

Safeguarding Your Investments

1. Introduction

Any time you invest, you take a certain amount of risk. That's because with any investment there's always a possibility that it could lose value at some point. You can help moderate this risk, though, by choosing investments carefully and making adjustments to your portfolio when they're necessary.

There is a completely different type of risk that you want to avoid as much as possible when investing: It's the risk of theft, fraud, or other illegitimate activities. In fact, investment fraud and related crimes cost individuals and the financial services industry billions of dollars every year.

Fortunately, as an investor you're entitled to basic rights and protections, and there are many places you can go for help if you're a victim of these crimes. You can also take steps to protect yourself from fraud and scams that may be directed at you. While these precautions are primarily intended to keep your assets safe, some of these measures have an added benefit of helping you to keep better records of what you own, which is important for long-term financial planning.

2. Recordkeeping

When you invest, your accounts generate a great deal of paperwork, ranging from trade confirmations to monthly, quarterly, and annual account statements, and, of course, IRS Form 1099 tax records.

At times you might find the volume overwhelming, especially as your portfolio expands. But reviewing and managing your account information is essential. It's the only way you'll know that money you sent to your mutual fund or brokerage account was invested, that the instructions you gave were followed, and that no unauthorized transactions were made.

If you store your investment records efficiently, you'll have important information on hand when you need it—including when you file tax returns. And if something ever does go wrong with your account or you have problems with your brokerage firm, good recordkeeping means you'll have proof of the investments you made, when you made them, how much you invested, and other relevant details you may need to make your case.

In fact, you may generate a little paperwork yourself. It's a good idea to put certain details of your investment questions, expectations, and transactions in writing. For example, if you question a specific transaction, you can begin with a phone call, but you'll want to write a follow-up letter or email. This paper trail can be an important part of making a formal complaint and pursuing a resolution.

Tax Records

One of the most important reasons to keep good investment records is to simplify the process of preparing your federal income tax returns and state returns if they apply. Unless your investments are in a tax-deferred account such as an IRA or 401(k), you must pay income taxes if your stocks pay dividends, your mutual funds make distributions—even if the dividends and distributions were reinvested—or you collect interest income from your bonds and cash investments. You must also pay capital gains taxes if you sell your investments for more than you paid for them or if your mutual fund passes profits it makes from selling investments along to you as capital gains distributions.

Whatever your tax liability, having the right information handy helps ensure that you pay what you owe—but not more. If you don't keep thorough investment tax records, you might find yourself spending hours at the last minute gathering information that you could have compiled as you went along. Simply hiring an accountant is not the solution to bad recordkeeping because you still have to provide the details the accountant needs to prepare your returns.

One approach to recordkeeping is to keep a separate worksheet for each investment, showing when you bought it, how much you spent, how many shares or units you bought, and what commission you paid—remember, commissions are considered part of the investment cost. Keep that paperwork in a file with your monthly and end-of-year statements, which keep you up-to-date with what's happening in your account.

By maintaining records, you'll have your cost basis, which is what you originally paid for an investment when you bought it, plus the cost of making the investment, such as commissions you paid. Knowing your cost basis is important when you sell an investment since you will either owe capital gains tax on any profit you earn or be able to use capital losses to offset other gains or ordinary income.

If you receive an investment as a gift instead of buying it, you might also record the former owner's cost basis if you know this information. And if you eventually gift your investments to other people, they will need to know your original cost basis as well. If you inherit an investment, you'll want a record of its market value on the day your benefactor's estate was valued.

It's probably easiest to create your worksheets on a computer. Some software manufacturers sell computer applications designed specifically for recordkeeping. And popular money management programs can track your investments with minimal input from you, once you have set them up. If you do keep your records on a computer, though, be sure you back up those records electronically, and also consider keeping a printed backup in case there's a problem with your machine and your information is lost.

Storing Investment Records

In addition to the records you keep yourself, you'll want to keep certain statements and other information your brokerage firm, mutual fund company, and other financial institutions send to you.

It's smart to divide your investment records into those you'll use for short-term reference and those that go into long-term files, or storage for three to seven years or longer. Once a year, it's a good idea to overhaul your records, discarding those that you no longer need. For example, if your mutual fund company sends an end-of-year summary detailing all your transactions, you can usually discard the monthly statements you received throughout the year.

Long-term storage items should include:

- End-of-year summary account statements from your brokerage firm, mutual fund company, or other financial institution where you have an

investment account, plus statements from college savings plans and retirement savings plans.

