



NASAA

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TESTIMONY OF PATRICIA D. STRUCK

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Before the
Special Committee on Aging
United States Senate

“Protecting Senior Citizens Against Investment Fraud ”

March 29, 2006

Chairman Smith, Ranking Member Kohl and Members of the Committee,

I'm Patty Struck, Wisconsin Securities Division Administrator and President of the North American Securities Administrators Association, Inc. (NASAA).¹ I am honored to have the opportunity to appear before your Committee to highlight the activities of state securities regulators in protecting senior citizens against investment fraud.

Overview

The securities administrators in your states are responsible for licensing of firms and investment professionals, registering certain securities offerings, examining broker-dealers and investment advisers, enforcing state securities laws, and providing investor education programs and materials to your constituents. Like me, some of my colleagues are appointed by their Governors and Cabinet officials, ten are appointed by state Secretaries of State and five fall under the jurisdiction of their states' Attorneys General. We are often called the "local cops on the securities beat," and I believe that is an accurate characterization.

My staff and I interact daily with elderly investors. These interactions are often the result of senior investor education seminars or complaints lodged by seniors with my office. In addition to educational initiatives that target seniors, my office works with criminal authorities to prosecute companies and individuals who commit crimes against seniors, and we bring civil actions for injunctions, restitution and penalties against companies and individuals who commit securities fraud. We also educate seniors through publications, videos and seminars so that they are better able to protect themselves. For example, the Financial Literacy Section of the Wisconsin Department of Financial Institutions has developed numerous investor education brochures and related materials on a variety of investment, financial, and consumer education matters. Specifically with regard to outreach to seniors, the Section sponsors numerous outreach activities, including multi-media presentations around the state on the subject of "How Seniors Can Keep from Being Victimized by Investment Fraud."

NASAA's annual Spring Public Policy Forum traditionally focuses on the issues of greatest importance to regulators, the industry and the investing public. This year, given the increased public awareness of our nation's changing demographics, NASAA felt it was important to examine the business, policy and investor protection challenges raised by the growth in our senior population.

While our cases of senior investment fraud may not make national headlines, they are devastating in their impact to the victims and their families. What would you do if your

¹ The oldest international organization devoted to investor protection, the North American Securities Administrators Association, Inc., was founded in 1919. Its membership consists of the securities administrators in the 50 states, the District of Columbia, Canada, Mexico, Puerto Rico and the U.S. Virgin Islands. NASAA is the voice of securities agencies responsible for grass-roots investor protection and efficient capital formation.

mother or father turned over their retirement nest egg to a smooth-talking “senior specialist” who promoted unsuitable investments?

In the United States alone, an American turns 50 once every seven seconds and on January 1, 2006, the first of an estimated 77 million baby boomers, those Americans born from 1946 to 1964, celebrated their 60th birthday. The 50-plus population is the fastest growing segment worldwide and predicted life expectancies are at a historical high.

Boomers have more than \$8.5 trillion in investable assets. Over the next 40 years, they stand to inherit at least \$7 trillion from their parents, research firm Cerulli Associates estimates.

Facing greater responsibility for their financial security stemming from the decline of traditional defined benefit pension plans, and with greater life expectancies, it should be no surprise that retirees today are seeking to maximize their retirement investments.

Investment Fraud Against Seniors

While people age 60 and older make up 15 percent of the U.S. population, they also account for about 30 percent of fraud victims, estimates Consumer Action, a consumer-advocacy group. As baby boomers swell the retiree population, state securities regulators are concerned that financial scams targeting seniors also will rise and based on our collective experience of over seventy-five years of securities regulation we believe our concerns are well-founded. Con artists read the headlines, and they need little encouragement to emerge from the side streets and back alleys to Main Street where older investors live.

Seniors today are bombarded with pitches for financial seminars. There are ads in the newspapers and on the radio. Cold callers, brokers, financial planners, and insurance agents are all pitching investments to seniors. Many of them are promising “higher returns and little or no risk.” Those words are a red flag for investors. Unfortunately, in many of the cases that securities regulators see, it’s just the opposite: high risk and no returns, just devastating losses.

No one knows exactly how many older Americans are victims of investment fraud. Often, older victims don’t report crimes because they don’t want people to know they have lost money or made an unsound investment. Also, they don’t know how or where to complain. Through seminars, publications, public service announcements, and press interviews, my fellow regulators regularly stress how important it is that seniors and all investors should always call their state securities regulator if they have questions about an investment opportunity or if they suspect they have been a victim of investment fraud. We have local offices in every state and our staffs are trained to respond to all complaints. You can find a list of regulators on the NASAA website at www.nasaa.org

Before investing, seniors should first contact their state, territorial, or provincial securities regulator to see if the investment vehicle and the person selling it are registered. Your

state or provincial securities regulator will also be able to tell you if the salesperson has a disciplinary history, that is, whether any civil, criminal or administrative proceedings have been brought against him or her. The best advice is to first call a state securities regulator before investing to check out any product and the person selling it.

Three Noteworthy Trends at the State Level

The targeting of seniors for investment schemes is a chronic problem. My colleagues and I are currently seeing a proliferation of troubling schemes in three related areas: “senior specialists,” variable annuities, and unlicensed/unregistered persons. Unfortunately, these three problems often occur simultaneously at certain senior investment seminars.

Senior Specialists - State securities regulators are receiving an increasing number of complaints from investors who have been enticed into attending seminars sponsored by certain “senior specialists.” While there are organizations whose members must complete rigorous programs of study and pass extensive examinations, there are also organizations that require little or no training in order to use one of these designations. Typically, the designation will indicate that the holder has some form of expertise in assisting seniors in structuring their investments in such a manner as to reduce taxes, minimize risk and avoid state probate laws.

It is common practice for seniors to receive an invitation to a seminar, usually conducted with a meal, such as a prime rib dinner, where, at the conclusion of the seminar attendees are encouraged to contact the presenter with further questions. Typically, the specialist recommends liquidating securities positions and using the proceeds to purchase fixed, indexed or variable annuities products the specialist offers. Under our state securities laws, these recommendations may be viewed as providing investment advice for compensation. In such cases, the “senior specialist” would be offering investment advice as an unregistered investment adviser and, therefore, be subject to enforcement action by regulatory agencies.

State securities regulators have opened 26 cases in the past year involving “senior specialists” in the eastern half of the United States alone. Most of the cases involve securities recommendations by individuals who are not properly licensed by state securities regulators.

A recent enforcement action by Massachusetts securities regulators against Investors Capital Corp. illustrates how a “senior specialist” designation can be used to hoodwink seniors. According to state regulators, one of the firm’s representatives stated during a seminar that his senior specialist designation – received by taking a three-day course or a home course, followed by a multiple-choice exam – indicated that he had been specifically trained to manage and solve financial problems facing seniors. According to the state, the seminar steered investors toward investing in equity-indexed annuities as the best way to participate in stock market gains without risk. Equity-indexed annuities are complex insurance products with high commissions and long holding periods (as well as stiff penalties for early withdrawals), which make them unsuitable for many older

investors. In November, the state charged the firm with misleading investors, especially seniors, into buying equity-indexed annuities.

Variable Annuities - A perennial fixture on NASAA's annual list of top scams involve the sale of variable annuities to investors with little regard to whether or not the product is suitable. While these are legitimate and suitable investments for some, regulators are concerned that many investors aren't being told about high surrender charges for early withdrawals, the potential of exposure to market risk, and the steep sales commissions agents often earn when they move investors into variable annuities. Often pitched to seniors through investment seminars, these products are unsuitable for many retirees. Some investors also are misled with claims of guaranteed returns when variable annuity returns actually are vulnerable to the volatility of the stock market. While variable annuities certainly have benefits – tax-deferral and death benefits among others – they come with strings attached and additional costs. Investors should be aware of these costs and impact of the costs on the performance of these products. High commissions often are the driving force for sales of variable annuities.

Variable annuities are considered to be securities under federal law and the laws of some states. Other states, however, consider variable annuities to be insurance products and others consider them to be both insurance and securities. NASAA is encouraging changes in state laws that would allow state insurance regulators to continue to oversee the insurance companies that sell variable annuities while authorizing state securities regulators to investigate complaints about variable annuities and to take action against the individuals who sell them. These simple statutory amendments are not intended to give states the power to register the products themselves, only to ensure that states securities regulators have the much-needed authority to regulate the agents who sell them.

Most of the sales practice complaints received by state securities regulators involving variable annuities relate to the suitability of the product. While a suitability standard has been proposed, we feel that the commonly accepted methodology for determining the suitability of an investment should be applied. In pertinent part, the standard is as follows:

In recommending to a customer the purchase, sale, or exchange of a security, a broker-dealer, salesperson, investment adviser, or investment adviser representative must have reasonable grounds for believing that the recommendation is suitable for the customer upon the basis of the facts, if any, disclosed by the customer as to his or her other security holdings and as to his or her financial situation and needs.

