



ARIZONA CORPORATION COMMISSION

FOR IMMEDIATE RELEASE: September 29, 2011

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INVESTOR ALERT: Self-Directed IRAs and the Risk of Fraud

PHOENIX, AZ— The Arizona Corporation Commission is warning investors of potential risks of investing through self-directed Individual Retirement Accounts, commonly known as self-directed IRAs.

Unlike most IRAs, a self-directed IRA is held by a custodian that often allows investments in a wide variety of alternative investments such as real estate, tax liens, precious metals and private placement securities. Investors should understand that the custodians of self-directed IRAs may have limited duties to investors and generally will not evaluate the quality or legitimacy of an investment and its promoters.

While self-directed IRAs can provide a variety of investment choices, the Commission has observed assets in these accounts being lost through investment schemes. There are a number of ways that unscrupulous promoters may use self-directed IRAs to perpetrate a fraud on unsuspecting investors. For example, the promoter may:

- Misrepresent that self-directed IRA custodians investigate and validate any investment in the IRA;
- Exploit the investor's fear of incurring a penalty and taxes due for early withdrawal of IRA assets thereby ensuring the scam continues without interruption;
- Take advantage of the investor's infrequent oversight since investments are typically held for the long-term; and
- Capitalize on the lack of public information and absence of audited financial requirements typical of alternative investments.

In its most recent case involving self-directed IRAs, the Commission's Securities Division filed an action against multiple Scottsdale-based companies, charging them with securities fraud in connection with an unregistered real estate investment program. Managers of the companies allegedly provided information to investors on how to rollover their IRA funds to purchase membership interests in limited liability companies. For further details, visit the following link:

<http://images.edocket.azcc.gov/docketpdf/0000127682.pdf>

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 602-542-0662 or toll free in Arizona, 1-866-VERIFY-9. The Division's investor education web site also has helpful information at www.azinvestor.gov.

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