

## **Some Key Questions Before Investing**

Investors should ask questions and take notes of what is being said over the phone in the sales pitch. See: <http://www.nasaa.org/content/Files/notepad.pdf> Here are some key questions to ask:

What type of security is being offered?

Companies raise capital through debt or equity financing. You may be issued an equity interest (e.g. partnership interest, stock, or interest in a limited liability company) for your investment and may receive dividends or a share of profits. Your investment may also be a loan, or debt, to the company (e.g. promissory note, bond) that is to be repaid according to certain terms that may include payments of interest. Debt may also be secured or unsecured.

Is that security properly registered with the Utah Division of Securities or federal government?

If the company is properly registered, you should be able to find the SEC's Edgar database. If the company says it is exempt, they should be able to provide you with a legal citation of the law that they are relying upon for exemption. Some exemptions require notice filings in the states where the security is offered. If they cannot provide you reference of filings or exemptions, the security is likely illegitimate and you should not invest.

For more information on micro cap stocks – penny stocks – issued by the smallest of companies with thinly traded markets see the SEC's info on Microcap stock: <http://www.sec.gov/investor/pubs/microcapstock.htm>

Have you been offered some disclosure document?

To help you perform the proper due diligence before investing, you should be provided a prospectus, private placement memorandum, private offering memorandum, or some other document that fully details information about the security offered.

Have you been offered audited financials from the company?

Generally, audited financials are reviewed to assess the financial status of the company, including outstanding liabilities.

Does the investment meet my investment objectives and risk tolerance?

Do not invest if you do not understand the risks of loss. Ask yourself what is your motivation for making this investment. Primarily, how much risk do you want to take with your money? No one can guarantee a return on an investment and boiler rooms pitch products that are both highly speculative and risky. Ultimately the decision to invest is yours, but if you invest in micro-cap stock or a private offering sold over the phone, you may lose your entire investment.

Does the hype for the investment's return or profits seem to be too good to be true?

The risk/reward principal dictates that the higher the return, the greater risk. Historically, a good rate of return is 7-8 percent per year (above inflation). While such returns are suspect on face, even if they were accurate, they would reflect serious risks. In short, if it's too good to be true, it probably is.

Have you researched the company? Are there independent sources of information?

Before investing you should research the investment.

Public libraries have many on-line resources for researching the company and the background of the principals. Web browsers like Yahoo finance and Google aggregate information about stocks.

Companies that want to be traded through broker-dealers specializing in microcap stocks apply to be listed on exchanges. Broker-dealers then report information in the marketplace such as bids, offers, and trades to exchanges like the NASDAQ and the Pink Sheets. Often in order to become listed or remain listed with an exchange, the company will be required to maintain current filings of public information including financial statements and reports of shareholders with the SEC's Edgar system – (Electronic Data-Gathering, Analysis, and Retrieval system).

For information on researching public companies use the SEC's Edgar database  
<http://www.sec.gov/investor/pubs/edgarguide.htm>

You can contact the Utah Division of Securities to see if any administrative actions have been filed on the stock or its promoters.

Greater due diligence may require looking for any court records for criminal or civil matters.

What if I no longer wanted to be called or contacted by a firm?

Asked to be placed on the firm's do-not-call or do-not-contact list.

Legitimate broker-dealers are members of the Financial Industry Regulatory Authority, Inc. FINRA, and are required under its Conduct Rules to make and maintain a centralized do-not-call list of persons who do not wish to receive telephone solicitations. Broker-dealers who violate these rules can be sanctioned. Complaints regarding violations may be filed with FINRA, the Federal Trade Commission, or the Division of Securities.