CONSUMER ACTION NEWS

www.consumer-action.org • Fall 2017

Consumer Action
1170 Market Street, Suite 500
San Francisco, CA 94102

Non-Profit Org.
U.S. Postage
PAID
San Francisco, CA
Permit # 10402

Change Service Requested

Investment basics

First steps for investing

By Ruth Susswein

Saving money is essential—for emergencies and unexpected life events, like an auto breakdown, and for long-term goals like buying a new car or a home. But at some point you may want your savings to earn a better return than is possible in a simple savings account. That's when to consider investing.

Investing means putting your money into something that offers potential profits (such as stocks, bonds or real estate). When you sell an investment, you hope your initial deposit has grown and you come away with more than you put in.

Investments come with the potential to earn more money than savings accounts offer, but with greater profits comes a greater risk that you could lose some or all of the money you invest (your principal). Investments are not insured against loss the way most savings accounts are.

When you are ready to invest, you'll want to gauge the level of risk you're comfortable with given the expected returns (risk/reward ratio). Are you willing to invest some of your funds in stocks (shares in a business) that could earn you a higher rate of return if the company is successful?

Or are you seeking a safer investment that is less volatile and more likely to offer a smaller but steady benefit over time (such as money market mutual funds or bonds)?

It's a good idea to invest money that you won't need for some time (five years or longer) to give your investment time to grow and earn a solid return despite short-term ups and downs in the market.

When deciding where to invest your money, consider your goals. Are you investing to fund your children's college education, a downpayment for a home or your retirement? How many years do you have to invest before you'd like to tap into your accounts? If you know that you have 10 or 20 years to invest, you may be willing to take on greater risk to achieve a potentially greater return. Knowing your goals can help you choose the best investments for your needs.

Retirement accounts

If you have the opportunity to invest some money in a 401(k), 403(b) or similar tax-deferred employer-sponsored plan, do it! These are long-term investments intended to be withdrawn during retirement, when your withdrawals become taxable income. Many employers offer to match a portion of your account contribution, which increases the money you are putting away. For example, your employer might match the first $1,000 you invest from your own pocket with $1,000 in tax-deferred funds—above and beyond your salary. Not every employer offers a "matching plan," but if one's available and you don't contribute, you are missing out on a prime investment opportunity.

Know the costs

Before you choose where to invest and what investments to buy, learn how much you can expect to earn and how much you should expect to spend obtaining and maintaining those investments. Investments typically carry direct costs through fees and commissions, and, depending on the type of investment, the costs vary widely.

If you work with a financial adviser, you'll pay an investment management or advisory fee. In 2017, investors paid a fee of just over 1 percent, on average, based on the amount invested. Generally, the more you invest, the lower the advisory fee. Some financial advisers charge a flat fee. Others do a combination, called "fee-based," charging a flat fee for some services

"First steps" continues on page 3

Investing pitfalls

All investments carry some degree of risk that you could lose money—and you don't have to be a novice investor to encounter pitfalls. There are costly consequences to investing in the wrong financial products or acting on bad advice in an attempt to "get rich quick."

Read "Pitfalls of investing" on Consumer Action's website (*http://bit.ly/investing_pitfalls*).

Know your investment professionals

By Alegra Howard

Ready to grow your savings to extend into your retirement and beyond? If you're thinking of hiring a professional to help guide your investment plans, first know the players—good and bad.

Brokerages

A brokerage company, otherwise known as a "middleman," completes financial trades, or transactions, between buyers and sellers and charges fees and/or commissions for its service. The employees who conduct the trades are called brokers.

There are several types of brokerage firms, including full-service, discount, online, captive and independent.

Full-service, or traditional, brokerages offer an array of hands-on, personalized financial services, including fund management, estate planning and tax advice, and usually charge the heftiest commissions and fees for actively managing your investment portfolio.

Discount brokerages typically save investors money by using computerized or online trading systems and providing limited investing advice and service—mostly online or over the phone.