Unregistered/Unlicensed Individuals - Another problem area inundating state regulators is unlicensed securities sellers pitching securities that are unregistered. Individuals who sell securities or provide investment advice are required to earn a license by passing rigorous examinations before they can offer their services to the public. Those who bypass this requirement often are predators offering bogus investments. Unlicensed people selling

unregistered securities should be a red alert for investors. Con artists also frequently use the promise of high commissions to lure some insurance agents, investment advisers, accountants, and lawyers who are not licensed to sell securities into selling investments they may know little about, such as bogus limited partnerships or promissory notes. Many of the enforcement cases described below illustrate the twofold violation of persons not licensed with their state securities regulators selling unlicensed products.

I return to the simple advice that could help seniors and all investors avoid the pitfalls of investment fraud: call your state securities regulators before investing. We're there to help educate investors about their rights and to provide the tools and knowledge needed to make informed financial decisions.

Enforcement and Education

So what can be done to combat investment fraud against seniors? State securities regulators believe the most effective weapon against fraud is a dual approach: combine aggressive enforcement efforts with financial education to protect investors from unscrupulous individuals.

State securities regulators have a long history of protecting investors at the local level day in and day out. Enforcement against fraud is the essence of what state and provincial regulators do – to vigorously pursue sales practice abuses and a variety of scams and frauds against unsuspecting senior investors. The following cases illustrate the work being conducted by state securities regulators on a daily basis to protect seniors from investment fraud.

In my own state of Wisconsin, Kenneth Hackbarth, an elder in his local church in Kenosha WI, operated a long-running Ponzi scheme that victimized a total of 117 friends, relatives and parishioners (mostly seniors) of over \$6 million. Two of the fraud victims committed suicide from being so financially devastated by the fraud. Using a front called Homestead Investments, Hackbarth told investors that their money was being used to buy, rehab and sell commercial and residential property, promising a 15% return on the investment notes. Hackbarth never put any of the money into real estate (although he made large donations to the church). Rather, he just used new investors' money to pay off earlier investors -- the hallmark of a Ponzi scheme. The Wisconsin Securities Division issued a Cease & Desist Order and worked with the FBI in a criminal action resulting in a conviction and 10-year prison sentence. This case is also a good example of the affinity fraud aspect that appears so often in the Division's enforcement cases targeting senior investors.

Colorado - Over the years, the Colorado Division of Securities has investigated a number of securities cases involving the exploitation of senior citizens. For instance, in one case, a licensed insurance agent in Colorado took over \$760,000 from at least 12 investors who ranged in age between their mid-50's and mid-80's. He sold his victims promissory notes through fraudulent misrepresentations and omission about risks and returns. In a more recent case, another insurance agent defrauded 65 senior citizens through the sale of

callable Certificates of Deposit. Both of these cases resulted in criminal prosecution by the Colorado Attorney General's Office.

Florida - Just last week, Florida state officials announced that they have dismantled an Orlando based company, Tropical Village, Inc., they say defrauded elderly investors of more than \$9 million through the sale of unregistered securities. The perpetrators targeted 80 wealthy elderly investors, convincing them to invest their money in apartment complexes in several Florida cities, as well as in Texas and Georgia. Instead, more than \$8 million of the seniors' money was diverted to the perpetrators' personal use.

Maine - In one case, an insurance sales person from Texas sold Maine senior citizens \$1,000,000 worth of securities in the form of promissory notes and investment contracts issued by start-up companies. He was not licensed to sell these products, the products were not registered, and he did not disclose the risks of investing in a start-up company to the investors. Most of these investors were retired, had no investing experience, and invested funds that they needed for living expenses. When the start-up companies failed, the investors lost everything. Through the state Attorney General's Office, the Maine Securities Division prosecuted the sales person, who was convicted of securities fraud and several other securities violations and sentenced to two years in prison. Unfortunately, the victims will never recover their losses.

Missouri - In a recent action, the Securities Division of the Secretary of State's office took enforcement action against a securities agent and the broker-dealer with which he was employed, who had developed a relationship with a large company in St. Louis, Missouri. The agent, who handled the accounts of many retired workers, traded aggressively in accounts of these unsophisticated retirees' and the broker-dealer failed to adequately supervise the agent. These retirees lost millions of dollars in their retirement accounts. A consent order requiring a large fine and restitution was eventually reached.

In a similar matter, a securities agent with a broker-dealer found newspapers announcing a list of retirees from a large Kansas City firm and called these recent retirees. The agent convinced the retirees to purchase mutual funds, and after they lost money in these accounts he switched these customers to variable annuities. Some of these retirees were switched several times resulting in extremely large surrender fees paid by the retirees and large commissions paid to the agent. The Missouri Securities Division is preparing to take administrative action against the agent and the broker-dealer.

Montana - The State Auditor personally prosecuted the largest securities case in the state's history in 2003, and in 2005 the Office assisted with the federal case against the broker. Tom O'Neill was a securities salesperson for USBancorp/Piper Jaffray in Butte, Montana. Over the course of a four-year period, Tom victimized at least 38 of his clients, most of whom were elderly, widowed or disabled. During this period, Tom executed in excess of 6,000 unauthorized trades in primarily technology stocks in their accounts, charging in excess of \$600,000 in commission and causing losses in excess of \$1 million. One of the victims, a 92-year-old man, had seven speculative trades in his account while he was in a coma and a final trade in his account hours after he had died. The State

Auditor's Office took action against Tom, his branch manager, and the company Piper Jaffray, as well as Piper's management team. Piper subsequently settled the matter with the State Auditor's Office. The settlement included restitution to the 38 victims in the amount of \$1.5 million, a \$1 million fine and an agreement to change its bonus structure so as not to reward salespeople who were the subject of complaints or regulatory actions. With the assistance of the State Auditor's Office, O'Neil was charged by the United States Attorney's Office and is currently serving a term in federal prison.

Oregon - Last year, an Oregon senior was convinced to give her entire retirement savings of \$250,000 to an investment adviser who, in turn, lost the entire amount. The Oregon Division of Finance and Corporate Securities, which has seen an increase in unlicensed investment adviser activity, resolved the case through a consent order.

Pennsylvania - The Pennsylvania Securities Commission issued a cease and desist order in June 2005 against the Association of Senior Counselors and an agent to halt the offer and sale of unregistered securities. According to the state, the agent appeared at a senior's home with materials saying he had "credentials you can trust" and "increase your income: while "avoid[ing] risk." An investigation determined that the agent had been charged in Connecticut in 2004 with selling unregistered securities and failing to register as an agent of a securities issuer in connection with the alleged sale of promissory notes.

Texas - In the last two years there has been an enormous problem in Texas with unregistered schemes being sold to elderly investors. These schemes include currency trading programs, promissory notes, viatical settlements, resort timeshare investments and equipment leaseback schemes involving internet kiosks, card readers, and ATM machines. The losses to Texans are estimated to be in the hundreds of millions of dollars. The bait is that the "income" will be "guaranteed" and will be substantially higher than what persons living on fixed incomes can expect to get from certificates of deposit, money market investments or other mainstream financial products.

Promoters of the schemes have been recruiting independent insurance agents and others through advertisements, mailing lists, trade organizations, internet websites, and by word-of-mouth. Agents are often falsely told that the schemes do not involve the sale of securities, are not regulated by state or federal law, and are "safe" or "guaranteed." Generally, lucrative sales incentives or commissions are offered.

Texas securities regulators have sent warning letters to approximately 300 agents that have been identified thus far and have initiated numerous criminal actions.

Investor Education and Senior Outreach Initiatives

State, territorial, and provincial securities regulators believe investor education is a powerful weapon in the fight against investment fraud. For that reason, we actively provide resources to help older investors better educate and protect themselves against investment fraud. Recognizing the value and impact of financial education, NASAA's Board of Directors elevated investor education to Section status in 1997 to help support the ongoing financial education efforts of our members.

Several years ago, a separate Senior Outreach Project Group was created to administer educational campaigns to help fight investment fraud and scams targeted at seniors. State securities administrators from around the country have undertaken a Senior Outreach Initiative that is designed to educate seniors to protect themselves from investment fraud.

