Developing an Idea through Comparison

A sound economy that offers jobs, continually improves our standard of living, and protects the value of our savings is in the best interest of all Americans, and it was for the purposes of assuring these things that the U.S. Securities and Exchange Commission (SEC) was formed. Its mission is to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation so that our economy can continue to grow.

In the banking world, deposits are guaranteed by the federal government, but stocks, bonds and other securities can lose value. While there are no guarantees that money invested in the stock market will gain in value, an investor needs access to accurate and real-time information about what they are investing in. To this end, the SEC requires that public companies disclose meaningful financial and other information to the public. All investors have equal access to this information, and can use it to decide for themselves whether to buy, sell, or hold a particular security. As a result, the stock market is more active, efficient, and transparent. The SEC continually works with all major market participants, to listen to their concerns and to learn from their experience.

But things were not always this way. At the beginning of the twentieth century, investors gave little thought to the risk involved in investing their hard-earned money based on marginal or unreliable information. But when the stock market crashed in October 1929, the public lost confidence. Both individual investors and banks lost huge amounts of money, resulting in the Great Depression. In order for the country to recover, that confidence needed to be restored, and Congress began to actively look for a solution. At the height of the depression, it passed the Securities Act of 1933 which, along with the Securities Exchange Act of 1934, which created the SEC, required that both investors and the markets be provided with more reliable information and clear rules that, together, would protect the integrity of the markets. Essentially, these laws boiled down to two things: that companies offering securities for public investment have to tell the truth about their businesses, the securities they are selling, and the risks involved in investing, and that the people who sell and trade securities – brokers, dealers, and exchanges – must treat investors fairly and honestly, putting investors' interests first.

A key aspect of the SEC's effectiveness is its enforcement authority. Hundreds of civil enforcement actions are brought against individuals and companies for the violation of securities laws every year. Examples include insider trading, accounting fraud, and providing false or misleading information about securities and the companies that issue them. Oftentimes these enforcement actions are a result of information the SEC receives from investors; educated and careful investors are critical to the functioning of efficient markets.
In addition to its responsibility for oversight and regulation of the U.S. securities markets, the SEC works closely with many other institutions, including Congress, other federal departments and agencies, the self-regulatory organizations (e.g. the stock exchanges), state securities regulators, and various private sector organizations. For example, the Chairman of the SEC, together with the Chairman of the Federal Reserve, the Secretary of the Treasury, and the Chairman of the Commodity Futures Trading Commission, serves as a member of the President's Working Group on Financial Markets.

1. How does putting your money in a bank compare to putting your money in stock, bonds and securities?

2. Compare what it was like to invest money in the Stock Market at the beginning of the twentieth century to what it is like to invest now.

3. Why does the author draw the comparison between the old and new worlds of investing?