Online brokerages support online trading only—offering even less costly, but generally more limited, support for your investment transactions.

Captive brokerages usually are affiliated with or own part of a specific mutual fund company and primarily recommend those mutual funds to investors.

Independent brokerages operate more like a full-service brokerage by recommending financial products that might better align with the investor's objectives.

To compare some online brokerage costs, see NerdWallet's 2017 guide to "Best Online Brokers for

"Professionals" continues on page 4

Understanding and managing investing costs

By Monica Steinisch

If you're going to invest, it's going to cost you, but there are ways to avoid undue costs. Armed with the answers to "how" and "how much," you should be prepared to choose the investment options that fit your needs and your budget.

Advisory fees

For those who prefer personal investment advice, there are investment or financial advisers, who get paid to, among other things, counsel clients on investing in stocks, bonds and mutual funds.

Investment advisers earn money through fees ("fee-only"), commissions or a combination of both ("fee-based"). In a fee-only arrangement, the adviser would charge an hourly rate, a flat rate or, most commonly, a percentage of the portfolio value managed on your behalf ("assets under management"). Usually, the larger the portfolio, the lower the annual fee percentage. For example, an adviser might charge a 1.25 percent fee on portfolios up to $250,000 and a 1 percent fee on accounts with $250,000 to $1 million in assets.

The advantage of a fee-only arrangement is that you do not have to worry that the adviser is buying and selling investments in your account just to generate a commission (churning), although you may still be charged trading fees when your asset manager buys or sells securities on your behalf. In the case of an assets-under-management arrangement, the adviser makes more money the better your portfolio does, providing an incentive to achieve growth and minimize losses. The disadvantage is that the fees can be hefty and come directly out of your pocket. (Depending on your income and tax situation, investment advisory fees may be deductible on your tax return. Check with

"Investing costs" continues on page 2

Consumer Action

www.consumer-action.org

Consumer Action has been a champion of underrepresented consumers nationwide since 1971. A non-profit 501(c)(3) organization, Consumer Action focuses on financial education that empowers low- and moderate-income and limited-English-speaking consumers to financially prosper.

By providing financial education materials in multiple languages, a free national hotline and ongoing financial services research, Consumer Action helps consumers assert their rights in the marketplace and make financially savvy choices.

Advice and referral hotline

Submit consumer complaints to our hotline:
www.consumer-action.org/hotline/complaint_form
(415) 777-9635
Chinese, English and Spanish spoken

San Francisco

1170 Market Street, Suite 500
San Francisco, CA 94102
(415) 777-9648
Email: info@consumer-action.org

Ken McEldowney
Executive Director

Michael Heffer
Business Manager

Kathy Li
Director, San Francisco (SF) Office

Nani Susanti Hansen
Associate Director, SF Office

Audrey Perrott
Associate Director, Outreach & Training

Monica Steinisch
Senior Associate, Editorial

Jamie Woo
Community Outreach Manager

Joseph Ridout
Consumer Services Manager

Cui Yan Xie
Project Associate

Vickie Tse
Development Coordinator

Hazel Kong
Administrative Associate/ Consumer Advice Counselor

Angela Kwan
Web Manager

Ricardo Perez
Mail Room Operations

Rose Chan
Consumer Advice Coordinator

Schelly Gartner, Tasneem Pitalwala, Ralph Stone
Consumer Advice Counselors

Alden Chan, Robert La, Michelle Liu
Support

Los Angeles

(213) 624-4631

Nelson Santiago
Community Outreach Manager

Linda Williams
Community Outreach & Training Manager

Washington, DC

(202) 544-3088

Linda Sherry
Director, National Priorities

Ruth Susswein
Deputy Director, National Priorities (Editor, *Consumer Action News*)

Lauren Hall
Associate, National Priorities

Alegra Howard
Associate, National Priorities

Consumer Action News is printed by the Dakota Printing Company. We use Bitly.com to shorten lengthy internet URLs.

