falls, and investors lose their money.

HIGH-RETURN OR "RISK-FREE" INVESTMENTS

Some unscrupulous investment advisers make unsuitable recommendations to purchase investment products that don't meet the investment objectives or means of an investor. Unsuitable recommendations might occur when a broker sells speculative investments such as options, futures or penny stocks to a 95-year-old widow living on a fixed income with a low risk tolerance. Investors should be careful to review the risk profile of each investment recommendation and should seek the advice of an objective third party when in doubt.

In an all-too-common scenario, the SEC found fraudsters who induced their clients to invest in the high-risk securities despite being aware that the securities carried a high risk of loss and were not suitable for elderly, unsophisticated investors seeking secure investments for retirement. In order to persuade their clients to invest large amounts of their savings and retirement funds in the high-risk securities, the fraudsters falsely misrepresented that the investments had little or no risk and were as safe as bank deposits. The fraudsters falsified documents to make it appear that their customers had the net worth and risk tolerance to qualify for the speculative investments.

SALE AND LEASEBACK CONTRACTS

In an attempt to avoid the registration requirements of the securities laws, some investments are structured to resemble the sale of a piece of equipment such as a payphone, ATM machine or Internet booth located at a remote venue where the investor cannot service and maintain the equipment and must enter into a servicing agreement. In order to make the deal more attractive, investors are told that after a given period the equipment can be sold back to the seller at the investor's original purchase price. The investor is also promised a specific rate of return. In a variant of this scheme, a real estate interest such as a long-term lease in a resort community is sold instead of physical equipment. Frequently the equipment or property does not exist and the seller lacks the financial capacity to keep the promise of repurchase. Be wary of any sale and leaseback contract and if you have doubts, seek the advice of an objective third party.

The SEC found fraudsters who engaged in a fraud to offer and sell unregistered investment contracts in a scheme involving pay telephone leasebacks. The fraudsters promoted the massive scheme through the use of insurance agents and over the Internet, raising over \$74 million from more than 2,000 mostly elderly investors.

INTERNET FRAUD

Internet investment frauds mirror the frauds perpetrated over the phone or through the mail. Remember that fraudsters can use a variety of Internet tools to spread false information, including bulletin boards, online newsletters, spam, or chat rooms. They can also build a glitzy, sophisticated web page. All of these tools cost very little money and can be found at the fingertips of fraudsters.

Consider all offers with skepticism. Internet investment frauds usually fit one of the following categories:

- Pump and Dump Scams
- “Ponzi” and Pyramid Schemes
- Prime Bank Schemes
- “Risk Free” Fraud

In addition, you should be on the look out for off-shore scams. At one time, off-shore schemes targeting U.S. investors cost a great deal of money and were difficult to carry out. Conflicting time zones, differing currencies, and the high costs of international telephone calls and overnight mailings made it difficult for fraudsters to prey on U.S. residents. But the Internet has removed those obstacles. Be extra careful when considering any investment opportunity that comes from another country, because it’s difficult for U.S. law enforcement agencies to investigate and prosecute foreign frauds.

Tips for Checking Out Online Newsletters

Because the U.S. Constitution’s First Amendment protects freedom of speech, the SEC cannot simply prohibit newsletters from recommending or touting particular stocks. But when newsletters receive payment for touting, the securities laws require them to disclose specifically who paid them, the amount, and the type of payment (cash, stock, or some other thing of value).

Read carefully what the newsletter says about payments it receives.

Be suspicious of newsletters that do not specifically disclose these items: who paid them, the amount, and the type of payment. The following examples raise red flags because they do not contain specific information:

- “From time to time, XYZ Newsletter may receive compensation from companies we write about.”
- “From time to time, XYZ Newsletter or its officers, directors, or staff may hold stock in some of the companies we write about.”
- “XYZ Newsletter receives fees from the companies we write about in our newsletter.”

Think twice about newsletters that bury their disclosures or put them in tiny, hard-to-read typeface. Legitimate online newsletters that have been paid to tout stocks will clearly and specifically tell investors who paid them, the amount, and the type of payment. Look for their disclosure statements in articles about particular companies or in a list or chart on their websites.

Independently investigate the company or investment opportunity.

Be wary of anyone who encourages you to invest in small, thinly-traded stocks that aren't well known and don't file reports with the SEC. Assume that everything you read about those companies in an online bulletin board, newsletter, or chat room is untrue until you prove by your own independent research that it isn't.

Don't invest in small, thinly-traded companies unless you're prepared to lose every penny.

Because small, thinly-traded companies are usually the most risky investments that you can make, you should always get as much written information as you can from the company and other independent sources. The SEC and your state's securities regulator should always be your first stops, but you may also want to visit your local library and talk with the librarian about other sources of information. There are also a number of commercial services that provide a constant stream of information about the financial condition of companies.

Check with the SEC, or your state securities regulator to see if the newsletter has ever been in trouble.

Whenever the SEC sues a newsletter or stock promoter, we issue a “litigation release” and post it on our website. Check the Enforcement Division's home page, <http://www.sec.gov/divisions/enforce.shtml>, to see whether we've brought action

against a newsletter or stock promoter who's touting a stock. You can also search the SEC's non-EDGAR database for this information or call us at (800) 732-0330.

Check the background of the broker promoting the stock by contacting FINRA BrokerCheck at (800) 289-9999 or your state securities regulator (See Appendix for contact information).

UNSCRUPULOUS TACTICS OF FINANCIAL PROFESSIONALS

High Pressure Sales Seminars

In a fraudulent sales seminar scheme, a financial professional will lure investors to attend sales seminars, sometimes at fancy hotels and restaurants, with promises of a free meal. While sometimes these sales seminars may be perfectly fine, at other times they are used to pitch unsuitable products, using high pressure sales tactics. Investors should remain skeptical of any high pressure sales tactics and should not be lured into making an investment decision on the spot. Investors should always take the time away from the sales seminar to make an objective investment decision and to seek out third party advice.

Churning

Churning is an abusive sales practice in which unethical securities professionals make unnecessary and/or excessive trades in order to generate commissions. Most churning occurs where a securities professional has discretion to trade the account. In such cases, it is not necessary that the securities professional receive prior approval from the client to complete a transaction. Investors should be careful to review their monthly account statements and watch out for any abnormally high trading activity.

Unsuitable Recommendations

When your securities professional recommends that you buy or sell a particular security, your securities professional must have a reasonable basis for believing that the recommendation is suitable for you. In making this assessment, your securities professional must consider your risk tolerance, other security holdings, financial situation (income and net worth), financial needs, and investment objectives. Many legitimate products such as variable and equity-indexed annuities may not be appropriate for older investors.

Misappropriation of Funds by Financial Professionals

At times, financial professionals will take advantage of their position of trust to use unauthorized and deceptive methods to essentially steal money directly from their clients. As an investor, you should remain objective in your relationship with your financial professional and remain alert for abnormal changes in your monthly account statements.

**“Senior” Specialists and
Advisers**

“SENIOR” SPECIALISTS AND ADVISERS: WHAT YOU SHOULD KNOW ABOUT PROFESSIONAL DESIGNATIONS

Some financial professionals use designations that imply that they are experts at helping seniors with financial issues. Many seniors, however, don't understand the sets of initials that may follow the names of these financial professionals or the meaning of the titles – such as “senior specialist” or “retirement adviser” – they use to market themselves.

The education, experience, and other requirements for receiving and maintaining a “senior” designation vary greatly. In some cases, a financial professional may need to study and pass several rigorous exams – after working in a designated field for several years - to receive a particular designation. In other cases, it may be relatively easy in terms of time and effort to receive a “senior” designation, even for an individual with no relevant experience.

If you want to find out more about a particular professional designation, check out the “Understanding Investment Professional Designations” page on FINRA's website, <http://apps.finra.org/datadirectory/1/prodesignations.aspx>. The page provides the education and experience requirements for many professional designations. In addition, you can find out whether the granting organization for a particular designation requires continuing education, offers a public disciplinary or investor complaint process, or provides a way to check the status of a financial professional. Keep in mind that neither FINRA nor the SEC endorses any professional designation.

Even after doing some research, it may not be clear to you whether a professional designation represents legitimate expertise, a marketing tool, or something in between. That's one reason you should always look *beyond* a financial professional's designation and determine whether he or she can provide the type of financial services or product you need.

We encourage you to thoroughly evaluate the background of anyone with whom you intend to do business – before you hand over your hard-earned cash. You also should ask questions – that's the best advice we can give you about how to invest wisely. We see too many investors who might have avoided trouble and losses if they had asked basic questions from the start. For suggestions on how to do your own “due diligence,” please go to the “How to Avoid Fraud” section of this Guide.

Products to Know About

PRODUCTS TO KNOW ABOUT: IS AN INVESTMENT RIGHT FOR YOU?

Choosing an investment product is complicated. There are a myriad of complex financial products available to investors today. Unfortunately, con artists and unscrupulous financial professionals often use legitimate investment products when targeting seniors. In some cases, these investments are unsuitable for the needs of seniors. Often the person recommending the investment fails to explain the risks and specific terms of the investment. Before you invest in any product, make sure that you understand the investment's risks and the terms of the agreement, especially those related to your ability to get your money back out of the investment. Remember to get everything in writing.

In this section of our Guide, we provide detailed descriptions of how certain investment products work. Our goal is to help you ask the right questions when considering an investment. The information on mutual funds and variable annuities are reprints of two of the brochures that form our "Seniors Care Package." Please call us at (800) 732-0330 if you would like copies of these brochures or the entire package.

VARIABLE ANNUITIES: WHAT YOU SHOULD KNOW

Variable annuities have become a part of the retirement and investment plans of many Americans. Before you buy a variable annuity, you should know some of the basics – and be prepared to ask your insurance agent, broker, financial planner, or other financial professional lots of questions about whether a variable annuity is right for you.

This is a general description of variable annuities – what they are, how they work, and the charges you will pay. Before buying any variable annuity, however, you should find out about the particular annuity you are considering. Request a prospectus from the insurance company or from your financial professional, and read it carefully. The prospectus contains important information about the annuity contract, including fees and charges, investment options, death benefits, and annuity payout options. You should compare the benefits and costs of the annuity to other variable annuities and to other types of investments, such as mutual funds.

Contents

- What is a Variable Annuity?
- How Variable Annuities Work
- The Death Benefit and Other Features
- Variable Annuity Charges
- Tax-Free “1035” Exchanges
- Bonus Credits
- Ask Questions Before You Invest
- For More Information

What Is a Variable Annuity?

A variable annuity is a contract between you and an insurance company, under which the insurer agrees to make periodic payments to you, beginning either immediately or at some future date. You purchase a variable annuity contract by making either a single purchase payment or a series of purchase payments.

A variable annuity offers a range of investment options. The value of your investment as a variable annuity owner will vary depending on the performance of the investment options you choose. The investment options for a variable annuity are typically mutual funds that invest in stocks, bonds, money market instruments, or some combination of the three.

Although variable annuities are typically invested in mutual funds, variable annuities differ from mutual funds in several important ways:

First, variable annuities let you receive **periodic payments** for the rest of your life (or the life of your spouse or any other person you designate). This feature offers protection against the possibility that, after you retire, you will outlive your assets.

Second, variable annuities have a **death benefit**. If you die before the insurer has started making payments to you, your beneficiary is guaranteed to receive a specified amount – typically at least the amount of your purchase payments. Your beneficiary will get a benefit from this feature if, at the time of your death, your account value is less than the guaranteed amount.

Third, variable annuities are **tax-deferred**. That means you pay no taxes on the income and investment gains from your annuity until you withdraw your money. You may also transfer your money from one investment option to another within a variable annuity without paying tax at the time of the transfer. When you take your money out of a variable annuity, however, you will be taxed on the earnings at ordinary income tax rates rather than lower capital gains rates. In general, the benefits of tax deferral will outweigh the costs of a variable annuity only if you hold it as a long-term investment to meet retirement and other long-range goals.

Caution!

Other investment vehicles, such as IRAs and employer-sponsored 401(k) plans, also may provide you with tax-deferred growth and other tax advantages. For most investors, it will be advantageous to make the maximum allowable contributions to IRAs and 401(k) plans before investing in a variable annuity.

In addition, if you are investing in a variable annuity through a tax-advantaged retirement plan (such as a 401(k) plan or IRA), you will get no additional tax advantage from the variable annuity. Under these circumstances, consider buying a variable annuity only if it makes sense because of the annuity's other features, such as lifetime income payments and death benefit protection. The tax rules that apply to variable annuities can be complicated – before investing, you may want to consult a tax adviser about the tax consequences to you of investing in a variable annuity.

Remember: Variable annuities are designed to be long-term investments, to meet retirement and other long-range goals. Variable annuities are not suitable for meeting short-term goals because substantial taxes and insurance company charges may apply if you withdraw your money early. Variable annuities also involve investment risks, just as mutual funds do.