The Senior Outreach Initiative involves:

- Promoting programs and materials developed by state securities regulators that include brochures, videos, and outreach seminars presented to organizations such as the Golden Kiwanis and Senior VFW groups.
- Participation as an exhibitor in the 2005 Summer National Senior Olympics. The event drew between 12,000 and 15,000 senior athletes to the southwestern Pennsylvania area and more than 25,000 spectators. NASAA partnered with the Pennsylvania Securities Commission to distribute thousands of investment fraud prevention brochures and fielded hundreds of investor protection-related questions from event attendees.
- Developing an anti-fraud education program that utilizes volunteer/peer group educators and networks. This program is based on highly successful initiatives that have been launched in California and Ontario. The blueprint for this program allows states securities regulators to tailor it and effectively launch it in their own jurisdictions. For example, the proven effectiveness of a comprehensive anti-fraud program begun in California called Seniors Against Investment Fraud, or SAIF, has led to adoption by other states, such as Florida, Pennsylvania and Iowa. In the SAIF model, senior volunteers/peer educators conduct presentations in comfortable, familiar settings such as senior community centers, assisted living facilities and churches investment scams. The program involves training the trainers to conduct the presentations and includes a tool kit and resource guide.
- Educating attendees at the American Society on Aging and the National Council on the Aging's 2006 joint conference. Project group members actively participated in the conference, addressing a workshop entitled "Preying on the Elderly: A Session on Financial Abuse," which featured high-profile speakers (such as an Assistant US Attorney and an FBI agent) involved in combating investment fraud against seniors. The more than 4,000 professionals in attendance at the conference come into contact with senior citizens on a daily basis; reaching thousands of those professionals with the investor protection message and materials in turn potentially reaches hundreds of thousands of seniors.
- Creating an Investment Fraud Bingo Game that delivers important investment protection messages in a fun and interactive format. The game, easy to administer and well received by seniors, is an ideal program for states with limited resources.

The program is in use by several states, including Texas, Pennsylvania, Indiana and Florida.

- Forming strategic partnerships with federal, state and local aging networks, including the AARP and US Administration on Aging. Other partnerships under consideration or active engagement include the Retired Senior Volunteer Program and the Investor Protection Trust.
- Developing the Senior Investor Resource Center on the NASAA website to serve as a gateway for important investor protection information designed specifically for seniors. The center, sponsored by NASAA and launched in 2003, includes:
 - A checklist of questions seniors should ask before making an investment decision;
 - Common sense solutions to protect assets from investment fraud;
 - Information about the current top frauds targeting seniors;
 - Contact information for securities regulators in each of the 50 states, the District of Columbia, Puerto Rico, Canada, Mexico, and the U.S. Virgin Islands;
 - An Investors Bill of Rights and interactive fraud awareness quiz and links to investor education publications and programs offered by state securities regulators and others to help seniors fight investment fraud.

Attached to my written testimony is a compilation of various state investor education outreach programs intended for seniors, and examples of printed materials that are used as newspaper inserts, and distributed at various town hall meetings and community centers throughout the year.

Conclusion

These are dangerous economic times for seniors. Now, more than ever, all American investors – and especially senior investors – need more, not fewer cops on the securities beat. This Committee's examination of investment fraud as it affects the growing senior population is an important step in highlighting the problem and working toward a solution. My office and other State Securities Administrators will continue to play an active role in protecting seniors whether it is a large multi-million dollar scam or a single defrauded senior.

I thank the Chairman and each member of this Committee for allowing me the opportunity to appear today. I look forward to answering any questions you have and providing additional assistance to you in the future.

**NASAA Jurisdictions that self-reported having
outreach programs for seniors.
(As of 10/19/2005)**

Alabama

In an effort to reach out to middle age and older Alabamians, the Alabama Securities Commission will participate in the following activities throughout 2006.

- Partner with AARP and the Alabama Extension Systems to put on "Investor University" events in cities and rural areas. This seminar event teaches topics concerning wise saving and investing practices, provides educational materials to attendees, addresses topics like reverse mortgages and variable annuities. (Birmingham event had 200 attendees in February. In April an event is planned in Huntsville and in May an event is projected for Mobile.) After this events will target rural communities in Alabama.

- Partner with the Alabama Attorney General's office and the Alabama Department of Senior Services (for the 3rd consecutive year) to develop fraud prevention activities throughout the state of Alabama in April 2006.

- ASC will attend and exhibit at the Alabama Gerontological Society conference in Birmingham, AL, in March 2006.

- ASC will display and provide materials to over 10,000 attendees at the Senior Expo conference in Huntsville, AL in May 2006.

- Participate on annual Medicare Van Tour (3rd consecutive year) prior to Thanksgiving to reach Senior citizens throughout rural areas of Alabama and provide securities fraud prevention training and materials.

- ASC has applied for a grant from IPT to put on a monthly television broadcast on Alabama Public TV for Seniors. This would be the second consecutive year to reach citizens throughout the state.

Arizona

The state of Arizona has developed a program entitled *Until Money Grows on Trees, Verify Before You Buy*. The state is sponsoring presentations and town hall meetings with state legislators to promote this program, which is designed to educate citizens about financial fraud and how to protect their finances. The state has received a 3-year IPT grant for their state investor education program.

Arizona is also working on producing a DVD to be distributed statewide that will aim to have a "reverse boiler room" effect by calling out to inform people about fraud alerts. The state is also investigating using pharmacy prescription stuffers and/or utility bill stuffers for seniors (in a joint effort with AARP) to get information out about financial fraud a ways to protect oneself.

British Columbia

British Columbia has several initiatives as part of its investor education program, including the following:

BC Coalition to Eliminate Abuse of Seniors is a provincial organization supported by the BCSC Education Fund to deliver *Protect Your Money*, a lively seminar by seniors for seniors to help them learn how to protect themselves from fraud and unsuitable investments. BC CEAS has been funded to reach 1,500 seniors in the Vancouver-lower mainland area. During this free, informative, one-hour presentation, seniors are shown by the Coalition's trained, volunteer senior speakers, how to protect their hard-earned money by:

- spotting the red flags common to most frauds committed against seniors,
- contacting the BC Securities Commission for information about advisers, various types of investments and other tips,
- using a valuable, free Investor Education kit produced by Canada's securities regulators, and
- knowing where to get other information they can use to protect themselves

California

The Seniors Against Investment Fraud (SAIF) Program is a statewide outreach campaign under the California Department of Corporations. The primary purpose of SAIF is to alert and educate Californians over the age of 50 about investment and telemarketing fraud crimes and how to avoid being victimized by scam artists.

- SAIF includes a dedicated Advisory Committee of state and local agencies, senior advocacy and consumer groups, and senior volunteers who work together to assist in the oversight and promotion of the program.
- SAIF trains and utilizes hundreds of committed senior volunteers to serve as "local trainers" and "local ambassadors" who carry the message to seniors throughout their communities.
- SAIF targets California consumers over the age of 50 with information aimed at preventing fraudulent scams and investment and telemarketing practices.

Florida

The Florida Office of the Attorney General has developed "Florida Seniors Against Investment Fraud (FSAIF)." FSAIF is a new program that works with Seniors vs. Crime, a program that provides seniors with information on identifying and reporting fraud, in order to protect oneself from fraud. The program uses a grassroots "train the trainer" approach and utilizes the Seniors vs. Crime regional directors and state Senior Sleuths to give FSAIF presentations in appropriate communities and to disseminate outreach materials. A toll-free consumer call center will handle inquiries and direct consumers to the correct state or federal agency.

Your Money, Your Life — Be a Smart Investor: Verify Before You Buy is the second phase of a statewide public education and awareness campaign called *Your Money, Your Life*. The *Verify Before You Buy* message, sponsored by an IPT grant, is focused on promoting investor education among Floridians of all ages and economic levels, and protecting investors from financial scams. The *Verify Before You Buy* initiative includes 1) statewide radio and television public service announcements, 2) billboard advertising, 3) brochures on smart investing, affinity fraud, and investing for seniors, 4) an interactive website for potential investors to find important resources and use an on-line tool to search and verify that a broker or company is licensed, 5) an essay contest to promote smart investing skills among Florida teens, and 6) has been incorporated into nearly 1,000 outreach presentations around the state, reaching more than 86,000 consumers. Florida's public service announcements were replicated from creative and visually appealing PSAs used in Pennsylvania and then modified with Florida-specific information. The first 30-second ad features an elderly woman who lost money after being pressured to invest on the spot with someone who was "so nice" to her. The second features an elderly African-American man who laments being scammed after investing in what was supposed to be a "sure thing." Both ads close with the message "Verify Before You Buy" and point viewers to the department's website and toll-free consumer helpline.

Hawaii

Hawaii has begun placing on-screen movie advertisements in theaters across the state. A slide asks theatergoers "Have you been promised more on your money but lost your life savings?" and shows a picture of a senior couple reviewing their papers. Information on how to report investor fraud is provided on the slide. It is also in the process of creating three television PSAs. Hawaii is in the process of visiting every senior center and senior living facility in the state to provide financial educational materials and presentations. It seeks to work with various nonprofit and government agencies in creating a once-a-month series of presentations on a rotating basis. The state has also redesigned its Investor Education web page in order to make it more user friendly.