Firms fight fiduciary rule

By Alegra Howard

For decades, financial services providers have been blurring the line between providing personalized investing advice and selling financial products for profit, leading to investor confusion and costly conflicts of interest.

A wave of industry change began after the 2008 financial crisis, when the Dodd-Frank financial reform law gave the Securities and Exchange Commission (SEC) authority to require brokers to follow a more rigorous duty of care—a fiduciary standard—when providing investment advice. While this stricter standard has yet to materialize across the board, investors seeking financial advice for their retirement funds are better protected—for now.

The Department of Labor (DOL) Conflict of Interest Rule requires that financial professionals offering retirement planning advice to retirement accountholders must operate under a fiduciary standard of care. Put simply, this means that financial advisers and brokers must act in their clients' best interests, not based on their own profit motives.

Prior to the fiduciary rule, advisers could make retirement investment strategy recommendations that were "suitable" for clients *and* may have yielded huge commissions and fees—incentives that were not always disclosed when the advice was given. Conflicts of interest in retirement advice cost America's families an estimated $17 billion a year, according to a 2015 report by the Obama White House Council of Economic Advisers.

> Conflicts of interest in retirement advice cost America's families an estimated $17 billion a year, according to a 2015 report by the Obama White House Council of Economic Advisers.

Fiduciary duty v. suitability

Today, the financial professional you hire to help you invest for retirement is obligated by law to put your needs first when making financial recommendations, and must avoid and disclose any potential conflicts of interest, such as incentives to push one investment over another. The fiduciary duty applies to advice on 401(k) plans, IRAs, mutual funds, annuities and certain life insurance policies.

Before the "best interest" rule, stock brokers and insurance agents were generally held to a "suitability" standard, meaning their recommendations had to meet their clients' financial goals without regard to the cost of the product. Now *any* adviser offering retirement advice must meet the new fiduciary standard.

For all non-retirement accounts, the old rules still apply. Investment advisers are bound to a fiduciary standard that was established as part of the Investment Advisers Act of 1940. Stock brokers, broker-dealers, insurance agents and others who provide *non*-retirement investment advice may only have to fulfill a suitability obligation. (Learn more: *https://www.finra.org/investors/investment-advisers*.)

If you're not sure whether your hired professional is held to the fiduciary standard, ask! You also can ask how they are compensated and how much they will earn on each investment they recommend. (You can use BrokerCheck (*https://brokercheck.finra.org/*) to determine whether a person or firm is registered, as required by law, to sell stocks, bonds, mutual funds and some other investments, offer investment advice, or both.)

For most of us, the best interest rule seems like a no-brainer. In fact, you may be surprised to learn that advisers weren't always held to this standard of care. Many financial services firms have argued that putting the investors' interests first would limit investors' access to advice and products, and be more costly overtime. However, the 2017 fi360 Fiduciary Standard Survey (*http://bit.ly/2fGEKkA*) asked hundreds of advisers (from various financial services models) if it cost investors more to work with fiduciary advisers "when all costs to the investor are considered." Seventy-three percent said "No, it doesn't."

Yet the brokerage industry has fought mightily for years to prevent this stricter standard, and under the Trump administration, the best interest rule start date was delayed three months; its future remains uncertain.

Next up: the states

In anticipation of the current bank-friendly administration weakening or rescinding the DOL fiduciary rule, states now are considering what they can do to ensure retirement investors receive the best advice.

In June, Nevada voted to strengthen its financial planners law, meaning that financial advisers in that state now are held to a fiduciary standard.

Industry insiders anticipate that states like California and New York will follow Nevada's lead and bolster retiree savings protections.

State insurance regulators are exploring how the fiduciary rule might impact the insurance industry, specifically the sale of annuities—complex and controversial retirement products notorious for high fees and commissions. The National Association of Insurance Commissioners has said it would review whether a best-interest standard should apply to annuity sales.

