KEY QUESTIONS TO CONSIDER WHEN INVESTING

Investors should ask many questions when considering an investment. Questions should cover: the company, its management, and any salespersons; the business plan; the prospective returns; the risks; the offering; the costs; and your involvement in the investment.

THE COMPANY, ITS MANAGEMENT, AND ANY SALESPERSONS

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

Before investing you should thoroughly research the company. Also, you should try to verify information independently and not simply rely on the information provided by the company. If investing in a company's business, investors should research that company's market, its competition, and business plan. If investing in a company that will manage your money or make investments with your money, you should research the background of the company and its management. For background research, the first step may be a simple search on google.com or bing.com to find any information about the company or its managers. You should contact the Utah Division of Securities to determine if the Division has any negative information on the company or its management. You may also search with other regulators, such as real estate or insurance. Greater due diligence may require looking for any court records for criminal or civil matters.

Does the company, its management, or salespersons have all their necessary licenses?

Depending on the company's business and how it acquires investors, the company, its management, and its salespersons may or may not require licensing. Investors should verify licensing information with the Division. By discussing the business model with the Utah Division of Securities, our staff can determine whether any of the parties need to be licensed, what types of licenses are needed, or whether more information is needed. Failure to appropriately license the company, managers, or salespersons could indicate greater compliance concerns.

Whose name is on all the documents?

Investors should ensure that they understand the relationship between the company, managers, and salespersons and that all documents have the appropriate names in the appropriate places. Many fraud cases involve multiple company names and funds being taken by, invested with, or used by some unknown party. Make sure you know all the parties involved in the investment and their role in the investment.

What relevant experience does the company and its managers have?

Each business carries a unique set of challenges and investors should be aware of the relevant experience of the company and its managers. This information should be included in the disclosure documents, but investors should verify this information with outside sources to ensure the veracity of the information. If the company or its managers have little or no relevant experience in the proposed business, investors should consider this a serious risk of the investment.

THE BUSINESS PLAN

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 and the business proposed.

Do I understand the business plan and how it will make money?

The business plan (or a fund's investment strategy) should be disclosed in writing for you to review carefully. Complex business plans require greater reliance on the management, which increases the risk of the investment, but also raises the question of whether the business plan makes sense. If you cannot understand how the investment is supposed to earn money, do not be surprised if you lose your money. Some business plans may be complicated, but they should ultimately make sense and the source of revenue should be fairly obvious. For investment funds, even if the fund manager insists that their trading strategy is proprietary, they should be able to provide you enough information about their strategy so you can make an informed decision about the risk. After you have reviewed the written offering documents, you may want to have an unbiased, trusted adviser review them to ensure the investment makes sense and is not too good to be true.

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.

THE PROSPECTIVE RETURNS

Does the investment's history of returns 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), but the Division commonly sees investors drawn to investments that boast a rate of return of 10-20 percent per month. Such returns are suspect on face, but even if they were accurate they would very likely be unsustainable and would inherently reflect huge investment risks. In short, if it's too good to be true, it probably is.

What is the track record of paying investors interest due or returns of principal?

Promises and expectations may not always materialize. Investors should verify that the company and its management have met their obligations to other investors before investing.

THE RISKS

Do you understand all the risks associated with the investment?

Every investment opportunity carries risk. Nothing is guaranteed. Moreover, the greater the prospective returns, the greater the risk. Ultimately, risk is unavoidable, but knowing the risks beforehand does allow investors to make an informed decision.

Can you afford the risks associated with the investment?

Just as important as knowing the risks is knowing your tolerance for those risks. How much risk do you want to take with your money? Regardless of how risky an investment is, ultimately, the decision to invest is yours, but the Division cautions investors to consider the potential losses before investing.

What is the liquidity of the investment?

Many private securities offerings are longer term investments and may have various restrictions on withdrawals so an investor cannot withdraw at any given time. Investors should be disclosed the withdrawal information in a disclosure document and should review the terms before investing.

THE OFFERING

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 it on 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.

THE COSTS

Do you understand all the costs (e.g. fees, charges, commissions, penalties) associated with the offering?

Securities offerings can entail numerous types of charges and the only way to ensure you understand all the potential costs of buying/selling a security or having someone manage your accounts is read the disclosure documents provided.

Do you understand everyone who will receive compensation, in any form, from your investment and for what services?

Investors should know all parties that receive compensation, directly or indirectly, from their investment. This information allows investors to identify all parties involved in the investment and some conflicts of interest that may arise out of such compensation.

Do you understand the terms, if any, by which your costs can increase?

Investors should understand all terms to their investment, including any terms that allows for the costs or charges to increase.

YOUR INVOLVEMENT IN THE INVESTMENT

Are your investment dollars coming from disposable savings, or some other source such as home equity, retirement accounts, or credit?

Investors should be cautious about investments that require them to draw on equity from their homes, withdraw funds from their retirement accounts, or use their own credit to fund the investment. These investments are particularly risky because losses could endanger a person's home, retirement, or credit. Investors should also be wary of any investment scheme that seems to not require an actual investment of capital as such scheme often rely of collateral or credit of the investor.

Why does the company need my money?

Before investing you should understand why the company needs your money. Some investments are very sophisticated and involve great sums of money—or at least this is how the company sells itself. But if the company boasts their reputation and deal flow, it begs the question why they need funds from an average investor as opposed to institutional investors. Sometimes it is simply a matter of hype, but sometimes it can be a matter of fraud.

How does this affect your taxes?

Some investments will have any effect on your taxes. Before investing, you should consider your tax situation and the effects that the investment may have.

Is your membership or relationship to a specific group being used, directly or indirectly, to build trust or pressure you into the investment?

Ultimately, an investor should make informed decisions about their investments. If an investor relies on their relationship with a person or their mutual affiliations, that investor is not making a sound financial decision but is banking on trust. Many fraudsters exploit these relationships and affiliations for their own gain.