



The Retirement Industry Trust Association and its member firms encourage each investor to review the following questions when considering an investment. Because it is not the responsibility of passive custodians to provide investment analysis or recommendations or to perform due diligence concerning your investment decisions, the questions have been designed to help you in your efforts to evaluate the soundness, prudence and merit of your investments. Please note that this is not a comprehensive list of questions but simply a starting point. The answers to these questions are not a substitute for your own due diligence. We also strongly encourage investors to make use of Legal, Tax and Financial Advisors to support these efforts.

## **How the Investment was Marketed to You**

1. Does the sponsor/advisor use unprofessional or hard sell tactics in marketing presentations or materials?
2. Does the sponsor/advisor pressure you to make investments quickly (i.e. time is of the essence)?
3. Was the investment marketed through newspaper, internet or other broad based advertising materials?

Always take the time you need to understand and evaluate a potential investment. In addition, while legitimate sponsors or advisors may raise funds through “free lunch” or “free dinner” events, keep in mind that such events may be used as an enticement for you to invest. Legitimate sponsors and advisors may also solicit investors from a certain affiliation group such as ethnicity, religion or age bracket (in particular seniors). Be cautious if a sponsor or advisor uses the affiliation as the reason to make the investment, rather than relying on the underlying merits of the investment or trust in the sales person.

## **The Investment**

4. Does the investment contain unusually high interest rates or returns (look too good to be true)?
5. Is the investment described as “safe” or “guaranteed”?
6. Is the investment described as “IRA-approved”, “IRS-approved”, “custodian-approved” or “approved by any governmental agency”?
7. Is the investment framed as having any tacit approval from a passive custodian, such as “exclusive provider for custodian x”?
8. Does the investment claim to perform better than industry or market average for no apparent reason?

9. Does the investment claim to use “insider information” approaches?

If you answer yes to any of these, it should raise a **red flag**. The adage says “if it sounds too good to be true, it probably is”. There is risk in any investment. Custodians and the IRS do not “approve” investments. Investments made on insider information may well be illegal. Check these investments thoroughly before proceeding.

## **Background of the Investment Sponsor/Advisor and Investment Documentation**

10. Are you provided with biographies for the investment sponsor, principals and the advisor?
11. Does the business experience or skills of the sponsor, principals and the advisor align with the investment strategy?
12. Can you verify the credentials of the sponsor, principals and the advisor?
13. Has the sponsor and advisor explained to you how they make money?
14. Does the advisor ask for the purchase check to be made payable to them personally rather than to the firm or investment entity?
15. Is the investment and/or the investment sponsor in good standing with the Secretary of State in the State of its location and are all/any legal requirements for the sale of such an investment being followed?
16. Have you had the investment documentation (Private Placement Memorandum or “PPM”, subscription documents, periodic statements, etc.) reviewed by your professional legal or tax advisors?
17. Does the investment documentation contain information on how the investment funds will be used?
18. Does the business plan explain how and when the investment will attempt to become profitable and the timeline in which an investor can expect a return on their investment? Does it make sense to you, or is it being sold primarily on its promised returns?
19. Does the investment documentation contain unreasonable capital call provisions (such as if the investor doesn't respond they lose the original investment)?
20. Does the sales material or presentation of the investment match the nature of the offering documentation you are being asked to sign?
21. If collateral is involved with the investment, are you able to determine that it will be properly secured for your benefit?

Make sure the Investment Sponsor or Advisor promoting the investment has provided you with information sufficient for you to do the research (due diligence) necessary to verify the existence of the investment and the credibility of the individuals involved. If they seem reluctant to provide it or to answer questions thoroughly (seem vague or evasive), that should raise a **red flag**.