



# Important Information about Non-Exchange Traded Equity Securities

We have prepared this document to help you understand the common characteristics and risks associated with an investment in securities not registered for trading on a national securities exchange, (including those non-exchange traded securities trading at less than \$5.00 per share, commonly referred to as “penny stocks”) to assist you in making a more informed decision when considering buying or selling these investments. This document is compiled for your information and is intended to be a conversation starter between you and your Baird Financial Advisor or other appropriate experts, such as your tax or legal advisors. Your Baird Financial Advisor is available to address your questions and discuss the features, characteristics, costs, and risks of any particular investment. While a purchase of non-exchange traded equity securities may be appropriate for speculative investors, as discussed in more detail below, there is additional risk for investment losses, lack of liquidity and greater potential for market abuses when investing in these securities.

## Characteristics of Non-Exchange Traded Equity Securities

Equity securities not listed for trading on a national exchange (such as the New York Stock Exchange or NASDAQ) have the same general characteristics as other equity securities. However, such securities either never have been or are no longer traded on a national securities exchange. Non-exchange traded securities are traded, if at all, in the over the counter (“OTC”) market, as opposed to on national exchanges such as the New York Stock Exchange and the NASDAQ. Stocks traded in OTC markets include the OTCQX market, the OTCQB market and Pink, and each market has different eligibility requirements for companies to be sold on those markets.

Because national exchanges impose ongoing listing requirements, securities traded in the OTC market include securities issued by issuers delinquent in required filings, distressed or insolvent issuers as well as issuers of certain foreign securities which may or may not be listed on foreign exchanges. While pricing and trade volume information for securities trading on a national exchange is regularly reported to the public, locating up-to-date information on securities not listed on such exchanges may be difficult or, in some cases,

impossible. Trading on the OTC market thus does not provide the liquidity or price transparency that investors typically seek when buying or selling equity securities. Investors who buy penny stocks may not be able to sell those stocks at times or at prices they desire, and investors who buy or sell penny stocks may not have enough information to determine whether the price they pay or receive represents fair market value.

## Understanding the Risks

Risk is inherent in any investment product or strategy. Certain of the common risks and other important considerations associated with investment in securities not registered for trading on a national securities exchange are highlighted below. You are strongly encouraged to review the prospectuses or other disclosure documents associated with any product for a more fulsome discussion of additional risks and other important considerations before making any invest decision. Additional information regarding investment risks generally and other important consideration is also available at:

<https://www.bairdwealth.com/retailinvestor>

Because of the potential for a lack of visibility or transparency into securities not traded on national exchanges, an investment in these securities is considered speculative and may involve a high degree of risk. Before making a decision to purchase a security not listed on a national securities exchange, you should consider the following risks (note that an investment in any security involves the risk of loss of principal):

- **Potential Lack of Information about the Issuer and the Investment.** As discussed above, information on securities not traded on a national exchange may not be continuously available to the public and it may be difficult to locate publicly available information on issuers of “penny stocks”. This potential lack of information about an issuer’s operating history and financial health increases the risk to an investor.
- **Potential Illiquidity and Higher Volatility.** Trading in securities not traded on a national exchange may be rare or infrequent and an investor’s ability to exit (sell) an investment



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quickly may be severely limited by a lack of liquidity or trading volume in such securities. In addition, for securities with a lack of an active market, the “spread” between the price at which an investor may purchase a security from (the “ask price”) and the price at which an investor may sell such a security (the “bid price”) may be larger than those with actively traded securities. A lack of liquidity can cause prices to fluctuate wildly and may prevent an investor from selling without adversely affecting the quoted price of the security.

- o **Increased Risk of Potential Market Manipulation.** Because of a potential lack of transparency into securities not traded on a national exchange, as well as lower prices and volume, there is a greater risk of fraud and an increased incidence of market manipulation with respect to securities not traded on a national exchange.

### More Information

For more information, please see the product prospectus or other offering documents. For more information on a purchase of securities not listed on a national exchange, please consult your Baird Financial Advisor.