How Variable Annuities Work

A variable annuity has two phases: an **accumulation phase** and a **payout phase**.

During the **accumulation phase**, you make purchase payments, which you can allocate to a number of investment options. For example, you could designate 40% of your purchase payments to a bond fund, 40% to a U.S. stock fund, and 20% to an international stock fund. The money you have allocated to each mutual fund investment option will increase or decrease over time, depending on the fund's performance. In addition, variable annuities often allow you to allocate part of your purchase payments to a fixed account. A fixed account, unlike a mutual fund, pays a fixed rate of interest. The insurance company may reset this interest rate periodically, but it will usually provide a guaranteed minimum (e.g., 3% per year).

Example: You purchase a variable annuity with an initial purchase payment of \$10,000. You allocate 50% of that purchase payment (\$5,000) to a bond fund, and 50% (\$5,000) to a stock fund. Over the following year, the stock fund has a 10% return, and the bond fund has a 5% return. At the end of the year, your account has a value of \$10,750 (\$5,500 in the stock fund and \$5,250 in the bond fund), minus fees and charges (discussed below).

Your most important source of information about a variable annuity's investment options is the prospectus. Request the prospectuses for the mutual fund investment options. Read them carefully before you allocate your purchase payments among the investment options offered. You should consider a variety of factors with respect to each fund option, including the fund's investment objectives and policies, management fees and other expenses that the fund charges, the risks and volatility of the fund, and whether the fund contributes to the diversification of your overall investment portfolio. The SEC's online publication, *Mutual Fund Investing: Look at More Than a Fund's Past Performance*, provides information about these factors.

Another SEC online publication, *Invest Wisely: An Introduction to Mutual Funds*, provides general information about the types of mutual funds and the expenses they charge.

During the accumulation phase, you can typically transfer your money from one investment option to another without paying tax on your investment income and gains, although you may be charged by the insurance company for transfers. However, if you withdraw money from your account during the early years of the accumulation phase, you may have to pay “surrender charges,” which are discussed below. In addition, you may have to pay a 10% federal tax penalty if you withdraw money before the age of 59½.

At the beginning of the **payout phase**, you may receive your purchase payments plus investment income and gains (if any) as a lump-sum payment, or you may choose to receive them as a stream of payments at regular intervals (generally monthly).

If you choose to receive a stream of payments, you may have a number of choices of how long the payments will last. Under most annuity contracts, you can choose to have your annuity payments last for a period that you set (such as 20 years) or for an indefinite period (such as your lifetime or the lifetime of you and your spouse or other beneficiary). During the payout phase, your annuity contract may permit you to choose between receiving payments that are fixed in amount or payments that vary based on the performance of mutual fund investment options.

The amount of each periodic payment will depend, in part, on the time period that you select for receiving payments. Be aware that some annuities do not allow you to withdraw money from your account once you have started receiving regular annuity payments.

In addition, some annuity contracts are structured as **immediate annuities**, which means that there is no accumulation phase and you will start receiving annuity payments right after you purchase the annuity.

The Death Benefit and Other Features

A common feature of variable annuities is the **death benefit**. If you die, a person you select as a beneficiary (such as your spouse or child) will receive the greater of: (i) all the money in your account, or (ii) some guaranteed minimum (such as all purchase payments minus prior withdrawals).

Example: You own a variable annuity that offers a death benefit equal to the greater of account value or total purchase payments minus withdrawals. You have made purchase payments totaling \$50,000. In addition, you have withdrawn \$5,000 from your account. Because of these withdrawals and investment losses, your account value is currently \$40,000. If you die, your designated beneficiary will receive \$45,000 (the \$50,000 in purchase payments you put in minus \$5,000 in withdrawals).

Some variable annuities allow you to choose a “stepped-up” death benefit. Under this feature, your guaranteed minimum death benefit may be based on a greater amount than purchase payments minus withdrawals. For example, the guaranteed minimum might be your account value as of a specified date, which may be greater than purchase payments minus withdrawals if the underlying investment options have performed well. The purpose of a stepped-up death benefit is to “lock in” your investment performance and prevent a later decline in the value of your account from eroding the amount that you expect to leave to your heirs. This feature carries a charge, however, which will reduce your account value.

Variable annuities sometimes offer other optional features, which also have extra charges. One common feature, the guaranteed minimum income benefit, guarantees a particular minimum level of annuity payments, even if you do not have enough money in your account (perhaps because of investment losses) to support that level of payments. Other features may include long-term care insurance, which pays for home health care or nursing home care if you become seriously ill.

You may want to consider the financial strength of the insurance company that sponsors any variable annuity you are considering buying. This can affect the company’s ability to pay any benefits that are greater than the value of your account in mutual fund investment options, such as a death benefit, guaranteed minimum income benefit, long-term care benefit, or amounts you have allocated to a fixed account investment option.

Caution!

You will pay for each benefit provided by your variable annuity. Be sure you understand the charges. Carefully consider whether you need the benefit. If you do, consider whether you can buy the benefit more cheaply as part of the variable annuity or separately (e.g., through a long-term care insurance policy).

Variable Annuity Charges

You will pay several charges when you invest in a variable annuity. Be sure you understand all the charges before you invest. **These charges will reduce the value of your account and the return on your investment.** Often, they will include the following:

- **Surrender charges** – If you withdraw money from a variable annuity within a certain period after a purchase payment (typically within six to eight years, but sometimes as long as ten years), the insurance company usually will assess a “surrender” charge, which is a type of sales charge. This charge is used to pay your financial professional a commission for selling the variable annuity to you. Generally, the surrender charge is a percentage of the amount withdrawn, and declines gradually over a period of several years, known as the “**surrender period.**” For example, a 7% charge might apply in the first year after a purchase payment, 6% in the second year, 5% in the third year, and so on until the eighth year, when the surrender charge no longer applies. Often, contracts will allow you to withdraw part of your account value each year – 10% or 15% of your account value, for example – without paying a surrender charge.

Example: You purchase a variable annuity contract with a \$10,000 purchase payment. The contract has a schedule of surrender charges, beginning with a 7% charge in the first year, and declining by 1% each year. In addition, you are allowed to withdraw 10% of your contract value each year free of surrender charges. In the first year, you decide to withdraw \$5,000, or one-half of your contract value of \$10,000 (assuming that your contract value has not increased or decreased because of investment performance). In this case, you could withdraw \$1,000 (10% of contract value) free of surrender charges, but you would pay a surrender charge of 7%, or \$280, on the other \$4,000 withdrawn.

- **Mortality and expense risk charge** – This charge is equal to a certain percentage of your account value, typically in the range of 1.25% per year. This charge compensates the insurance company for insurance risks it assumes under the annuity contract. Profit from the mortality and

expense risk charge is sometimes used to pay the insurer's costs of selling the variable annuity, such as a commission paid to your financial professional for selling the variable annuity to you.

Example: Your variable annuity has a mortality and expense risk charge at an annual rate of 1.25% of account value. Your average account value during the year is \$20,000, so you will pay \$250 in mortality and expense risk charges that year.

- **Administrative fees** – The insurer may deduct charges to cover record-keeping and other administrative expenses. This may be charged as a flat account maintenance fee (perhaps \$25 or \$30 per year) or as a percentage of your account value (typically in the range of 0.15% per year).

Example: Your variable annuity charges administrative fees at an annual rate of 0.15% of account value. Your average account value during the year is \$50,000. You will pay \$75 in administrative fees.

- **Underlying Fund Expenses** – You will also indirectly pay the fees and expenses imposed by the mutual funds that are the underlying investment options for your variable annuity.
- **Fees and Charges for Other Features** – Special features offered by some variable annuities, such as a stepped-up death benefit, a guaranteed minimum income benefit, or long-term care insurance, often carry additional fees and charges.

Other charges, such as initial sales loads, or fees for transferring part of your account from one investment option to another, may also apply. You should ask your financial professional to explain to you all charges that may apply. You can also find a description of the charges in the prospectus for any variable annuity that you are considering.

Tax-Free “1035” Exchanges

Section 1035 of the U.S. tax code allows you to exchange an existing variable annuity contract for a new annuity contract without paying any tax on the income and investment gains in your current variable annuity account. These tax-free exchanges, known as 1035 exchanges, can be useful if another annuity has features

that you prefer, such as a larger death benefit, different annuity payout options, or a wider selection of investment choices.

You may, however, be required to pay surrender charges on the old annuity if you are still in the surrender charge period. In addition, a new surrender charge period generally begins when you exchange into the new annuity. This means that, for a significant number of years (as many as 10 years), you typically will have to pay a surrender charge (which can be as high as 9% of your purchase payments) if you withdraw funds from the new annuity. Further, the new annuity may have higher annual fees and charges than the old annuity, which will reduce your returns.

Caution!

If you are thinking about a 1035 exchange, you should compare both annuities carefully. Unless you plan to hold the new annuity for a significant amount of time, you may be better off keeping the old annuity because the new annuity typically will impose a new surrender charge period. Also, if you decide to do a 1035 exchange, you should talk to your financial professional or tax adviser to make sure the exchange will be tax-free. If you surrender the old annuity for cash and then buy a new annuity, you will have to pay tax on the surrender.

Bonus Credits

Some insurance companies are now offering variable annuity contracts with “bonus credit” features. These contracts promise to add a bonus to your contract value based on a specified percentage (typically ranging from 1% to 5%) of purchase payments.

Example: You purchase a variable annuity contract that offers a bonus credit of 3% on each purchase payment. You make a purchase payment of \$20,000. The insurance company issuing the contract adds a bonus of \$600 to your account.

Caution!

Variable annuities with bonus credits may carry a downside, however – higher expenses that can outweigh the benefit of the bonus credit offered.

Frequently, insurers will charge you for bonus credits in one or more of the following ways:

- **Higher surrender charges** – Surrender charges may be higher for a variable annuity that pays you a bonus credit than for a similar contract with no bonus credit.
- **Longer surrender periods** – Your purchase payments may be subject to surrender charges for a longer period than they would be under a similar contract with no bonus credit.
- **Higher mortality and expense risk charges and other charges** – Higher annual mortality and expense risk charges may be deducted for a variable annuity that pays you a bonus credit. Although the difference may seem small, over time it can add up. In addition, some contracts may impose a separate fee specifically to pay for the bonus credit.

Before purchasing a variable annuity with a bonus credit, ask yourself – and the financial professional who is trying to sell you the contract – whether the bonus is worth more to you than any increased charges you will pay for the bonus. This may depend on a variety of factors, including the amount of the bonus credit and the increased charges, how long you hold your annuity contract, and the return on the underlying investments. You also need to consider the other features of the annuity to determine whether it is a good investment for you.

Example: You make purchase payments of \$10,000 in Annuity A and \$10,000 in Annuity B. Annuity A offers a bonus credit of 4% on your purchase payment, and deducts annual charges totaling 1.75%. Annuity B has no bonus credit and deducts annual charges totaling 1.25%. Let's assume that both annuities have an annual rate of return, prior to expenses, of 10%. By the tenth year, your account value in Annuity A will have grown to \$22,978. But your account value in Annuity B will have grown more, to \$23,136, because Annuity B deducts lower annual charges, even though it does not offer a bonus.

You should also note that a bonus may only apply to your initial premium payment, or to premium payments you make within the first year of the annuity contract. Further, under some annuity contracts the insurer will take back all bonus payments made to you within the prior year or some other specified period if you make a

withdrawal, if a death benefit is paid to your beneficiaries upon your death, or in other circumstances.

Caution!

If you already own a variable annuity and are thinking of exchanging it for a different annuity with a bonus feature, you should be careful. Even if the surrender period on your current annuity contract has expired, a new surrender period generally will begin when you exchange that contract for a new one. This means that, by exchanging your contract, you will forfeit your ability to withdraw money from your account without incurring substantial surrender charges. And as described above, the schedule of surrender charges and other fees may be higher on the variable annuity with the bonus credit than they were on the annuity that you exchanged.

Example: You currently hold a variable annuity with an account value of \$20,000, which is no longer subject to surrender charges. You exchange that annuity for a new variable annuity, which pays a 4% bonus credit and has a surrender charge period of eight years, with surrender charges beginning at 9% of purchase payments in the first year. Your account value in this new variable annuity is now \$20,800. During the first year you hold the new annuity, you decide to withdraw all of your account value because of an emergency situation. Assuming that your account value has not increased or decreased because of investment performance, you will receive \$20,800 minus 9% of your \$20,000 purchase payment, or \$19,000. This is \$1,000 less than you would have received if you had stayed in the original variable annuity, where you were no longer subject to surrender charges.

In short: Take a hard look at bonus credits. In some cases, the “bonus” may not be in your best interest.