Idaho

Idaho has produced senior conference on investor education, and is actively participating in April as Financial Literacy Month. It has been giving presentations in senior centers throughout the state. The state Securities Bureau has worked to make the "Wall Street Journal Guide to Understanding Personal Finance" available at all conferences of its financial literacy conferences.

Illinois

Illinois's financial literacy programs for seniors include both presentations at senior centers and informational booths at senior Health Expos. The state is adopting parts of the California SAIF program for use with senior groups. Its quarterly newsletter, *Securities Bulletin*, is mailed free to all secondary schools, police and sheriff's departments as well as all registered broker-dealer firms and investment adviser firms in the state (as well as all NASAA members). Illinois is looking to further modify its website to reach out better to senior investors. It is beginning to work to encourage banks to provide investor education seminars for their customers. The state intends to get more involved with businesses and companies to provide investor education and protection components at retirement planning seminars.

Massachusetts

The commonwealth has sent a mass mailing (letter and brochure) to senior citizens seeking to educate them about variable annuities. It has sent representatives to senior centers to speak about variable annuities. The state is also supporting the IPT's "MoneyTrack" series airing on public television.

Montana

The State Auditor's Office in Montana has been diligent in its efforts to combat fraud and improve consumer education in the state. The State Auditor's Office has been heavily involved in outreach. The office teamed up with other community partners for "Consumer Fraud Summits." The all day events provided speakers and resources on a vast array of consumer fraud issues. State Auditor John Morrison was the luncheon speaker and talked about the importance of investor education and offered tips on how seniors can protect themselves. The State Auditor's Office held a breakout session in the afternoons teaching people how to recognize scams and protect themselves from investment fraud. Hundreds of seniors and other consumers attended these events. Four events have been completed so far this year and the coalition will be holding more in the summer. This April, the State Auditor's Office will be holding presentations in senior centers across the state to promote "Financial Literacy Month." This program is designed to specifically outreach to seniors and to help them protect themselves. The presentations will include information on the most common scams affecting seniors and how to combat them.

Nevada

The state is working with Jump\$tart to provide teacher training in financial literacy. They are also developing training programs with the Catholic Charities' Senior Division for service providers who work with seniors in need, and are developing a senior-specific handout seniors can use to better protect themselves from fraud, complete with the right questions for seniors to ask of brokers.

New Hampshire

New Hampshire negotiated a \$5 million dollar securities settlement with the Tyco Corporation in 2003. The settlement stipulated that the settlement be used for investor education. With the settlement money, the state established the Center for Public Responsibility and Corporate Citizenship. Bureau of Securities Director Mark Connolly sits on the Center's Board of Directors and Secretary of State William Gardner serves as its Chairman.

In recent months the Center awarded a \$250,000 grant to the New Hampshire Jump\$tart Coalition. This funding will be used to substantially expand Jump\$tart's financial literacy programs for students. The Center also awarded a grant to the business school at The University of New Hampshire for the purpose of designing and implementing a series of educational seminars to be held across the state in coming years. In addition, the Center hopes to help establish and fund a corporate governance program within the University of New Hampshire. The state also continues to run PSAs targeting senior investors on New Hampshire public television.

New Jersey

The New Jersey Bureau of Securities has recently implemented a new program called the "New Jersey Investor Education and Protection Program." The Bureau has developed a multi-pronged statewide project in an attempt to arm citizens with investor education and protection messages. Outreach methods include Radio and TV public service announcements (PSAs), billboard advertising, direct mail to seniors, Consumer University for teens, and an interactive investor protection website program. In addition, the Bureau is developing and distributing printed investor education mini-guides. The outreach will also serve to increase awareness of the New Jersey Bureau of Securities and the services they can provide to New Jersey investors.

New York

New York has recently expanded its outreach program, especially to seniors. The Investment Protection Bureau now has new packages of investor education handouts and has developed speaker's materials for use by staff for investor protection presentations. The Bureau is also in the early stages of planning a full day Town Meeting style program for 2006 with a state law school.

Ohio

Ohio's Division of Securities continues to hold free informational seminars on financial literacy around the state. Titled "Buy Smart, Borrow Smart, and Invest Smart," the educational events are promoted in the community and last approximately two hours with speakers from the various agencies providing presentations.

Ohio recently sent letters to teachers, civic groups and senior citizen centers informing them of the availability of speakers from the agency. During the first six months of 2005, the agency gave 51 presentations to senior groups and had a total attendance of over 23-00. One such event was at the Adams County Senior Center Fair, which was attended by 385 seniors. The state plans on giving more presentations in the future.

The Division of Securities was in attendance at the Summer 2005 Ohio State Fair, which was attended by over 800,000 Ohioans. The agency also held an educational Ohio Securities Conference in October. The event will be open to the public.

Oregon

The Oregon Investor Information Coordinator constantly crisscrosses the state making presentations to senior centers, assisted living facilities, community meetings at libraries and colleges, and civic clubs (Kiwanis, Rotary, Lions, etc.), among others.

The state is also working on PSA campaign, and a CCTV/cable access initiative to disseminate investor education information to underserved areas of Oregon.

During the summer of 2006, Oregon plans on hosting a series of "Financial Fridays" lunch presentations from various financial related speakers for state workers outside on the capital mall.

Pennsylvania

Pennsylvania has produced an educational series for the state's public television system called MoneyTrack that features real people dealing with real financial and investment issues. The topics covered include how mutual funds work and how they charge fees, how to identify and avoid common investment scams (especially for seniors), investing versus gambling, resources for economically disadvantaged families, understanding investment research, how to decide whether you need a financial advisor and how to choose an advisor, corporate behavior and explanation how investors are protected, managing your credit, planning for retirement, financing long-term care, long-term care explained, as well as many others. It has also offered *Money Matters* seminars targeted directly towards seniors, run by representatives of the Pennsylvania Securities Commission.

Tennessee

Tennessee's Securities Division is working with other state agencies to produce Consumer Services Workshops across the state. These workshops draw attendees of all ages, from high school students, middle-aged adults and senior citizens. They also have attendees from banking, senior care and teaching professions.

Texas

Texas is doing presentations across the state for individual groups as well as speaker and panel participation at conferences such as the Texas Retired Teachers Association and the Conference on Aging. This is the second year for the agency to participate as an exhibitor at these two conferences, which has led to them being invited to participate at senior fairs and expos statewide.

Utah

The Utah Division of Securities, in conjunction with the Utah Division of Consumer Protection, Utah Attorney General, and AARP Utah, is conducting a series of *Consumer Education Summits* designed to educate seniors and other citizens about the issues of securities fraud, identity theft, charitable solicitations, and mail/telephone solicitations. The Utah Division of Securities will have held 20-30 events by April 2006. The summits will range in size from as few as 10 people in rural Utah to 200 people in Salt Lake City.

Wisconsin

The Financial Literacy Section of the Wisconsin Department of Financial Institutions has developed numerous investor education brochures and related materials on a variety of investment, financial, and consumer education matters. Specifically with regard to outreach to seniors, the Section sponsors numerous outreach activities, including multi-media presentations around the state on the specific subject of "How Seniors Can Keep from Being Victimized by Investment Fraud."

Wisconsin is involved as a participating state in a recently announced (February 2006) national investor education initiative directed specifically at seniors entitled the "Campaign for Wise and Safe Investing." It is a joint program of the National Office of the American Association of Retired Persons ("AARP") and the Investor Protection Trust ("IPT") that is providing funding to a coalition of 30 states to provide much-needed investor education and protection to age 50+ investors and potential investors. Participating states will be able to use all of the materials developed at the national level and will collaborate with their respective AARP state offices to develop a quality state campaign to bring investor education and protection to the senior citizens in their states.

The National Campaign materials will begin to be released to participating states in April. The Financial Literacy Section of Wisconsin's Department of Financial Institutions already has had its initial planning meeting with representatives of the Wisconsin AARP Office to organize five major "Events" focusing on financial education for seniors to take place in separate major population areas in Wisconsin beginning this fall.



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**INDUSTRY & REGULATOR
RESOURCES**

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- ▶ NASAA Fraud Center
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- ▶ Investor Bill of Rights
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Senior Investor Resource Center

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Welcome to NASAA's Senior Investor Resource Center.

As your first line of defense against investment fraud, NASAA members have far too many stories of scam artists who prey on unsuspecting seniors by offering "too good to be true" investment schemes. Although many of the firms and individuals behind these schemes are prosecuted, we cannot guarantee that not become a victim.

Don't be a target.

Education and awareness are your best weapons in the fight against investment fraud. As the oldest international investor protection organization, NASAA is to provide the tools you can use to protect yourself against investment fraud.

RESOURCES

▶ INVESTigate

A quick checklist of questions to ask before you invest.

▶ Investor Quiz

Test your investment knowledge with this quick quiz.

