



KNOW YOUR RISK TOLERANCE and **SUITABILITY**

Choosing an investment vehicle is complicated. Should you invest in stocks, bonds, mutual funds, CDs, commodities, options, futures contracts, mortgage-backed securities, or a myriad of other types of securities? And once you have chosen a type of investment, such as mutual funds, then you need to decide in which areas of the economy--such as technology or health care--you want to invest. Before you make any investment choices, however, you need to consider two factors that should influence all of your choices: your risk tolerance and what investments suit you.

What is risk?

Risk can be simply defined as the possibility of suffering a financial loss. One very important principle to always remember about risk is that the higher the return on your investment, the greater the risk you are taking. If the risk of loss is high, a higher interest rate is used to entice investment. This is why U.S. Treasury securities, often referred to as T-bills, T-notes, and T-bonds, have a lower rate of return as opposed to bonds issued by financially shaky companies that offer a higher rate of return.

You can minimize your investment risk through diversification, which may enable you to invest in a mixture of low-risk/high-risk investments. The old saying, "Don't put all your eggs in one basket," holds true with investing. Likewise, those who invest in only a few companies or even a few areas of the economy are assuming significant risk and should consider diversifying.

What is suitability?

Suitability means that the investment is in line with your investment objectives and financial situation.

When you open your securities account, your financial professional should ask you questions about your income, net worth, liquid assets, tax bracket, prior investment experience, retirement goals, plans for major expenditures, and other similar relevant facts. Additionally, an investment professional should discuss with you what your investment objectives are—for example, income, aggressive income, capital appreciation, or speculation.

Your financial information and objectives typically are recorded on forms required to open a securities account. In many instances, the stockbroker or investment adviser completes these forms and has you sign them. **But never, ever sign a blank form.**

Know Your Risk Tolerance and Investment Timeline

To determine if an investment is right in your own mind, make the following considerations:

- **Consider your risk tolerance.**

In other words, is buying a bond in a financially shaky company suitable for you? If you lose sleep at night and more importantly, if you cannot afford to risk losing the money, then absolutely not. If you are capable of and willing to accept the risk of losing all or part of your investment, then buying a bond in a financial shaky company may be suitable for you.

- **Consider your investment holding period.**

Another words, how soon do you need your money back out of the investment? Even if you can afford to lose the money you have invested, putting your money into a real estate limited partnership when you want the money to grow in order to send your child to college next year would not be suitable.

Suitability Rule

If you work with an investment professional, he or she is required to have enough information about you to determine before even recommending a security to you whether that security matches your investment objectives and financial situation. The only way for financial professionals to determine if investments are suitable for you is for them to ask you questions to find out how risk tolerant you are, what your investment objectives are, and the status of your financial situation.

You must make sure that the information your financial professional has about you is accurate. Request a copy of any forms prepared by your financial professional to review for accuracy. Your financial professional should periodically review this information with you to keep it up to date. This way you and your financial professional can make sure he or she only recommends investments to you that are suitable for your specific situation. You should not buy or your investment professional should not recommend an investment that exposes you to risk beyond what you can afford to lose.

Ask and Check

If you have questions about your financial professionals or want information about the types of investments they recommend, contact the Investigator on Duty at the Commission's Securities Division by telephone, 602-542-0662 or 1-866-VERIFY-9 (1-866-837-4399) or by email, info@azinvestor.gov.

Free Investor Resources

For more information on wise investing and avoiding investment fraud, visit the Investor Resource Center, www.azinvestor.gov. To request a presentation for your group call the Investor Education Coordinator at 602-542-0428 or email at info@azinvestor.gov.