Ask Questions Before You Invest

Financial professionals who sell variable annuities have a duty to advise you as to whether the product they are trying to sell is suitable to your particular investment needs. Don't be afraid to ask them questions. And write down their answers, so there won't be any confusion later as to what was said.

Variable annuity contracts typically have a "free look" period of ten or more days, during which you can terminate the contract without paying any surrender charges and get back your purchase payments (which may be adjusted to reflect charges and the performance of your investment). You can continue to ask questions in this period to make sure you understand your variable annuity before the "free look" period ends.

Before you decide to buy a variable annuity, consider the following questions:

- Will you use the variable annuity primarily to save for retirement or a similar long-term goal?
- Are you investing in the variable annuity through a retirement plan or IRA (which would mean that you are not receiving any additional tax-deferral benefit from the variable annuity)?
- Are you willing to take the risk that your account value may decrease if the underlying mutual fund investment options perform badly?
- Do you understand the features of the variable annuity?
- Do you understand all of the fees and expenses that the variable annuity charges?
- Do you intend to remain in the variable annuity long enough to avoid paying any surrender charges if you have to withdraw money?
- If a variable annuity offers a bonus credit, will the bonus outweigh any higher fees and charges that the product may charge?
- Are there features of the variable annuity, such as long-term care insurance, that you could purchase more cheaply separately?
- Have you consulted with a tax adviser and considered all the tax consequences of purchasing an annuity, including the effect of annuity payments on your tax status in retirement?

- If you are exchanging one annuity for another one, do the benefits of the exchange outweigh the costs, such as any surrender charges you will have to pay if you withdraw your money before the end of the surrender charge period for the new annuity?

Remember: Before purchasing a variable annuity, you owe it to yourself to learn as much as possible about how they work, the benefits they provide, and the charges you will pay.

For More Information

Other SEC Online Publications

- *Invest Wisely: An Introduction to Mutual Funds* – Basic information about investing in mutual funds. Much of this information applies to variable annuities, as well.
- *Mutual Fund Investing: Look at More Than a Fund's Past Performance* – Describes some of the factors you should consider in choosing a mutual fund.
- *Mutual Fund Cost Calculator* – Allows you to compare the total costs of owning different mutual funds.
- *Ask Questions* – Questions you should ask about all of your investments, the people who sell them to you, and what to do if you run into problems.
- *Check Out Brokers and Advisers* – Describes how to get background information about your broker or investment adviser, including prior employment history and disciplinary actions.
- *Complaints? What to Do* – Describes how to handle a problem with your broker or investment adviser.

Other Websites That May Be Helpful

- FINRA – FINRA is an independent self-regulatory organization charged with regulating the securities industry, including sellers of variable annuities. FINRA has issued several investor alerts on the topic of

variable annuities, and has also issued a release to its members giving guidance on how to present information on the impact of taxes upon investment returns in a variable annuity as compared to a non-specific taxable account. If you have a complaint or problem about sales practices involving variable annuities, you should contact the District Office of FINRA nearest you. A list of FINRA District Offices is available on FINRA's website.

- National Association of Insurance Commissioners (NAIC) – The NAIC is the national organization of state insurance commissioners. Variable annuities are regulated by state insurance commissions, as well as by the SEC. The NAIC's website contains an interactive map of the United States with links to the home pages of each state insurance commissioner. You may contact your state insurance commissioner with questions or complaints about variable annuities.

How To Contact the SEC With Questions or Complaints

Office of Investor Education and Advocacy
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-0213
Fax: (202) 772-9295

INVEST WISELY: AN INTRODUCTION TO MUTUAL FUNDS

Over the past decade, American investors increasingly have turned to mutual funds to save for retirement and other financial goals. Mutual funds can offer the advantages of diversification and professional management. But, as with other investment choices, investing in mutual funds involves risk. And fees and taxes will diminish a fund's returns. It pays to understand both the upsides and the downsides of mutual fund investing and how to choose products that match your goals and tolerance for risk.

This brochure explains the basics of mutual fund investing – how mutual funds work, what factors to consider before investing, and how to avoid common pitfalls.

- [Key Points To Remember](#)
- [How Mutual Funds Work](#)
- [Factors to Consider](#)
- [Avoiding Common Pitfalls](#)
- [If You Have Problems](#)
- [Glossary of Key Mutual Fund Terms](#)

Key Points to Remember

- Mutual funds are **not** guaranteed or insured by the FDIC or any other government agency – even if you buy through a bank and the fund carries the bank's name. You can lose money investing in mutual funds.
- Past performance is not a reliable indicator of future performance. So don't be dazzled by last year's high returns. But past performance can help you assess a fund's volatility over time.
- All mutual funds have costs that lower your investment returns. Shop around, and use a mutual fund cost calculator at www.sec.gov/investor/tools.shtml to compare many of the costs of owning different funds *before* you buy.

How Mutual Funds Work

What They Are

A mutual fund is a company that pools money from many investors and invests the money in stocks, bonds, short-term money-market instruments, other securities or assets, or some combination of these investments. The combined holdings the mutual fund owns are known as its portfolio. Each share represents an investor's proportionate ownership of the fund's holdings and the income those holdings generate.

Other Types of Investment Companies

Legally known as an "open-end company," a mutual fund is one of three basic types of investment companies. While this brochure discusses **only** mutual funds, you should be aware that other pooled investment vehicles exist and may offer features that you desire. The two other basic types of investment companies are:

Closed-end funds – which, unlike mutual funds, sell a fixed number of shares at one time (in an initial public offering) that later trade on a secondary market; and

Unit Investment Trusts (UITs) – which make a one-time public offering of only a specific, fixed number of redeemable securities called "units" and which will terminate and dissolve on a date specified at the creation of the UIT.

"Exchange-traded funds" (ETFs) are a type of investment company that aims to achieve the same return as a particular market index. They can be either open-end companies or UITs. But ETFs are not considered to be, and are not permitted to call themselves, mutual funds.

Some of the traditional, distinguishing characteristics of mutual funds include the following:

- Investors purchase mutual fund shares from the fund itself (or through a broker for the fund) instead of from other investors on a secondary market, such as the New York Stock Exchange or Nasdaq Stock Market.
- The price that investors pay for mutual fund shares is the fund's per share net asset value (NAV) plus any shareholder fees that the fund imposes at the time of purchase (such as sales loads).

- Mutual fund shares are “redeemable,” meaning investors can sell their shares back to the fund (or to a broker acting for the fund).
- Mutual funds generally create and sell new shares to accommodate new investors. In other words, they sell their shares on a continuous basis, although some funds stop selling when, for example, they become too large.
- The investment portfolios of mutual funds typically are managed by separate entities known as “investment advisers” that are registered with the SEC.

A Word About Hedge Funds and “Funds of Hedge Funds”

“Hedge fund” is a general, non-legal term used to describe private, unregistered investment pools that traditionally have been limited to sophisticated, wealthy investors. Hedge funds are *not* mutual funds and, as such, are *not* subject to the numerous regulations that apply to mutual funds for the protection of investors – including regulations requiring a certain degree of liquidity, regulations requiring that mutual fund shares be redeemable at any time, regulations protecting against conflicts of interest, regulations to assure fairness in the pricing of fund shares, disclosure regulations, regulations limiting the use of leverage, and more.

“Funds of hedge funds,” a relatively new type of investment product, are investment companies that invest in hedge funds. Some, but not all, register with the SEC and file semi-annual reports. They often have lower minimum investment thresholds than traditional, unregistered hedge funds and can sell their shares to a larger number of investors. Like hedge funds, funds of hedge funds are not mutual funds. Unlike open-end mutual funds, funds of hedge funds offer very limited rights of redemption. And, unlike ETFs, their shares are not typically listed on an exchange.

You’ll find more information about hedge funds on our website. To learn more about funds of hedge funds, please read FINRA’s Investor Alert entitled *Funds of Hedge Funds: Higher Costs and Risks for Higher Potential Returns*.

Advantages and Disadvantages

Every investment has advantages and disadvantages. But it's important to remember that features that matter to one investor may not be important to you. Whether any particular feature is an advantage for you will depend on your unique circumstances. For some investors, mutual funds provide an attractive investment choice because they generally offer the following features:

- **Professional Management** – Professional money managers research, select, and monitor the performance of the securities the fund purchases.
- **Diversification** – Diversification is an investing strategy that can be neatly summed up as “Don’t put all your eggs in one basket.” Spreading your investments across a wide range of companies and industry sectors can help lower your risk if a company or sector fails. Some investors find it easier to achieve diversification through ownership of mutual funds rather than through ownership of individual stocks or bonds.
- **Affordability** – Some mutual funds accommodate investors who don’t have a lot of money to invest by setting relatively low dollar amounts for initial purchases, subsequent monthly purchases, or both.
- **Liquidity** – Mutual fund investors can readily redeem their shares at the current NAV – plus any fees and charges assessed on redemption – at any time.

But mutual funds also have features that some investors might view as disadvantages, such as:

- **Costs Despite Negative Returns** – Investors must pay sales charges, annual fees, and other expenses (which we’ll discuss below) regardless of how the fund performs. And, depending on the timing of their investment, investors may also have to pay taxes on any capital gains distribution they receive – even if the fund went on to perform poorly after they bought shares.
- **Lack of Control** – Investors typically cannot ascertain the exact make-up of a fund’s portfolio at any given time, nor can they directly influence which securities the fund manager buys and sells or the timing of those trades.

- **Price Uncertainty** – With an individual stock, you can obtain real-time (or close to real-time) pricing information with relative ease by checking financial websites or by calling your broker. You can also monitor how a stock’s price changes from hour to hour – or even second to second. By contrast, with a mutual fund, the price at which you purchase or redeem shares will typically depend on the fund’s NAV, which the fund might not calculate until many hours after you’ve placed your order. In general, mutual funds must calculate their NAV at least once every business day, typically after the major U.S. exchanges close.

Different Types of Funds

When it comes to investing in mutual funds, investors have literally thousands of choices. Before you invest in any given fund, decide whether the investment strategy and risks of the fund are a good fit for you. The first step to successful investing is figuring out your financial goals and risk tolerance – either on your own or with the help of a financial professional. Once you know what you’re saving for, when you’ll need the money, and how much risk you can tolerate, you can more easily narrow your choices.

Most mutual funds fall into one of three main categories – money market funds, bond funds (also called “fixed income” funds), and stock funds (also called “equity” funds). Each type has different features and different risks and rewards. Generally, the higher the potential return, the higher the risk of loss.

Money Market Funds

Money market funds have relatively low risks, compared to other mutual funds (and most other investments). By law, they can invest in only certain high-quality, short-term investments issued by the U.S. government, U.S. corporations, and state and local governments. Money market funds try to keep their net asset value (NAV) – which represents the value of one share in a fund – at a stable \$1.00 per share. But the NAV may fall below \$1.00 if the fund’s investments perform poorly. Investor losses have been rare, but they are possible.

Money market funds pay dividends that generally reflect short-term interest rates, and historically the returns for money market funds have been lower than for either bond or stock funds. That’s why “inflation risk” – the risk that inflation will outpace and erode investment returns over time – can be a potential concern for investors in money market funds.

Bond Funds

Bond funds generally have higher risks than money market funds, largely because they typically pursue strategies aimed at producing higher yields. Unlike money market funds, the SEC's rules do not restrict bond funds to high-quality or short-term investments. Because there are many different types of bonds, bond funds can vary dramatically in their risks and rewards. Some of the risks associated with bond funds include:

Credit Risk – the possibility that companies or other issuers whose bonds are owned by the fund may fail to pay their debts (including the debt owed to holders of their bonds). Credit risk is less of a factor for bond funds that invest in insured bonds or U.S. Treasury bonds. By contrast, those that invest in the bonds of companies with poor credit ratings generally will be subject to higher risk.

Interest Rate Risk – the risk that the market value of the bonds will go down when interest rates go up. Because of this, you can lose money in any bond fund, including those that invest only in insured bonds or Treasury bonds. Funds that invest in longer-term bonds tend to have higher interest rate risk.

Prepayment Risk – the chance that a bond will be paid off early. For example, if interest rates fall, a bond issuer may decide to pay off (or “retire”) its debt and issue new bonds that pay a lower rate. When this happens, the fund may not be able to reinvest the proceeds in an investment with as high a return or yield.

Stock Funds

Although a stock fund's value can rise and fall quickly (and dramatically) over the short term, historically stocks have performed better over the long term than other types of investments – including corporate bonds, government bonds, and treasury securities.

Overall “market risk” poses the greatest potential danger for investors in stocks funds. Stock prices can fluctuate for a broad range of reasons – such as the overall strength of the economy or demand for particular products or services.

Not all stock funds are the same. For example:

- *Growth* funds focus on stocks that may not pay a regular dividend but have the potential for large capital gains.
- *Income* funds invest in stocks that pay regular dividends.