Now that investment firms must adhere to the fiduciary rule, some have threatened to drop smaller retirement investors. If you're one of them, consider yourself lucky and start looking for a firm that provides a fiduciary standard of care with reasonable fees. Check out NerdWallet's "Best IRA Accounts: 2017 Top Picks" for some ideas (*https://nerd.me/2w4KcEw*). ■

Investing costs

Continued from page 1

your tax adviser.)

In a commission-based system, the adviser earns money from the financial and insurance products you purchase. Each time you trade (buy or sell) an investment, a fee is tacked onto the transaction.

Average hourly financial planner fees ranged from $120 to $300 an hour, based in part on the location of the adviser.

In 2017, average financial adviser fees ranged from 1.18 percent for portfolio balances of $50,000 to 1.02 percent for balances of $1 million, according to research by Advisory HQ (*http://bit.ly/2vxN37w*).

For investors who want to minimize the cost of advice but don't want to go it entirely alone, the internet has given us robo-advisers—automated investment advice based on mathematical rules or algorithms. Because computers, rather than people, do the work, these services charge a fraction of the cost of a human investment adviser. In some cases, services are free.

To get an idea of where to find a robo-adviser and what it would cost, check out NerdWallet's "Best Robo-Advisors: 2017 Top Picks" (*https://www.nerdwallet.com/blog/investing/best-robo-advisors/*). There are pros and cons to automating your investment advice, so don't base your decision to use a robo-adviser on cost alone.

Brokerage fees

Before online trading existed, the assistance of a stock broker—and his or her fees—was unavoidable. Today, however, any investor with internet access and a brokerage account can make market trades. That doesn't mean that all fees have disappeared, but they can be minimized.

When starting out, look for an account that has no annual account maintenance fee. If you don't plan to make many trades, avoid accounts that charge an inactivity fee.

Fees on trades typically run $5 to $10 per transaction, though a few brokerage firms charge per share (for example, $0.01/share traded). However, trade fees might be waived in some cases. For example, if you purchase your brokerage firm's own funds or its commission-free exchange traded funds (ETFs), it will most likely waive the fee. ETFs are mutual funds that match or track a market index and are traded like individual stocks on the stock exchange. Be aware that selling a commission-free ETF prematurely—sometimes within 30 days—could trigger a penalty fee.

Many brokerage firms offer promotions that grant new customers a certain number of free trades. Others offer free or discounted trades for customers with high account balances. While firms like Robinhood and Loyal3 offer completely free trades, these services are probably most appropriate for heavy, market-savvy traders.

Visit the "fees" page of the brokerage firm's website before you open an account. Many sources, including TheStreet (*https://www.thestreet.com/online-trading/compare-best-*

"Investing costs" continues on page 3

Investing costs

Continued from page 2

online-brokers.html), compare online brokerage fees.

Mutual fund fees

Last year 94 million individual investors owned mutual funds, according to the Investment Company Institute. Mutual funds are pools of funds invested in stocks, bonds and other assets that offer diversification with professional management.

But mutual fund investing isn't free, so compare fees and expenses before diving in. Here are the most common fees, which can be found in the fund's mandatory public disclosure form called a "prospectus":

Load: This is a sales charge or commission to purchase (front-end load) or sell (back-end load) shares in a fund. However, there are many excellent "no-load" funds that don't charge a fee to buy or redeem shares. In fact, many experts believe that individual investors should avoid load funds entirely.

12b-1: The 12b-1 fee covers the cost of marketing, sales commissions and some shareholder service. It is capped at 1 percent of the fund's net assets per year. But, like the "load," this fee is avoidable (about 30 percent of mutual funds don't charge 12b-1 fees).

Management fee: The largest fee—the management fee to run the fund—is unavoidable, but can vary widely. To minimize your cost, you can invest in index funds, which hold portfolios that mimic a market index, such as the Standard & Poor's (S&P) 500. Because the index fund manager is not required to research and select individual stocks (passive management), costs are significantly lower than those on actively managed funds.

