WHAT EVERY INVESTOR SHOULD KNOW

How to Prevent and Resolve Problems with Investment Professionals

Connecticut Department of Banking
Securities and Business Investments Division

AVOIDING PROBLEMS WITH FINANCIAL PROFESSIONALS

Whether you make or lose money in the stock market depends on how well your investments perform. All investing involves risk. Investors who lose money just because the market "went down" can't blame their stockbrokers. But if you lose money because of fraud or abuse by an investment professional, you may be able to recover your related losses.

CHOOSING THE RIGHT BROKER

Avoid problems with your broker or other financial professional by doing a background check. Get the facts about the individual and the brokerage firm handling your investments.

- Is the individual licensed to sell securities (most investments) in Connecticut?
- Is the securities brokerage firm licensed to sell securities in Connecticut?
- Is there a history of regulatory violations, disciplinary actions or investor complaints involving the individual or firm?

You can easily find out.

From Your Own Computer

FINRA's BrokerCheck (http://brokercheck.finra.org) is a free online tool to help you check the professional background of securities industry professionals, including investment advisers. Features include online delivery of a report on an individual or securities firm and an explanation of the data provided. For more information, call (800) 289-9999.

By Contacting Us Directly

You may also contact the Securities Division at (860) 240-8230 or 1-800-831-7225 (toll-free) to ask for a written report on an individual or a brokerage firm. We can e-mail you the report, or mail it to you. Like FINRA's BrokerCheck, the information in the report is derived from the Central Registration Depository (CRD) and Investment Adviser Registration Depository (IARD) online databases used to license securities industry professionals at the state and federal levels.

FINDING AN INVESTMENT STRATEGY THAT MAKES SENSE FOR YOU

One of the biggest mistakes investors make is giving up control of their investments. There are practical steps you can take to monitor the people who manage your money.

When you begin a relationship with a broker or financial advisor, he or she should ask you a series of questions about your income and assets, your career and retirement plans, and the level of risk you are willing and able to take in investing. This is your financial profile.

Make sure that your risk tolerance and your investment strategy match.

KEEP ACCURATE AND COMPLETE RECORDS

Your new account form should accurately reflect your financial profile. Check the new account form and get a copy for your records.

If your investment strategy changes over the years, be sure to update your records with your financial advisor to accurately show your revised objectives.

Review and keep all of your investment records. If you ever have a dispute with your broker, you will want to have a complete set of records documenting your side of the story.

Your account statements are important in controlling your investments. Check them over carefully as soon as you receive them. Since no two account statements look alike, you will need to familiarize yourself with the format, terms and codes used by your brokerage firm.

Be sure to review the **account activity section** to confirm that it contains only those transactions you have authorized. Also check the section of your statement reflecting any charges or fees debited to your account.

If you don't understand or agree with something on your account statement, contact your broker immediately for clarification.

If you do business with your broker over the telephone or in person, follow up by repeating your spoken instructions in writing. Keep notes on all conversations with your financial professional. Note the date, place and subject of the meeting.

Keep an eye out for so-called "happy letters." These are letters from the brokerage firm asking if you have any concerns about your account. The letter may even vaguely indicate that certain circumstances led the firm to write to you. Firms send out these letters when they detect unusual (and possibly troublesome) activity in an account. Write to the firm and ask it to tell you exactly why it wrote to you.

RECOGNIZING INVESTMENT FRAUD AND ABUSIVE SALES PRACTICES

Fortunately, the vast majority of investment professionals are never accused of fraud or abusive sales practices. However, you should keep an eye out for the following major problems:

Unsuitable Investments

Brokers must follow the "know your customer" rule. In other words, brokers must be sure that the investments they recommend to you "match" your financial goals and the amount of financial risk you can bear based on your financial profile. When there is a disconnect between the two, the investment recommendation is not suitable for you.

Unauthorized Trading

The law requires that your broker get your permission before trading in your account. Trades carried out without your permission are "unauthorized," unless you give your broker discretion over your account. Unauthorized trading is illegal and may lead to serious losses in your account.

Misrepresentations and Omissions of Material Facts

Let's say that your broker tells you that investing in a new issue of stock is as "safe as a Certificate of Deposit." This is an example of a "misrepresentation." Your broker must be truthful - and not omit material information - when presenting investment opportunities to you.

Churning (Excessive Trading to Generate Commissions)

Most investment professionals earn commissions when they buy and sell investments on behalf of their clients. If your broker trades excessively in your account, you could have a valid claim against that broker for "churning."

Theft of Funds

One of the most devastating situations a small investor can encounter is actual theft by a broker or financial professional.

