**Investments 101**

Your only access to the stock market or investments is through one of the following:

1. Self-directed:
   1. E Trade, Ameritrade, Fidelity, etc.
   2. Direct investment into private placement.
2. Professional Advisor:
   1. Stockbroker: suitability
   2. Investment Advisor/Financial Planner: fiduciary

In either case, you agree to arbitrate your claims through a FINRA process (or if pure RIA only, then perhaps JAMS or AAA Arbitration, but if only RIA, can opt out to keep rights in court.

**Follow These Laws and Do Not Abdicate Your Throne!**

**MarksLaw 1: You Are the Only One Looking Out for Number One**!

Absent your own incapacity, you should not blindly rely on others to act in your best interests. “Trust, but verify.” If you do not have an investment strategy or cannot explain what you own to others, you should not own it.

M**arksLaw 2: Never Place More Than 20% of Your Investible Assets Into Any One Basket**.

Simple enough concept that most folks who lose large amounts of money do not apply or follow.

Why this law if often not followed:

1. Rely too much on “professionals” to manage money or disclose all risks and render only prudent advice in their “best interests.”
   1. Adviser Fiduciary v. Broker Suitability.
   2. Find out how your professional gets paid, from all sources.
   3. Never follow anyone’s advice to “sign here, here, and here,” etc.
   4. If you are seriously considering using this adviser, go to [www.finra.org](http://www.finra.org), and then enter site via Investors, and click on BrokerCheck. Find out if others have had a problem with this broker. If so, ask Broker about it. Many good brokers have suffered unjust complaints that will be disclosed, but the point is: see how Broker handles your question. That will give you an idea of how Broker will handle a problem not “if” but when one arises in your account/s.
2. Rely too much on others you trust who referred you to professional.
   1. Every good sales book advises to build on or leverage the trust and influence others have on your prospect. Rather than supplant your own judgment for theirs, supplement the referral with your own judgment by applying these laws, consistently and without waiver or apology.
3. Don’t want to offend successful business person with questions, or don’t want to embarrass self with “stupid” questions that you feel you should know.
4. **But, the biggest reason the rule is often not followed is that many investors simply don’t realize what a “basket” is. Here are some examples of “baskets”**:

**Baskets**:

1. Advisers and Their Firms.
   1. Never give all your assets to any one adviser or one firm (always use at least 2, in addition to your own bank).
   2. Never have all your assets custodied at only one firm/custodian.
      1. Introducing Broker Dealer
      2. Clearing Broker Dealer
      3. Issuer Direct
      4. Bank/Credit Union
2. Investment Categories.
   1. Bonds (or Fixed Annual Interest with Guarantee of Principal Return if Hold to Maturity Absent Default or Haircut, Subject to Call if Circumstances Improve for Issuer).
      1. Government based or backed securities: Treasuries, Fannie/Freddie backed/AIG type companies largely owned by US Gov’t.
      2. Investment Grade Corporate Bonds.
      3. High Yield Bonds.
      4. Certificates of Deposit.
   2. Corporate Stock:
      1. *Preferred Stock* and Convertibles: bond fixed rate of return but no return of principal guarantee.
      2. ***Common Stock***:
         1. Risk all principal and last in line behind bond holders.
         2. Owner of corporation, entitling you to:
            1. Dividend payments as of record date.
            2. Proxy and vote (meaningless).
            3. Annual meetings and reports.
         3. Most common categories include:
            1. Speculative
            2. Growth
            3. Value
            4. Income
            5. Emerging Markets/International/Domestic US, etc.
   3. Mutual Funds:
      1. More mutual funds than there are common stocks.
      2. Morningstar© evaluation of several metrics:
         1. Loads/Sales Charges (breakpoints for increasing larger purchases).
         2. Expense Fees
         3. Advisory Fees
         4. Turnover (transaction costs).
         5. Etc.
   4. Annuities/Life Insurance: any guarantees based on claims paying ability of issuer.
      1. Fixed
      2. Variable (sub account allocation)
      3. Equity Indexed (participation and cap rates vary by product)
   5. Real Estate:
      1. REITs
         1. Public (common stocks)
         2. Private, Non-traded REITs (private placements)
      2. Tenants in Common/TICs (private placements)
   6. Commodities/Precious Metals and Futures: oil, natural gas, coffee, copper, etc.
   7. Unit Investment Trusts/UITs: every sector or industry:
      1. Pay a load or CDSC (Contingent Deferred Surrender Charge)
      2. Have to roll or liquidate every 12-60 months.
      3. Means paying new fees.
      4. Operates like open end mutual fund: redemption only; not traded.
   8. Exchange Traded Funds (ETF) or Index (I shares):
      1. Traded on auction market like stock.
      2. Pooled holdings like mutual fund.
      3. Pay per transaction, so if discount broker, a good alternative to UITs.
   9. Illiquid securities/Reg D. Exempt from Registration with SEC offerings:
      1. TIC
      2. REIT
      3. Private Placements
      4. Promissory Notes