Generally, there is less risk of losing your principal, but lower potential earnings, with index funds than actively managed funds. However, many index funds outperform many actively managed funds each year. Warren Buffett, known as perhaps the most successful investor of all time, has said that the best investments for most individual investors are low-cost index funds.

> Since every dollar lost to fees is unavailable to compound (grow) and fund your financial goals, cost always should be a top consideration in your investment decision-making process.

To find out, at a glance, how much a fund will cost you each year, look at the *expense ratio*. This is the annual cost of operating the fund, expressed as a percentage of the assets. This amount is deducted from the fund's assets, lowering the return to individual investors. Look for the expense ratio in the mutual fund's prospectus on its website, or in the Securities and Exchange Commission's (SEC) EDGAR database (*https://www.sec.gov/edgar/searchedgar/mutualsearch.html*). A good rule of thumb, says CNN Money, is to look for an expense ratio of no more than 1 percent on actively managed funds that invest in large U.S. companies, and no more than 1.25 percent on funds that invest in small or international companies.

Retirement account fees

When choosing mutual funds or other investments for your retirement account, analyze and compare expense ratios, fees and other costs just as you would for any investment account.

If you invest through a 401(k) or similar plan through work, there will be administrative charges by the company managing the plan, called the plan administrator.

The law mandates that 401(k) fees be "reasonable," but it doesn't specify what that means. Websites such as BrightScope.com allow you to compare your plan against others. To learn more, read the Department of Labor's *A Look at 401(k) Plan Fees* (*http://bit.ly/2w4tS6R*).

If, after doing your research, you feel that the retirement plan charges high fees compared to the plans of similar companies, or that the mutual fund offerings don't include enough low-cost options, talk to your employer. They could try to renegotiate plan expenses or ask for additional investment options.

If you have an individual retirement account (IRA), you can find plenty of financial institutions that don't charge account fees. You'll still have to pay a trading fee each time you buy or sell a mutual fund, ETF or stock, so check this cost. Also check the amount of the fund's expense ratio if you invest in mutual funds within your IRA.

Annuities

An annuity is a combination insurance/investment product entitling the investor to future income that is paid out monthly, quarterly, annually or in a lump sum. People who buy annuities often do so for the tax advantages and income guarantee they provide.

In addition to the principal you invest (the premium), which can be significant, different types of annuities charge different fees, with some being explicit and others embedded in the interest rate or payout. One fee you might be charged is an investment management fee, like on a mutual fund. Check the prospectus—and ask your broker or adviser—exactly how much the annuity will cost you.

Annuities are very complex products, with many cost variables that can impact your payout. Learn more at The Balance (*http://bit.ly/2uWSLwk*).

Fee-free savings

Experts recommend that everyone keep some money in a stable, "liquid" account that isn't subject to the volatility of the market. Liquid means you can get your money out easily when you need it, with minimal impact on value.

When deciding where to stash your emergency fund or other cash, you have some options:

Certificates of deposit (CDs): CDs are savings "certificates" that you purchase, with a predetermined maturity date, and a fixed interest rate that is higher than that on a traditional savings account. The longer you are willing to leave your money in a CD, the higher the return. There are no fees associated with CDs, though they do typically charge a penalty for early withdrawal. You can "ladder" your CD purchases—buy multiple CDs with different maturity dates—to take advantage of higher interest rates while maintaining liquidity. Check out Bankrate to compare CD rates (*http://www.bankrate.com/cd.aspx*).

Money market accounts: Money market accounts pay a slightly higher interest rate than a standard savings account and provide limited check-writing ability. Most banks offer no-fee money market accounts, though there might be a minimum balance requirement. Bankrate offers a comparison of these, too (*http://www.bankrate.com/banking/money-market/rates/*).

Note: Savings accounts, money market deposit accounts and CDs typically are covered by FDIC insurance, which protects your money in case of bank failure, but it pays to inquire before depositing money. Learn more in "Insured or Not Insured?" (*https://www.fdic.gov/deposit/covered/notinsured.html*).