- Copies of your annual IRS Form 1099s, which show dividends, interest, and capital gains from your investments.
- Transaction records confirming your purchase or sale of stocks, bonds, and other investments. Your brokerage firm is not required to keep such records indefinitely, so it's smart to hold onto this information yourself for at least three years after you've sold an investment.
- Copies of your federal and state tax returns going back seven years, along with supporting documentation.
- Copies of your IRA and 401(k) plan documents. At your death, your beneficiaries will need this information to determine how to take distributions from your account.

Long-term storage is particularly important for tax records, which, of course, are often affected by your investments' performance. Although the Internal Revenue Service can normally audit your income tax returns for just three years, it can investigate your tax records for up to seven years. It's also important to keep any records of purchase for as long as you hold an investment, even if it's 20 years or more. All long-term storage items should be in a fireproof box at home or a safe-deposit box at your bank.

When you do discard investment records, be absolutely sure that they don't fall into the wrong hands—identity theft is a fast-growing crime. To reduce the chances of a stranger accessing your information, you can destroy investment papers with a shredding machine, available at stationery and office supply stores, usually for less than \$100. Shredding is particularly important for any records bearing your account numbers and personal identification numbers.

3. Protecting Your Investments

While you can never completely safeguard your investments against the risk of losses that may result from fluctuations in the securities markets, there are ways to protect your investments from the risks of theft, loss, and even errors.

Online Security

Investors increasingly use the Internet to access their financial accounts—including bank, brokerage, credit card, and other accounts—and to pay bills, buy or sell securities, transfer money, or conduct other financial transactions. While the Internet is certainly convenient, investors need to be cautious to minimize the risk of unauthorized users accessing or misusing your financial information, especially when you use a computer in a public place.

Brokerage firms go to great lengths to make their Web sites secure, and they are responsible for breaches in that security. But you are responsible for keeping your account number and personal identification number confidential and secure. It's up to you to make sure no one else can get hold of your information. Remember, that information provides access to your account—so handle it carefully. Being careless with it is the equivalent of leaving a signed blank check lying around.

To protect your account, it's smart to take certain steps when checking your investments or trading online:

- Be especially careful if you access your brokerage account using “wi-fi”—that is, wireless Internet available in public places. In general, public wireless networks tend to have lower security so that people can get on them without difficulty, but this convenience can backfire if you're dealing with sensitive information.
- Avoid trading or going to your account on computers that aren't your own, such as those in Internet cafes or hotel rooms. You won't know if the computer is loaded with spyware—that is, software that peeks into other people's private accounts. Besides, you can't easily gauge the quality of its security or virus protection.
- Change your password frequently, and use one that's difficult to guess—not your Social Security number or your spouse's birth date, for instance.
- Strengthen your computer's security. You can do this by installing firewalls, which block out unauthorized access to your computer, and spyware detection software.
- Be sure you conduct financial business only on a secure Web page with encryption—you can usually tell that a page is secure if you see a key or

padlock symbol on the lower part of your screen, or if the Web site address starts with “https” instead of just “http.”

- Log out completely. When you’re finished trading or reviewing your brokerage, mutual fund, or other account, don’t just go to another Web site or simply close your Internet browser window. Instead, be sure to log out to end your online session, usually by clicking a “log out” button on your brokerage’s Web site. Otherwise a subsequent user could track back to access your account.

If you think a stranger or unauthorized user has tapped into your brokerage account, contact your broker immediately. You should be sure you know what provisions your account agreement makes, if any, in case your account access is compromised.

Securities Registration

The way your securities are registered can affect how safe they are from theft or loss. Stocks, bonds, and other securities can usually be held one of three ways:

- **Physical certificates:** The security is registered in your name, and you hold a hard copy of a certificate that represents ownership of the security. Most companies no longer routinely issue physical certificates but may do so, for a fee, if you request one. Securities you have held for a long time may still exist in certificate form. Note: One disadvantage of holding securities in certificate form is that it typically takes longer to sell them because the brokerage firm you take them to must first register them in its name.
- **Direct registration:** The security is registered in your name, but either the issuing company or its transfer agent—a company that maintains shareholder records—holds it for you in book-entry form. Book-entry form means that there’s no certificate, but rather an electronic record on the issuer’s books that you are the owner of that security. Not all companies offer direct registration.
- **Street name registration:** The security is not registered in your name, but in the name of your brokerage firm, which holds the security for you in book-entry form. You are what’s known as the beneficial owner. Chances are this is how your securities are held unless you specifically ask for another type of registration.

