

Preventing Securities and Investment Fraud

THE DISTRICT OF COLUMBIA DEPARTMENT OF
INSURANCE, SECURITIES AND BANKING



FRAUD AWARENESS WEEK

JULY 9-14

INCREASE AWARENESS, REDUCE RISK

During the Association of Certified Fraud Examiner's National Fraud Awareness Week, the D.C. Department of Insurance, Securities and Banking will bring you resources and information on fraud prevention. This week is one to teach consumers and businesses about recognizing various types of financial-services fraud, how to prevent them, and to how to fight against them.

The Government of the District of Columbia Department of Insurance, Securities and Banking (DISB) regulates all financial-service businesses in the District of Columbia. Call (202) 727-8000 or visit its Web site at www.disb.dc.gov.

TYPES OF SECURITIES FRAUD

The North American Securities Administrators Association lists the top 10 investment frauds:

1. Unlicensed individuals selling securities
2. Deceptive stockbrokers
3. Analyst research
4. Corporate promissory notes
5. Debt notes from prime banks
6. Illegal viatical settlements
7. Affinity fraud
8. Charitable gift annuities
9. Oil and gas schemes
10. Leasing scams

What is investment FRAUD

This is the final newsletter on fraud prevention to end the National Fraud Awareness Week. The D.C. Department of Insurance, Securities and Banking (DISB) enjoyed sponsoring this effort. We hope that you would become more aware of the fraud around you; and pick up some innovative ways in fighting and preventing fraud.

Securities fraud or investment fraud is a crime where investors are deceived and manipulated. It continues to be a problem in the District of Columbia, and to avoid scams, investors should proceed slowly and cautiously before committing to any investment opportunities. Check with DISB's Securities Bureau to ensure that a particular broker is legitimate. Scams come by telephone, Internet, mail, in-person and e-mail.

How can investment losses be avoided

1. **Know Your Investment Goals and Objectives.** The

first step toward making a sound, well-researched investment decision is to identify your investment objectives based upon your financial needs.

2. Know the Product. The second step is to select a security or other investment product that is consistent with your financial goals and objectives. The key element is research. Seek outside advice from magazines, newspapers and other sources of financial information, which are available from bookstores, newsstands and public libraries; and reputable professionals such as accountants, attorneys and licensed stockbrokers.

3. Know the Seller. The third step is to learn as much as possible about the firm and individuals with whom you may conduct business. DISB can answer your questions about insurance, securities and banking. **Call the Securities Bureau at (202) 727-8000.** Before you invest, call DISB to find out whether a firm is registered with the bureau.

You may file a formal complaint against an investment company. However, DISB will not provide investment advice. Nor can the staff advise you on whether you should conduct business with a particular firm.

Remember to Research

Research the background of the firm and individuals with whom you may conduct business, as well as check their registration. Take a good, hard look at the person offering you the investment. Is the sales agent making promises that seem too good to be true? Is he pressuring you to invest immediately before you have the opportunity to review the prospectus or financial statement? Is the salesperson asking you to invest more money than you can reasonably afford? All these questions should signal caution, not GO!

Avoid Haste

Remember, there will always be investment opportunities. Allowing yourself to be hurried into an investment decision can be hazardous to your financial health.

OLDER AMERICANS: HOW TO AVOID INVESTMENT FRAUD

Older Americans are the number one targets for investment con artists. Also, stockholders and financial planners who engage in abusive practices often seek out the elderly. DISB's files contain several stories of older Americans swindled out of life savings. Fortunately, such victimization can be avoided by adhering to the following 10 self-defense tips by the North American Securities Administrators Association Inc.

Do not be a courtesy victim
Older Americans are from a generation who were taught to be courteous. Con artists exploit this. It is not impolite to tell a stranger on the phone you are not interested and hang up the phone.

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 artist 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 is available at DISB.



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Securities fraud

Older Americans

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Always stay in charge of your money

A stockbroker, financial planner or telemarketing con artist who is after your money will assure you that he or she can handle everything, therefore relieving you of the need to watch over and protect your nest egg. Beware of any financial professional who suggests putting your money into some financial instrument you don't understand or who urges you to leave everything in his or her hands. Educate yourself or talk to a trusted family member or professional.

Never judge a person's integrity by how he or she sounds

Too many older Americans who are 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 as depositing money in the bank. Some swindlers combine professional-sounding sales pitches with extremely polite manners, knowing that older Americans are likely to equate good manners with personal integrity. Remember the sound of a voice, particularly on the telephone, has no bearing on the soundness of an opportunity to invest in securities.

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 their financial resources vanish overnight as the result of a catastrophic event, such as costly hospitalization. Therefore, 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. Remem-

ber that fear and greed can cloud your good judgment and leave you in a much worse financial situation. An investment that is suitable for you will make sense because you understand it and feel comfortable with the degree of risk involved.

Exercise caution if you are an older woman with no experience with money

Ask a con artist to describe his ideal victim and you are likely to hear the following two words: "elderly widow." Unfortunately, many women who are currently in their retirement years often received little or no education on managing money. Women of this generation often relied on their husbands to manage most of the major money decisions. Therefore, older women, particularly those who have received windfall insurance payments in the wake of their spouses' deaths, are prime targets for con artists.

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 to keep you from demanding a routine statement of your investments. When you suspect that something is amiss, and you are provided unsatisfactory explanations, call DISB to lodge a complaint.

Look for trouble retrieving your principal or cashing out profits

Some older Americans have little ongoing need for investment funds, while others require returns to be

paid out regularly 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 have uncovered someone who wants to cheat you. 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.

Don't let embarrassment or fear keep you from reporting investment fraud

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 older Americans have indicated that they fear 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 to prevent or delay the point at which authorities are notified of a scam.

Beware of "reload" scams

Faced with a loss of funds, some older Americans will go along with another scheme (allowing themselves to be reloaded) in which the con artists promise to make good on the original funds they lost, and possibly even generate new returns beyond those originally promised. Victims get in a panic, which is all too well known to scam artists. Though the desire to make up lost financial ground is understandable, all too often, the result is that unwary older Americans lose whatever savings they have left in the wake of the initial scam and possibly more in the second scam.

Contact DISB at (202) 727-8000 or www.disb.dc.gov.

Consumer Checklist for Preventing Securities Fraud

DISB's Enforcement and Investigation Bureau emphasizes that public awareness is a vital part of securities regulation and law enforcement. Investors should keep in mind the following checklist when considering the purchase of securities:

- ☒ Call DISB's Securities Bureau to determine if the firm is registered with the D.C. Department of Insurance, Securities and Banking at (202) 727-8000.
- ☒ Review the company's track record to check

- references, especially former customers, if possible.
- ☒ Insist on written information about the investment, such as a prospectus or circular with a financial statement.
- ☒ Ensure that the investment is consistent with your investment objectives. Your investments should suit your particular needs and objectives.
- ☒ Weigh all investment risks against your own financial position and needs. You should not speculate with your last dollar.
- ☒ Inquire whether state or federal authorities have ever cited the company or any of its principals for illegal or questionable investment activities.

- ☒ Be skeptical of any suggestions of spectacular profits and resist the pressure to make a hurried, uninformed investment decision.
- ☒ Be suspicious of unsolicited telephone calls from strangers offering investments. If you get such a call, hang up!
- ☒ Educate yourself as much as possible about the investment you are considering. RE-SEARCH, RESEARCH, RESEARCH! Is there a safer way to invest the money for equal returns?
- ☒ Don't get involved in an investment program that you do not understand. Study the soundness of the investment. Consult professionals who understand your particular needs.