▶ Helpful Sites

Useful resources from NASAA members.

▶ Other Resources

NASAA's library of investor awareness materials.

▶ 10 Tips to Protect Your Nestegg

Ten common sense solutions to avoid investment fraud.

▶ Top Investor Traps

Learn how you can be separated from money.

▶ Investor Bill of Rights

Know your rights as an investor.

▶ Who to Call

A state-by-state list of contact information for your state or provincial securities regulator.

ALABAMA SECURITIES COMMISSION

770 WASHINGTON AVENUE, SUITE 570
MONTGOMERY, ALABAMA 36130-4700

Telephone: (334) 242-2984 or 1-800-222-1253

Fax: (334) 242-0240

Email: asc@asc.alabama.gov

Website: www.asc.state.al.us



SENIORS "TAKE CONTROL" AND PROTECT YOURSELF FROM BECOMING A VICTIM OF SECURITIES FRAUD

1. Don't be a "courtesy victim." You may be from a generation that was taught to be courteous at all times to phone callers, as well as people who visit you at home. Con artists will not hesitate to exploit the good manners of a potential victim. **When a stranger asks for your money, you should proceed with the utmost caution.** You are under absolutely no obligation to stay on the telephone with a stranger or allow them in your home. In these circumstances, it is not impolite to explain that you are not interested and hang up the phone or ask a stranger to leave your premises. If you are lonely and in need of companionship, don't make the mistake of seeking it from someone whose only real interest is to get his or her hands on your money.
2. Say "no" to any investment professional or con artists who presses you to make an immediate decision. **Before investing check out the salesperson, firm and the investment opportunity itself.** Extensive background information on investment salespeople and firms is available by contacting the Alabama Securities Commission. Almost all investment opportunities must be registered for sale in the state in which you live. Your state securities agency can tell you if the investment opportunity is properly registered. Before you part with your hard-earned savings, get written information about the investment opportunity, review it carefully, and make sure that you understand all the risks involved.
3. Always stay in charge of your money. A stockbroker, financial planner or telemarketing con artist who wants your money will be more than happy to assure you that he or she can handle everything, thereby relieving you of the need to watch over and protect your nest egg. Beware of any financial professional who suggests putting your money into something you don't understand or who urges that you leave everything in his or her hands. **Constant vigilance is a necessary part of being an investor.** If you understand little about the world of investments, take the time to educate yourself or involve a family member or a professional, such as your banker, before trusting a stranger who wants you to turn over your money and then sit back and wait for results.
4. Watch out for salespeople who prey on your fears. Con artists know that many Americans worry they will either outlive their savings or see all of their financial resources vanish overnight as the result of a catastrophic event, such as a costly hospitalization. Swindlers and abusive salespeople often pitch schemes as an opportunity for you to build up life savings to the point where such fears are no longer necessary. **Remember that fear and greed can cloud your good judgment and leave you in a much worse financial posture.** An investment that is right for you will make sense because you understand it and feel comfortable with the degree of risk involved.
5. Don't let embarrassment or fear keep you from reporting investment fraud or abuse. People who fail to report that they have been victimized in financial schemes often hesitate out of fear or embarrassment that they will be judged

incapable of handling their own affairs. Some senior citizens have indicated that they fear that their victimization will be viewed as grounds for forced institutionalization in a nursing home or other facility. **If you think you have been scammed, the sooner you contact ASC the greater the chance of stopping the fraudster and regaining some of your lost money.**

6. Beware of "reload" scams. Younger victims who are ripped off by swindlers have time to pick themselves up and restore some or all of their losses through new earnings. Most older victims have a finite amount of money that is unlikely to be replenished in the event of fraud. **The result is a panic that is well known to con artists, who have developed schemes to take a "second bite" out of senior citizens who already have been victimized.** Faced with a loss of funds, some senior citizens will go along with another scheme (allowing themselves to, in effect, be reloaded) in which the con artists promise to make good on the original funds that were lost... and possibly even generate new returns beyond those originally promised. When a significant loss occurs contact ASC to check out the person who invested your money before investing more.

Contact ASC for inquiries regarding securities broker-dealers, agents, investment advisers, investment adviser representatives, and financial planners, the registration status of securities, to report suspected fraud, or obtain consumer information. Call: 1-800-222-1253 Fax: 1-334-242-0240 Email: asc@asc.alabama.gov

Write: Alabama Securities Commission
770 Washington Avenue, Suite 570
Montgomery, Alabama 36130-4700

The internet is a great source of free investment information the ASC website at: www.asc.state.al.us

Message from the Director, Joseph P. Borg

Dear Investor,

The Alabama Securities Commission (ASC) regulates the securities industry in Alabama.

ASC is committed to protect investors against securities fraud and provides aggressive enforcement actions against any firm or individual who has violated the Alabama Securities Act or other state and federal statutes to the detriment of Alabama investors.

The Alabama Securities Act provides for the licensing and regulation of securities broker-dealers, agents, investment advisers and investment adviser representatives, and financial planners. ASC regulates the individual securities through registration. All of the above entities must be registered with the ASC to conduct business in Alabama unless subject to a statutory exemption from registration.

ASC promotes financial literacy to all citizens and students in Alabama by providing presentations, free information and access to curriculum for financial literacy education.

Prepare yourself to make an informed investment decision! Contact the Alabama Securities Commission to determine if the representative and firm with whom you wish to do business are properly registered in Alabama. Also, the Commission staff can provide free information relating to the disciplinary history (complaints, civil law suits, etc.), educational background and work experience of a firm or representative.



Sincerely,

Joseph P. Borg
Director

Advice for Delaware Investors

Planning for the future, saving money, and making careful investments are smart moves. Most financial professionals are honest and most investments are legitimate. Some are not. Dishonest sales practices and securities fraud are serious problems. One purpose of the securities laws (also called "Blue Sky laws") is to ensure that investors are given information concerning all risks before they make an investment decision. Many problems and losses can be avoided by taking time to carefully review and evaluate possible investments.

Before You Invest

Set Goals. Whether you invest on your own or with the help of a financial professional, understanding your personal financial needs and setting goals are the first steps in selecting investments that are right for you.

Make a list of your financial goals. Be specific. Estimate dollar amounts needed for each goal when possible. Create a time line to chart the dates by which you hope to achieve each goal. Write down any concerns you may have about investment risks. Use these criteria as a guide when you begin researching different investment opportunities.

Tip: Set specific goals to keep your investments on target. Be wary of investment opportunities that seem too good to be true.

Review Your Budget. Review your household budget and decide how much money you can afford to

invest. This will determine the amount of risk you are able to assume. If an investment will affect your ability to meet your regular living expenses, it may not be suitable for you. If you choose to assume more risk, consider how a loss would affect your budget should the investment fail to perform as expected.

Research Investments. Request written information describing each investment that you are considering and read it thoroughly. Pay attention to how your money will be used, the terms of the contract, fees, and any potential conflicts of interest. Avoid investing on the basis of "inside information" or rumors of future company actions that may never take place. If you have questions or concerns, contact the salesperson and request that the answers be put in writing. If you cannot obtain any written information or notice inconsistencies in the sales pitch, avoid the investment.

Tip: All investments have risks. Do not sign an investment contract until you understand and agree to all of the terms.

Do a Background Check. Before you make your first payment to the salesperson or investment company, take time to do a background check. Contact the Delaware Securities Commissioner to verify that the salesperson is licensed to sell securities and that the investment has been registered for sale in Delaware, even if the offer is from

another state. Agency staff can tell you if there have been disciplinary actions taken against the salesperson or company due to a violation of state and/or federal securities laws. This is a free service. Call the Delaware Securities Division at (302) 577-8935.

After You Invest

Keep Good Records. Like careful planning, good record-keeping is also an important part of investing. It will help you stay involved with and in control of your investments. Accurate records can document "your side of the story" in the event you ever experience problems with a salesperson or investment company.

Take notes. Write down the name of each investment that you make and how to contact the salesperson or company. Note the dates and times of communications with your broker and record any actions that affect your account(s). **Read account statements.** Verify that all transactions were completed accurately. If you do not receive regular statements, contact the salesperson or company.

Report problems immediately. If you discover unusual or suspicious activity in your account(s), contact the salesperson or investment company in writing. Use your notes and records to support your claim. If the problem persists, notify the Delaware Securities Commissioner.

Tip: Keep all of your account statements, notes, and other investment records in a file for future reference.

Investor Alert!

The techniques listed below are examples of misleading or dishonest sales practices. If you experience any of these, contact the Delaware Securities Commissioner for more information before you invest.

■ Unsolicited offers from strangers via the telephone, mail, or Internet.

■ Claims of a "guaranteed" profit or that an investment is "risk-free" because it is "insured" by an outside company.