If you choose to hold physical securities certificates, you must take special steps to safeguard them. You can’t sell the securities if you can’t find the certificates. If the certificates are stolen, dishonest people could arrange to have the registration transferred to another name in order to sell the asset.

For these reasons, you'll want to store any stock certificates you might have in a fireproof safe at home or in a bank safety-deposit box. You might want to keep photocopies of both sides of your certificates separate from the certificates themselves. This way, if the real ones are lost or stolen and their registration is transferred to another name, you may be able to prove that you actually owned the certificates.

If your securities certificates are missing, contact your brokerage firm immediately. You can get new ones, but you must first place a "stop transfer" order to help prevent someone else from transferring securities ownership to their name. Your firm will also report the missing certificates to the Securities and Exchange Commission. You'll probably have to pay a fee for replacement copies, and you'll have to buy an indemnity bond in case someone later obtains the lost certificates and tries to present them as legitimate.

Account Errors

Whether human or mechanical, mistakes and errors can affect your investments. To protect your account from costly errors—and to determine whether there has been a breach of security or an unauthorized transaction—you should thoroughly review your account statements and trade confirmations as soon as they arrive.

You'll receive an account statement either monthly or quarterly, depending on your account, as well as get a trade confirmation for each transaction in your account. You'll want to make sure these documents accurately show the date, price, and type of security you bought or sold. If you hold physical securities certificates, your statement or trade confirmation should also record the certificate number. Look for trades that you didn't authorize or missing trades that you know you did authorize. If you find an error, report it immediately to your broker or investment sales representative.

It's a good idea to hold your confirmations for at least seven years or longer after selling a security. That's because your investment company is only required to keep records of sales of securities for up to six years, and records of confirmations for up to three years. So you might have a hard time obtaining copies once those time periods have elapsed.

Finally, remember to look out for your Form 1099s every January, when they are due from your brokerage firm, mutual fund company, bank, or other financial services firm. You'll need this record, which shows the interest and dividends that were paid to you in the previous tax year, to complete your income tax returns. If you haven't received your 1099s by the end of January, ask your broker or investment sales rep about the form. And if the form shows up, but the information on it is wrong, ask for a corrected form. When you get the right form, it will be marked "corrected."

4. Investor Rights and Protections

As an investor, you have certain rights and protections. These protections range from laws that dictate the types of information companies must provide their shareholders or bondholders, to mediation and arbitration forums for resolving investor disputes. There are also provisions for courts to hear lawsuits brought by investors against companies that issue securities, and an agency that insures investors' account assets in case the their brokerage firm fails.

Corporate Disclosure and Filings

Corporate disclosure is a subject of great interest to lawmakers and regulators. The early 2000s witnessed several notorious corporate and accounting scandals that caused many individual investors to lose millions of dollars in stocks and other investments. In many cases, the offending companies had not disclosed important business or accounting information. Ultimately, they went out of business, or lost a great deal of their value, and their stocks became worthless. In response, Congress passed the Sarbanes-Oxley Act in 2002. The objective of the new law was to further improve the accuracy and reliability of corporate disclosures.

On a personal level, you have a right to the information you need to make informed investment decisions. Some of this information comes from the companies themselves. For example, corporations that issue securities to the public, have more than 500 shareholders, at least \$10 million in assets, and are listed on a major stock exchange are required to register with the Securities and Exchange Commission (SEC).

These corporations must provide both positive and negative news about their operations, business, strategies, management, financial well-being, and any known risks they face in regular reports—known as filings—that they provide to the SEC. Filings take several forms, ranging in length from just one page to hundreds of pages.

What must a company file? For starters, any public corporation must file information about its business and financial results both quarterly, in 10-Q reports, and annually, in 10-K reports. These documents include general information about the organization, including its business strategies, properties, and employees. The 10-K report also includes audited year-end financial statements and explains how its top executives are paid and how much they receive in compensation and benefits. In addition to filing quarterly and annual reports, the company must file “current” reports on Form 8-K to let investors know more immediately about significant corporate events, such as the entry into

(or cancellation of) a major contract or if the company files for bankruptcy or fires its chief executive officer or auditors.

Company filings also profile the board of directors and explain how its shareholders can vote, using a form called a proxy statement. In other filings, the company must also reveal if insiders—or people who work at the company—have been trading its stock. And if a company chooses to disclose certain information to some individuals, such as stock analysts, it must also make that information available to the general public.

