



# COMMISSION NEWS

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## **STATE SECURITIES REGULATORS IDENTIFY TOP 10 TRAPS FACING INVESTORS**

PHOENIX – The Arizona Corporation Commission today releases its annual forecast of the Top 10 Traps likely to ensnare investors.

“The path to safe investing is littered with traps that are likely to catch unwary investors. It always pays to remember that any investment that sounds too good to be true, usually is,” said ACC Chairman Mike Gleason.

“Investors are often baited with slick sales pitches promising high returns for little or no risk,” Commissioner Jeff Hatch-Miller said, noting that investors also can suffer losses from legitimate investment products that are simply unsuitable for their age, risk tolerance or financial situation.

Before making any investment, the Commissioners urged investors to make sure that both the salesperson and the investment are licensed and registered in Arizona.

“A simple, free call to 1-866-VERIFY-9 or 602-542-4242 could be the step that stands between a good financial move and a catastrophic loss,” Commissioner Gary Pierce said. “Our staff can tell you whether the person is properly registered and also provide insight into his or her disciplinary history.”

“Arizona’s investor protection regulations require that the people marketing the security or investment provide investors with written information that clearly and fully explains the opportunity,” Commissioner Kris Mayes said. Investors also need to be given adequate written information that fully explains the investment. “You should also make sure that any claims made for the investment are realistic.”

“It is a sad reality but most people spend more time researching the next car they’re going to buy than

they do researching the person who will be investing their hard-earned money,” Commissioner Bill Mundell said. “Con artists are sophisticated, the swindles are creative and investors have to investigate and do their homework.”

The alphabetical listing of the Commission’s Top 10 Traps for Arizona investors includes:

**Affinity Fraud.** Con artists are increasingly targeting religious, ethnic, cultural and professional groups. Some may be members of the group or pretend to be members in order to gain trust. Con artists often recruit a respected member of a community or religious congregation to promote their schemes by convincing them that a fraudulent investment is legitimate. In many cases, even these leaders become victims of what turns out to be a Ponzi scheme. *Remember: Verify before you buy—no matter who is selling the investment.* For more information, click on: <http://www.azinvestor.gov/ImportantTopics/Affinity%20Fraud.pdf> and note the prudent steps you can take to reduce the possibility of falling victim to affinity fraud.

**Foreign Exchange Trading.** Foreign exchange (forex) trading can be legitimate for governments and businesses concerned about fluctuations in international currencies, and it can even be appropriate for some individual investors. But the average investor should be wary when it comes to these complex markets. Forex scams attract customers with sophisticated-sounding offers placed in newspaper advertisements, radio promotions or on Internet sites. *Remember: If you don’t understand an investment, don’t invest.* For an example of unregistered forex trading in Arizona, click on: <http://www.azinvestor.gov/News/2005/aug25-05.pdf> to view the Commission’s order on Worldwide Forex, Inc. and Universal FX, Inc., two Florida-based companies that consented to pay a \$5,000 penalty for offering unregistered foreign currency investment contracts.

**Internet Fraud.** Fraud artists continue to take advantage of technology to steal investor funds by raiding their online trading accounts. The internet is also fertile ground for “pump-and-dump” stock schemes. Be wary of investments being pitched through unsolicited e-mails, instant messages, and phony websites. *Remember: The internet can be a con artist’s dream – easy access to you and your money, with no “return address” if the deal goes sour.* For more information, click on: [http://www.nasaa.org/Investor\\_Education/Investor\\_Alerts\\_Tips/1681.cfm#Protecting](http://www.nasaa.org/Investor_Education/Investor_Alerts_Tips/1681.cfm#Protecting) to view the North American Securities Administrators Association’s tips on how to prevent falling victim to online investment fraud.