- *Index* funds aim to achieve the same return as a particular market index, such as the S&P 500 Composite Stock Price Index, by investing in all – or perhaps a representative sample – of the companies included in an index.
- *Sector* funds may specialize in a particular industry segment, such as technology or consumer products stocks.

How to Buy and Sell Shares

You can purchase shares in some mutual funds by contacting the fund directly. Other mutual fund shares are sold mainly through brokers, banks, financial planners, or insurance agents. All mutual funds will redeem (buy back) your shares on any business day and must send you the payment within seven days.

The easiest way to determine the value of your shares is to call the fund's toll-free number or visit its website. The financial pages of major newspapers sometimes print the NAVs for various mutual funds. When you buy shares, you pay the current NAV per share plus any fee the fund assesses at the time of purchase, such as a purchase sales load or other type of purchase fee. When you sell your shares, the fund will pay you the NAV minus any fee the fund assesses at the time of redemption, such as a deferred (or back-end) sales load or redemption fee. A fund's NAV goes up or down daily as its holdings change in value.

Exchanging Shares

A “family of funds” is a group of mutual funds that share administrative and distribution systems. Each fund in a family may have different investment objectives and follow different strategies.

Some funds offer exchange privileges within a family of funds, allowing shareholders to transfer their holdings from one fund to another as their investment goals or tolerance for risk change. While some funds impose fees for exchanges, most funds typically do not. To learn more about a fund's exchange policies, call the fund's toll-free number, visit its website, or read the “shareholder information” section of the prospectus.

(continued)

Bear in mind that exchanges have tax consequences. Even if the fund doesn't charge you for the transfer, you'll be liable for any capital gain on the sale of your old shares – or, depending on the circumstances, eligible to take a capital loss. We'll discuss taxes in further detail below.

How Funds Can Earn Money for You

You can earn money from your investment in three ways:

- 1. Dividend Payments** – A fund may earn income in the form of dividends and interest on the securities in its portfolio. The fund then pays its shareholders nearly all of the income (minus disclosed expenses) it has earned in the form of dividends.
- 2. Capital Gains Distributions** – The price of the securities a fund owns may increase. When a fund sells a security that has increased in price, the fund has a capital gain. At the end of the year, most funds distribute these capital gains (minus any capital losses) to investors.
- 3. Increased NAV** – If the market value of a fund's portfolio increases after deduction of expenses and liabilities, then the value (NAV) of the fund and its shares increases. The higher NAV reflects the higher value of your investment.

With respect to dividend payments and capital gains distributions, funds usually will give you a choice: the fund can send you a check or other form of payment, or you can have your dividends or distributions *reinvested* in the fund to buy more shares (often without paying an additional sales load).

Factors to Consider

Thinking about your long-term investment strategies and tolerance for risk can help you decide what type of fund is best suited for you. But you should also consider the effect that fees and taxes will have on your returns over time.

Degrees of Risk

All funds carry some level of risk. You may lose some or all of the money you invest – your principal – because the securities held by a fund go up and down in value. Dividend or interest payments may also fluctuate as market conditions change.

Before you invest, be sure to read a fund’s prospectus and shareholder reports to learn about its investment strategy and the potential risks. Funds with higher rates of return may take risks that are beyond your comfort level and are inconsistent with your financial goals.

A Word About Derivatives

Derivatives are financial instruments whose performance is derived, at least in part, from the performance of an underlying asset, security, or index. Even small market movements can dramatically affect their value, sometimes in unpredictable ways.

There are many types of derivatives with many different uses. A fund’s prospectus will disclose whether and how it may use derivatives. You may also want to call a fund and ask how it uses these instruments.

Fees and Expenses

As with any business, running a mutual fund involves costs - including shareholder transaction costs, investment advisory fees, and marketing and distribution expenses. Funds pass along these costs to investors by imposing fees and expenses. It is important that you understand these charges because they lower your returns.

Some funds impose “shareholder fees” directly on investors whenever they buy or sell shares. In addition, every fund has regular, recurring, fund-wide “operating expenses.” Funds typically pay their operating expenses out of fund assets – which means that investors indirectly pay these costs.

SEC rules require funds to disclose both shareholder fees and operating expenses in a “fee table” near the front of a fund’s prospectus. The lists below will help you decode the fee table and understand the various fees a fund may impose:

Shareholder Fees

- **Sales Charge (Load) on Purchases** – the amount you pay when you buy shares in a mutual fund. Also known as a “front-end load,” this fee typically goes to the brokers that sell the fund’s shares. Front-end loads reduce the amount of your investment. For example, let’s say you have \$1,000 and want to invest it in a mutual fund with a 5% front-end load. The \$50 sales load you must pay comes off the top, and the remaining \$950 will be invested in the fund. According to FINRA rules, a front-end load cannot be higher than 8.5% of your investment.
- **Purchase Fee** – another type of fee that some funds charge their shareholders when they buy shares. Unlike a front-end sales load, a purchase fee is paid to the fund (not to a broker) and is typically imposed to defray some of the fund’s costs associated with the purchase.
- **Deferred Sales Charge (Load)** – a fee you pay when you sell your shares. Also known as a “back-end load,” this fee typically goes to the brokers that sell the fund’s shares. The most common type of back-end sales load is the “contingent deferred sales load” (also known as a “CDSC” or “CDSL”). The amount of this type of load will depend on how long the investor holds his or her shares and typically decreases to zero if the investor holds his or her shares long enough.
- **Redemption Fee** – another type of fee that some funds charge their shareholders when they sell or redeem shares. Unlike a deferred sales load, a redemption fee is paid to the fund (not to a broker) and is typically used to defray fund costs associated with a shareholder’s redemption.
- **Exchange Fee** – a fee that some funds impose on shareholders if they exchange (transfer) to another fund within the same fund group or “family of funds.”
- **Account fee** – a fee that some funds separately impose on investors in connection with the maintenance of their accounts. For example, some funds impose an account maintenance fee on accounts whose value is less than a certain dollar amount.

Annual Fund Operating Expenses

- **Management Fees** – fees that are paid out of fund assets to the fund’s investment adviser for investment portfolio management, any other management fees payable to the fund’s investment adviser or its affiliates, and administrative fees payable to the investment adviser that are not included in the “Other Expenses” category (discussed below).
- **Distribution [and/or Service] Fees (“12b-1” Fees)** – fees paid by the fund out of fund assets to cover the costs of marketing and selling fund shares and sometimes to cover the costs of providing shareholder services. “Distribution fees” include fees to compensate brokers and others who sell fund shares and to pay for advertising, the printing and mailing of prospectuses to new investors, and the printing and mailing of sales literature. “Shareholder Service Fees” are fees paid to persons to respond to investor inquiries and provide investors with information about their investments.
- **Other Expenses** – expenses not included under “Management Fees” or “Distribution or Service (12b-1) Fees,” such as any shareholder service expenses that are not already included in the 12b-1 fees, custodial expenses, legal and accounting expenses, transfer agent expenses, and other administrative expenses.
- **Total Annual Fund Operating Expenses (“Expense Ratio”)** – the line of the fee table that represents the total of all of a fund’s annual fund operating expenses, expressed as a percentage of the fund’s average net assets. Looking at the expense ratio can help you make comparisons among funds.

A Word About “No-Load” Funds

Some funds call themselves “no-load.” As the name implies, this means that the fund does not charge any type of sales load. But, as discussed above, not every type of shareholder fee is a “sales load.” A no-load fund may charge fees that are not sales loads, such as purchase fees, redemption fees, exchange fees, and account fees. No-load funds will also have operating expenses.

Be sure to review carefully the fee tables of any funds you're considering, including no-load funds. Even small differences in fees can translate into large differences in returns over time. For example, if you invested \$10,000 in a fund that produced a 10% annual return before expenses and had annual operating expenses of 1.5%, then after 20 years you would have roughly \$49,725. But if the fund had expenses of only 0.5%, then you would end up with \$60,858 – an 18% difference.

A mutual fund cost calculator can help you understand the impact that many types of fees and expenses can have over time. It takes only minutes to compare the costs of different mutual funds.

A Word About Breakpoints

Some mutual funds that charge front-end sales loads will charge lower sales loads for larger investments. The investment levels required to obtain a reduced sales load are commonly referred to as “breakpoints.”

The SEC does not require a fund to offer breakpoints in the fund's sales load. But, if breakpoints exist, the fund must disclose them. In addition, a FINRA member brokerage firm should not sell you shares of a fund in an amount that is “just below” the fund's sales load breakpoint simply to earn a higher commission.

Each fund company establishes its own formula for how they will calculate whether an investor is entitled to receive a breakpoint. For that reason, it is important to seek out breakpoint information from your financial advisor or the fund itself. You'll need to ask how a particular fund establishes eligibility for breakpoint discounts, as well as what the fund's breakpoint amounts are. FINRA's Mutual Fund Breakpoint Search Tool can help you determine whether you're entitled to breakpoint discounts.

Classes of Funds

Many mutual funds offer more than one class of shares. For example, you may have seen a fund that offers “Class A” and “Class B” shares. Each class will invest in the same “pool” (or investment portfolio) of securities and will have the same

investment objectives and policies. But each class will have different shareholder services and/or distribution arrangements with different fees and expenses. As a result, each class will likely have different performance results.

A multi-class structure offers investors the ability to select a fee and expense structure that is most appropriate for their investment goals (including the time that they expect to remain invested in the fund). Here are some key characteristics of the most common mutual fund share classes offered to individual investors:

- **Class A Shares** – Class A shares typically impose a front-end sales load. They also tend to have a lower 12b-1 fee and lower annual expenses than other mutual fund share classes. Be aware that some mutual funds reduce the front-end load as the size of your investment increases. If you're considering Class A shares, be sure to inquire about breakpoints.
- **Class B Shares** – Class B shares typically do not have a front-end sales load. Instead, they may impose a contingent deferred sales load and a 12b-1 fee (along with other annual expenses). Class B shares also might convert automatically to a class with a lower 12b-1 fee if the investor holds the shares long enough.
- **Class C Shares** – Class C shares might have a 12b-1 fee, other annual expenses, and either a front- or back-end sales load. But the front- or back-end load for Class C shares tends to be lower than for Class A or Class B shares, respectively. Unlike Class B shares, Class C shares generally do not convert to another class. Class C shares tend to have higher annual expenses than either Class A or Class B shares.

Tax Consequences

When you buy and hold an individual stock or bond, you must pay income tax each year on the dividends or interest you receive. But you won't have to pay any capital **gains tax** until you actually sell and unless you make a profit.

Mutual funds are different. When you buy and hold mutual fund shares, you will owe income tax on any ordinary dividends in the year you receive or reinvest them. And, in addition to owing taxes on any *personal capital gains* when you sell your shares, you may also have to pay taxes each year

on *the fund's capital gains*. That's because the law requires mutual funds to distribute capital gains to shareholders if they sell securities for a profit that can't be offset by a loss.

Tax Exempt Funds

If you invest in a tax-exempt fund – such as a municipal bond fund – some or all of your dividends will be exempt from federal (and sometimes state and local) income tax. You will, however, owe taxes on any capital gains.

Bear in mind that if you receive a capital gains distribution, you will likely owe taxes – even if the fund has had a negative return from the point during the year when you purchased your shares. For this reason, you should call the fund to find out when it makes distributions so you won't pay more than your fair share of taxes. Some funds post that information on their websites.

SEC rules require mutual funds to disclose in their prospectuses after-tax returns. In calculating after-tax returns, mutual funds must use standardized formulas similar to the ones used to calculate before-tax average annual total returns. You'll find a fund's after-tax returns in the "Risk/Return Summary" section of the prospectus. When comparing funds, be sure to take taxes into account.

Avoiding Common Pitfalls

If you decide to invest in mutual funds, be sure to obtain as much information about the fund *before* you invest. And don't make assumptions about the soundness of the fund based solely on its past performance or its name.

Sources of Information

Prospectus

When you purchase shares of a mutual fund, the fund *must* provide you with a prospectus. But you can – and should – request and read a fund's prospectus *before* you invest. The prospectus is the fund's selling document and contains valuable information, such as the fund's investment objectives or goals, principal strategies for achieving those goals, principal risks of investing in the fund, fees and expenses, and past performance. The prospectus also identifies the fund's managers and advisers and describes how to purchase and redeem fund shares.

While they may seem daunting at first, mutual fund prospectuses contain a treasure trove of valuable information. The SEC requires funds to include specific categories of information in their prospectuses and to present key data (such as fees and past performance) in a standard format so that investors can more easily compare different funds.

