

Avoiding Investment Fraud

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What is DFI?

- Department of Financial Institutions – state regulator
 - License/Register
 - Examine
 - Investigate Complaints /Fraud
 - Provide Outreach
- Securities Division regulates investment advisers, brokers, issuers, offerings, etc.

What are securities?

Documents or contracts that establish an investment that is expected to profit in some manner

What is securities fraud?

- Securities fraud takes many forms:
 - Fraudulent product/offering
 - Unsuitable investments for investor
 - Unlicensed adviser/broker
 - Unregistered product
 - Theft/misappropriation of funds
- Investment fraud is increasing:
 - More than 7 million older Americans have been victimized by a financial swindle
 - That's almost 1 in 5 citizens over age 65!

Investment fraud victims:

- Are more financially literate
- Are more likely to listen to sales pitches
- Are more likely to rely on their own experience and knowledge when making investment decisions
- Dramatically under-report fraud



By Bruce Halm/Sheboygan Press
Karen Lewis, who lost \$124,000, said the situation was partly to blame for her divorce.

Why SENIORS are victims

- Top behaviors that put those age 50+ at risk:
 - Opening and reading all junk mail
 - Attending free lunch seminars
 - Entering drawings to win a free prize
 - Inviting salespeople into the home
- Older victims more likely to engage in these activities
- Scams are under-reported - only 25%
- Victims 55+ were significantly less likely to acknowledge and report victimization

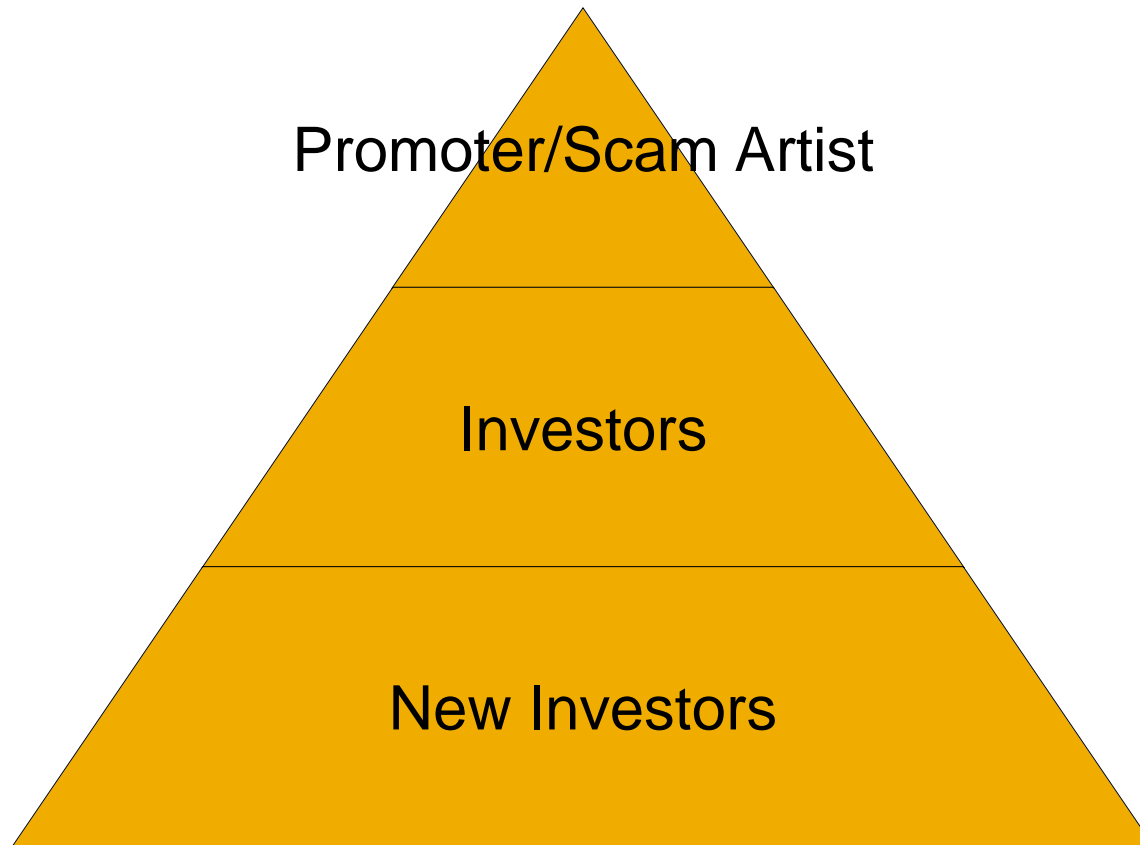
Unsuitable investments

- If an investment is unsuitable, it might mean:
 - Bad information on risks and benefits
 - A bad product for your situation
- Your investment adviser or broker has an obligation under state law to make sure your investments are “suitable” for you

Free lunch seminars

- Promise of a free meal along with “high returns and little or no risk”
- In many cases, it turns out to be the opposite
- Sometimes the goal is to obtain contact information for later
- Variable annuities – product often promoted

Ponzi scheme



Oil and gas scams

- Investments in oil and gas are complicated
- Often promoted through “boiler rooms” or over the Internet
- Highly risky and often not appropriate for some investors

Other common fraud schemes

- Internet Scams/Social Networking Scams
- Unlicensed Individuals
- Unregistered Products
- Abusive Sales Practices
- Fraudulent Products

**The cons are pros –
and very convincing!**

Red flag “promises”

- High return – no risk!
- Profit guaranteed!
- For YOU only
- Today only (“limited time”)
- Make the check out to me (or “cash only”)
- I’ll get you the paperwork later
- Trust Me!

Red flag “promises”

TRUST ME!!!

Affinity fraud

- Relies on trust
- Con artists become part of a group (religious, ethnic, cultural, professional)
- Once they are accepted members, they sell their securities (scam)
- They also may sell to the group leader and convince the group leader to help persuade the others to invest, too
- If friends/family are victims, they may recommend a false product to you

How to avoid scams – 4 easy steps

1. End calls

- Register on Do Not Call List www.donotcall.gov or 888-382-1222
- Be skeptical of unsolicited calls and emails

2. Just say NO

- Have a refusal script/plan to get off the phone
- Have a “buddy” to help get out of high-pressure situations

3. Cool off

- Take your time/wait before buying
- Don't trust testimonials & beware of investment “hot tips”

4. Check it out

- Do your homework before signing any contract
- Get it in writing & read the fine print
- Check out the source & check references
- Provide complete and accurate information
- Know your right to cancel

Planning ahead

- As retirement approaches, plan ahead
- Invest wisely
- Get help if you need it ... you're not alone!

To check it out – or report fraud

- Contact the DFI Securities Division
 - 800-223-2579
 - 502-573-3390
 - <http://kfi.ky.gov/public/Pages/invest.aspx>
- Other contacts:
 - FINRA BrokerCheck www.finra.org/brokercheck
 - SEC Investment Adviser www.adviserinfo.sec.gov
 - KY Dept. of Insurance <http://insurance.ky.gov>
 - SEC's EDGAR Database www.sec.gov/edgar.shtml