Savings bonds: When you purchase a savings bond, you're making a loan to the federal government, which it pays back, with interest, at a future date. There are no fees. However, you will pay a penalty if you cash the bond in too early.

These savings vehicles offer financial stability rather than growth and high returns. ■

First steps

Continued from page 1

and earning commission on others. Stock brokers usually earn their fees from commissions on the stocks you purchase. Even if you decide to go it alone, without professional advice, you will pay trading fees when you buy and sell stocks, bonds and mutual funds.

Fees and commissions are deducted from the value of your account. Keeping costs under control can help your account grow faster.

Note: Many advisers and brokers will only work with people who have a lot of money to invest—from $50,000 to $100,000, into the millions. However, you can invest in mutual funds on your own with as little as $100.

Mutual funds are pooled money invested in a group of stocks and/or bonds chosen by the fund's investment adviser. Mutual funds typically have management and administrative fees, which must be disclosed in the fund's "prospectus," but they may be difficult to discern.

Funds that carry upfront or back-end fees ("loads") to buy or sell shares must disclose those fees.

There are also "no-load" mutual funds, which don't charge front- or back-end fees, but they, like other funds, have management and administrative fees.

You can avoid high mutual fund fees by investing in low-cost index funds. Index funds offer varied investments and keep costs low by not using a financial adviser to actively manage the account. Instead, index funds track a market index, such as Standard & Poor's 500 (S&P 500).

Investment fees and commissions can vary widely. It's important to know upfront what you'll be paying.

Look for a list of fees on a fund's or broker's website. Or ask the adviser or investment firm directly for a list of all fees. In general, the lower the fees, the higher your returns will be over the long-term. For more on the cost of investing, see:

- "Understanding and managing investing costs" on page one, and
- NerdWallet's "Understanding Investment Fees: From Brokerage Commissions to Sales Loads" at *https://nerd.me/2i0SPtO*.

Taxes

If you're fortunate enough to earn a profit on your non-retirement account investments, you will have to pay federal and state taxes on that income annually. Then, when you sell an investment, you'll pay taxes on any capital gains—the amount your investment grew since you bought it.

Investments held for a year or less (short-term) are subject to a higher capital gains tax on profits than investments held for more than a year (long-term).

Generally, investment losses (when investments are sold for less than you paid for them) are deductible from capital gains. If your losses exceed your gains for the year, you can deduct up to $3,000 of them against other types of income. If you have still more unclaimed capital losses, they can be carried forward and applied against future years' gains.

Be aware that mutual funds that are not held in a tax-deferred retirement account often generate sizable capital gains at year-end, and you must declare and pay tax on these gains each year.

Many retirement investment accounts are taxed when the owner withdraws money, and withdrawals can only be done (outside of special exceptions) when the accountholder is 59½.

However, withdrawals from a Roth IRA are tax-free because your allowable annual contributions to a Roth are made with after-tax income. On Roths, all withdrawals (including earnings) after age 59½ are tax-free. Earnings on college 529 savings plans are tax-free when used for qualified education expenses for the beneficiary.

If you work with a broker, or invest in mutual funds, you'll receive a 1099-B tax form to report your capital gains, and a 1099-DIV to report income from dividends. Often these arrive at tax time in one form, a "consolidated" Form 1099.

Wherever you choose to invest, advisers agree that you should diversify your investments, dividing your money into different investment buckets. ■

Sayonara, *my*RA

The U.S. Treasury Department just announced the closure of the short-lived but promising government-sponsored *my*RA retirement savings program. Read "Sayonara, myRA" at *http://bit.ly/2uHk16I*.

Investment trouble?
Some places to turn to

Report problems with a broker or brokerage firm to FINRA, the Financial Industry Regulatory Authority.

You can file a complaint if you suspect fraud or any suspicious activity related to buying or selling investments: *http://www.finra.org/investors/investor-complaint-center* or call 240-386-HELP (240-386-4357).

