Are you an informed investor?

Commodity Investments

Virtually everything that comes out of the ground - gold, silver, livestock, corn, oil, orange juice - can be classified as a commodity future. Commodity futures contracts are fast-paced, volatile investments through which an investor hopes to earn money from future price changes. Commodities prices respond to many factors, including inflation, strikes, weather, economic forecasts and reports, politics, foreign events, new technology and even rumors. The events that affect commodities prices can happen at any time. For the more experienced investor, commodities investing can offer substantial investment returns with very little initial investment. However, the risks associated with commodity investments are substantial.

Risks Associated with Commodity Investing

• **Uncontrollable factors** such as inflation, weather, political unrest, foreign events, new technologies and even rumors can have devastating consequences to the price of a commodity. Investors investing in commodities must be able to bear a total loss of their investment.

• **Speculative risks.** The commodities markets, just like the bond or stock markets, are made up of traders whose primary interest is in making short-term profits by speculating whether the price of a security will go up or go down. If you trade commodities, constantly check the pulse of the markets, finding out as much as possible about who the market participants are so that you can distinguish between the commercial users and the speculators.

• **The risk of fraud in trading commodities.** Investors should always watch out for plain and simple fraud. One way to prevent being taken advantage of is to be extremely vigilant about where you’re putting your money. Make sure that you thoroughly research a firm before you hand over your money. Unfortunately, there are times when no amount of research or due diligence is able to protect you from fraud.

How Can You Protect Yourself?

If you are solicited to invest in a commodity investment, watch out for these warning signs:

• Unsolicited, high-pressure phone calls.

• Claims of inside information about the performance of the commodity.

• “You must act at once!” warnings.

• Claims of large and rapid profits.

• Claims of little to no risk associated with the investment.

• Contracts with names such as “deferred delivery,” “fixed maturity,” or “cash forward” that are not contracts traded through regulated commodities changes.
Questions to Ask Before Investing in a Commodity Investment

Prospective commodities investors should ask questions and fully understand the investment. Investors should ask and get clear answers to the following nine questions. Evasive or incomplete answers are a danger sign that should ward you away from the investment opportunity.

- Is the dealer registered with the Commodities Futures Trading Commission (CFTC), National Futures Association (NFA) or any other regulatory agency?
- Is the actual transaction to be executed through a regulated commodity exchange?
- Does the firm have literature or written materials explaining the transactions or a risk disclosure statement?
- Does the dealer have or will it obtain the commodity purchased?
- What percentage of the investment will go for fees, commissions or other costs?
- How long has the company been in business and who are its principals and officers?
- Will the company provide a copy of its financial statement?
- Where will the investment funds be held?
- Can independent references be obtained?

The Bottom Line

Investors should make sure that anyone offering a commodity investment is properly licensed and has a reputable business history. The public can obtain information about any firm or individual registered with the Commodities Future Trading Commission (CFTC), including any actions taken against a registrant, through the National Futures Association (NFA) Background Affiliation Status Information Center (BASIC), available on the NFA website at www.nfa.futures.org. Investors can also find out if someone is registered by contacting the NFA at (800) 676-4632.

The CFTC’s Division of Enforcement has established a toll-free number, 866-366-2382, to assist the public in reporting possible violations of the commodities laws. In addition, if you think you have been a victim of a commodities scam, you can report it through a downloadable form on the CFTC’s website www.cftc.gov or by mail at Office of Cooperative Enforcement, CFTC, 1155 21st St. NW, Washington, DC 20581.

For questions about a commodities investment, or if you believe you are the victim of a scam, contact the securities regulator in your state or province. You can locate contact information by visiting NASAA’s website at www.nasaa.org or by calling (202) 737-0900.