

TAKE ON THE STREET

What Wall Street and Corporate
America Don't Want You to Know
What You Can Do to Fight Back

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ARTHUR LEVITT is the former chairman of the U.S. Securities and Exchange Commission. Appointed in July 1993, he is the longest serving chairman in the history of the SEC. Before joining the commission, Mr. Levitt worked for sixteen years on Wall Street. He has also served as chairman of the American Stock Exchange and the New York City Economic Development Corporation, and as owner of *Roll Call*, a newspaper that covers Capital Hill.

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MAIN IDEA

Investors should not be afraid to take matters into their own hands. The key to doing this is to become an informed investor – aware of all the pitfalls, conflicts of interest, motivations and political favoritism which currently exists in the broader economy. In the context of personal investing success, knowledge genuinely confers power.

In other words, the more investors know, the better. And the more active investors become in taking matters in their own hands, the less potential there will be for more corporate disasters to occur in the future. Fortunately, the arrival of the Internet and other communications technologies now makes informed investing much more feasible and manageable. It also make it possible for the voice of the consumer to be heard more directly by lawmakers and corporate managers than ever before. For consumers to fail to take advantage of these new powers and extended responsibilities would be deplorable.

1. How to Deal With Brokers Page 2

No matter what they say, you should always remember your broker is a salesperson first and foremost. The only way they get paid is if you buy or sell something. It's unrealistic to expect them to look out for your long-term interests. In fact, they generate commissions even when you lose money.

2. All You Need to Know About Mutual Funds Pages 2 - 3

Mutual funds are a good way to invest in the stock market, but once again you have to be careful. Their prospectuses are filled with jargon, hard to understand and do an excellent job of burying the true costs (management fees, distribution fees, exit fees) in the fine print. Therefore, as for any investment, do your homework before you invest.

3. Analysts and Research Reports Page 3

Always keep in mind who analysts work for. They don't work for you. Analysts get paid by investment banks to generate research about the companies the investment bank wants to take public. Therefore, take any analyst's report simply as a piece of information more like an advertorial than an unbiased, factual piece of research.

4. Stopping the Flow of Inside Information Page 4

Before Regulation Fair Disclosure (Reg FD) came into effect on October 23, 2000, it was routine on Wall Street for analysts, brokers and institutional investors to receive advance information on corporate earnings and other information ahead of the rest of the market. Reg FD has changed that. Companies now have to share material information – anything that could be considered important in making an investment decision – with everyone at the same time. This has gone a long way towards restoring investor confidence.

5. The Auditor's True Role Page 4

The evolution of Reg FD was just a preamble to a much bigger battle – the evolution of new rules dealing with auditors and their dual roles both as consultants and auditors. Developing new rules that dealt with this area of corporate practice turned out to be an extended battle of political wills and agendas.

6. How to Read a Company's Financial Statements Page 5

By learning how to read a company's financial statements intelligently, you can actually become your own "watchdog". This isn't as daunting as it may sound. All you need is an awareness of the most common accounting tricks and ploys used by public companies.

7. How Transaction Costs Affect You, the Investor Page 6

If you are an active stock market investor, be aware there are a number of different ways your orders can be executed. Ask your broker how your orders will be filled and understand the processes involved. Failing to do this can mean your costs are much higher than they should be – which will, in turn, reduce your returns on your investments.

8. The Importance of Corporate Governance Pages 6 - 7

Investors have lost faith in boards of directors to act as independent monitors of what the company management are doing. It's time to address this perception, and restore the credibility of boards.

9. Making Your Voice Heard by the Government. Page 7

The best thing you can do as an investor is to make your voice heard. That doesn't mean knowing lawmakers personally. Instead, you should send your comments on SEC proposals to them by letter or e-mail. When your efforts are multiplied by 79 million people doing the same, your voice can be heard and the special interest lobbyists can be drowned out.

10. Tips on Getting Your 401(k) in Shape Page 8

Since the late 1970s, retirement planning has switched from being professionally managed by corporations to individually managed by individuals through their 401 (k) accounts. Quite simply this means you need to be more active in planning for your retirement. This will only benefit you if you do the work that's required and make prudent financial decisions.

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