RESOLVING PROBLEMS WITH YOUR FINANCIAL PROFESSIONAL

What if you suspect that there may be a problem with the way your broker has handled your money?

Contact the broker and explain your concerns. Spell out the resolution you expect - and the specific timeframe for the resolution. If you contact your broker in person or over the telephone, follow up in writing. Keep copies of all correspondence for your records.

If the situation has not been corrected within the specified time, contact the broker's branch office manager. Again, put your concerns in writing.

If you do not receive a satisfactory resolution at this stage, contact the compliance division of the brokerage firm.

Finally, if the problem remains unsolved, you may file a written complaint with the Department of Banking, either via the mail or using our online complaint form (www.ct.gov/dob). Remember that we will ask for documentation, so be sure to forward a copy of all written communications between you and the firm describing the problem.

Don't wait to act! Should you decide to bring a private lawsuit, state law limits the amount of time you have to take action against a broker. Time could run out, making it impossible for you to take steps to recover your losses. In addition, if you wait too long and do not express your dissatisfaction to the firm, the firm may use that fact to its advantage.

ARBITRATION AND YOU

Virtually all securities brokerage houses now require their customers to agree to arbitration instead of going to court. This requirement is contained in the agreement you sign when you open a new account with the firm.

How do you get started?

Your new account form will identify the arbitration forum (FINRA; American Arbitration Association) designated by the brokerage firm to resolve disputes with customers. You should contact the appropriate forum and request a "demand for arbitration" packet.

The packet will explain how to file an arbitration claim. If you have questions about the information in the packet, contact the listed arbitration organization.

FINRA Dispute Resolution
One Liberty Plaza
165 Broadway, 27th Floor
New York, NY 10006
(212) 858-4200
Fax: (301) 527-4873
Web site: www.finra.org

American Arbitration Association
One Center Plaza, Suite 300
Boston, MA 02108
(617) 451-6600
Web site: www.adr.org

FILING AN ARBITRATION

Among the documents you'll be asked to complete is a "statement of claim," which sets forth the nature of the dispute, the amount of the claim involved and the damages you are seeking.

Your statement of claim should be focused and 100 percent accurate. Exaggerated claims or inaccuracies can destroy your credibility and any chance of recovery. The damages you seek should be reasonable and based on the actual losses attributable to the broker's misconduct.

Should you get representation?

Investors need not be represented by legal counsel in arbitration. However, investors who are unfamiliar with securities laws and the arbitration process often choose to hire an attorney to represent them. If you intend to seek legal representation, find an attorney familiar with securities law and how investor arbitration works. If you do not know the attorney, thoroughly check out his or her credentials and experience. Find out how much legal help will cost, and what fee options are available.

Finding a lawyer

The Connecticut Bar Association (www.ctbar.org; phone: (860) 223-4400) may be able to help you find a qualified securities lawyer. A national organization, the Public Investors Arbitration Bar Association (PIABA) (www.piaba.org), may also be able to identify lawyers in Connecticut with the appropriate background. For more information about PIABA member lawyers, call 1-888-621-7484 or e-mail piaba@piaba.org.

INSIDE THE ARBITRATION PROCESS

When you agree to the arbitration process, you agree to accept the outcome of the arbitration. For this reason, it's important that you fully understand how the arbitration process works.

The methods of selecting arbitrators vary among organizations, but most investor arbitration panels consist of three members: a chairperson, one panelist from outside the securities industry and one from within the industry.

Before your hearing, you will have an opportunity to object to potential arbitrators if there is a legitimate reason for doing so.

Once you have filed the necessary documents and paid the appropriate fees, you (the claimant) will be notified of any requests by the respondent (the individual broker or securities brokerage firm) for additional information. It's important that you respond in a timely manner to these requests.

You will be informed of the proposed date, place and time of the hearing. Arbitration hearings are not conducted in courtrooms, but in conference rooms or hotel meeting facilities.

The hearing, while more informal than a courtroom proceeding, will follow guidelines for the presentation of evidence and testimony, rebuttal, opening statements and closing arguments. The arbitrators will make a decision based on the testimony and supporting evidence that you and the respondent submit.

At the end of the hearing, all parties will be excused while the arbitrators discuss their findings. You will be notified by mail of the panel's decision, normally within 30 days. The decision will not detail the panel's reasoning, but will tell you whether your claim has resulted in an award of damages.

If the decision is in your favor, the notice you receive will tell you how much money was awarded to you and will include the terms of payment. If you win, the respondent must pay your claim within a specific period of time, usually 30 days from the date of the award. Awards not paid within the specified time frame will bear interest charges.

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