Here's some of what you'll find in mutual fund prospectuses:

- **Date of Issue** – The date of the prospectus should appear on the front cover. Mutual funds must update their prospectuses at least once a year, so always check to make sure you're looking at the most recent version.
- **Risk/Return Bar Chart and Table** – Near the front of the prospectus, right after the fund's narrative description of its investment objectives or goals, strategies, and risks, you'll find a **bar chart** showing the fund's annual total returns for each of the last 10 years (or for the life of the fund if it is less than 10 years old). All funds that have had annual returns for at least one calendar year must include this chart.

Except in limited circumstances, funds also must include a **table** that sets forth returns – both before and after taxes – for the past 1-, 5-, and 10-year periods. The table will also include the returns of an appropriate broad-based index for comparison purposes. Here's what the table will look like:

	<u>1- year</u>	<u>5-year (or life of fund)</u>	<u>10-year (or life of fund)</u>
Return before taxes	___%	___%	___%
Return after taxes on distributions	___%	___%	___%
Return after taxes on distributions and sale of fund shares	___%	___%	___%
<hr/>			
<i>Index</i> (reflects no deductions for [fees, expenses, or taxes])	___%	___%	___%

- **Note:** Be sure to read any footnotes or accompanying explanations to make sure that you fully understand the data the fund provides in the bar chart and table. Also, bear in mind that the bar chart and table for a multiple-class fund (that offers more than one class of fund shares in the prospectus) will typically show performance data and returns for *only one* class.
- **Fee Table** – Following the performance bar chart and annual returns table, you’ll find a table that describes the fund’s fees and expenses. These include the shareholder fees and annual fund operating expenses described in greater detail above. The fee table includes an example that will help you compare costs among different funds by showing you the costs associated with investing a hypothetical \$10,000 over a 1-, 3-, 5-, and 10-year period.
- **Financial Highlights** – This section, which generally appears towards the back of the prospectus, contains audited data concerning the fund’s financial performance for each of the past 5 years. Here you’ll find net asset values (for both the beginning and end of each period), total returns, and various ratios, including the ratio of expenses to average net assets, the ratio of net income to average net assets, and the portfolio turnover rate.

Profile

Some mutual funds also furnish investors with a “profile,” which summarizes key information contained in the fund’s prospectus, such as the fund’s investment objectives, principal investment strategies, principal risks, performance, fees and expenses, after-tax returns, identity of the fund’s investment adviser, investment requirements, and other information.

Statement of Additional Information (“SAI”)

Also known as “Part B” of the registration statement, the SAI explains a fund’s operations in greater detail than the prospectus – including the fund’s financial statements and details about the history of the fund, fund policies on borrowing and concentration, the identity of officers, directors, and persons who control the fund, investment advisory and other services, brokerage commissions, tax matters, and performance such as yield and average annual total return information. If you ask, the

fund must send you an SAI. The back cover of the fund's prospectus should contain information on how to obtain the SAI.

Shareholder Reports

A mutual fund also must provide shareholders with annual and semi-annual reports within 60 days after the end of the fund's fiscal year and 60 days after the fund's fiscal mid-year. These reports contain a variety of updated financial information, a list of the fund's portfolio securities, and other information. The information in the shareholder reports will be current as of the date of the particular report (that is, the last day of the fund's fiscal year for the annual report, and the last day of the fund's fiscal mid-year for the semi-annual report).

Investors can obtain all of these documents by:

- Calling or writing to the fund (all mutual funds have toll-free telephone numbers);
- Visiting the fund's website;
- Contacting a broker that sells the fund's shares;
- Searching the SEC's EDGAR database and downloading the documents for free; or
- Contacting the SEC's Office of Investor Education and Advocacy by telephone at (202) 551-8090, by fax at (202) 772-9295, or by email at publicinfo@sec.gov. Please be aware that we charge \$0.24 per page for photocopying.

Past Performance

A fund's past performance is not as important as you might think. Advertisements, rankings, and ratings often emphasize how well a fund has performed in the past. But studies show that the future is often different. This year's "number one" fund can easily become next year's below average fund.

Be sure to find out how long the fund has been in existence. Newly created or small funds sometimes have excellent short-term performance records. Because these funds may invest in only a small number of stocks, a few successful stocks can have a large impact on their performance. But as these funds grow larger and increase the number of stocks they own, each stock has less impact on performance. This may make it more difficult to sustain initial results.

While past performance does not necessarily predict future returns, it *can* tell you how volatile (or stable) a fund has been over a period of time. Generally, the more volatile a fund, the higher the investment risk. If you'll need your money to meet a financial goal in the near-term, you probably can't afford the risk of investing in a fund with a volatile history because you will not have enough time to ride out any declines in the stock market.

Looking Beyond a Fund's Name

Don't assume that a fund called the "XYZ Stock Fund" invests **only** in stocks or that the "Martian High-Yield Fund" invests **only** in the securities of companies headquartered on the planet Mars. The SEC requires that any mutual fund with a name suggesting that it focuses on a particular type of investment must invest at least 80% of its assets in the type of investment suggested by its name. But funds can still invest up to one-fifth of their holdings in other types of securities – including securities that you might consider too risky or perhaps not aggressive enough.

Bank Products versus Mutual Funds

Many banks now sell mutual funds, some of which carry the bank's name. But mutual funds sold in banks, including money market funds, are *not* bank deposits. As a result, they are *not* federally insured by the Federal Deposit Insurance Corporation (FDIC).

Money Market Matters

Don't confuse a "money market fund" with a "money market deposit account." The names are similar, but they are completely different:

- A money market fund is a type of mutual fund. It *is not* guaranteed or FDIC insured. When you buy shares in a money market fund, you should receive a prospectus.
- A money market deposit account is a bank deposit. It *is* guaranteed and FDIC insured. When you deposit money in a money market deposit account, you should receive a Truth in Savings form.

If You Have Problems

If you encounter a problem with your mutual fund, you can send us your complaint using our online complaint form. You can also reach us by regular mail at:

Securities and Exchange Commission
Office of Investor Education and Advocacy
100 F Street, N.E.
Washington, D.C. 20549-0213

For more information about investing wisely and avoiding fraud, please check out the Investor Information section of our website.

Glossary of Key Mutual Fund Terms

12b-1 Fees – fees paid by the fund out of fund assets to cover the costs of marketing and selling fund shares and sometimes to cover the costs of providing shareholder services. “Distribution fees” include fees to compensate brokers and others who sell fund shares and to pay for advertising, the printing and mailing of prospectuses to new investors, and the printing and mailing of sales literature. “Shareholder Service Fees” are fees paid to persons to respond to investor inquiries and provide investors with information about their investments.

Account Fee – a fee that some funds separately impose on investors for the maintenance of their accounts. For example, accounts below a specified dollar amount may have to pay an account fee.

Back-end Load – a sales charge (also known as a “deferred sales charge”) investors pay when they redeem (or sell) mutual fund shares, generally used by the fund to compensate brokers.

Classes – different types of shares issued by a single fund, often referred to as *Class A* shares, *Class B* shares, and so on. Each class invests in the same “pool” (or investment portfolio) of securities and has the same investment objectives and policies. But each class has different shareholder services and/or distribution arrangements with different fees and expenses and therefore different performance results.

Closed-End Fund – a type of investment company that does not continuously offer its shares for sale but instead sells a fixed number of shares at one time (in the initial public offering) which then typically trade on a secondary market, such as the New York Stock Exchange or the Nasdaq Stock Market. Legally known as a “closed-end company.”

Contingent Deferred Sales Load – a type of back-end load, the amount of which depends on the length of time the investor held his or her shares. For example, a contingent deferred sales load might be (X)% if an investor holds his or her shares for one year, (X-1)% after two years, and so on until the load reaches zero and goes away completely.

Conversion – a feature some funds offer that allows investors to automatically change from one class to another (typically with lower annual expenses) after a set period of time. The fund's prospectus or profile will state whether a class ever converts to another class.

Deferred Sales Charge – see “back-end load” (above).

Distribution Fees – fees paid out of fund assets to cover expenses for marketing and selling fund shares, including advertising costs, compensation for brokers and others who sell fund shares, and payments for printing and mailing prospectuses to new investors and sales literature prospective investors. Sometimes referred to as “12b-1 fees.”

Exchange Fee – a fee that some funds impose on shareholders if they exchange (transfer) to another fund within the same fund group.

Exchange-Traded Funds – a type of an investment company (either an open-end company or UIT) whose objective is to achieve the same return as a particular market index. ETFs differ from traditional open-end companies and UITs, because, pursuant to SEC exemptive orders, shares issued by ETFs trade on a secondary market and are only redeemable from the fund itself in very large blocks (blocks of 50,000 shares for example).

Expense Ratio – the fund's total annual operating expenses (including management fees, distribution (12b-1) fees, and other expenses) expressed as a percentage of average net assets.

Front-end Load – an upfront sales charge investors pay when they purchase fund shares, generally used by the fund to compensate brokers. A front-end load reduces the amount available to purchase fund shares.

Index Fund – describes a type of mutual fund or Unit Investment Trust (UIT) whose investment objective typically is to achieve the same return as a particular market index, such as the S&P 500 Composite Stock Price Index, the Russell 2000 Index, or the Wilshire 5000 Total Market Index.

Investment Adviser – generally, a person or entity who receives compensation for giving individually tailored advice to a specific person on investing in stocks, bonds, or mutual funds. Some investment advisers also manage portfolios of securities, including mutual funds.

Investment Company – a company (corporation, business trust, partnership, or limited liability company) that issues securities and is primarily engaged in the business of investing in securities. The three basic types of investment companies are mutual funds, closed-end funds, and unit investment trusts.

Load – see “Sales Charge.”

Management Fee – fee paid out of fund assets to the fund’s investment adviser or its affiliates for managing the fund’s portfolio, any other management fee payable to the fund’s investment adviser or its affiliates, and any administrative fee payable to the investment adviser that are not included in the “Other Expenses” category. A fund’s management fee appears as a category under “Annual Fund Operating Expenses” in the Fee Table.

Market Index – a measurement of the performance of a specific “basket” of stocks considered to represent a particular market or sector of the U.S. stock market or the economy. For example, the Dow Jones Industrial Average (DJIA) is an index of 30 “blue chip” U.S. stocks of industrial companies (excluding transportation and utility companies).

Mutual Fund – the common name for an open-end investment company. Like other types of investment companies, mutual funds pool money from many investors and invest the money in stocks, bonds, short-term money-market instruments, or other securities. Mutual funds issue redeemable shares that investors purchase directly from the fund (or through a broker for the fund) instead of purchasing from investors on a secondary market.

NAV (Net Asset Value) – the value of the fund’s assets minus its liabilities. SEC rules require funds to calculate the NAV at least once daily. To calculate the NAV per share, simply subtract the fund’s liabilities from its assets and then divide the result by the number of shares outstanding.

No-load Fund – a fund that does not charge any type of sales load. But not every type of shareholder fee is a “sales load,” and a no-load fund may charge fees that are not sales loads. No-load funds also charge operating expenses.

Open-End Company – the legal name for a mutual fund. An open-end company is a type of investment company

Operating Expenses – the costs a fund incurs in connection with running the fund, including management fees, distribution (12b-1) fees, and other expenses.

Portfolio – an individual’s or entity’s combined holdings of stocks, bonds, or other securities and assets.

Profile – summarizes key information about a mutual fund’s costs, investment objectives, risks, and performance. Although every mutual fund has a prospectus, not every mutual fund has a profile.

Prospectus – describes the mutual fund to prospective investors. Every mutual fund has a prospectus. The prospectus contains information about the mutual fund’s costs, investment objectives, risks, and performance. You can get a prospectus from the mutual fund company (through its website or by phone or mail). Your financial professional or broker can also provide you with a copy.

Purchase Fee – a shareholder fee that some funds charge when investors purchase mutual fund shares. Not the same as (and may be in addition to) a front-end load.

Redemption Fee – a shareholder fee that some funds charge when investors redeem (or sell) mutual fund shares. Redemption fees (which must be paid to the fund) are not the same as (and may be in addition to) a back-end load (which is typically paid to a broker). The SEC generally limits redemption fees to 2%.

Sales Charge (or “Load”) – the amount that investors pay when they purchase (front-end load) or redeem (back-end load) shares in a mutual fund, similar to a commission. The SEC’s rules do not limit the size of sales load a fund may charge, but NASD rules state that mutual fund sales loads cannot exceed 8.5% and must be even lower depending on other fees and charges assessed.

Shareholder Service Fees – fees paid to persons to respond to investor inquiries and provide investors with information about their investments. See also “12b-1 fees.”

Statement of Additional Information (SAI) – conveys information about an open- or closed-end fund that is not necessarily needed by investors to make an informed investment decision, but that some investors find useful. Although funds are not required to provide investors with the SAI, they must give investors the SAI upon request and without charge. Also known as “Part B” of the fund’s registration statement.

