# Investor Resilience – World Investor Week 2022

Oct. 3, 2022

*For World Investor Week 2022, investors, investment professionals, teachers, parents, researchers, and others are encouraged to make a special effort to promote investor resilience and sustainable finance. The SEC's Office of Investor Education and Advocacy, the Commodity Futures Trading Commission (CFTC), the Financial Industry Regulatory Authority (FINRA), the National Futures Association (NFA), and the North American Securities Administrators Association (NASAA) offer five tips to increase your resilience as an investor.*

**1. Have an emergency fund.**

It's critical to have an emergency fund – that's rainy-day money you keep in a bank or credit union and can use if you have an unexpected expense, like a cracked screen on your phone, car repair, or family emergency. If you don't have an emergency fund, even a small financial upset can result in a long-term debt.

Save enough money to have a buffer for life's unexpected expenses:

- *Set a savings goal,* such as 3-6 months of living expenses.
- *Take advantage of one-time opportunities,* such as tax refunds or gift money; and
- *Save automatically,* such as by setting up a direct deposit to a savings account with each paycheck.

Be a resilient investor by preparing for unexpected expenses.

**2. Diversify your investments.**

Diversification is a strategy where you spread your money among different investments to reduce your overall investment risk. The idea is that if one investment loses money, the other investments will more than make up for those losses – like the saying "Don't put all your eggs in one basket." By picking the right mix of investments, you may be able to limit your losses and reduce the fluctuations of your investment returns without sacrificing too much in potential gains. Also, carefully consider how much, if any, of your portfolio to devote to speculative investments like investments involving “crypto” assets.

A diversified portfolio should be diversified at two levels: between asset categories and within asset categories. So, in addition to allocating your investments among stocks, bonds, cash equivalents, and possibly other asset categories, you’ll also need to spread out your investments within each asset category. The key is to identify investments in segments of each asset category that may perform differently under different market conditions.

Some investors find it easier to achieve diversification through ownership of mutual funds or exchange-traded funds (ETFs) rather than through ownership of individual stocks or bonds.

To learn more, read FINRA’s Diversifying Your Portfolio.

Be a resilient investor by having a good mix of investments between and within asset categories.

**3. Don’t expose yourself to losing more money than you can afford to lose.**
All investments have risk, and you should never invest more money than you can afford to lose. Be aware that in some cases, however, you can *lose more money than you invested*.
Options (contracts to buy or sell a stock or commodity futures contract for a specified price on or before a certain date), like other investments, carry no guarantees. **You should be aware that it is possible to lose** *more* **than your initial investment. Some options strategies may even expose you to UNLIMITED losses.** To learn more, read An Introduction to Options.
Using margin (borrowed money from your investment firm) to buy stocks or other securities can be very risky. You may have to deposit additional cash or securities in your account on short notice to cover market losses (a “margin call”) and **you can lose more money than you have invested.** To learn more, read Understanding Margin Accounts and Margin Rules for Day Trading.

Short sales involve the sale of a stock you do not own. Short sellers believe the price of a stock will fall. If the price falls, short sellers buy the stock back at the lower price and make a profit. However, if the price rises, short sellers incur a loss because they have to buy the stock back at a higher price. Short sales can expose an investor to the possibility of **unlimited losses** since a stock can theoretically keep rising indefinitely. To learn more, read *An Introduction to Short Sales*.

**Be a resilient investor by being cautious about investments where you can lose more money than you invested or be exposed to unlimited losses.**

**4. Research your investments.**

***ESG***

"ESG" stands for environmental, social, and governance. ESG investing is a way of investing in companies based on their commitment to one or more ESG factors. It is often also called sustainable investing, socially responsible investing, and impact investing.

- The environmental factor might focus on a company's impact on the environment or the risks and opportunities associated with the impacts of climate change on the company, its business and its industry.
- The social factor might focus on the company's relationship with people and society, or whether the company invests in its community.
- The governance factor might focus on issues such as how the company is run and executive compensation.

Different investments may weigh environmental, social and governance factors differently and also may focus on different specific criteria within a factor. Investments that don't have "ESG" in the name may still incorporate elements of ESG investing into their portfolios.

