

# Investing in the Capital Market: Be Smart and Ask Questions

“Information” is the key to profitable investments; therefore it is the best tool for smart investors. How you obtain this information is, you simply “Ask Questions”. That is the best advice we can give our investors in order to assist them to invest wisely in the capital market. We come across many investors who could have avoided unnecessary trouble or losses if they had asked basic questions from the start. Irrespective of the fact whether you are an amateur or an expert investing for many years it is never too early or late to ask questions. It is your hard earned money that you are investing. Therefore, remember it is **your** money at stake.

As the first step it is important that investors evaluate the background of the financial professional (Investment Advisor) or the firm (Stock broker firm) they intend to do business with before handing over the money to be invested. First, would be to find out whether the financial professional or the firm has a history of complaints or problems with the regulators. Do your own research: ask other investors, try to gather information from the regulator, publications and articles and by speaking to persons in the industry. Once the verification is done and if the reputation of these entities meets your expectations you can proceed to select them as your preferred service provider. Once this is done **continue to Question** the financial professional or the firm with whom you intend to deal with and always gather information in order to make the most profitable investments.

You have the right to ask questions about how you are investing your money and a good financial professional/investment advisor will welcome your questions, no matter how basic it may be. Financial professionals know that an educated client is an asset, not a liability. They would rather answer your questions before you invest, than having to confront your anger and confusion later. It will be helpful if you note down the answers you receive and what you decide to do. The notes you take will always come in handy to establish what was said incase if something goes wrong. When your financial professional knows you’re taking notes, they’ll know you are a serious and cautious investor who means business and may tell you more.

So, here are a few tips for investor to follow;

### **Ask Questions about the People Who Sell/Buy on behalf of you**

- Are you registered with our securities regulator? Have you ever been disciplined by the SEC or by the stock exchange?
- How long has your firm been in business? How many arbitration cases have been filed against your firm?
- Have you personally been involved in any arbitration cases? If so, what happened?
- What training and experience do you have? How long have you been in the business? What other firms have you previously been with?
- What is your investment philosophy?
- How do you get paid? By commission?
- Do you make more if I buy this stock (or bond, or unit trust) rather than another? If you weren't making extra money, would your recommendation be the same?
- You've told me what it costs me to buy this stock (or bond, or unit trust); how much will I receive if I sell it today?
- If your stock broker changes firms, ask: can I remain with the same firm? If so, how will I be allocated another stock broker? If I were to continue to deal with you how is it to be done? What is the procedure?

### **Ask Questions about Products**

- Is this company listed on the CSE or is it a private placemat?
- Does this investment match my investment goals? Why is this investment suitable for me?
- How will this investment make money? (Dividends? Interest? Capital gains?) Specifically, what must happen for this investment to increase in value? (For example, increase in interest rates, real estate values, or market share?)
- What are the total fees to purchase, maintain, and sell this investment? If it is a Warrant how much that I have to pay later (on the expiration date) to convert it into normal shares and when is the expiration? After all the fees are paid, how much does this investment have to increase in value before I break even?
- How liquid is this investment? How easy would it be to sell if I needed my money right away?
- What are the specific risks associated with this investment? What is the maximum I could lose? (For example, what will be the effect of changing interest rates, economic recession, high competition, or stock market ups and downs?)
- How long has the company (the listed company) been in business? Is its management experienced? Has management been successful in the past? Have they ever made money for investors before?
- Is the company making money? How are they doing compared to their competitors?
- Where can I get more information about this investment? Can I get the latest reports filed by the company with the CSE: a prospectus or offering circular, or the latest annual report and financial statements?

## For Unit Trusts

- How has your Unit Trust performed over the last two to five years?

- How does the fund performance compared to other funds of the same type or to an index of the same type of investment?
- Where can I get an independent evaluation of this Fund?
- What are the specific risks that are associated with the Fund?
- Will I get any regular income from the Fund?
- How do I know whether the value of my investment has gone up or down?
- How can I realize any capital gains in unit trust investments?
- Can I withdraw part of my investments?
- Can I invest a certain sum of money regularly in a Unit Trust?
- Can I appoint a nominee for my investment?
- What is the safeguard or protection I have for my investment?
- If I want to obtain a credit facility, can I pledge my investment in the Fund as collateral?
- When I want to encash my investments, to whom do I sell my units?
- Will I get any financial statements for my investments in the Fund?
- What type of securities does the fund invest it? How often does the Fund Manager change the investments in the portfolio?
- Does the fund invest in any type of securities that could cause the value to go up or down rapidly in a short period of time?
- How much will the fund charge me when I buy units in the Fund? What ongoing fees are charged? How much will the fund charge me when I sell my units?

- Are the units transferable?

## Questions about the Progress of Your Investments

- How frequently do I get statements? Do I understand what the statement tells me?
- Is the return on my investment meeting my expectations and goals? Is this investment performing the way I was made to understand?
- How much money will I get back if I sell my investment today?
- How much am I paying in commission or fees?
- Have my goals changed? If so, are my investments still suitable?
- What criteria should I use to decide when to sell?

Having listed out the above guide as to the questions that you should ask about investment products, the people who provide investment advice to you and how to monitor progress of your investments, we encourage our investors to keep these tips in mind when considering an investment and **use** it by asking the right questions before you invest. Taking notes also sends a signal to your financial professional: I'm a smart and serious investor who wants to know more about the risks and rewards of investing.

“An investor without investment objectives is like a traveler without a destination” -  
Ralph Seger

So, ask questions, obtain a little know how and learn how to invest wisely.

### **Sources**

*The Unit Trust Association of Sri Lanka (UTA)*

*Investor.gov*