State of Utah Department of Commerce

Division of Securities

Investor news

Winter 2014

PROVIDES INVESTORS WITH THE INFORMATION AND RESOURCES THEY NEED TO MAKE INFORMED DECISIONS ABOUT THEIR INVESTMENTS.

Watch for the Division of Securities at the following events:

Jan. 27-29
Utah Association of Secondary School Principals Winter Conference—St. George

Jan 27
SunRiver Community Seminar—St. George

Feb. 3
River's Bend Senior Ctr. Salt Lake City

Feb. 5
Osher Lifelong Learning Institute-Lunch & Learn U of U Campus

Feb. 7
Stock Market Game Teacher Training Midway

Feb. 12-14
Utah Association of Elementary School Principals Winter Conference– St. George

Feb. 26
Save "U" Week Union Ballroom U of U Campus-SLC

Feb. 28
Utah Latin Expo Salt Palace Convention Center-Salt Lake City

March 6
Federal Women's Program Lunch and Learn Hill Air Force Base

A Look Inside the Securities and Exchange Commission (SEC)

When the stock market crashed in October 1929, so did public confidence in the U.S. markets. Congress held hearings to identify the problems and search for solutions. Based on its findings, Congress – in the peak year of the Depression – passed the Securities Act of 1933. The following year, it passed the Securities Exchange Act of 1934, which created the SEC. **The main purposes of these laws can be reduced to two common-sense notions:** 1-Companies offering securities for sale to the public must tell the truth about their business, the securities they are selling, and the risks involved in investing in those securities. 2-Those who sell and trade securities – brokers, dealers, and exchanges – must treat investors fairly and honestly.

In an effort to adhere to these laws, the U.S. Securities and Exchange Commission has a three part mission:
1) protect investors, 2) maintain fair, orderly, and efficient markets, and 3) facilitate capital formation. As more and more first-time investors turn to the markets to help secure their futures, pay for homes, and send children to college, the investor protection mission is more compelling than ever.

While neither the Utah Division of Securities nor the SEC can tell you what investments to make, they can offer unbiased information about investing. The world of investing is fascinating and complex, and it can be very fruitful. But unlike the banking world, where deposits are guaranteed by the federal government, stocks, bonds and other securities can lose value. There are no guarantees and that's why investing is not a spectator sport. By far, the best way for investors to protect the money they put into the securities markets is to do research and ask questions.

To help support investor education, the SEC offers the public a wealth of educational information found at sec.gov and investor.gov.

State of Utah | Department of Commerce | Division of Securities
160 E. 300 S. Salt Lake City, Utah 84111
Website: securities.utah.gov Phone: 801-530-6600

What's Wrong with a Free Meal?

If you haven't been invited to a free-meal investment seminar yet, you likely will be. If you decide to go, you need to be prepared.

In many cases, free-meal investment seminars are not solely about education. Their ultimate goals are to recruit new clients and sell products, even though the invitation might state otherwise. Other times, problems arise after the seminar—during follow-up contacts from the speaker or sponsor.

Here are 3 key strategies you can use to help counter the persuasion tactics and distinguish between good investment offers and bad ones:

1) Before the seminar, call the Division of Securities to verify the licensing status of the individual or firm.

2) Commit not to purchase anything or open an account on the spot.

3) Do more homework after the event and before agreeing to any post-seminar appointments.

The bottom line is that savvy investors refuse to be rushed. A good investment will be available, when you are ready and understand where your money is going and the associated costs.

The Cost of Financial Advice and Investments

Is the investment you just made designed to make money for you or for your financial professional?

Investment Advisers typically charge a flat rate or an asset-based fee. The compensation structure must be disclosed to the client. On the other hand, the fee structures of **Financial Planners** vary greatly. Financial planners may charge hourly, flat or asset-based fees, or they could earn commissions based upon the purchase of recommended products.

Generally, there are four basic fee structures for financial professionals:

Fee-only—Paid only for the advice they give; do not earn commissions by selling financial products such as life insurance or mutual funds. **The client pays the adviser.**

Fee-based—Earn fees for giving advice to clients, but also earn commissions on some products they sell as part of a recommendation in a financial plan. **The client and product generators pay the adviser.**

Commission-based—Make money from the products they sell to clients. **The product generators pay the adviser.**

Salary-plus Bonuses—Many discount brokerage firms and banks compensate their employees with a base salary plus incentive pay for bringing new client accounts into the institution. The adviser may receive substantially higher bonuses by recommending or selling certain products and services over other options. **The brokerage firm or bank pays the adviser.**

Examples of product fees include stock commissions, mutual fund management fees, front or back-end loads, surrender charges, bonus recapture charges, administrative or mortality and expense charges to name a few.

"Fee-only" has three advantages:

1-The certainty that the advisor is not recommending a product to generate fees.

2-The client gets a good idea of how much they will pay for advice. It is most often a percentage of the client's assets. As a result, the adviser has an incentive to make money for the client and to choose the lowest cost products. This creates an emphasis on comprehensive wealth management for the client.

3-No financial hooks, surrender charges or lockup periods. The client is free to change professionals at any time.

There are several disadvantages of Fee-based, Commission-based or Salary Plus Bonuses:

1) The adviser's compensation is tied directly to what their client buys. This inherently creates a conflict of interest and the adviser's actions may not always match the client's needs.
2) Higher cost to the client-On a $50,000 investment with a fee, load or commission of 5%, it will cost the investor $2,500. That amount, for example, is enough to pay for almost 17 hours of financial advice at a typical rate in Utah of $150 per hour. It may pay for more than three years of comprehensive wealth management services from a financial adviser who charges 1.5% of assets under management, annually.

Another area of concern is that investors may be misled by the term "Fee-based". The investors may believe that they are actually paying "Fee-only" and may be unaware that their adviser is also getting compensated for the products sold to the client. If the investor understands how the adviser gets paid, they may discover if their adviser has a conflict of interest.

Beware of a conflict of interest when advisers have "other businesses". Some financial professionals act as Fee-only advisers. They may, however, have ownership in a separate or "other" company, like an insurance agency that receives compensation for the sale of products. This may result in indirect adviser compensation based on products or services that the adviser recommends. Quite often, the client is unaware of that compensation. ***This creates a conflict of interest due to indirect compensation if the adviser recommends products or services where their "other" company is compensated.***

What if you feel comfortable picking your investment products?

Investors may opt to choose their own investments. Doing so may increase their investment returns by choosing the lowest cost providers and products. Investors should ensure the products and services meet their investment criteria and that the quality is essentially equal. As an example, internet-based discount brokerage firms provide an significant cost advantage over full-service commission based brokerage firms for do-it-yourself investors.

Conclusion

Whichever fee structure you select, know that the financial professionals and product generators are not doing it for free! Ask the adviser how they get paid and how much the investment product will cost you in fees, commissions, etc.