Total Annual Fund Operating Expense – the total of a fund’s annual fund operating expenses, expressed as a percentage of the fund’s average net assets. You’ll find the total in the fund’s fee table in the prospectus.

Unit Investment Trust (UIT) – a type of investment company that typically makes a one-time “public offering” of only a specific, fixed number of units. A UIT will terminate and dissolve on a date established when the UIT is created (although some may terminate more than fifty years after they are created). UITs do not actively trade their investment portfolios.

EQUITY-INDEXED ANNUITIES

Are you considering buying an equity-indexed annuity? Here is some information you need to know.

What is an equity-indexed annuity?

An equity-indexed annuity is a special type of contract between you and an insurance company. During the accumulation period – when you make either a lump sum payment or a series of payments – the insurance company credits you with a return that is based on changes in an equity index, such as the S&P 500 Composite Stock Price Index. The insurance company typically guarantees a minimum return. Guaranteed minimum return rates vary. After the accumulation period, the insurance company will make periodic payments to you under the terms of your contract, unless you choose to receive your contract value in a lump sum.

Can you lose money buying an equity-indexed annuity?

You can lose money buying an equity-indexed annuity, especially if you need to cancel your annuity early. Even with a guarantee, you can still lose money if your guarantee is based on an amount that's less than the full amount of your purchase payments. In many cases, it will take several years for an equity-index annuity's minimum guarantee to "break even."

You also may have to pay a significant surrender charge and tax penalties if you cancel early. In addition, in some cases, insurance companies may not credit you with index-linked interest if you do not hold your contract to maturity.

What are some of the contract features of equity-indexed annuities?

Equity-indexed annuities are complicated products that may contain several features that can affect your return. You should fully understand how an equity-indexed annuity computes its index-linked interest rate before you buy. An insurance company may credit you with a lower return than the actual index's gain. Some common features used to compute an equity-indexed annuity's interest rate include:

- **Participation Rates.** The participation rate determines how much of the index's increase will be used to compute the index-linked interest rate.

For example, if the participation rate is 80% and the index increases 9%, the return credited to your annuity would be 7.2% ($9\% \times 80\% = 7.2\%$).

- **Interest Rate Caps.** Some equity-indexed annuities set a maximum rate of interest that the equity-indexed annuity can earn. If a contract has an upper limit, or cap, of 7% and the index linked to the annuity gained 7.2%, only 7% would be credited to the annuity.
- **Margin/Spread/Administrative Fee.** The index-linked interest for some annuities is determined by subtracting a percentage from any gain in the index. This fee is sometimes called the “margin,” “spread,” or “administrative fee.” In the case of an annuity with a “spread” of 3%, if the index gained 9%, the return credited to the annuity would be 6% ($9\% - 3\% = 6\%$).

Another feature that can have a dramatic impact on an equity-indexed annuity’s return is its indexing method (or how the amount of change in the relevant index is determined). Some common indexing methods include:

- **Annual Reset (or Ratchet).** This method credits index-linked interest based on any increase in index value from the beginning to the end of the year.
- **Point-to-Point.** This method credits index-linked interest based on any increase in index value from the beginning to the end of the contract’s term.
- **High Water Mark.** This method credits index-linked interest based on any increase in index value from the index level at the beginning of the contract’s term to the highest index value at various points during the contract’s term, often annual anniversaries of when you purchased the annuity.

These and other features may be included in an equity-indexed annuity you are considering. Before you decide to buy an equity-indexed annuity, you should understand how each feature works and what impact, together with other features, it may have on the annuity’s potential return.

Are equity-indexed annuities registered with the Securities and Exchange Commission?

Equity-indexed annuities combine features of traditional insurance products (guaranteed minimum return) and traditional securities (return linked to equity markets). Depending on the mix of features, an equity-indexed annuity may or may not be a security. The typical equity-indexed annuity is not registered with the SEC.

Who should I contact if I have a problem?

If you have a problem with an equity-indexed annuity, you should contact your state insurance commissioner. Call the National Association of Insurance Commissioners at (816) 783-3600 for contact information. We would also like to hear from you, although we will likely only have jurisdiction to resolve your particular issue if your equity-indexed annuity is a security.

CALLABLE CDs OR BONDS

Investors searching for relatively low-risk investments that can easily be converted into cash often turn to certificates of deposit (CDs). A CD is a special type of deposit account with a bank or thrift institution that typically offers a higher rate of interest than a regular savings account. Unlike other investments, CDs feature federal deposit insurance up to the limits imposed by law. Investors, however, should be wary of promises of above-market returns and careful to confirm the legitimacy of the CD with the purported issuing bank or thrift institution.

The SEC found fraudsters who raised more than \$3.9 million from at least 50 investors in several states by claiming to sell CDs that did not exist. The fraudsters lured investors, many of whom were elderly, with promises of above market rates on FDIC insured CDs purportedly issued by an entity called the “Liberty Certificate of Deposit Trust Fund.” The fraudsters also distributed fictitious investment documents and account statements to attract investors and to ensure they continued to invest in the scheme. Further, rather than purchase CDs, the fraudsters used all of the proceeds from new investors to make payments to earlier investors, and to pay their own personal expenses.

What You Should Know About CDs

Here’s how CDs work: When you purchase a CD, you invest a fixed sum of money for a fixed period of time – six months, one year, five years, or more – and, in exchange, the issuing bank pays you interest, typically at regular intervals. When you cash in or redeem your CD, you receive the money you originally invested plus any accrued interest. But if you redeem your CD before it matures, you may have to pay an “early withdrawal” penalty or forfeit a portion of the interest you earned.

Although most investors have traditionally purchased CDs through local banks, many brokerage firms and independent salespeople now offer CDs. These individuals and entities – known as “deposit brokers” – can sometimes negotiate a higher rate of interest for a CD by promising to bring a certain amount of deposits to the institution. The deposit broker can then offer these “brokered CDs” to their customers.

At one time, most CDs paid a fixed interest rate until they reached maturity. But, like many other products in today's markets, CDs have become more complicated. Investors may now choose among variable rate CDs, long-term CDs, and CDs with other special features.

Some long-term, high-yield CDs have "call" features, meaning that the issuing bank may choose to terminate – or call – the CD after only one year or some other fixed period of time. Only the issuing bank may call a CD, not the investor. For example, a bank might decide to call its high-yield CDs if interest rates fall. But if you've invested in a long-term CD and interest rates subsequently rise, you'll be locked in at the lower rate.

Before you consider purchasing a CD from your bank or brokerage firm, make sure you fully understand all of its terms. Carefully read the disclosure statements, including any fine print. And don't be dazzled by high yields. Ask questions – and demand answers – before you invest. These tips can help you assess what features make sense for you:

- **Find Out When the CD Matures.** As simple as this sounds, many investors fail to confirm the maturity dates for their CDs and are later shocked to learn that they've tied up their money for five, ten, or even twenty years. Before you purchase a CD, ask to see the maturity date in writing.
- **Investigate Any Call Features.** Callable CDs give the issuing bank the right to terminate-or "call" – the CD after a set period of time. But they do not give you that same right. If interest rates fall, the issuing bank might call the CD. In that case, you should receive the full amount of your original deposit plus any unpaid accrued interest. But you'll have to shop for a new one with a lower rate of return. Unlike the bank, you can never "call" the CD and get your principal back. So if interest rates rise, you'll be stuck in a long-term CD paying below-market rates. In that case, if you want to cash out, you will lose some of your principal. That's because your broker will have to sell your CD at a discount to attract a buyer. Few buyers would be willing to pay full price for a CD with a below-market interest rate.
- **Understand the Difference Between Call Features and Maturity.** Don't assume that a "federally insured one-year non-callable" CD matures in one year. It doesn't. These words mean the bank cannot redeem the CD during the first year, but they have nothing to do with the

CD's maturity date. A "one-year non-callable" CD may still have a maturity date 15 or 20 years in the future. If you have any doubt, ask the sales representative at your bank or brokerage firm to explain the CD's call features and to confirm when it matures.

- **For Brokered CDs, Identify the Issuer.** Because federal deposit insurance is limited to a total aggregate amount determined by law for each depositor in each bank or thrift institution, it is very important that you know which bank or thrift issued your CD. Your broker may plan to put your money in a bank or thrift where you already have other CDs or deposits. You risk not being fully insured if the brokered CD would push your total deposits at the institution over the legal insurance limit. (If you think that might happen, contact the institution to explore potential options for remaining fully insured, or call the FDIC.) For more information about federal deposit insurance, visit the Federal Deposit Insurance Corporation's website at <http://www.fdic.gov/deposit/deposits/insured/yid.pdf> and read its publication *Your Insured Deposit* or call the FDIC's Consumer Information Center at (877) 275-3342. The phone numbers for the hearing impaired are (800) 925-4618 or (202) 942-3147.
- **Find Out How the CD Is Held.** Unlike traditional bank CDs, brokered CDs are sometimes held by a group of unrelated investors. Instead of owning the entire CD, each investor owns a piece. Confirm with your broker how your CD is held, and be sure to ask for a copy of the exact title of the CD. If several investors own the CD, the deposit broker will probably not list each person's name in the title. But you should make sure that the account records reflect that the broker is merely acting as an agent for you and the other owners (for example, "XYZ Brokerage as Custodian for Customers"). This will ensure that your portion of the CD qualifies for up to the available FDIC coverage.
- **Research Any Penalties for Early Withdrawal.** Deposit brokers often tout the fact that their CDs have no penalty for early withdrawal. While technically true, these claims can be misleading. Be sure to find out how much you'll have to pay if you cash in your CD before maturity and whether you risk losing any portion of your principal. If you are the sole owner of a brokered CD, you may be able to pay an early withdrawal penalty to the bank that issued the CD to get your money back. But if you share the CD with other customers, your broker will have to find a buyer for your portion. If interest rates have fallen since you purchased

your CD and the bank hasn't called it, your broker may be able to sell your portion for a profit. But if interest rates have risen, there may be less demand for your lower-yielding CD. That means you would have to sell the CD at a discount and **lose some of your original deposit** – despite no “penalty” for early withdrawal.

- **Thoroughly Check Out the Broker.** Deposit brokers do not have to go through any licensing or certification procedures, and no state or federal agency licenses, examines, or approves them. Since anyone can claim to be a deposit broker, you should always check whether your broker or the company he or she works for has a history of complaints or fraud. You can do this by calling your state securities regulator or by checking with FINRA's BrokerCheck at (800) 289-9999.
- **Confirm the Interest Rate You'll Receive and How You'll Be Paid.** You should receive a disclosure document that tells you the interest rate on your CD and whether the rate is fixed or variable. Be sure to ask how often the bank pays interest – for example, monthly or semi-annually. And confirm how you'll be paid – for example, by check or by an electronic transfer of funds.
- **Ask Whether the Interest Rate Ever Changes.** If you're considering investing in a variable-rate CD, make sure you understand when and how the rate can change. Some variable-rate CDs feature a “multi-step” or “bonus rate” structure in which interest rates increase or decrease over time according to a pre-set schedule. Other variable-rate CDs pay interest rates that track the performance of a specified market index, such as the S&P 500 or the Dow Jones Industrial Average.

The bottom-line question you should always ask yourself is: Does this investment make sense for me? A high-yield, long-term CD with a maturity date of 15 to 20 years may make sense for many younger investors who want to diversify their financial holdings. But it might not make sense for elderly investors.

Don't be embarrassed if you invested in a long-term, brokered CD in the mistaken belief that it was a shorter-term instrument—you are not alone. Instead, you should complain promptly to the broker who sold you the CD. By complaining early you may improve your chances of getting your money back. Here are the steps you should take:

1. Talk to the broker who sold you the CD, and explain the problem fully, especially if you misunderstood any of the CD's terms. Tell your broker how you want the problem resolved.
2. If your broker can't resolve your problem, then talk to his or her branch manager.
3. If that doesn't work, then write a letter to the compliance department at the firm's main office. The branch manager should be able to provide you with contact information for that department. Explain your problem clearly, and tell the firm how you want it resolved. Ask the compliance office to respond to you in writing within 30 days.

If you're still not satisfied, then send us your complaint. We will forward your complaint to the firm's compliance department and ask that they look into the problem and respond to you in writing.

You should also contact the banking regulator that oversees the bank that issued the CD:

- The Board of Governors of the Federal Reserve System, (202) 452-8693, oversees state-chartered banks and trust companies that belong to the Federal Reserve System.
- The Federal Deposit Insurance Corporation, (877) 275-3342, regulates state-chartered banks that do not belong to the Federal Reserve System.
- The Office of the Controller of the Currency, (800) 613-6743, regulates banks that have the word "National" in or the letters "N.A." after their names.
- The National Credit Union Administration, (800) 827-9650, regulates federally chartered credit unions.
- The Office of Thrift Supervision, (800) 842-6929, oversees federal savings and loans and federal savings banks.