If the investment is a mutual fund or ETF, you can learn more about how the fund incorporates ESG and how it weights ESG factors by reading its disclosure documents. To learn more about ESG funds, read Environmental, Social and Governance (ESG) Funds.

***Crypto assets***

"Crypto" assets are marketed using a variety of terms, including digital assets, cryptocurrencies, coins, and tokens, or with reference to "blockchain technology." There are several risks to investments involving crypto assets, including that crypto assets don't come with the same regulatory oversight that investments in commodity futures, stocks, bonds, funds, and 401(k) plans have.

If you are considering a crypto asset-related investment, take the time to understand how the investment works and look for warning signs that it may be a crypto investment scam. Carefully review all materials and ask questions. Check out the background (including license and registration status) of anyone offering you an investment in securities using the search tool on Investor.gov. Use NFA's BASIC system to research the background of derivatives industry firms and professionals.
Learn more about investments involving crypto assets on Investor.gov or CFTC.gov.

***Levered and/or inverse single-stock ETFs***

Levered and/or inverse single-stock ETFs are complex products that provide levered and/or inverse exposure to a single security, which can present unique and complex risks for investors. Holding a levered and/or inverse single-stock ETF is riskier than holding the underlying stock, a traditional ETF, or even a non-single stock levered and/or inverse ETF.

If you hold a levered and/or inverse single-stock ETF for longer than a day, the performance of these funds may differ significantly from the levered and/or inverse performance of the underlying stock during the same period of time. Levered and/or inverse single-stock ETFs do not have the benefits of diversification, as they track the price of a single stock rather than an index. They also experience greater volatility because levered single-stock ETFs in particular amplify the effect of price movements of the underlying individual stocks.

Consider these risks carefully before deciding to invest in levered and/or inverse single-stock ETFs. To learn more, read Statement on Single-Stock Levered and/or Inverse ETFs.

**5. Look out for investment fraud.**

Be aware that fraudsters may impersonate legitimate brokers or investment advisers or other sources of market information. For example, fraudsters may set up an account name, profile, or handle designed to mimic a particular individual or firm. They may go so far as to create a webpage that uses the real firm's logo, links to the firm's actual website, or references the name of an actual person who works for the firm. Fraudsters also may direct investors to an imposter website by posting comments in the social media account of brokers, investment advisers, or other sources of market information. To learn more, read Fraudsters Posing as Brokers or Investment Advisers – Investor Alert.

Additionally, watch out for romance scams through apps or websites – fraudsters may take advantage of anonymity to mask their deceptive intentions. Fraudsters may be located in another country and communication may be exclusively through messaging due to language barriers. ***Do not invest money based on advice from someone you have solely met online or through an app.*** Do not share any information relating to your personal finances or identity including your bank or brokerage account information, tax forms, credit card, social security number, passport, driver's license, birthdate, or utility bills.
To learn more, read NASAA Informed Investor Advisory: Romance Scams; CFTC Customer Advisory Customer Advisory: Avoid Forex, Precious Metals, and Digital Asset Romance Scams; and NFA Investor Advisory—Avoiding the Latest Fraud Techniques.

Here are steps you can take to help you avoid investment fraud:

- Check that anyone offering or selling you an investment is licensed or registered. You can do this by using the free and simple search tools on investor.gov and BASIC.
- Verify that an investment professional is who they say they are. For example, contact the professional using a phone number or website listed in the firm's Client Relationship Summary (Form CRS), the SEC's Investment Adviser Public Disclosure website or NASAA's state and provincial regulator map directory.

- Be skeptical of any investment that promises high investment returns with little or no risk. High guaranteed returns are a hallmark of investment fraud.

Be a resilient investor by protecting your hard-earned money from investment scams.

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To maximize your resilience as an investor be prepared with an emergency fund, ensure that your portfolio is diversified, don't expose yourself to potential investment losses you cannot afford, do your research before investing, and watch out for investment fraud.

*If you have questions about your investments or your investment professional, or want to report possible misconduct, you can contact your* state securities regulator. *You can call the SEC's investor assistance line at (800) 732-0330. You can also* report a problem *concerning your investments or* report possible securities fraud *to the SEC, or by emailing* Help@SEC.gov. *For a derivatives-related complaint (involving futures, options on futures, forex or swaps) involving a pending, current or former NFA Member (as displayed in BASIC),* file with NFA.

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