**Investment Seminars.** Promoters of unsuitable investments are increasingly seeking potential investors, particularly seniors, by offering seminars. Many seminars promise a free meal along with “higher returns and little or no risk.” Unfortunately, in many of the cases regulators see, it’s just the opposite: high risk and no returns, just disastrous losses. *Remember: There’s no such thing as a free lunch.* The Commission’s Securities Division regularly sends out undercover investigators to monitor investment seminars for potential securities violations. For more information about the perils of accepting a free lunch, click on: <http://ftp.sec.gov/news/press/extra/seniors/freelunchseminars.htm>

**Mining Ventures.** With its rich history of mining and mineral deposits, Arizona continues to be plagued by unregistered or fraudulent offerings in precious metal mining ventures. Investors blinded by “gold fever” can be easily taken down an empty mine shaft to lose their money. The reality is that there are no known technologies for extracting gold or other precious metals from coal ash, asphalt waste products or slag piles. The Commission warns the public to ponder optimistic mining claims very carefully and to read its investor

education brochure, “Guide to Mining Investments” before they invest. For an example, click on: <http://www.azinvestor.gov/News/2005/sept27-05.pdf> and view the Commission’s order to stop the promoter of Centarios Gold, Inc. from selling an unregistered offering of shares in a Mexico gold mining operation.

**Oil and Gas Scams.** Rising oil and natural gas prices have made a variety of traditional and alternative energy projects attractive to investors. Most of these investments are highly risky and not appropriate for smaller investors. *Remember: Con artists tend to follow the headlines.* For an example, click on: <http://www.azinvestor.gov/News/2007/jan10-07.pdf> and view the Commission’s order against respondents Gary Milby and Mid-America Oil & Gas who fraudulently promoted a Kentucky oil and gas investment opportunity to Arizona investors.

**Prime Bank Schemes.** Often promising high-yield, tax-free returns, promoters of these schemes offer to let the “little guy” in on what they claim are financial instruments from elite overseas banks usually offered only to the world’s wealthiest investors. Prime banks do not exist and the scam artists have no intention of creating a profit for anyone but themselves. *Remember: Often the most sophisticated sounding investments are just false promises in fancy garb.* For more information on what to look for in a prime bank scheme, click on: <http://www.azinvestor.gov/faq4.asp#4> and view the Commission’s warning to investors.

**Real Estate Investment Contracts.** Despite the recent decline in property values, investments in real estate long have been viewed as a “sure thing” with little downside risk and the potential for substantial returns. Some real estate investments are securities subject to full regulation under the state and federal securities laws, including registration requirements and antifraud rules. *Remember: Just because an investment involves real estate – or pay telephones or fine wine – it still may be a security, so check with your state securities regulator.* For an example, click on: <http://www.azinvestor.gov/News/2006/sept08-06.pdf> and view the Commission’s order against Thomas A. Messina, a Scottsdale man who fraudulently sold unregistered investment contracts and promissory notes in a home building and land acquisition program.

**Unlicensed Individuals & Unregistered Products:** Anyone selling securities without a valid *securities* license should be a red alert for investors. Con artists will bypass stringent state registration requirements to pitch a myriad of investment opportunities, including certificates of participation, pay telephone and ATM leasing contracts, and other investment contracts with the promise of “limited or no risk” and high returns. *Remember: No license, no registration, no sale.* For an example, click on <http://www.azinvestor.gov/News/2006/nov03-06.pdf> and view the Commission’s order concerning Easy Street Financial and two of its salespeople who were not licensed to sell securities when they sold unregistered certificates of participation to a group of elderly investors.

**Unsuitable Sales.** What might be a suitable investment for one investor might not be right for another. Securities professionals must know their customers’ financial situation and refrain from recommending investments that they have reason to believe are unsuitable. For example, variable and equity indexed annuities may be unsuitable for senior citizens who may need ready access to their funds in the event of a serious medical problem. Annuities are generally long-term investments and many come with big strings attached – steep penalties for early withdrawal. Sales agents love promoting annuities because they often earn high commissions on these investment products. *Remember: Make sure your investments match up with your age, your need for access to money and your risk tolerance.* For an example, click on <http://www.azinvestor.gov/News/2005/oct20-05.pdf> and view the release on the Commission’s settlement with Waddell & Reed. At issue were Waddell & Reed’s instructions to its financial advisers to recommend that customers switch from one variable annuity product to another without providing fair comparisons in terms of features, costs and net benefits to the customer.

For additional information on these and other investor traps, visit the Commission's investor education website, [www.azinvestor.gov](http://www.azinvestor.gov). Most importantly, contact the Commission's Securities Division to verify that both the seller and investment are registered. **VERIFY BEFORE YOU BUY!** Contact the Commission's Securities Division, 602-542-4242 or toll free in Arizona at 1-866-VERIFY-9.

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