Money matters

Choosing Suitable Investments

Before you make any investment decision, you should carefully determine if it's suitable for your overall investment needs.

You should also know that certain types of investment advisers have to determine if an investment recommendation or strategy is suitable for you. Investment advisers regulated by the Securities and Exchange Commission must ensure that the investment advice they provide is suitable specifically for your financial situation and investment objectives. They have a legal duty to act in your best interest.

How Advisers Gauge Suitability

Your investment adviser needs to gather a lot of information from you before making any recommendation. He or she needs to understand your investment goals, financial needs, risk tolerance, investment experience, and other investments. Only then can an adviser come up with a recommendation that matches your needs and goals.

Assessing Suitability on Your Own

You may not be working with a financial adviser when you need to make an investment decision. Or you may be considering a recommendation made by someone who is not required to evaluate the suitability of a particular investment to your specific needs. In either of these situations, you need to make sure you do your own suitability analysis for each and every investment decision.

Here are some basic questions you need to answer to make sure an investment option is suitable for you:

- Do I know my long-term investment goals? (Complete the Retirement Roadmap if you have not yet done so.)
- Does this option match my investment goals?
- Does this option meet my financial needs?
- Do I understand all costs, fees, and commissions?
- Do I understand the tax impact when I put money into the investment and when I get money out of it?
- What are the risks or downsides to this investment?
- Does this investment fit with my current and long-term needs for cash?
- What if I change my mind and want my money back or to invest elsewhere?
- How do other alternative products compare in risk, return, and expenses?
- Does the seller have any interests that conflict with my best interests?
- Is the person who is making this investment recommendation appropriately licensed?

Investments With Suitability Issues

Some investment products raise special suitability questions for the older investor. Securities regulators put these investments at the top of their watch lists as raising the greatest potential for fraud or unsuitable sales. They may be a sound investment for someone else but not for you.

Foreign Exchange Investments

Investments in the foreign currency exchange market (FOREX) are touted as an exciting opportunity to participate in the largest financial market in the world. Operating 24 hours a day, the FOREX market is highly liquid with most of the trading conducted electronically or over the telephone. Banks, insurance companies, and large corporations use the FOREX market to manage fluctuations in currency rates.

Infomercials, cold calls, and investment seminars lead individual investors to believe that they are investing in a market that is highly regulated and certain to make money. The promotions sound like it is a good time for the smaller investor to play with the big guys and get in on all the potential profits.

The Commodities Futures Trading Commission (CFTC), the government agency charged with regulating this market, cautions that FOREX trading is extremely risky for the individual investor. Because of the way the market works, small customers are almost guaranteed to lose money. CFTC has prosecuted operations that used high pressured sales tactics, false promises of gains, fraudulent account statements, phony success stories, and fake claims of the firm's stability, size, or experience. This investment would only be suitable if you can afford to lose every cent you've invested and then be asked to invest some more.

Promissory Notes

Promissory notes are like IOUs. The investor is in effect making a loan to a company. The company promises to return the investor's funds along with interest payments. Although promissory notes can be legitimate investments, the real notes are almost never offered to the general public. Scammers find their targets through telephone calls, advertisements, or the Internet. Sometimes they persuade life insurance agents to sell promissory notes. The agents may rely on information they've been given and not realize it is false or misleading.

Promissory notes are a security—most must be registered, and the seller must have a securities sales license. Red flags to look out for are promises of quick, "guaranteed" double-digit returns and investments labeled "prime quality" for a start-up company, and notes for a period of nine months or less. The risk is high and most likely the suitability for you would be very low.

Variable annuities

The North American Securities Administrators Association (NASAA) puts variable annuities in its Unlucky Thirteen investment traps because of the flood of high pressured marketing efforts towards older consumers. Because variable annuities can only be suitable for people who can invest for a long time, the older you are, the less likely a variable annuity would be suitable for you.

Commissions to those who sell variable annuities are very high, so the incentive is for sellers to engage in inappropriate sales. Variable annuities are only suitable for a very small percentage of the investing public and generally are not appropriate for most older adults. The steep penalties for early withdrawals also make variable annuities unsuitable for short-term investors. Be especially wary of any broker who wants to sell you a variable annuity to hold inside a 401(k) or IRA. You are already getting tax-deferred growth in an IRA or a 401(k), and the variable annuity simply adds a layer of cost with no additional tax benefit. Variable annuities can also complicate your taxes. Recommendations to switch among annuities should also raise a red flag because switching creates new sales charges, commissions, and penalties that go into the sales agent's pocket.

Your To-Do List:

- ☐ **Set your retirement goals.** Use the AARP Retirement Roadmap to find out what your retirement dreams will cost in dollars and cents, http://assets.aarp.org/www.aarp.org_/articles/money/financial_planning/flash_roadmap/roadmap.html.
- ☐ **Select your investment adviser carefully.** Read tips on how to make the selection, www.aarp.org/money/financial_planning/sessioneight/which_professional_is_right_for_you.html
- ☐ **Read up on the risks** in investing in foreign exchange markets, www.cftc.gov/enf/enf-forex.htm.
- ☐ **Check out** the Money Matters Tip sheet on How to Spot a Scam.
- ☐ **Follow the warnings** of the Securities and Exchange Commission (SEC) about variable annuities, www.sec.gov/investor/pubs/varannty.htm.
- ☐ **Always do your homework.** Check the salesperson and the product with your state securities regulator or the SEC before acting on any offer, www.nasaa.org (click "Contact Your Regulator") and www.sec.gov/investor/brokers.htm.