



# Department of Commerce

Division of Securities

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Are you an informed investor?

## Get the Basics on Scams and How to Not Become a Victim of Investment Fraud

### Be Alert to Possible Fraud:

As long as people have money, other people will be looking for way to try to get it from them. Thousands of Ohioans lose millions of dollars to investment fraud and inappropriate investments every year – young and old, rich and poor, more or less educated. Fraud has no boundaries. Many people believe they are too adept at reading people or are savvy investors. But, when it comes to a con artist and investment fraud, the victims – and the scammers – have many faces.

### Too Good to be True:

Con artists follow the headlines to come up with stories about the next big money maker. They may offer amazing high-return investments, “rare” coins or variable annuities that don’t meet the needs of the particular investor, or worthless oil and gas leases. These offers are too good to be true!

Scammers are in the business of gaining your trust. A con artist may have an impressive resume with diplomas on their office walls and “experts” on hand to back up what they are saying or pitching. The con artist may be a broker that your friend swears by, an insurance agent that you have known for years, or a persuasive financial advisor from your church or civic group.

Either way – the products may change, the pitch may sound fresh, but the deals usually share common traits that should send up red flags.

Here are some of the common scams with the red flags or traits that are associated with each scam.

### Scam Glossary

#### 1. Affinity Fraud – Friends and Fraud – Preying on the Faithful:

The scam usually occurs in a group setting (ethnic groups, clubs, associations, small towns, religious groups, etc.). Con artists will gain trust by joining the particular group that they can share a common interest; it is often easier to trust someone who is like you or has similar interests to you. Once the trust is gained, it is easier to execute the scam. Con artists prey on your beliefs and assumptions of a certain affiliation.

#### 2. Ponzi / Pyramid Schemes:

Scammers use anything for bait – we have seen pay phone franchises, stocks, nonexistent certificates of deposit, start-up companies and many more. They find their marks through phone calls, advertisements, the Internet and personal connections. The red flags associated with these scams are offers of high returns with little to no risk involved in losing any money. Promises to double your money in a very short period of time, unexpected phone calls, letters, emails or even personal visits from strangers touting strange ideas requiring your immediate investment.

### 3. Promissory Notes:

When you invest in a Promissory Note you are, in effect, making a loan to a company, and the company promises to pay you back, within a period a time, plus interest. Promissory Notes are securities and most must be registered, and the seller of the note must have a securities sales license. Many times scammers find their victims by telephone calls, advertisements or the Internet, but often can artist persuade life insurance agent to sell Promissory Notes. The red flags to note are: claims of an investment is "risk free", promises of a quick return, guaranteed double-digit returns, and watch for the notes that are for a period nine months or less.

### 4. Viaticals:

When you buy a viatical, you purchase the life insurance policy of a terminally ill person at a discounted price. The ill person gets needed money to help pay expenses, and the investor get the full face value of the policy when the person dies. The pitfalls to the investment are many. The viatical may end up costing investors a lot of money. Here are a few ways that people have lost money after purchasing a viatical. With improved medical care, the ill or older person may live longer than expected and the investor will have to continue to pay the life insurance premiums or lose the investment. The insured person may have purchased the life insurance policy through fraud, and the company will later refuse to pay the settlement. The insurance company or viatical settlement company may go out of business, along with your investment money.

### 5. Annuities:

You've been invited to a free lunch and an investment workshop. After the free food, the hosts urge you to switch your current investment to variable annuities.

The pitch may be misleading, wrong, or even scare you into thinking only an annuity will protect you and your loved ones. The pitfalls to purchasing a variable annuity are that they often carry high commissions and punishing surrender charges; annuities can complicate your taxes, and older investors may not live long enough to enjoy any benefits.

These are just a sample of the common scams we see at the Division of Securities. There are others and most of them come with the same promises.

#### Warning signs to look out for:

- "Your profit is guaranteed."
- "It's an amazingly high rate of return."
- "There is no risk."
- "You can get in on the ground floor."
- "The offer is only available today."
- "I'll get you the paperwork later."
- "Just make your check out to me."
- "You would be a fool to pass this by."

**Remember if you hear any of these lines – STOP!**

What you can do:

Before investing any money, call your local securities agency in order to learn more about the salesperson and firm. The Division of Securities is asking you to ACT now.

**A** = Ask if the promoter is registered to do business in the state, and is the investment allowed to be sold. If the person is not licensed and the investment is not registered, do not invest.

**C** = Call the Division of Securities (1-800-788-1194) to check if the person is licensed or the investment is registered. You can also check this by using our website at [www.com.ohio.gov/secu](http://www.com.ohio.gov/secu).

**T** = Think about it! Is this opportunity too good to be true? Is the promoter putting pressure on you to make an investment now? Did you take the time to think about the risks associated with the investment? Lastly, have you consulted with an uninterested professional, such as an attorney or accountant?

If you think you have been a victim of Securities Fraud, call the Ohio Department of Commerce Division of Securities.

Call the Division at (800) 788-1194 or visit our website at [www.com.ohio.gov/secu](http://www.com.ohio.gov/secu) for a complaint form.