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## ARIZONA CORPORATION COMMISSION

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### COMMISSION ISSUES TOP 10 LIST OF INVESTOR TRAPS

PHOENIX, AZ— With a new school year beginning, the Arizona Corporation Commission urges investors to take stock of their financial education and arm themselves with the know-how to recognize a fraudulent investment pitch that can snag their money.

Many of the investor traps pitch above-market returns with guarantees, but the catch is that investing is risky business with the possibility of financial loss. Promoters provide little, if any, disclosure of the risks or worse yet, are con artists with investments that don't even exist.

This year's alphabetical listing of the Commission's "Top 10 Investor Traps" includes:

**1. Affinity Fraud.** Con artists frequently target members of closely knit religious, political, or ethnic groups. Essentially, their pitch is: "Since I am like you and believe like you, you can believe in me and in what I say." When an investment is presented in this context, investors should be extremely wary. The catch is that the promoter seeks to substitute an emotional appeal for careful analysis and a thorough investigation.

For an example of affinity fraud, click on: <http://www.azinvestor.gov/News/2008/dec18-08.pdf> to view the news release on Chandler residents, Edward A. Purvis and wife Maureen Purvis, Gregg Wolfe and their company, Nakami Chi Group Ministries International, who orchestrated one of the largest affinity fraud cases in Arizona since the Baptist Foundation. Through their affinity with three churches, Purvis and Wolfe wove a web of deceit to convince at least 80 investors to invest over \$11 million in company stock, short-term bridge loan investments, and promissory notes.

**2. Entertainment Investments.** Often unregistered, these investments encompass a variety of products including movies, infomercials, internet gambling and pornography sites that tout high investment returns while offering little disclosure of risk. Frequently these investment opportunities are posted in online classified ads or are promoted through word-of-mouth by a trusted friend or even a licensed securities salesman. While touting the glitz and glamour of the entertainment industry, the basic pitch is: "Here's a sure-fire, ground-floor opportunity to get rich quickly." But the catch is: "If it sounds too good to be true, it probably is."

For an example of entertainment investment fraud, go to: <http://www.azinvestor.gov/News/2009/jul09-09.pdf> and view the news release on Dustin J. Lunt, a former World Group Securities salesman who promoted a venture that funded television advertisements that touted astronomical, annual returns of 4,800 to 12,000 percent.

**3. Foreign-currency (forex) trading.** For governments and businesses concerned about fluctuations in international currencies, forex trading can be a legitimate hedge. But the average investor, who does not understand these complex markets, can be easily seduced by the sophisticated-sounding

offers that are basically pitching, “You can double your money in a short time by doing what institutional investors do.” The catch is that forex trading is extremely risky and is not a one-size-fits-all investment.

For an example of Forex fraud, go to: <http://www.azinvestor.gov/News/2009/aug13-09.pdf> to view the news release on Jeffrie Harper and Knuckleball Capital Management, a former registered securities salesman and his company who made assurances to investors that their forex trading accounts were growing and doing well, but in reality was withdrawing the money to pay personal medical bills.

**4. Natural Resource Investments.** Given the increased demand for gold and growing environmental concerns, the Commission expects a continued rise in precious metals as well as energy scams. While touting decades of industry experience, the promoter’s pitch emphasizes a perceived demand for the development of new, energy-efficient technologies coupled with enormous investment returns. The catch is that the promoter misrepresents his or her qualifications and the technology either lacks cost effectiveness or simply doesn’t exist.

For an example of natural resource investment fraud, go to: <http://www.azinvestor.gov/News/2008/dec04-08.pdf> to view the news release on Allen Stout and his company, Reserve Oil and Gas, that offered investments in oil and gas wells claiming a “projected return on ownership investment is better than 10 to 1 over the life of the project.” Stout touted his more than 25 years of experience in business management and oil and gas operations, but failed to disclose his prior conviction for tax evasion.

**5. Prime Bank Investments.** The promoters of these investments pitch high-yield, tax-free returns that are said to be from “off-shore trades of bank debentures” of the world’s top banks. Investors are told that only very wealthy people can get the benefit of these programs, but the promoter is making it available to a few, select investors. Sometimes a “confidentiality agreement” must be signed by the investor who is told not to consult with an attorney or financial professional to verify any information since the “big boys” will deny that the investment even exists. The catch? Prime bank investments, in fact, do not exist, which makes them the securities equivalent of a purse snatching.

For an example of prime bank investment fraud, go to: <http://images.edocket.azcc.gov/docketpdf/0000094905.pdf> to view the enforcement order on Charles B. Ferguson and Southern Homes, LLC, who fraudulently sold interests in a bank trading platform and used investor money for a luxurious lifestyle, including expensive jewelry and box seats.

**6. Ponzi Schemes.** Despite the heightened awareness of Ponzi schemes following Bernard Madoff’s multibillion-dollar fraud and 150-year prison sentence, these scams continue to trap investors. Since the 1930’s, the Ponzi scheme has been a house-of-cards swindle that pitches high returns to attract initial investors, but eventually crumbles when investors demand their money and the supply of new investors dries up. Although cash payouts may be visible, the catch is that the returns are not paid from a legitimate revenue source, but from later investors who end up holding the empty bag.