FINRA also offers a special Securities Helpline for seniors at 844-57-HELPS (844-574-3577) and operates a dispute resolution program offering both arbitration and mediation: *http://www.finra.org/arbitration-and-mediation.*

Report problems with an investment account or professional to the Securities and Exchange Commission (SEC) (*https://www.sec.gov/oiea/investor-alerts-bulletins/ib_complaints.html)* and your state securities agency. Find your state regulator here: *http://www.nasaa.org/about-us/contact-us/contact-your-regulator/.*

Report problems with a 401(k) or other retirement plan to the U.S. Department of Labor Employee Benefits Security Administration (EBSA): *https://www.dol.gov/agencies/ebsa/about-ebsa/ask-a-question/ask-ebsa.* ■

Investment guides & tools

Now that we've laid out some of the basics of investing, here are some resources to help you to put wise investing principles into practice.

The Bogleheads' Guide to Investing gets rave reviews for offering clear, practical, low-risk investment advice based on the principles of John Bogle, founder of the highly successful mutual fund firm Vanguard. This guide (buy at Amazon.com: *http://amzn.to/2wK8zV5*) is the starter kit for safe investing. It explains the whys and hows of investing in simple terms, preaching the power of compounding, which means earning money on your re-invested earnings over time. It devotes chapters to helping you understand what you're buying (bonds, mutual funds, etc.), advocates for long-term investing in low-cost index funds, and spells out how to do it. It covers costs and taxes, and explains how to estimate how much you'll need to save to meet your goals. This guide covers the full life cycle of financial planning, from your first investment to passing on your profits after many years of smart, safe investing.

The Motley Fool Guide to Investing for Beginners (free download: *http://bit.ly/2vCjjF3*) is entertaining, easy to understand and filled with solid investment principles. Motley Fool says: "The secret to great investing is not a higher IQ, or superb market timing. It's self control." Its guide recommends thinking of investing as "sending some of your money on a vacation," while the rest of your funds take care of your regular bills and expenses. Investors are advised to buy and hold investments for the long term.

The *New York Times'* "Before you pay for financial advice, read this guide" (*http://nyti.ms/2w7xX9M*) describes the different types of financial advisers and emphasizes the importance of working only with advisers who commit to a fiduciary standard of care (putting *your* best interests first). It links to 21 questions to ask a financial adviser or broker before investing. It prompts questions about investment fees, commissions and benefits, and includes a copy of the fiduciary pledge that you can ask an adviser to sign before you agree to pay for any financial services.

FINRA Fund Analyzer (*http://bit.ly/2w7tK5L*)is a free tool to help more experienced investors compare and evaluate mutual fund investment options. It has information on more than 18,000 funds. The Analyzer was developed by the Financial Industry Regulatory Authority (FINRA) to allow investors to compare up to three different mutual funds' fees and financial performance at one time. For analysis on the costs of college 529 investment plans, FINRA offers the **529 Expense Analyzer** (*http://bit.ly/2x2zevM*).

Smartcheck.gov's True Fraud Stories (*https://www.smartcheck.gov/videos/hunterwise_video/*), a new video series by the U.S. Commodity Futures Trading Commission (CFTC), is designed to prevent some investment pitfalls, and the site's "Know Your Pro" tools (*https://smartcheck.cftc.gov*) enable you to check your financial adviser's credentials. ■

Professionals

Continued from page 1

Stock Trading 2017" (*https://www.nerdwallet.com/blog/investing/best-online-brokers-for-stock-trading/*).

Mutual fund companies

A mutual fund is an investment company that pools money from many investors to invest in a variety of stocks, bonds and/or other securities (including Treasury bills and certificates of deposit). Each mutual fund share represents one unit of the mutual fund's portfolio. The net asset value, or NAV, represents the fund's per share market value.

Mutual funds offer investors a way to spread their investment dollars over a wide range of companies or industries, rather than just a few individually chosen stocks and bonds. The funds are managed by fund companies that are registered and regulated by the Securities and Exchange Commission (SEC). Mutual fund shares are typically purchased and sold directly through these fund companies or through brokerage firms.