■ "Gift," "retirement," or "support" clubs that require you to make a cash "contribution" (investment) and recruit new members (investors).

■ Investment deals involving "prime" or "world" banks or overseas funding sources.

■ A salesperson who relies on strong emotions or personal beliefs to gain your trust and influence (or pressure) your investment decisions.

■ A salesperson who borrows money from you or loans money to you in order to get in on an investment.

■ A salesperson who is reluctant to let you sell out of an investment or who offers to "make up" any losses with a new investment opportunity.

If you suspect problems with an investment, notify the Delaware Securities Commissioner at (302) 577-8424. You may be able to help keep others from becoming victims of fraud.



Checking Out Your Investment Professional

Before you choose an investment professional to manage your life savings, you owe it to yourself to check his or her background. The Delaware Division of Securities offers this service to Delaware investors. Our office has access to national databases which contain information on securities

brokers, investment advisers, and the firms where they work. This information includes employment history, education level, client complaints, disciplinary history and regulatory action against the firm or the investment professional. If you are a Delaware resident and would like to receive this information free of charge, please call (302) 577-8935.

ADVERTISEMENT



State of Delaware
Department of Justice

What to Expect at Lunchtime Investment Seminars: There's No Such Thing as a Free Lunch

Many seniors receive invitations in the mail to free lunch or dinner seminars sponsored by brokers or financial advisers. The invitations usually describe the meetings as no-obligation opportunities to learn about new investment services or products. A lunch or dinner meeting is one way that financial professionals reach out in the community to find new clients; you are getting your "free" meal in exchange for your time and attention to the sales pitch. While the vast majority of people who host these free meetings are honest, hardworking individuals, the Delaware Attorney General's Office wants you to be aware that, on occasion, improper sales practices do occur during these investment sales pitches. Here are some tips for savvy seniors who plan to attend these seminars:

Proper Registration

Find out whether the seminar promoter and products (mutual funds, stocks, and so on) are properly registered to do business in the State of Delaware. Call the Attorney General's Office - Securities Unit before you go to the seminar at (302) 577-8935 to get this information. If the seminar promoters are properly registered, we can give you their disciplinary history. If they are not properly registered, chances are that you are better off dealing with someone else. Don't judge a book by its cover. Just because the seminar promoters seem competent and ethical doesn't necessarily mean that they are.

Fees and Penalties

It is important to always ask about fees, commissions and penalties that could be incurred if you switch to a different investment professional. Make sure that the seminar promoter explains all fees involved in the services or products he or she is trying to sell. There may be tax consequences (capital gains) and transactional or surrender fees involved in retaining a new financial professional. The seminar promoter should be willing to candidly explain all costs, fees, penalties and tax consequences occasioned by the movement of your account to another firm.

Promises and Pressure

Beware of "too-good-to-be-true" promises. If they sound too good to be true, they are probably not legitimate. By the same token, be wary of high pressure sales tactics. If you feel like you are being pressured to make a decision about your investments, feel free to say no. If you are told to "buy immediately or the investment opportunity of a lifetime will be gone," you should be very suspicious. You didn't earn your nest egg overnight, so you shouldn't be expected to make hasty decisions about your retirement savings. Always ask questions before you invest, and make sure that you get straight answers.

Financial Maintenance

Finally, we recommend that you carefully monitor your finances when dealing with a broker or investment adviser. A good financial professional should be willing and able to explain why a product or service is (or isn't) suitable for your investment objectives. For example, you may be advised to sell conservative investment products like certificates of deposit, mutual funds or bonds to purchase high risk investments. High risk investments may not meet the investment objectives of a senior on a fixed income. Also, you should carefully review all documents and materials sent to you by your financial adviser, particularly any statements or transaction confirmation slips. If there is an error or you don't understand an entry, call your financial professional right away. By carefully monitoring your finances, you can ask the crucial questions to ensure that your investment plan is appropriate for your circumstances and needs.

While there's no such thing as a truly "free lunch," with this advice, you'll be all the wiser the next time you decide to attend one of these free seminars. Always investigate before you invest. Asking questions will maximize your understanding of whether new investment services and products are right for you.

If you think you have been the victim of financial misconduct or fraud, please call the Attorney General's Office Securities Unit at (302) 577-8424 (New Castle County) or (800) 220-5424 (Kent and Sussex Counties).

8. Understand your financial needs. Some older Americans have little ongoing need for investment funds, while others require monthly dividends to survive. Know what you want out of your investment and if it truly meets your needs. Be careful not to make changes that might result in a disruption of your monthly income.

9. Report all fraud or abuse. Many older Americans fear that being a victim of fraud will reflect poorly on their ability to care for themselves. In reality, *anyone* can be defrauded. Report fraud immediately so it can be stopped. There are actual cases of family members defrauding the elderly. The only way to stop it is to report it.

10. Don't be afraid to ask for help. If you are unsure of an opportunity, ask a third party for advice. If you have questions about an investment adviser, a salesperson or a broker, call the Illinois Securities Department toll free at 800-628-7937.

For more information

Secretary of State Illinois Securities Department

Jefferson Terrace, Ste. 300A
300 W. Jefferson St.
Springfield, IL 62702
217-782-2256

69 W. Washington St.
Ste. 1220

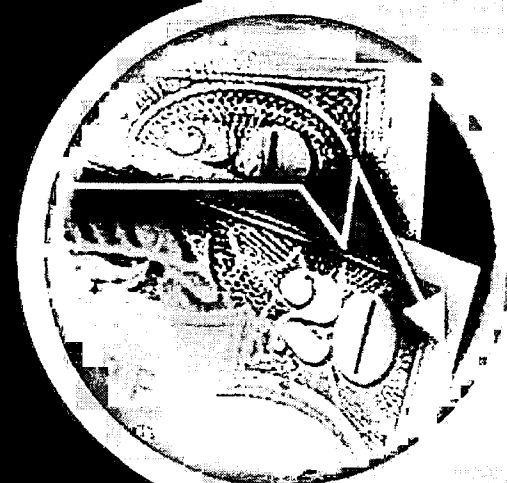
Chicago, IL 60602
312-793-3384

800-628-7937 (toll free)
888-231-1175 (Spanish hotline)

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Senior Citizens and Securities Fraud

JESSE WHITE
Secretary of State

Illinois Securities
Department



One of my responsibilities as Secretary of State is to regulate the securities industry in Illinois and help protect the investing public by enforcing compliance with our state's securities laws. While securities fraud can threaten people of all ages and incomes, senior citizens are often the primary target.

I firmly believe that the best protection against fraud is an informed and knowledgeable investing public. This brochure provides some useful tips that can help protect you against securities fraud.

If you have any questions, please call the Securities Department toll free at 800-628-7937.

Jesse White

Jesse White
Secretary of State

Protect Yourself From Fraud

TEN TIPS TO AVOID INVESTMENT FRAUD

1. **Don't let con artists in your home.** Everyone knows to lock the doors and windows at night. But few Americans realize that con artists don't come in the front door. They come in through the television, the radio, the computer and, most often, the telephone. If someone calls you offering a great deal, do the same thing you would to any unsolicited salesperson — hang up. Don't give them a chance to hook you on their offer.
2. **Check out all deals.** Don't trust a stranger with your personal financial matters. If someone is pressuring you to invest immediately, "before it's too late," chances are they are trying to steal your money. Take time to learn more about the deal.
3. **Stay in charge of your money.** Con artists will offer to "take care of everything," but it's a favor that can cost you all your hard-earned money. Stay in charge by educating yourself about securities and investing at the library or by calling the Illinois Securities Department.
4. **Never judge a con artist by his/her appearance or professional demeanor.** Most con artists spend considerable time and money to look good so the victim doesn't question their credentials. Slick, full-color brochures and elaborate Internet sites are nothing more than a spider's web luring investors.
5. **Don't let a con artist prey on your fears.** Older Americans have many financial concerns. Will their savings last through their retirement years? Will a downturn in the economy leave them penniless? Con artists know all these fears — and a few you may not have thought of. Your greatest fear should be falling for their sales pitch.
6. **Older women beware.** Older women are more likely to be the target of financial fraud and abuse than older men. Educate yourself. Don't take advice from strangers or even people you are familiar with unless you know exactly what you are getting into.
7. **Get tough and keep watch.** Once you have invested money, don't just sit back and relax. Monitor your investments, and if you have questions, ask them.

The Pennsylvania Securities Commission
1010 N. 7th Street
Harrisburg, PA 17102-1410

Fraud Aimed at Older Americans

Older Americans are the No. 1 target of con artists. The files of the Pennsylvania Securities Commission and other state securities agencies are filled with tragic examples of seniors who have been cheated out of savings, windfall insurance payments and even equity in their homes.

