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Governor

SPENCER J. COX
Lieutenant Governor

State of Utah
Department of Commerce
Division of Securities

FRANCINE A. GIANI
Executive Director

KEITH WOODWELL
Director, Division of Securities

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MEDIA ALERT

“Division of Securities warns investors about fraud with recent Wall Street headlines”

“Utah Division of Securities releases Top Investor Threats and Traps for 2016 and beyond”

(For immediate release...)

SALT LAKE CITY, Utah – Francine A. Giani, Executive Director of the Utah Department of Commerce, announced today that the Division of Securities is warning Utah investors to be on the lookout for pitches that may use recent Wall Street market headlines to scare consumers into taking their money out of trusted accounts.

“While the Dow’s recent losses and other market changes may make you uneasy, don’t let your guard down if you are asked to take money out of accounts for an investment you don’t fully understand,” advised Francine A. Giani.

The Division of Securities has identified the Top 5 Investor threats and traps for 2016 to help educate investors. Even with the State of Utah’s strong economy, Division investigators continue to get reports about these types of schemes statewide.

“While Utah’s economy is strong, con artists are watching the news to find new ways to prey on investors’ emotions,” stated Keith Woodwell, Director, “The best advice is don’t act on bad news and take extra time to weigh financial decisions.”

Top Investor Threats and Traps for 2016

- 1. Unlicensed Investment Advisers.** To recommend the purchase or sale of a security (stocks, bonds, mutual funds, ETFs, even promissory notes and almost any type of investment) a person must be securities licensed. Be wary of the sales tactics used by individuals holding themselves out as “all-purpose” financial advisers, who may not be licensed at all or only licensed to sell insurance products, like annuities. Common tactics used by unlicensed investment advisers include a free “educational seminar” or “portfolio review”. The Division has seen many cases where high-pressure tactics are used at these “free” seminars or portfolio reviews to frighten investors into bad financial decisions. The most common problems are advice to sell mutual funds or other investments held in a retirement account in order to purchase high-fee, high-commission products like annuities that may or may not be suitable for the investor’s circumstances and turning over control of your investment account to an unlicensed individual, who holds themselves out as a trading guru, to make risky trades or

excessive trades in your account, often resulting in substantial losses. Before attending a “free” seminar or meeting with an investment salesman find out if they are securities licensed by contacting the Utah Division of Securities at (801) 530-6600, looking online at www.securities.utah.gov or using the Financial Industry Regulatory Authority (FINRA) online BrokerCheck service at <http://brokercheck.finra.org/>.

- 2. Advance Fee Schemes.** In advance fee schemes investors are convinced to pay an advance fee (often explained as needed to pay taxes, custom fees, legal fees or other related expenses) that will be used by a promoter or company to release or access a much larger account or pot of money. The investor is induced to pay the advance fee with the promise that the investor will be paid back the advance fee in a short amount of time as well as a bonus of double, triple, or even 10-20 times as much as the original investment once the large pot of money is released or accessed. Unfortunately, once the investor parts with their cash, they are usually met with a string of excuses or requests to pay additional fees, again with the promise that the pot of gold at the end of the rainbow is almost within reach. The big payout never arrives, and the investor is left with nothing but empty promises and continued requests for more money. Advance fee schemes often involve stories about money held in foreign accounts or by foreign governments or stories about valuable collateral such as lottery winnings, artwork, gold or other precious commodities that just need a “small” up-front investment in order access the huge dollar amounts involved. Victims are led to believe that when the collateral is released they will receive their original investment and a huge return. Advance fee scheme solicitations come in various forms. It could be an official looking document sent by mail or email, a telephone call, or an invitation to meet personally with the promoter.
- 3. Unsecured Promissory Notes.** In an environment of low interest rates, the promise of high-interest-bearing promissory notes may be tempting to investors, especially seniors and others living on a fixed income. Legitimate promissory notes are marketed almost exclusively to sophisticated or corporate investors with the resources to research thoroughly the companies issuing the notes and to determine whether the issuers have the capacity to pay the promised interest and principal. Most promissory notes must be registered as securities with the SEC and the states in which they are sold. Unfortunately, promissory notes with high interest rates are also a favorite tool of fraudsters. Be wary of promoters who pitch investment opportunities in companies or projects that have not been able to obtain traditional financing. Promoters may talk about collateral or other forms of security that will back up your investment, but if you do not receive a legally enforceable right to the assets of the company or project, then all you really have is an “IOU.” If the promised profits never materialize, the investors are left with nothing but empty promises.

4. **Real Estate Financing Investments.** Troublesome real estate-related investments continue to be near the top of the list for securities regulators. Investors should continue to be wary of opportunities to invest in real estate development projects that have been unable to secure more traditional types of financing. The Division of Securities continues to see cases of fraud involving these types of real estate investments. A newer concern relates to sales tactics used in connection with non-traded real estate investment trusts (REITs), timeshare resales, and brokered mortgage notes. These types of products often carry higher risk. For example, non-traded REITs are sold directly to investors and are not traded on exchanges (as are conventional REITs). Non-traded REITs can be risky and are difficult to resell, which may make them unsuitable for certain investors.

5. **Ponzi Schemes and Affinity Fraud.** The premise of a Ponzi scheme is simple: pay early investors with money raised from later investors in order to create the illusion of a profitable business or investment. The only people certain to make money are the promoters who set the Ponzi scheme in motion. The underlying business or investment can be anything from postage stamps (Charles Ponzi) to stock picking (Bernie Madoff), but the scheme is the same: keep raising more money from new investors to pay your debts to old investors and steal lots of the money for yourself in the process. Often, Ponzi schemes are marketed through affinity fraud, which is really just a fancy name for friends and family fraud. The promoter of the scheme targets a specific group where there is already a preexisting level of trust, such as a church congregation or close-knit social group. In this way, the promoter is able to capitalize on the trust within the group to convince more people to invest.

About the Utah Division of Securities

The Division of Securities enhances Utah's business climate by protecting Utah's investors through education, enforcement, and fair regulation of Utah's investment industry while fostering opportunities for capital formation. Investors should do business with licensed securities brokers and advisers and report any suspicion of investment fraud to the Utah Division of Securities by calling (801) 530.6600; toll free at 1.800.721.7233 or logging on to www.securities.utah.gov.

For media enquiries contact:

Jennifer Bolton

Public Information Officer

Utah Department of Commerce

(801) 530-6646 office

(801) 652-8322 cell

jenniferbolton@utah.gov

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