For an example of a Ponzi scheme, go to: [http://www.azag.gov/press\\_releases/may/2009/Vilan%20Sentencing.pdf](http://www.azag.gov/press_releases/may/2009/Vilan%20Sentencing.pdf) to view the news release about Owen A. Vilan who ignored a Commission order and was eventually sentenced to 21 years in prison for defrauding investors in a \$30 million Ponzi scheme.

**7. Private Placement Offerings.** Instead of a costly public offering through national securities

markets, businesses can raise capital by selling securities to a relatively small number of investors through a private placement offering. In the sales pitch to investors, the promoter points to a federal registration exemption (Regulation D, Rule 506) that permits companies to raise an unlimited amount of money without registering the offering with the SEC—just as long as certain standards are met. The unfortunate catch is that the exemption has become an attractive option for con artists, as well as individuals barred from the securities industry, to steal an investor’s money through false and misleading representations.

For an example of private placement offering schemes, go to:

<http://www.azinvestor.gov/news/2009/may20b-09.pdf> to view the news release on Michael V. Bradley, a licensed insurance agent and former securities salesman and investment adviser, who fraudulently sold over \$6 million of unregistered limited partnership interests in a hedge fund. Bradley misrepresented that the partnership interests would provide safety of principal and liquidity.

**8. Real Estate Investment Schemes.** The Commission has noted a significant rise in scams involving real estate. The pitch may be disguised as an offer to help homeowners caught up in the turbulent housing market “save” their homes or “fix” their mortgages, usually in exchange for a fee paid in advance. The catch is that the resulting lump sum from home equity refinancing makes an attractive target for unscrupulous salesmen who attempt to direct these funds toward their personal bank accounts or to worthless or unsuitable investment products.

For an example of a real estate investment scheme, go to:

<http://www.azinvestor.gov/News/2009/aug13-09.pdf> to view the news release about former licensed mortgage broker Rick T. McCullough who convinced four elderly investors to loan their home’s equity into his company for investment in real estate property loans and other building projects, but used it instead for his personal expenses.

**9. Short-term Commercial Promissory Notes.** With only nine months or less in duration, these investments may be pitched as being “insured” or “guaranteed” by the promoters who are attempting to use commercial paper exemptions as a basis for selling the products without registration. The catch is that the insurance companies are generally located outside of the United States, are not licensed to do business in the United States and lack the resources necessary to deliver on the promised guarantees. Moreover, exemption from registration applies only to high-grade commercial paper traded by major corporations.

For an example of short-term promissory note fraud, go to:

<http://www.azinvestor.gov/News/2009/apr14-09.pdf> to view the news release on Travis Richey who posed as a licensed securities salesman and convinced investors to buy over \$3.08 million of unsecured promissory notes in his limited liability company. He misrepresented that a bank would take investor money and use it as collateral to borrow from the Federal Reserve and would guarantee double-digit returns.

**10. Speculative Inventions and New Products.** Whether it is nanotechnology to extract precious metals from volcanic cinders or growing algae to produce oil, cutting-edge technology and new products are high-risk investments. The pitch is: “Get in on the ground-floor of the next multibillion-dollar company and you’ll make substantial returns.” The catch is: “The higher the return, the higher the risk of financial loss,” despite the promoter’s personal guarantees.

For an example of speculative inventions and new products, go to:

<http://www.azinvestor.gov/News/2008/jun19-08.pdf> for the news release on Panama Capital Funding,

LLC and its managing members, Benjamin Ray O'Toole and Christopher Shane Strickland, who fraudulently promoted an investment opportunity involving bio-fuels produced from algae. The duo promised astronomical returns within 30 months, but failed to disclose how the returns were calculated or that investors could lose money.

"Investors must be on guard against scam artists who love to prey on the unsuspecting," said **Commissioner Paul Newman**. "While our Securities Division does a great job of pursuing these fraudulent schemes, the best way to prevent financial losses, are well-informed investors."

"In this recent economic downturn, consumers need to be as cognizant as ever about the risks of securities fraud," said **Commissioner Bob Stump**. "The Commission is here to help in that effort."

"People need to inspect investment opportunities very closely and at a minimum confirm with the Corporation Commission that the individuals they are considering giving money to are authorized securities dealers in Arizona," said **Commissioner Gary Pierce**.

"We continue to fight attempts to defraud Arizonans of their money by unscrupulous scam artists," **Chairman Kris Mayes** said. "In this down economy, it's never been more important for investors to verify the legitimacy of investments and to scrutinize the people who are offering them."

#### **More caution for investors:**

Even when investing with someone they know, investors should verify the registration of sellers and investment opportunities and investigate disciplinary histories by contacting the Arizona Corporation Commission's Securities Division at 602-542-4242 or toll free in Arizona at 1-866-VERIFY-9. The Division's investor education web site also has helpful information at [www.azinvestor.gov](http://www.azinvestor.gov).

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