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State identifies most common investment scams

Doing homework before investing can help you avoid con artists

(Salem) — Oregonians fall victim to numerous phony or unsuitable investments each year — losing thousands of hard-earned dollars that often cannot be recovered.

Recently, a couple in Yachats was convicted for bilking 27 investors of more than \$1 million. Michael Wayne Smith and Stacey Lynne Smith invested most of the money in two speculative companies that never turned a profit and spent the rest on themselves, leaving the investors with nothing. The Smiths were not licensed to sell securities.

Anyone selling securities or providing investment advice must be appropriately licensed. In addition, the product they are selling must be registered. Anyone trying to sell securities without a valid license to do so should be a red alert for investors, according to the Department of Consumer and Business Services.

Unlicensed individuals and unregistered products are among the department's top investment traps that Oregonians should avoid.

"Investors should always research the person selling the investment, as well as the investment itself, before giving up any of their money," said David Tatman, administrator of DCBS' Division of Finance and Corporate Securities. "You need to make sure the salesperson is licensed, the product is registered, and the claims made for the investment are realistic and suitable for your financial situation."

Other common investment traps include:

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. In a recent case, a stockbroker in La Grande lost his securities license and was fined for convincing senior citizens to trade their investments in high-grade, low-risk bonds for high-risk junk bonds. He also advised his elderly clients to become "general partners" in risky oil and gas ventures. Variable annuities also are often unsuitable for senior citizens because those products are generally long-term investments that limit access to invested funds. Sales agents sometimes don't adhere to suitability standards — with dire consequences for seniors. *Remember: Make sure your investments match up with your age, your need for access to money, and your risk tolerance.*

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. Earlier this month, a pastor from the Sandy area used his religious stature to convince people to invest in real estate deals that never panned out. Corey Pritchett recently was indicted on 34 counts of theft and securities fraud. *Remember: Investigate before you invest – no matter who is selling.*

"Pump-and-dump" stock schemes. Scam artists continue to take advantage of technology to lure investors into "pump-and-dump" schemes. In these schemes, scam artists tout company stocks through unsolicited e-mails, phone calls, or faxes, and phony Web sites. Unwitting investors purchase the stock in droves, creating high price demand and pumping up the price. But when the fraudsters behind the scheme sell their shares at the

peak and stop aggressively selling the stock, the price plummets, and investors lose their money. *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.*

Investment seminars. Promoters of unsuitable investments are increasingly seeking potential investors, particularly seniors, by offering seminars, many of them promising a free meal along with "higher returns and little or no risk." These seminars commonly pitch real estate investments or annuities. Unfortunately, in many cases that securities regulators see, the investment delivers just the opposite of what the seminars promise: high risk and no returns, just disastrous losses. *Remember: There's no such thing as a free lunch.*

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.*

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.*

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.*

Private securities offerings. Con artists are turning increasingly to private securities offerings under Rule 506 Regulation D of the Securities Act of 1933 to attract investors without having to go through the full registration process. Although legitimate, these unregistered offerings may be associated with fraud. *Remember: Especially with lightly regulated investment offerings, it pays to consult a trusted financial adviser.*

Real estate investment contracts. Despite the recent decline in property values, investments in real estate long have been viewed as a "sure thing," one 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 phones or worm farms — it still may be a security, so check with the Division of Finance and Corporate Securities to make sure it is registered.*

The Division of Finance and Corporate Securities advises consumers to do their homework before doing business with any financial professional. To check an individual's credentials and licensing history, call DFCS toll-free (866) 814-9710, (503) 378-4140 in Salem, or go to www.dfcs.oregon.gov. For insurance products, such as annuities, contact the Insurance Division toll-free at (888) 877-4894, (503) 947-7984 or go to www.insurance.oregon.gov.

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