DEFENSE TIPS:

To prevent more people from becoming victims, the North American Securities Administrators Association offers these defense tips:

1. Don't be a courtesy victim. Older Americans often extend hospitality to phone callers and visitors to their homes. Con artists will not hesitate to exploit the good manners of a potential victim.

You are under no obligation to stay on the phone with a stranger who wants your money. It is not impolite to explain that you are not interested and hang up. Save your good manners for friends and family members not swindlers.

2. Check out strangers. Too many older Americans make the mistake of trusting strangers when it comes to their finances. Say "no" to anybody who presses you to make an immediate decision, giving you no opportunity to check out the salesperson, the firm or the investment opportunity. Before you part with your hard-earned savings, get written information about the investment, review it and make sure that you understand all of the risks.

A favorite tactic of telemarketing con artists is to develop a false bond of friendship. Swindlers know that many seniors welcome phone calls, even those from strangers. If you are dealing with a stockbroker or financial planner in person, don't be swayed by offers of unrelated advice or assistance that are merely efforts to develop a sense of friendship and dependence. Don't seek companionship from someone whose only real interest is to get his hands on your money.

3. Always stay in charge of your money. Beware of any financial professional who suggests putting your money into something you don't understand, or who urges you to leave everything in his hands. Constant vigilance is a necessary part of being an investor.

If you understand little of the investment world, educate yourself or involve a family member or a professional, such as your banker or lawyer, before trusting a stranger who wants you to turn over your money.

4. Never judge a person's integrity by the sound of his voice. Successful con artists sound professional and can make the flimsiest investment deal appear as safe and sound as putting money in the bank.

Some swindlers combine their sales pitches with polite manners, knowing that many seniors equate good manners with integrity. Remember that the sound of a voice particularly on the phone has no bearing on the soundness of an investment opportunity.

5. Watch out for salespeople who prey on your fears. Con artists know that many seniors worry about outliving their savings or losing their financial resources to a catastrophic event, such as hospitalization. It is common for swindlers and abusive salespeople to pitch their schemes as ways to build up life savings to the point where fears aren't necessary.

Fear and greed can cloud your good judgment and leave you in a worse financial posture. An investment that is right for you will make sense because you understand it and feel comfortable with the level of risk involved.

6. Exercise particular caution if you are an older woman with no experience handling money. Many women who are in their retirement years received little or no education about handling money when they were young. They often relied on their husbands for major money decisions. As a result, older women particularly those who received insurance payments for the death of a husband are prime targets for con artists.
7. Monitor your investments and ask tough questions. Too many seniors compound the mistake of trusting unscrupulous salespeople by failing to keep an eye on the progress of an investment. Insist on regular written and oral reports. Look for signs of excessive or unauthorized trading of your funds. Don't be swayed by an assurance that such practices are routine or in your best interests.
8. Look out for any trouble retrieving principal or cashing out profits. Because unscrupulous promoters pocket the funds of their victims, they often go to great lengths to explain why an investor's savings are not readily accessible. In many cases, they pressure the investor to roll over non-existent profits into new and even more alluring investments, further delaying the point at which the fraud will be uncovered.

If you are not investing in a vehicle with a fixed term, such as a bond, then you should receive your funds or profits within a reasonable amount of time.

9. Don't let embarrassment or fear keep you from reporting investment fraud or abuse. Older Americans who fail to report that they have been victimized often hesitate out of embarrassment or fear that they will be judged incapable of handling their own affairs. Con artists know about such sensitivities and even count on these fears to prevent or delay the point at which authorities will be notified of a scam.

Most money lost to investment fraud isn't recovered beyond pennies on the dollar. However, if you recognize that you have been victimized and speak up promptly, you might recover some or all of your funds.

10. Beware of "reload" scams. Most older Americans deal with a finite amount of money that is unlikely to be replenished in the event of fraud or abuse. Faced with a loss of funds, some seniors will go along with another scheme a "reload" in which the con artist promises to make good on the original funds that were lost. Too often, the result is that unwary seniors lose whatever savings they have left in the wake of the original scam.

die, these investments are extremely speculative. There is no guarantee when a person will die, and, with the constant advancements in modern medicine, a terminally-ill person could live longer than anticipated. The longer the individual lives, the less the policy is worth to the investor. While the opportunity seems like an extremely sound investment, choosing to invest in viaticals can be a very risky decision, even when done legitimately.

5. *Ponzi Schemes*

Named for the scam artist Charles Ponzi, who swindled his investors out of millions of dollars in a matter of days, *Ponzi schemes* operate under the notion of "robbing Peter to pay Paul." A Ponzi scheme touts an investment opportunity with the promises of high returns and then, in order to make it appear legitimate, pays back its earlier investors with the money from later investors. Although the original scam – run by Ponzi himself – dates back to the 1920s, its tactics are still widely used today. 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.

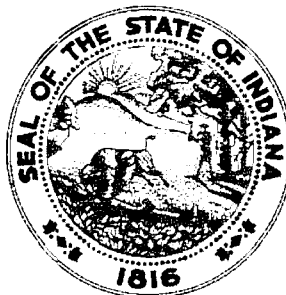


The Honorable Todd Rokita
Indiana Secretary of State

Indiana Secretary of State
Securities Division

James A. Joven
Securities Commissioner

Stephanie L. Beck
Investor Education Coordinator



*To request additional copies of this or other
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**Indiana Secretary of State
Todd Rokita**

Fraud Aimed at Older Americans

www.sos.IN.gov

Common Types of Fraud Aimed at Older Americans

1. *Unregistered Securities*

Securities regulators, both at the national and state levels, exist to regulate the securities industry and bring to justice people who break the applicable laws. Unfortunately, entirely too many people do not realize the value of their securities regulators until *after* they have become a victim of fraud. Con artists often promise high returns on investments opportunities that they cannot truly guarantee. These swindlers prey on victims with high-pressure tactics – not giving the victims enough time to check out the investment first. Con artists also prey on victims who many not know that they can call securities regulators for assistance. It is important to remember that all investment opportunities must either be registered or exempt from registration. A quick call to Indiana Secretary of State Todd Rokita's office at 1-800-223-8791 can help investors take the appropriate steps to make sure the opportunity and the person selling it are legitimate.

2. *Promissory Notes*

While promissory notes *can* be a legitimate form of investment, often they are touted by con artists who convince unsuspecting investors to turn over their money. One of the largest problems with promissory note

fraud is that many people do not realize the high risk typically associates with promissory notes. Promissory notes often offer the potential for very high returns, but high returns always means higher risk. Most legitimate forms of promissory notes are actually sold to what are known as "sophisticated investors" – those who have the means to thoroughly research the opportunity and who can afford to invest (and potentially lose) a large sum of money. Corporate investors often fall into this category. The average senior citizen, on the other hand, does not. Promissory notes are a pressing issue, and more extensive information is available through the Secretary Rokita's office.

3. *Charitable Gift Annuities*

Plainly defined, an *annuity* is a contract for a payment of a specified amount of money payable over a period of time. In these simple terms, the concept of an annuity is not much different than a car loan or a mortgage payment. When considered in terms of investing, annuities are often linked to retired individuals. Annuities are an attractive investment generally offered through an insurance company. An individual will give the company a specific amount of money that is to be paid back to the investor over a period of time. In addition to the principal amount of money, the investor will be paid interest for allowing the company offering the annuity to use his/her money. An individual choosing to invest in annuities essentially gives a loan to a

company and then collects interest as the money is returned. These investments are generally attractive because they are usually touted with some form of protection, and they pay a fixed amount over the long term. For a retired person, this could be appealing because it promises a steady, "insured" income. It is important to realize, however, that no investment is truly "insured." An insurance company will claim some form of protection when investing in annuities; however, unforeseen circumstances could cause loss of money to the investors (e.g. the company goes out of business). There are several kinds of annuities, and these are addressed more specifically in annuity-focused literature. When discussing fraud aimed at seniors, the term *charitable gift annuity* is a familiar buzzword. A charitable gift annuity works much like a regular fixed annuity except the charity, rather than an insurance company, offers the annuity and benefits from the investment. While most annuities offered by charitable organizations are legitimate investments, investors should be cautious of little-known organizations or those that provide only minimal information.

4. *Viatical settlements*

Originating as a way to help the gravely ill pay their bills, these interests in the insurance death benefits of terminally ill patients are always risky and sometimes fraudulent. The insured gets a percentage of the death benefit in cash, and the investors get a share of the death benefit when the insured dies. Because of uncertainties in predicting when someone will

(continued on back)

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A Senior's Guide to Avoiding Investment Fraud

Older Americans are the number one target of investment con artists. Additionally, stockholders and financial planners who engage in abusive practices often seek out the elderly. The files of the Missouri Securities Division and other state securities agencies are filled with tragic examples of senior citizens who have been cheated out of savings, insurance payments, and even the equity in their own homes. Fortunately, such victimization can be avoided by following ten self-defense tips developed for older Americans by the Securities Division of the Office of the Missouri Secretary of State and the North American Securities Administrators Association.