You can view all of these reports and many more for free on the SEC's Web site, through its EDGAR database. You can find out more about using the database by visiting the SEC Web site at www.sec.gov.

Smaller publicly traded companies that do not meet the listing requirements of a major exchange and which do not trade in over-the-counter (OTC) markets are frequently exempt from the SEC's registration and filing requirements. Some smaller companies must provide offering circulars that provide some of the relevant information. Others are required to provide a list of owners, but not much more.

The lack of verifiable, public information is one of the reasons many investment scams involve small, unregistered, thinly traded companies. In addition, since these companies tend to have fewer shares in the marketplace and their stock tends to trade infrequently—or thinly—it can be easier to manipulate their stock prices.

Shareholder Suits

As an individual investor, you have the right to bring or participate in a civil lawsuit against a company in which you own stock if you believe the value of its shares has declined due to corporate fraud or malfeasance. Although the outcome of any shareholder litigation is far from assured, you might recoup some of your investment losses this way.

In this kind of litigation, a group of shareholders generally hires an attorney to bring a class action suit. Often, large shareholders, such as institutions that may own millions of shares of a particular stock, initiate these lawsuits. As long as you're a shareholder, you're automatically included as a plaintiff, although you can opt out. Even if you are a plaintiff, you do not have to go to court or become actively involved. You might hear about shareholder suits from plaintiffs' attorneys advertising the case in newspapers or from the company itself. Or you may receive a notice as a shareholder of record, informing you of the suit and explaining what steps, if any, you need to take.

If, after a shareholder suit has gone to court or is settled, there is a financial award in the case, a judge usually requires the plaintiffs' attorneys to notify shareholders through newspaper ads, encouraging them to get in touch to be reimbursed. Or, if you've been notified directly about the suit, you may receive any reimbursement directly. But if you're among those shareholders, don't expect much. Generally, in a securities fraud case with tens of thousands of shareholders, there may be a very large total settlement, but each participant's share is fairly small.

Securities Investor Protection Corporation (SIPC)

If your brokerage firm goes out of business or stops operating, your investment assets will be insured—provided your firm is a member of the Securities Investor Protection Corporation (SIPC).

In these cases, the SIPC will step in to liquidate the firm and replace missing securities worth up to \$500,000 for each customer, including up to \$100,000 in cash. In some cases, the SIPC also arranges to have your investment account transferred to another brokerage firm. But the SIPC does not reimburse you for normal market losses or for errors or misdeeds on the part of your broker.

To make sure you have SIPC protection, find out before you open an investment account that the firm is an SIPC member. Look for "Member SIPC" in your brokerage company's ads and signs, or ask directly. You should be aware that if your firm loses its SEC registration, it automatically loses its SIPC membership as well. The SIPC will only protect you for up to 180 days after your firm stops being a member.

If your brokerage firm declares bankruptcy, you should file a claim to recover your assets within the time frame established by the bankruptcy court overseeing the case. The court will set a date by which claims are due—usually 60 days after it publishes an official notice of the case, but sometimes as few as 30 days. You'll receive a notice of that deadline in the mail along with claim forms and filing instructions.

If you miss the deadline the court has set, you still have six months to file a claim according to SIPC regulations. The drawback is that claims made in this period may be processed more slowly and you may receive less than full settlement to which you would have been entitled. If you wait longer than six-month extension to file, SIPC will not process your claim except in the most exceptional circumstances.

To bolster your SIPC claim, you should have your account statements and trade confirmations on hand. You will need to describe the cash and securities that are

owed to you, and a court-appointed trustee will compare that information to what the brokerage firm has in its own records. You should be reimbursed within one to three months after your claim is received. The settlement is the value of your securities—up to the coverage limits—as of the day the SIPC trustee was appointed.

5. Investment Scams

An investment scam, which is designed to part you from your money, might involve legitimate products that are sold illegitimately, such as real stocks sold by unregistered salespeople. Or it could involve selling completely illegitimate investment products, such as unregistered securities. Either way, the people who try to push these scams hope that they're dealing with an unwitting or gullible person. By the time you figure out that you've been the victim of a scam or fraud, these people hope to be long gone—with your money. To protect yourself against these frauds and schemes, it's important to be able to identify their basic characteristics.