**MarksLaw 3: Trust Your Gut**.

**MarksLaw 4: For Every 1% of Return Above Risk-Free Rate, You Risk 10% of Your Principal**.

**MarksLaw 5: Never Drink the Kool Aid/Beware of “Affinity” Traps, Especially “Faith Based.”**

**MarksLaw 6: If Broker Cannot Explain It Well Enough For You to Understand, Broker Does Not Understand It Well Enough To Be Offering It; Don’t Buy It!**

**MarksLaw 7: Risk Management Overrules Return on Principal. Corollary: Return Of Principal Overrules Return On Principal**.

**MarksLaw 8: You Are King And Cash Is Your Crown; Never Be Without It.**

**MarksLaw 9: Do Not Unnecessarily Risk What You Can Otherwise Afford To Insure**.

You don’t have to risk all of your principal investment just to participate in upside.

1. Annuities have death benefit guarantees (puts), income benefits, withdrawal benefits, etc. These are insurance benefits you pay for to smooth out your ride.
2. S&P Puts or other types of options can help you lock in gains or minimize losses for a given period of time.

**MarksLaw 10: Never Forget Rule #1 and Apply By Running All Prospective Investments Through MarksLaw Prudent Investment Funnel**.

1. Where/how does this investment fit within my overall risk-managed portfolio? (ML# 7 & 2).
2. Do I objectively understand this investment well enough to explain why I am risking principal for expected return over risk free rate? (ML#s 7, 6, 5 & 4).
3. Is there a readily available safer way to attempt to achieve this expected return on invested principal? (ML#s 7 & 4).
4. Is my principal investment in this investment 20% or less than my investible assets? (ML# 2).
5. After this investment, will I have “enough” cash to safely meet 6 to 12 months of expenses, and/or to take advantage of short term market opportunities? (ML#s 8 & 2).
6. Can I sell this investment if I change my mind? If so, how quickly: immediately, at close of market (issuer redemption), subject to bid on secondary market, or only to other investors if they’re interested? (ML# 3). Penalties? Restrictions?
7. Is proposed investment otherwise insurable? If not, how will I feel if I lose half of my principal? All of my principal? (ML # 3).
8. If proposed investment clears 1-7 and is otherwise objectively suitable, what reservations do I hold about this investment, i.e., what is my gut telling me v. what my mind is rationalizing based on broker sales presentation?
   1. ***If reservations persist***:
      1. **Don’t buy**.
      2. **Insure it**.
      3. **Reduce allocation % of principal investment**.
9. Summary: if it is otherwise objectively suitable and I like it and want to invest, I need to know if I am wrong, how quickly can I get out, at what cost, and is there any way to insure against possible losses?

**Questions to Ask Your (Prospective) Advisor**:

1. I know you need to get paid. What will it cost me to get your best product and service?
   1. Out of pocket?
   2. Your compensation from all sources?
   3. Minnesota Financial Planner Disclosure Document.
2. What can I expect as an “A List” client?
3. What is your firm’s Net Capital Reserve?
4. How much E & O insurance do you personally carry?
5. How much coverage does your firm’s master policy provide?
6. Who is your supervisor?
   1. How often does she review you?
   2. What does she review?
   3. If we have a misunderstanding, who would I contact?
7. Do you have a specialty?
8. Why am I a good fit for your practice?

***Not Investment or Legal Advice; Contact Firm for Complimentary Consultation.***