

Common Investment Scam Scenarios

UNSUITABLE INVESTMENTS — What might be suitable for one investor might not be right for another. Securities professionals must not recommend investments that are inappropriate for a customer's age, risk tolerance and need for access to the money.

PONZI SCHEMES — Ponzi schemes amount to robbing an army of Peters to pay a handful of Pauls. As the number of initial investors grows and the supply of potential new investors dwindles, the Ponzi bubble bursts with the vast majority of investors losing all or most of their money.

AFFINITY FRAUD — In affinity fraud, the senior makes an investment because of a recommendation by a "trusted" friend based on similar backgrounds.

UNREGISTERED INVESTMENTS — The senior is sold a stake in a new company or enterprise and is told that the investment "does not need to be registered" with the state or federal government.

UNLICENSED SALESPeOPLE — Those who sell securities or provide investment advice must be appropriately licensed. If not, chances are they aren't qualified to offer investments or advice.

FREE LUNCH/DINNER SEMINARS — Regulators find the majority of these seminars are actually sales pitches.

SENIOR DESIGNATIONS — Individuals may call themselves "senior specialists" to create a false level of comfort among seniors and then get them to invest.

ANY SALES PITCH ACCOMPANIED BY PRESSURE OR COERCION

Step 3: Report It!

It's free, confidential and easy.
Call your securities regulator to:

1. Check the licensure and disciplinary background of any firm or individual offering investments for sale.
2. Check to see whether the investment itself is properly registered or exempt from registration.
3. Make a complaint concerning an investment adviser or broker and/or report suspected fraud.
4. Learn more about current investment scams that have been reported in Kentucky.
5. Receive investor education resources about wise and safe investing techniques.

Your state securities regulator can help. Contact us today!

DFI
Department of Financial Institutions

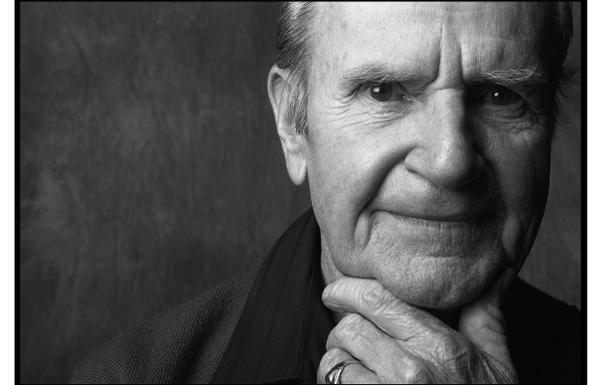
www.kfi.ky.gov

800-223-2579

Kentucky
UNBRIDLED SPIRIT™

Find regulators for other states and provinces through the North American Securities Administrators Association at www.nasaa.org/QuickLinks/ContactYourRegulator.cfm.

The ABCs for APS Professionals: How to Identify and Report Investment Fraud



*Elder financial abuse is the "crime of the 21st century."
Together we can stop financial abuse and help seniors stay safe.*

NAPSA

National Adult Protective Services Association
www.apsnetwork.org



www.nasaa.org

▶ *Together, we can help seniors stay safe financially*

Elder abuse can take many forms. One of the most devastating and costly forms of elder financial abuse — investment fraud — is often perpetrated by trusted financial advisers or even family and friends. Senior consumers are increasingly targeted by con artists using investment-related pitches, often in what the senior believes is a safe setting like church, a social club, or as part of a so-called “free lunch” seminar.

Adult Protective Services workers may have the objectivity needed to question whether a “fantastic” opportunity may, in fact, be fraud.

Call the Kentucky Department of Financial Institutions at 800-223-2579 if you believe a senior in your care may be the victim of financial abuse or exploitation through an investment scam. As your state securities regulator, DFI helps seniors avoid becoming victims by investigating possible violations of securities laws, providing disciplinary and registration status on financial advisers, enforcing laws and standards of professional conduct, and offering investor education programs.

Help seniors spot and stop financial abuse and exploitation by knowing what to look for and who to call for assistance.

Step 1: Put the problem into focus:

- 75% of the nation’s consumer wealth is held by people age 50+
- Financial losses suffered by seniors are *higher* with investment fraud scams than with other forms of financial abuse
- Many common investment scams can be quickly discovered and avoided by checking with securities regulators before sending money
- Only an estimated 1 out of 3 investors using a financial adviser has ever checked the background of that person with regulators
- Investment fraud complaints from the elderly account for nearly one half of all fraud complaints received by state securities regulators
- As with other forms of elder abuse, officials estimate that only a small percentage of financial abuse and exploitation is reported
- The decline in mental faculties for some seniors makes them more vulnerable to fraud and may make cases harder to prosecute
- Seniors are less likely to report fraud because they are embarrassed or fear loss of freedom if seen as unfit to manage their own finances

Step 2: Recognize the red flags of investment fraud:

- Mail piled up; unpaid bills
- Excitement about winning sweepstakes/lottery
- New companion, adviser or power of attorney making financial decisions
- Fearful, distressed or depressed
- Senior received information or was asked to invest in unregistered or start-up companies
- Senior was asked to sign blank paperwork on an investment, or gave an adviser discretionary authority over the account
- Senior has unopened investment account statements, missing account statements, or missing documentation for an investment (salesperson claiming to get paperwork to the senior later)
- Senior is missing checks from the checking account, or made checks for the purchase of an investment directly to the adviser or salesperson
- Senior complains that he or she is unable to get in touch with the adviser or broker and has difficulty remembering the terms of the investment
- Senior has lost money in other scams