Kinds of Scams

Investment scams take many forms—and unfortunately criminals and con artists come up with new ones all the time. While the particulars of an actual investment scam might change, the basic kinds of securities fraud fall into recognizable categories:

- **Pump-and-dump:** This term applies to a stock scam in which a con artist deliberately buys shares of a very low-priced stock of a small company, known as a penny stock, and then spreads false information to drum up interest in the stock and increase its stock price. After unwitting investors purchase shares, believing they're getting a good deal on a promising stock, the con artist dumps his shares at the high price and vanishes, leaving many people caught with worthless shares of stock. You might encounter a pump-and-dump scheme in an online chat room, bulletin board, blog, or newsletter or in a blast fax, spam email, or even a text message on your cell phone—so beware of any sudden increase in undocumented information touting a particular stock.
- **Boiler rooms and bucket shops:** These are common terms for settings from which scammers sell stocks illegally, usually by making cold calls to unsuspecting investors. Using unscrupulous, high-pressure tactics, these scammers try to sell high-risk stocks without truthfully disclosing everything you need to know. Often, a bucket shop or boiler room operators don't buy the shares the investors order—they just disappear, taking the money with them. By the time authorities are alerted, the site has been abandoned.
- **Unregistered securities:** In this common type of fraud, an investment salesperson—who might or might not be licensed—pitches you stocks, bonds, or other securities that have not been properly registered with

either a stock exchange or with the state in which they're sold. Most unregistered securities promise low risk and high returns, when in fact buyers get just the opposite—a great deal of risk, little chance of earning anything on their investment, and no way to recoup their losses. Among the things these scammers may push are off-shore securities, oil and gas investments, and what they call prime bank investments.

Red Flags

To stay on guard and avoid becoming a victim, look for the warning signs of investment fraud:

- **A pushy broker or investment salesperson:** No reputable broker, investment sales representative, or other investment professional should push you to make an immediate decision about an investment, or tell you that you've got to "act now." If someone pressures you to decide on a stock sale or purchase, steer clear. He or she might be selling unregistered securities, working in a boiler room or bucket shop, or setting you up for some other kind of fraud. Even if no fraud is taking place, this type of pressuring is inappropriate, and you might want to report these situations to the firm where the person works if you think the firm itself is legitimate.
- **Account discrepancies:** If in reviewing your account statements you notice unauthorized trades, missing funds, or other problems, there may be cause for alarm. Such discrepancies could be the result of a genuine error, but they could also indicate churning or fraud.
- **Guarantees:** Anyone who guarantees that an investment will perform a certain way should be immediately suspect. While some investments pose less risk than others, all investments except insured bank products can lose as well as make money. Anyone who guarantees a "no risk" investment is not telling the truth—and could be trying to hook you into a scam.
- **Missing documentation:** If a broker or investment salesperson tries to sell you a security with no documentation—that is, no prospectus in the case of a stock or mutual fund, and no offering circular in the case of a bond—he or she may be selling unregistered securities. The same is true of stocks without stock symbols. You should be able to see an investment's issuer, prior performance, terms, any fees you must pay, and, in the case of bonds and CDs, the maturation date. Likewise, if you open an investment account but never receive copies of forms and agreements, you should close the account and move your business elsewhere.

- **High investment returns:** Watch out if someone tells you a particular investment can or will provide higher investment returns than you can get anywhere else. A realistic return depends on the type of investment, but the promise of anything above 12% should make you suspicious. That's because over the past seven decades, the average annualized total return of the Standard & Poor's 500 Index, a measure that gauges broad stock market performance, has been about 10.4%. Small company stocks have done a little better. But historically no other investments have come close to that level with any degree of consistency. Use common sense. If a return sounds too good to be true, it probably is.
- **Nontraditional products:** While scammers may use stocks, bonds, mutual funds, exchange traded funds, and cash equivalents as part of their ploy, it's often easier to trap careless investors with products that offer better tax benefits or promise bigger returns. While many of these alternatives are legitimate investments and may be appropriate for some investors, there is a reason they are not mainstream: they tend to tie up your money for a long time and charge higher-than-average fees. Limited partnerships, sale-leaseback contracts, and pre-initial public offerings opportunities (Pre-IPOs) are some examples. Be suspicious as well of investments linked to other people's life insurance.

Who Gets Victimized?

Almost anyone who invests is a potential fraud target, though you can reduce your vulnerability if you know what to guard against. One of the most basic cautions is not to be greedy. If you're trying to get rich quick, there's probably someone out there who'd be happy to sell you a scheme that sounds like the answer to your dreams. Making a killing on a "hot" investment is not key to a successful investment strategy.