While firms like Vanguard, Fidelity and JPMorgan Chase are known as some of the top American mutual fund companies, they are in fact fund "sponsors." Mutual funds are their own legal entities, with boards of directors that define the investment objectives of the fund. Funds often outsource their servicing to sponsors, which sell and service the portfolio. (To learn more about the structure and management of mutual funds, see Investopedia: *http://bit.ly/2wYJu8l*.)

Insurance companies

Insurance companies sell long-term investments like annuities and life insurance. These financial products can be purchased through an insurance company or a brokerage firm that manages your portfolio.

An annuity is an insurance product that you buy upfront and that pays out income for the rest of your life, or for a set number of years. They can be attractive to investors who want to receive a steady income stream during retirement. How much you receive depends on whether you have a guaranteed payout (fixed annuity) or a payout that depends on the performance of your annuity's investments (variable annuity).

Annuities, and some mutual funds, can come with notoriously high expenses. For more information about fees, see "Understanding and managing investing costs" on page one.

Some people invest in life insurance as part of their retirement plan. A permanent, or whole life, insurance policy can supplement retirement savings by accumulating cash value and paying out during retirement.

If you are considering purchasing annuities and life insurance as part of your investment plan, consider getting a second—even a third—opinion from professionals who you are confident have your best interest in mind. Never rely solely on information you receive during a free "investment seminar" because this is the way many deceptive products are sold to naive investors.

Do your due diligence

It's worth doing some research to avoid purchasing fraudulent funds and insurance policies. Federal and state securities laws require brokers, investment advisers and their firms to be licensed or registered and to make important information available to the public for free, including an adviser's education and previous employment, and whether any disciplinary action has been taken against a firm or adviser by the government for unethical or improper conduct.

Depending on the value of the assets being managed, investment advisers and firms have to register with either the SEC or the state securities agency where they operate. The SEC is the federal government agency responsible for protecting and ensuring fairness for individual investors. To find your state's securities regulator, contact the North American Securities Administrators Association (NASAA) (*http://www.nasaa.org/about-us/contact-us/contact-your-regulator/*).

The Financial Industry Regulatory Authority (FINRA) is a non-governmental organization that regulates member brokerage firms, provides investor education and protection, and disciplines brokers who break the rules.

Brokerage firms

Information about brokerage firms and individual brokers is available through FINRA's BrokerCheck program (*https://brokercheck.finra.org* or 800-289-9999). You can find out if brokers are properly licensed, have had disciplinary problems or have received serious complaints from investors.

Details on investment firms and individual advisers' qualifications are also available on the SEC's Investment Adviser Public Disclosure (IAPD) website (*https://adviserinfo.sec.gov)* and at *https://investor.gov/*. For questions about an investment professional's background, call the SEC investor assistance line at 800-732-0330.

Insurers & agents

Make sure the insurance agent and insurer are licensed in your state by contacting your state insurance department. (Locate yours here: *http://www.naic.org/state_web_map.htm.)* You can also check the Better Business Bureau's website (*https://www.bbb.org*) for any complaints consumers have filed against specific insurance brokers or firms.

Remember, it's up to you to protect your investment dollars by checking that the professionals you hire are legitimate and will prioritize your financial health over their bottom line. ■

Join Consumer Action

Consumer Action depends on the financial support of individuals. Consumer Action members receive a subscription to *Consumer Action News*. New members also receive *How to Complain*.

☐ $25, Regular Membership

☐ $15, Senior or Student Membership

You can join or donate online with a credit, debit or prepaid card using our secure server: www.consumer-action.org/join.

☐ $_____ Donation to our Publications Fund, supporting the free distribution of Consumer Action materials to consumers

Name ______________________ Address ______________________

City ______________________ State __________ ZIP __________

Email address ______________________

Mail to: Consumer Action, 1170 Market St., Suite 500, San Francisco, CA 94102. Donations are tax-deductible. 9/17