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TOP INVESTMENT SCAMS

Securities fraud costs Americans billions of dollars each year. While the new list of scams includes repeat offenders, such as broadly marketed promissory notes, bogus prime bank schemes and risky viatical settlements (interests in the life insurance policies of supposedly terminally ill people), the people selling them are moving out of the boiler room and onto Main Street.

Top 10 Investment Scams

A list of the top 10 scams, ranked roughly in order of prevalence or concern, is at right and detailed below. To check out an investment or salesperson, contact your state securities regulator. Their phone number is in the white pages of your phone book under "government," or available online.

1. Unlicensed individuals, such as life insurance agents, selling securities. To verify that a person is licensed or registered to sell securities, call your state securities regulator. If the person is not registered, don't invest. In Indiana, 11 of the 16 "cease and desist" orders issued by the Securities Division in the first quarter of this year have targeted insurance agents who were selling securities without the proper license. Most were independent life insurance agents.

2. Affinity group fraud. Many scammers use their victim's religious or ethnic identity to gain their trust - knowing that it's human nature to trust people who are like you - and then steal their life savings. From "gifting" programs at some churches to foreign exchange scams targeted at Asian Americans, no group seems to be without con artists who seek to exploit others for financial gain. In Texas, an Indian immigrant who taught Sunday school took fellow Indian parishioners - roughly 40 families in all -- for over \$1 million.

3. Payphone and ATM sales. In early March, 25 states and the District of Columbia announced actions against companies and individuals - many of them independent life insurance agents - that took roughly 4,500 people for \$76 million selling coin-operated customer-owned telephones. Investors leased payphones for between \$5,000 and \$7,000 and were promised annual returns of up to 15 percent. Regulators say the largest of these investments appeared to be nothing but Ponzi schemes. (see # 6)

4. Promissory notes. Short-term debt instruments issued by little-known or sometimes non-existent companies that promise high returns - upwards of 15 percent monthly - with little or no risk. These notes are often sold to investors by independent life insurance agents. In Indiana, 18 elderly investors lost some \$1.4 million in a promissory note scam. An 80-year-old woman lost her life savings of \$324,000. The perpetrators - who diverted the money to offshore bank accounts, made first-class business trips to China, India and Greece and bought expensive cars - even knelt in prayer with their victims to gain their trust.

5. Internet fraud. Scammers use the wide reach and supposed anonymity of the Internet to "pump and dump" thinly traded stocks, peddle bogus offshore "prime bank" investments and publicize pyramid schemes. Roughly half the states have Internet surveillance programs that watch for fraud or investigate

investor complaints. Regulators urge investors to ignore anonymous financial advice on the Internet and in chat rooms.

6. Ponzi/pyramid schemes. Always in style, these swindles promise high returns to investors, but the only people who consistently make money are the promoters who set them in motion, using money from previous investors to pay new investors. Inevitably, the schemes collapse. Ponzi schemes are the legacy of Italian immigrant Charles Ponzi. In the early 1900s, he took investors for \$10 million by promising 40 percent returns from arbitrage profits on International Postal Reply Coupons.

7. "Callable" CDs. These higher-yielding certificates of deposit won't mature for 20 to 30 years, unless the bank, not the investor, "calls," or redeems, them. Redeeming the CD early may result in large losses - upwards of 25 percent of the original investment. In Iowa, for example, a retiree in her 70s invested over \$100,000 of her 97-year-old mother's money in three "callable" CDs with 20-year maturities. Her intention, she told her broker, was to use the money to pay her mother's nursing home bills. Regulators say sellers of callable CDs often don't adequately disclose the risks and restrictions.

8. Viatical settlements. Originated as a way to help the gravely ill pay their bills, these interests in the death benefits of terminally ill patients are always risky and sometimes fraudulent. The insured gets a percentage of the death benefit in cash; investors get a share of the death benefit when the insured dies. Because of uncertainties predicting when someone will die, these investments are extremely speculative. In a new twist, Pennsylvania regulators say "senior settlements" - interests in the death benefits of healthy older people - are now being offered to investors.

9. Prime bank schemes. Scammers promise investors triple-digit returns through access to the investment portfolios of the world's elite banks. Purveyors of these schemes often target conspiracy theorists, promising access to the "secret" investments used by the Rothschild's or Saudi royalty. In North Dakota, state securities regulators are alleging a small group of salesmen, including a local pastor, used religion and family ties to bilk investors out of \$2 million in a prime bank scam.

10. Investment seminars. Often the people getting rich are those running the seminar, making money from admission fees and the sale of books and audiotapes. These seminars are marketed through newspaper, radio and TV ads and "infomercials" on cable television. Regulators urge investors to be extremely skeptical about any get-rich-quick scheme.