If you're extremely anxious about your financial situation, you may be more vulnerable to deception as well. That's one reason that so many scammers go after retired people or those who've faced serious economic problems. While you don't want to be suspicious of everyone, it probably pays to be especially careful of someone you don't know who claims an affiliation with you—through a military unit in which you served, a religious congregation of which you're a part, the school you attended, or any other relationship that you value.

Even if you're just starting to invest, you may not be more vulnerable than people who consider themselves experienced. The key in either case is to learn as much as you can about how traditional investments work, ask lots of questions, do lots of research, don't buy if you don't understand the product or you don't trust the person or firm selling it to you, and always be on the alert for a possible fraud or scam.

6. Filing a Complaint

If you suspect that you've been the victim of securities fraud or deception, you have several places to turn at both the state and federal level.

If you're planning to file a complaint, it's smart to have all your supporting information prepared ahead of time because you'll need to provide it to the authorities. You should also be ready to provide your own contact information—name, address, phone number, e-mail address, and so on—as well as that of your broker and brokerage firm, or any individual you plan to name in your complaint. In addition, you should pull together the specific details of how you were defrauded or misadvised, including what you were told about an investment or any documentation you received. And, of course, you need to disclose how much money you lost to the fraud or scam.

When you file a fraud complaint, authorities may decide to pursue criminal charges or launch an investigation against a scammer or illegitimate broker. In this case, you may be called upon to testify or lend your version of what happened.

Where to Go

Usually, it's best to initiate your complaint by getting in touch with your investment professional or, if necessary, his or her supervisor. You can also send your complaint in writing to the firm's compliance office.

If reaching out to your brokerage firm doesn't produce results, you can send a complaint to the Financial Industry Regulatory Authority (FINRA), the self-regulatory organization that oversees brokerage firms, brokers, and securities traders. FINRA investigates complaints against brokerage firms and their employees and can take disciplinary action. You can file a complaint online by visiting the FINRA Complaint Center at www.finra.org/complaint, or you can fax or send a written complaint to:

FINRA Investor Complaint Center

9509 Key West Avenue
Rockville, MD 20850
Fax: (866) 397-3290

If your complaint involves an investment adviser, transfer agent, mutual fund, or public company, you may want to file your complaint with the Securities and Exchange Commission (SEC) or with your state securities regulator. You can also submit a complaint about a broker. To contact the SEC's Office of Investor Education and Advocacy, call toll-free (800) SEC-0330 or visit the SEC's online Complaint Center at www.sec.gov/complaint.shtml. To contact your state

securities regulator, check the government section of your local telephone book or contact the North American Securities Administrators Association (NASAA) by visiting www.nasaa.org or calling (202) 737-0900.

Arbitration and Mediation

When you file a complaint, bear in mind that neither FINRA, the SEC, nor your state regulator can act as your personal attorney. If your primary goal in filing a complaint is to get your money or securities back, you might need to take matters into your own hands, either through the courts or by considering arbitration or mediation.

When you opened your brokerage account, you likely signed an account agreement requiring that you resolve any disputes with your broker or the firm through arbitration. FINRA administers the largest forum in the U.S. for resolving disputes between brokers and investors. The first step in filing for arbitration or mediation is to visit the “Arbitration and Mediation” section of FINRA’s Web site at www.finra.org.

With arbitration, your case goes to an individual arbitrator or a panel of arbitrators that is assembled to decide the outcome. Many people hire an attorney to help them with an arbitration case because the brokerage firm will almost certainly have legal representation. In addition, an arbitration decision is binding, which means you cannot appeal or take the case to court. In some cases, you may be present at the arbitration. However, if your loss is less than \$25,000, you can choose not to appear before an arbitration panel. Instead, you can request that the panel use a method called simplified arbitration and base its ruling on documents and on written explanations from you and your broker. FINRA’s Web site provides links to law schools in several states that provide guidance to investors free of charge through arbitration clinics.

With mediation, you, your brokerage firm, and a neutral third party try to resolve the case. This method of working out a dispute is usually less costly and less confrontational than other ways, but it’s also voluntary and nonbinding. That means that at any point one participant can walk away, effectively ending the negotiation. In addition, you and the firm must agree to the terms of a settlement before it becomes final.

For more information about arbitration and mediation, go to FINRA’s Web site at www.finra.org.