EQUITY-LINKED CDs

An equity-linked CD is an FDIC-insured certificate of deposit that ties the rate of return to the performance of a stock index such as the S&P 500 Composite Stock Price Index. The terms of these CDs vary; typically the term is five years. The financial institution calculates your rate of return on the date that the CD matures based on the particular terms of the contract. Therefore, there is no guarantee that any payment in excess of the guaranteed payment will be paid. As with any CD, you should understand its terms, verify whether the institution offering the CD is reputable, and assess whether the CD is an appropriate investment for you.

Financial institutions offering equity-linked CDs typically emphasize that the products protect investors from downturns in the markets because the original principal is not at risk. The investor is risking the interest that would otherwise be paid on the CD for the term. However, before you invest in these CDs, you should fully understand how their specific features may affect your return and the tax treatment of these products. The offering institution typically outlines this information in the term sheet and the general terms and conditions.

- **Liquidity Risk.** Investors typically will have limited opportunities, if any, to redeem their equity-linked CDs prior to maturity. Moreover, the financial institutions do not guarantee the existence of a secondary market. Many equity-linked CDs do not permit the early withdrawal of your investment without the consent of the financial institution. If you need to withdraw your investment before the CD matures, you will incur withdrawal penalties. You also will lose any interest that you would accrue in a regular CD that has the same terms. There is no exception for CDs held in either a traditional IRA account or a Coverdell Education Savings Account (ESA). Therefore, you should carefully consider your retirement needs or the educational needs of a beneficiary of an ESA before investing in equity-linked CDs. Other equity-linked CDs allow for redemption only on pre-specified redemption dates. Therefore, you may not be able to redeem your equity-linked CD when you may want or need your money to be available.
- **Market Risk.** If the equity-linked CD is sold before maturity, it may be worth less than its purchase amount or face value. The equity-linked CD will be subject to a number of variables, including stock market volatility and changes to the components of the linked index. In addition, there is no guarantee of principal return unless the investment is held to maturity.

- **Call Risk.** An equity-linked CD may be callable. If an equity-linked CD is called, the investor's return may be less than the yield for which the CD would have earned had it been held to maturity. The investor also may not be able to invest their funds at the same rate as the original CD.
- **FDIC Insurance.** In general, equity-linked CDs are insured by the FDIC up to the amount permitted by law. FDIC insurance covers the principal of, and any guaranteed interest on, the equity-linked CDs. Investors should carefully read the issuer's disclosure about how the FDIC limits apply in specific circumstances. Investors also may want to review the FDIC's brochure entitled *Your Insured Deposits*, <http://www.fdic.gov/deposit/deposits/insured/index.html>.
- **Calculation of Return.** Many financial institutions calculate the return on an equity-linked CD by averaging the closing price of the underlying index over a specific period of time, rather than simply using the closing price upon maturity of your CD to compute your gain or loss. For example, a financial institution may use an average based on the closing price of the S&P 500 every six months during the term of the CD. *The formulas used to calculate your return may lessen the impact of a declining market. However, if the market moves steadily upward during the period that you hold the CD, your return may be significantly less than the index's gain during this period.*

The formulas used by the financial institutions usually do not take into consideration the dividend yield of the relevant stock index.

- **Participation Rates.** The participation rate determines how much of the index's increase will be used to compute the interest calculation. For example, if the S&P 500 goes up 10 percent and the participation rate is 70%, you will get only 7 percent.
- **Caps.** Some equity-linked CDs also set a cap on your gain per year regardless of how well the relevant stock index performed. For example, if the S&P 500 goes up 20 percent and the CD participation rate is 70%, but the cap is 10%, your return will not be 14% (70% of 20 percent), but will be capped at 10%.
- **Tax Treatment.** Equity-linked CDs may be treated differently than traditional CDs for tax purposes. Before investing in these products, you should carefully review the disclosures concerning the reporting of interest income and consult a tax adviser if appropriate.

ULTRA-SHORT BOND FUNDS: KNOW WHERE YOU'RE PARKING YOUR MONEY

Ultra-short bond funds are mutual funds that generally invest in fixed income securities with extremely short maturities or time periods in which they become due for payment. Like other bond mutual funds, ultra-short bond funds may invest in a wide range of securities, including corporate debt, government securities, mortgage-backed securities, and other asset-backed securities.

Some investors don't realize that there are material differences between ultra-short bond funds and other investments with relatively low risks, such as money market funds and certificates of deposit. Specifically, ultra-short bond funds tend to have higher risks than money market funds and certificates of deposit (CDs).

Money market funds can only invest in certain high-quality, short-term investments issued by U.S. government, U.S. corporations, and state and local governments. Ultra-short bond funds, like other bond mutual funds, are not subject to these requirements and typically pursue strategies aimed at producing higher yields by investing in securities with higher risks. In addition, the net asset value (NAV) of an ultra-short bond fund will fluctuate, while money market funds try to keep their NAV at a stable \$1.00 per share. Keeping this stable NAV – which represents the value of one share in a fund – reduces the risk that an investment in a money market fund will decrease in value. Lastly, money market funds are also subject to strict diversification and maturity standards that don't apply to ultra-short bond funds.

Like other mutual funds, ultra-short bond funds and money market funds are not guaranteed or insured by the FDIC or any other government agency. A CD, on the other hand, features federal deposit insurance up to the amount specified by law. A CD, which promises a return of principal and a specified rate of interest, is a special type of deposit account with a bank or thrift institution that typically offers a higher rate of interest than a regular savings account.

If you are considering investing in an ultra-short bond fund, keep in mind that ultra-short bond funds can vary significantly in their risks and rewards. The level of risk associated with a particular ultra-short bond fund may depend on a variety of factors, including:

Credit Quality of the Fund's Investments. It's important to know the types of securities a fund invests in because ultra-short bond funds may experience losses due to credit downgrades or defaults of their portfolio securities. Credit risk is less of

a factor for ultra-short bond funds that principally invest in government securities. By contrast, if you invest in an ultra-short bond fund that invests in bonds of companies with lower credit ratings, derivative securities, or private label mortgage-backed securities, you'll generally be subject to a higher level of risk.

Maturity Dates of the Fund's Investments. The maturity date of a security is the date that it becomes due for payment. An ultra-short bond fund that holds securities with longer average maturity dates will be riskier than a fund with shorter average maturity dates – assuming the funds are otherwise similar.

Sensitivity to Interest Rate Changes. Generally, when interest rates go up, the value of debt securities will go down. Because of this, you can lose money investing in any bond funds, including ultra-short bond funds. In a high interest rate environment, certain ultra-short bond funds may be especially vulnerable to losses. Before you invest in any ultra-short bond fund, be sure to read about a fund's "duration," which measures how sensitive the fund's portfolio may be to changes in interest rates.

VIATICAL SETTLEMENTS

A viatical settlement allows you to invest in another person's life insurance policy. With a viatical settlement, you purchase the policy (or part of it) at a price that is less than the death benefit of the policy. When the seller dies, you collect the death benefit.

Your return depends upon the seller's life expectancy and the actual date he or she dies. If the seller dies before the estimated life expectancy, you may receive a higher return. But if the seller lives longer than expected, your return will be lower. You can even lose part of your principal investment if the person lives long enough so that you have to pay additional premiums to maintain the policy.

Viatical settlements can be risky investments. For these reasons, you should exercise caution and thoroughly investigate before you consider investing in a viatical settlement.

Many state insurance commissioners license the companies that buy viatical settlement to sell to investors and may have information about a specific company or viatical settlements in general. To find out who your state insurance regulator is, call the National Association of Insurance Commissioners at (816) 783-3600. The Federal Trade Commission also has information for those who are considering selling their life insurance policies, <http://www.ftc.gov/opa/1995/12/via.htm>.

Where to Go For Help

WHERE TO GO FOR HELP

SEC COMPLAINT CENTER

If you encounter a problem with an investment or have a question, you can contact the SEC's Office of Investor Education and Advocacy at:

Securities and Exchange Commission
Office of Investor Education and Advocacy
100 F Street, N.E.
Washington, D.C. 20549-0213

Telephone: (202) 551-6551 or (800) 732-0330
Fax: (202) 772-9295

You also can send us an online complaint form at www.sec.gov/complaint.shtml or email us at help@sec.gov.

ADDITIONAL SEC RESOURCES

In addition to the investor education material discussed elsewhere in this Guide, the SEC website includes databases that allow you to begin your investigations about potential investments.

You can check our EDGAR database for filings filed by registered securities issuers and mutual fund companies, <http://www.sec.gov/edgar/searchedgar/webusers.htm>. Available filings include registration statements, proxy materials, and periodic reports. If a company is exempt from the SEC's registration requirements, EDGAR often references the Form D (notice of exemption) provided by the issuer. You can obtain a Form D by calling (202) 551-8090.

Our online brochure *Protect Your Money: Check Out Brokers and Investment Advisers*, <http://www.sec.gov/investor/brokers.htm>, links to the Investment Adviser Public Disclosure website (IAPD). This database includes the registration statements filed by investment advisers registered with the SEC and in certain states.

If you have been a victim of a scam, you can check the litigation section of the SEC's website, <http://www.sec.gov/litigation.shtml>, for information about any SEC actions or any investors claims funds.

STATE REGULATORS

While the SEC regulates and enforces the federal securities laws, each state has its own securities regulator who enforces what are known as “blue sky laws.” These laws cover many of the same activities the SEC regulates, such as the sale of securities and those who sell them, but are confined to securities sold or persons who sell them within each state.

In addition, your state securities regulator can tell you whether the investment is registered and if the broker and the broker’s firm are licensed to do business in your state. Your state regulator also can check the disciplinary history of a broker or brokerage firm. Similarly, your state regulators can tell you whether an investment adviser is registered with them.

We provide telephone numbers for each state securities regulator (as well as Puerto Rico and the Virgin Islands) in the Appendix to this Guide.

You also can find out who your state securities regulator is by visiting the website of the North American Securities Administrators Association, Inc. (NASAA) – www.nasaa.org/QuickLinks/ContactYourRegulator.cfm or by calling (202) 737-0900. In addition, NASAA’s website includes investor information devoted to seniors. You also can call NASAA at (888) 846-2722 to obtain hard copies of their investor education materials.

Financial Industry Regulatory Authority (FINRA)

FINRA, a self-regulatory organization, also regulates the brokerage industry. If you have a complaint against a FINRA member firm or one of its employees, you can file a complaint at:

FINRA Investor Complaint Center
1735 K Street NW
Washington, DC 20006

Fax: (866) 397-3290

You also can file an online complaint by going to <http://www.finra.org>.

You can verify registration and disciplinary information about an individual broker or brokerage firm by using FINRA BrokerCheck, www.finrabrokercheck.org. You also can call them toll-free at (800) 289-9999.

FINRA’s website includes investor resources as well as an investors’ claims fund page.

SEC PUBLICATIONS AND ONLINE MATERIALS

The SEC strongly believes that an educated investor provides the best defense – and offense – against securities fraud. Investors who know what questions to ask and how to detect fraud will be less likely to fall prey to con artists. And, because they are more likely to report wrongdoing to the SEC and their state securities regulators, educated investors serve as an important early warning system to help regulators fight fraud.

The SEC educates investors on how to invest wisely and protect their savings from fraud by providing both free publications and information on our website that features interactive quizzes and calculators, information about online investing, and special sections for seniors, military personnel, researchers and librarians, and students and teachers.

Below is a list of online and print publications that may be of interest to seniors. Many of the materials include additional information on the topics discussed in this Guide.

INFORMATION FOR SENIORS WEB PAGE

The SEC recently created a page on its website aimed specifically at senior citizens: <http://www.sec.gov/investor/seniors.shtml>. This page provides links to critical information on investments that are commonly marketed to seniors – including variable annuities, equity-indexed annuities, promissory notes, and certificates of deposit. It also warns against the dangers of listening to the sales pitches of cold-callers and alerts seniors to the very real threat of affinity fraud – scams that prey upon members of identifiable groups, such as religious or ethnic communities, professional groups, or the elderly.

SENIORS CARE PACKAGE

We also created a “Seniors Care Package”, a collection of our most popular brochures for seniors. Seniors can view the care package online on the SEC’s seniors web page, and they can order hard copies by clicking on a link that will send their request via email. Seniors also can send an email directly to help@sec.gov or call the Office of Investor Education and Advocacy at (800) 732-0330 to request the package.

PRINT PUBLICATIONS

You can obtain the following brochures by contacting the SEC's Office of Investor Education and Advocacy at (800) 732-0330 or help@sec.gov. When requesting a document, you may want to ask about the availability of a large print version.

