

Keep an Eye Open for Investment Scams

State securities regulators, forecasting that investors will be challenged with increasingly complex and confusing investment frauds, have identified the Top 10 scams, schemes and scandals we're likely to see this year.

Because education and awareness are an investor's best defense against fraud, the North American Securities Administrators Association (NASAA) features an interactive Fraud Center on its website (www.nasaa.org) with details of the Top 10 scams; tips on how to avoid becoming a victim; an Investor Bill of Rights; instructions on filing a complaint; and contact information for each state's securities regulator.

The following list is based on prevalence and seriousness, as identified by state securities regulators.

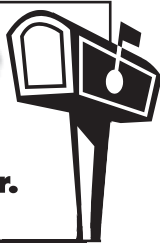
- 1. Ponzi Schemes.** Named for swindler Charles Ponzi, who took investors for \$10 million by promising 40 percent returns, the premise of these schemes is simple: promise high returns to investors and use money from new investors to pay previous ones. Inevitably, the only people who make money are the promoters.
- 2. Senior Investment Fraud.** Older investors are being targeted with more and more complex scams promising inflated returns. To learn more, visit NASAA's Senior Investor Resource Center.
- 3. Promissory Notes.** These short-term debt instruments often are sold by independent insurance agents and issued by little known or non-existent companies promising high returns with little or no risk. When

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interest rates are low, investors often are lured by the higher, fixed returns of promissory notes. They can, however, become vehicles for fraud when the issuer neither intends nor is able to deliver on the promise.

4. Unscrupulous Brokers. Despite the stock market's rebound in 2003, regulators are still receiving numerous complaints of brokers cutting corners or resorting to outright fraud to fatten their wallets.

5. Affinity Fraud. Scammers often use their victim's religious or ethnic identity to gain their trust, then steal their savings.

6. Insurance Agents and Other Unlicensed Securities Sellers. While most independent agents are honest professionals, too many are lured by high commissions into selling fraudulent or high-risk investments. The scam artist instructs the independent sales force to promise high returns with little or no risk.

7. Prime Bank Schemes. The negative publicity attached to these schemes has caused promoters to avoid referring to Prime Banks and use other, deceptive terms like "risk-free guaranteed high-yield instruments."

8. Internet Fraud. The most recent figures show Internet fraudsters took in \$122 million in 2002.

9. Mutual Fund Business Practices. Regulators, the SEC, NASD, and mutual-fund firms themselves have launched a series of inquiries into mutual fund trading practices.

10. Variable Annuities. Sales of variable annuities have increased dramatically over the past decade—and so have investor complaints. NASAA is encouraging changes in state laws to improve oversight, investigate complaints and take legal action.