How Older Americans Can Avoid Investment Fraud and Abuse

1. **Don't be a "courtesy victim."** Older Americans are of the generation that was taught to be courteous at all times to phone callers, as well as to people who visit them at home. Con artists will not hesitate to exploit the good manners of a potential victim. Remember that a stranger who calls and asks for your money is to be regarded with the utmost caution. You are under absolutely no obligation to stay on the telephone with a stranger who wants your money. In these circumstances, it is not impolite to explain that you are not interested and hang up the phone. Save your good manners for friends and family members, not swindlers!
2. **Check out strangers touting "strange" deals.** Trusting strangers is a mistake that all too many older Americans make when it comes to their personal finances. Say "no" to any investment professional or con artists who presses you to make an immediate decision, giving you no opportunity to check out the salesperson, firm and the investment opportunity itself. Extensive background information on investment salespeople and firms is available from the Central Registration Depository (CRD) files available from the *Missouri Securities Division's Investor Protection Hotline 1-800-721-7996*. Almost all investment opportunities promoted to Missouri investors must be registered for sale with the Missouri Securities Division. The Securities Division can tell you if the investment opportunity is properly registered. Before you part with your hard-earned savings,

get written information about the investment opportunity, review it carefully, and make sure that you understand all the risks involved.

A favorite tactic of telemarketing con artists is to develop a false bond of friendship with older Americans. Swindlers know that many senior citizens welcome phone calls, even those from complete strangers. If you are dealing in person with a stockbroker or financial planner, do not be swayed by offers of unrelated advice and assistance that are merely efforts to develop a sense of friendship and dependence. Don't make the mistake of seeking companionship from someone whose only real interest is to get his or her hands on your money.

3. **Always stay in charge of your money.** A stockbroker, financial planner or telemarketing con artist who wants your money will be more than happy to assure you that he or she can handle everything, thereby relieving you of the need to watch over and protect your nest egg. Beware of any financial professional who suggests putting your money into something you don't understand or who urges that you leave everything in his or her hands. Constant vigilance is a necessary part of being an investor. If you understand little about the world of investments, take the time to educate yourself or involve a family member or a professional, such as your banker, before trusting a stranger who wants you to turn over your money and then sit back and wait for results.
4. **Never judge a person's integrity by how they sound.** All too many older Americans who get wiped out by con artists later explain that the swindler sounded like such a nice man or woman. Successful con artists sound extremely professional and have the ability to make even the flimsiest investment deal sound as safe and sound as putting money in the bank. Some swindlers combine professional-sounding sales pitches with extremely polite manners, knowing that many older Americans are likely to equate good manner with personal integrity. Remember the sound of a voice, particularly on the phone, has no bearing on the soundness of an investment opportunity.
5. **Watch out for salespeople who prey on your fears.** Con artists know that many older Americans worry they will either outlive their savings or see all of their financial resources vanish overnight as the result of a catastrophic event, such as a costly hospitalization. As a result, it is common for swindlers and abusive salespeople to pitch the schemes as a way for older Americans to build up their life savings to the point where such fears are no longer necessary. Remember that fear and greed can cloud your good judgment and leave you in a much worse financial posture. An investment that is right for you will make sense because you understand it and feel comfortable with the degree of risk involved.
6. **Exercise particular caution if you are an older woman with no experience handling money.** Ask a con artist to describe his ideal victim and you are likely to hear the following two words: "elderly widow." Sadly, many women who are now in their retirement years often received little or no education in their youth about how to handle money. Women of this generation often relied on their

husbands to handle most of all major money decisions. As a result, older women, particularly those who have received insurance payments in the wake of their spouse's death, are prime targets for con artists. Elderly women who are on their own and have little know-how about handling money should always seek the advice of family members or a disinterested professional before deciding what to do with their savings. One excellent resource available nationwide is the Women's Financial Information Program at the American Association of Retired Persons (AARP). For more information, write: "Women's Financial Information Program," AARP Consumer Affairs, 601 E Street, NW, Washington, DC 20049.

7. **Monitor your investments and ask tough questions.** Too many older Americans not only trust unscrupulous investment professionals and outright con artists to make initial financial decisions for them, but compound their error by failing to keep an eye on the progress of the investment. Insist on regular written and oral reports. Look for signs of excessive or unauthorized trading of your funds. Do not be swayed by assurances that such practices are routine or in your best interests. Do not permit a false sense of friendship or trust keep you from demanding a routine statement of your savings. When you suspect that something is amiss and get unsatisfactory explanations, call your state securities agency and make a complaint.
8. **Look for trouble retrieving your principal or cashing out profits.** Many older Americans have little ongoing need for investment funds, while others require returns that are paid out regularly in order to supplement limited incomes. If a stockbroker, financial planner or other individual with whom you have invested stalls you when you want to pull out your principal or profits, you may have uncovered someone who wants to cheat you. Since unscrupulous investment promoters pocket the funds of their victims and go to great lengths to explain why an investor's savings are not readily accessible. In many cases, they will pressure the investor to "roll over" non-existent "profits" into new and even more alluring investments, thus further delaying the point at which the fraud will be uncovered. If you are not investing in a vehicle with a fixed term, such as a bond, you should be able to receive your funds or profits within a reasonable amount of time.
9. **Don't let embarrassment or fear keep you from reporting investment fraud or abuse.** Older Americans who fail to report that they have been victimized in financial schemes often hesitate out of embarrassment or the fear that they will be judged incapable of handling their own affairs. Some senior citizens have indicated that they fear that their victimization will be viewed as grounds for forced institutionalization in a nursing home or other facility. Recognize that con artists know about such sensitivities and, in fact, count on these fears preventing or delaying the point at which authorities are notified of a scam. While it is true that most money lost to investment fraud is rarely recovered beyond pennies on the dollar, there are also many cases in which older Americans who recognize early on that they have been misled about an investment are then able to recover some or all of their funds by being a "squeaky wheel." If you feel you have been defrauded, contact the Securities Division immediately.

10. **Beware of "reload" scams.** Younger Americans who are ripped off by swindlers are fortunate to the extent that they have the opportunity to pick themselves up and restore some or all of their losses through new earnings. Most older Americans, however, are dealing with a finite amount of money that is unlikely to be replenished in the event of fraud and abuse. The result is a panic that is well known to con artists, who have developed schemes to take a "second bite" out of senior citizens who already have been victimized. Faced with a loss of funds, some senior citizens will go along with another scheme (allowing themselves to, in effect, be reloaded) in which the con artists promise to make good on the original funds that were lost... and possibly even generate new returns beyond those originally promised. Though the desire here to make up lost financial ground is understandable, all too often the result is that unwary senior citizens lose whatever savings they have left in the wake of the initial scam and possibly more in the second scam.

Remember, when in doubt, make no promises or commitments, no matter how tentative. It is far better to wait and lose an opportunity than to take the plunge and lose everything. When hounded on the phone by an aggressive promoter, do not be afraid to hang up without explanation. You don't owe the caller anything, no matter how nice the caller may seem. In fact, this kind of solicitation is an invasion of your privacy, and may be a violation of federal and state law.



QUESTIONS WORKSHEET

FOR UNSOLICITED PHONE CALLS ABOUT INVESTMENTS

Knowledge is power. The following checklist is designed as a quick reference to help investors ask the right questions before making an investment. Once your questions have been answered, contact your state securities regulator, or other appropriate state agency, to verify the information.

REMEMBER: The time to ask questions is **before you invest** your hard-earned money.

SELLER/AGENT INFORMATION

- ➔ Today's Date: _____
- ➔ Seller/Agent Name: _____
- ➔ Company/Business Name: _____
- ➔ Company/Business Address: _____
- ➔ What are you offering?: _____

1. How did you get my name? _____
2. Is this investment guaranteed? ☐ yes ☐ no
3. What license(s) do you hold that authorizes you to sell this product or service?

LICENSE TYPE LICENSE INFORMATION

Insurance License License No: _____

Securities License CRD No: _____

Accountant License CPA No: _____

Real Estate License DRE License No: _____

Other: Explain _____

4. Is this investment registered? ☐ Montana State Auditor's Office
☐ Securities & Exchange Commission ☐ Other _____
5. Please send me copies of the company's financial statements. ☐ yes ☐ no
and a list of customers I can call. _____
6. What are the commissions and fees?
commissions _____
fees _____
7. Send me a prospectus or offering material. ☐ yes ☐ no
8. Your telephone number so I can call you. _____
9. Will you call my stockbroker/lawyer/banker with the same offer so I can ask
for a second opinion? ☐ yes ☐ no
10. How is my principal being used and will I have access to it?

access ☐ yes ☐ no

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