- Ask Questions (also in Spanish)
- Bankruptcy: What Happens When Public Companies Go Bankrupt
- Certificates of Deposit: Tips for Investors
- Get the Facts on Saving and Investing (also in Spanish)
- Internet Fraud: How to Avoid Internet Investment Scams
- Invest Wisely: An Introduction to Mutual Funds
- Microcap Stock: A Guide for Investors
- Variable Annuities: What You Should Know

ONLINE MATERIALS

Below is a partial list of information available on the SEC website. You can find the entire (searchable) list of publications on our website at <http://www.sec.gov/investor/pubs.shtml>.

Types of Fraud

Affinity Fraud

- Affinity Fraud: How to Avoid Scams that Target Groups
<http://www.sec.gov/investor/pubs/affinity.htm>
 - In Spanish, <http://www.sec.gov/pdf/espanol/afinidad.pdf>

Ponzi/Pyramid Schemes

- Ponzi Schemes
<http://www.sec.gov/answers/ponzi.htm>
- Pyramid Schemes
<http://www.sec.gov/answers/pyramid.htm>

High Return/Risk Free Investments

- High Yields and Hot Air
<http://www.sec.gov/investor/pubs/investorfraud.htm>
- Prime Bank Fraud Information Page
<http://www.sec.gov/divisions/enforce/primebank.shtml>

Promissory Notes

- Promissory Notes
<http://www.sec.gov/answers/promise.htm>
- Broken Promises: Promissory Note Fraud
<http://www.sec.gov/investor/pubs/promise.htm>
- Promissory Notes: Promises, Problems (joint publication of FINRA, NASAA and SIA)
<http://www.sec.gov/pdf/promissory.pdf>

Oil and Gas Scams

- Oil and Gas Scams: Common Red Flags and Steps You Can Take to Protect Yourself
<http://www.sec.gov/investor/pubs/oilgasscams.htm>

Unscrupulous Tactics of Financial Professionals

- Suitability
<http://www.sec.gov/answers/suitability.htm>
- Churning
<http://www.sec.gov/answers/churning.htm>
- “Free Lunch” Sales Seminar Examination Sweeps
<http://www.sec.gov/news/press/extra/seniors/freelunchseminars.htm>

Senior Specialists

- Senior Specialists and Advisors: What You Should Know About Professional Designations
<http://www.sec.gov/investor/pubs/senior-profdes.htm>

Online Investment Fraud

- Be Alert for Telltale Signs of Investment Fraud
<http://www.sec.gov/investor/pubs/cyberfraud/signs.htm>
- Stock Market Fraud “Survivor” Checklist
<http://www.sec.gov/investor/pubs/fraudsurvivor.htm>
- How to Avoid Internet Investment Scams
<http://www.sec.gov/investor/pubs/cyberfraud.htm>
- Microcap Stock: A Guide for Investors
<http://www.sec.gov/investor/pubs/microcapstock.htm>
 - In Spanish, http://www.sec.gov/investor/espanol/microcap_esp.htm
- Pump & Dump.con: Tips for Avoiding Stock Scams on the Internet
<http://www.sec.gov/investor/pubs/pump.htm>

Fake Government Agencies

- Fake Seals and Phony Numbers: How Fraudsters Try to Look Legit
<http://www.sec.gov/investor/pubs/fakeseals.htm>

Cold Calls and Wrong Telephone Numbers

- Cold Calling
<http://www.sec.gov/investor/pubs/coldcall.htm>
- “Wrong Numbers” and Stock Tips on Your Answering Machine
<http://www.sec.gov/investor/pubs/wrongnumberscam.htm>

Additional Products

Annuities

- Variable Annuities: What You Should Know
<http://www.sec.gov/investor/pubs/varannty.htm>
 - In Spanish, http://www.sec.gov/pdf/espano/anualidades_variables.pdf
- Variable Annuities – Free Look Period
<http://www.sec.gov/answers/freelook.htm>
- Variable Annuities Surrender Charges
<http://www.sec.gov/answers/annuitysurrender.htm>
- Equity-Indexed Annuities
<http://www.sec.gov/investor/pubs/equityindxannuity.htm>

Mutual Funds

- Invest Wisely, An Introduction to Mutual Funds
<http://www.sec.gov/investor/pubs/inwsmf.htm>
- Ultra-Short Bond Funds: Know Where You're Parking Your Money
http://www.sec.gov/investor/pubs/ultra-short_bond_funds.htm

Certificates of Deposit

- Certificates of Deposit
<http://www.sec.gov/answers/cds.htm>
- Certificates of Deposit: Tips for Investors
<http://www.sec.gov/investor/pubs/certific.htm>
 - In Spanish, <http://www.sec.gov/pdf/espanol/deposito.pdf>
- Equity-Linked CDs
<http://www.sec.gov/answers/equitylinkedcds.htm>

Viatical Settlements

- Viatical Settlements
<http://www.sec.gov/answers/viaticalsettle.htm>

Exempt Offerings and SEC Registration Requirements:

- Regulation D Offerings
<http://www.sec.gov/answers/regd.htm>
- Registration Under the Securities Act of 1933
<http://www.sec.gov/answers/regis33.htm>

Investor Protection/Literacy

- Ask Questions
<http://www.sec.gov/investor/pubs/askquestions.htm>
 - In Spanish, <http://www.sec.gov/pdf/pregunte.pdf>
- Top Tips for Your Readers
<http://www.sec.gov/investor/links/toptips.htm>
- Cold Calling
<http://www.sec.gov/investor/pubs/coldcall.htm>
- Get the Facts
<http://www.sec.gov/investor/pubs/roadmap.htm>
 - In Spanish, <http://www.sec.gov/pdf/espanol/loshechos.pdf>

Researching Investments

- Information Matters
<http://www.sec.gov/answers/infomatters.htm>
- Information about Some Companies not Available from the SEC
<http://www.sec.gov/answers/noinfo.htm>
- Information Available to Investment Company Shareholders
<http://www.sec.gov/answers/mfinfo.htm>

Researching Brokers and Advisers

- Protect Your Money: Check Out Brokers and Advisers
<http://www.sec.gov/investor/brokers.htm>
- Investment Advisers: What You Need to Know Before Choosing One
<http://www.sec.gov/investor/pubs/invadvisers.htm>
- Investment Adviser Public Disclosure database (IAPD)
http://www.adviserinfo.sec.gov/IAPD/Content/lapdMain/iapd_SiteMap.aspx

Information About SEC Actions

- SEC Enforcement Actions
<http://www.sec.gov/divisions/enforce.shtml>
- Investors Claims Funds
<http://www.sec.gov/divisions/enforce/claims.htm>

Appendix

APPENDIX

TELEPHONE NUMBERS FOR STATE SECURITIES REGULATORS

Alabama

Securities Commission
334-242-2984
Toll free: 1-800-222-1253 (AL)

Alaska

Division of Banking and Securities
Department of Commerce, Community and Economic Development
907-465-2521
Toll free: 1-888-925-2521
TTY: 907-465-5437

Arizona

Arizona Corporation Commission
Securities Division
602-542-4242

Arkansas

Securities Division
501-324-9260
Toll free: 1-800-981-4429

California

Department of Corporations
916-445-7205
Toll free: 1-866-275-2677

Colorado

Division of Securities
303-894-2320
TTY: 1-800-659-2656

Connecticut

Department of Banking
Government Relations and Consumer Affairs
860-240-8299
Toll free: 1-800-831-7225

Delaware

Division of Securities
Department of Justice
302-577-8424
TTY: 302-577-5783

District of Columbia

Department of Insurance, Securities and Banking
202-727-8000

Florida

Office of Financial Regulation
850-410-9805 (licensing/enforcement)
Toll free: 1-800-342-2762 (FL)
850-410-3132 (out of state consumer complaints)

Georgia

Division of Securities and Business Regulation
Office of the Secretary of State
404-656-3920
Toll free: 1-888-733-7427

Hawaii

Department of Commerce and Consumer Affairs
808-586-2744

Residents on Honolulu's neighbor islands may call the following numbers followed by 6-2744 and the # sign:

Kauai: 274-3141 Maui: 984-2400 Hawaii: 974-4000

Lanai & Molokai: 1-800-468-4644 (toll free)

Idaho

Department of Finance
208-332-8000
Toll free: 1-888-346-3378 (ID)

Illinois

Securities Department
Secretary of State
312-793-3384
Toll free: 1-800-628-7937 (IL)

Indiana

Office of the Secretary of State
Securities Division
317-232-6531
Toll free: 1-800-223-8791 (IN)

Iowa

Insurance Division
Securities Bureau
515-281-4441
Toll free: 1-800-351-4665

Kansas

Office of the Securities Commissioner
785-296-3307
Toll free: 1-800-232-9580 (KS)

Kentucky

Department of Financial Institutions
502-573-3390
Toll free: 1-800-223-2579

Louisiana

Securities Division
Office of Financial Institutions
225-925-4660
Toll Free: 1-888-783-5530 (outside LA)
Toll Free: 1-888-525-9414 (in LA except Baton Rouge)

Maine

Office of Securities
207-624-8551
Toll free: 1-877-624-8551 (ME)
TTY: 1-888-577-6690

Maryland

Office of the Attorney General
Division of Securities
410-576-6360
Toll free: 1-888-743-0023 (MD)
TTY: 410-576-6372

Massachusetts

Office of the Secretary of State
Securities Division
617-727-3548
Toll free: 1-800-269-5428 (MA)
TTY: 617-878-3889

Michigan

Office of Financial and Insurance Services
517-373-0220
Toll free: 1-877-999-6442

Minnesota

Department of Commerce
651-296-4026
Toll free: 1-800-657-3602 (MN)
TTY: 651-296-2860

Mississippi

Business Regulation and Enforcement Division
Secretary of State's Office
601-359-2663
Toll free: 1-800-256-3494

Missouri

Commissioner of Securities
573-751-4136
Toll free: 1-800-721-7996 (MO)

Montana

State Auditor
Securities Division
406-444-2040
Toll free: 1-800-332-6148 (MT)

Nebraska

Department of Banking & Finance
Bureau of Securities
402-471-3445
Toll Free: 877-471-3445

Nevada

Securities Division
Office of the Secretary of State
702-486-2440 (Southern Nevada)
775-688-1855 (Northern Nevada)

New Hampshire

Department of State
Bureau of Securities Regulation
603-271-1463

New Jersey

Bureau of Securities
Department of Law and Public Safety
973-504-3600
Toll Free: 866-446-8378 (NJ)

New Mexico

Securities Division
Regulation & Licensing Department
505-476-4580
Toll free: 1-800-704-5533 (NM)

New York

Office of the Attorney General
Investor Protection Bureau
212-416-8200
Toll Free: 1-800-771-7755 (NY)(Consumer Hotline)

North Carolina

Securities Division
919-733-3924
Toll free: 1-800-688-4507 (Investor Hotline)

North Dakota

Securities Department
701-328-2910
Toll free: 1-800-297-5124 (ND)

Ohio

Division of Securities
614-644-7381
Toll free: 1-800-788-1194 (Investor Protection Hotline)

Oklahoma

Department of Securities
405-280-7700

Oregon

Department of Consumer & Business Services
Division of Finance and Corporate Securities
503-378-4100
Toll free: 1-866-814-9710
TTY: 503-378-4100

Pennsylvania

Securities Commission
717-787-8061 (Harrisburg)
215-560-2088 (Philadelphia)
412-565-5083 (Pittsburgh)
Toll free: 1-800-600-0007 (PA)

Puerto Rico

Office of the Commissioner of Financial Institutions
787-723-3131
Toll free: 1-800-981-7711

Rhode Island

Securities Division
401-222-3048

South Carolina

Office of the Attorney General
Securities Division
803-734-9916
803-734-3970

South Dakota

Division of Securities
605-773-4823
605-773-3311

Tennessee

Securities Division
Department of Commerce and Insurance
615-741-2241
Toll free: 1-800-863-9117 (TN)

Texas

State Securities Board
512-305-8300

Utah

Division of Securities
Department of Commerce
801-530-6600
Toll free: 1-800-721-7233 (UT)

Vermont

Department of Banking, Insurance, Securities, & Health Care Administration
802-828-3420

Virgin Islands (St. Thomas)

340-774-7166

Virginia

State Corporation Commission
804-371-9051
Toll free: 1-800-552-7945 (VA)
TTY: 804-371-9203

Washington

Securities Division
Department of Financial Institutions
360-902-8760
Toll free: 1-877-746-4334
TTY: 360-664-8126

West Virginia

Securities Commission
State Auditor's Office
304-558-2257
Toll free: 1-888-368-9507

Wisconsin

Department of Financial Institutions
Division of Securities
608-266-1064
Toll free: 1-800-47-CHECK (WI)
TTY: 608-266-8818

Wyoming
Securities Division
Office of the Secretary of State
307-777-7370