

Legally Speaking

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Last month I wrote about a woman I knew who when her husband died leaving her a substantial estate was beset by a number of fast-talking “investment counselors” who sold her what I termed “inappropriate” investments.

I’d like you to pay particular attention to some very high risk schemes and be very cautious in your dealings to make sure that you’re doing the right thing and dealing with reliable people. To that end, I’ve appropriated the following from the North American Securities Administrators Association (NASAA) which has identified the most common ploys being used to cheat investors out of hundreds of millions of dollars. NASAA's Top 10 threats to investors for 2005 is based on the order of prevalence and seriousness as identified by an annual survey of state securities regulators:

Please pay particular attention to numbers 5 and 9.

1. PONZI SCHEMES

The premise is simple: pay early investors with money raised from later investors. The only people who make money are the promoters who set the Ponzi in motion.

2. UNLICENSED INDIVIDUALS SELLING SECURITIES

Anyone selling securities without a valid securities license should be a red alert for investors. I had some guys from a boiler room in New York or New Jersey who plagued me for years. Every time they called I asked for the securities license. No license, no sale.

3. UNREGISTERED INVESTMENT PRODUCTS

Con artists bypass stringent state registration requirements to pitch viatical settlements, pay telephone and ATM leasing contracts, and other investment contracts with the promise of "limited or no risk" and high returns. (A viatical is the sale of a life insurance policy by an individual of any age who is considered terminally or chronically ill to a third party in return for a percentage of the face amount of the policy.)

4. PROMISSORY NOTES

Empty promises can leave these notes worth less than the paper on which they are printed.

5. SENIOR INVESTMENT FRAUD

Because they have built a lifetime of savings, seniors continue to face investment fraud by con artists peddling unsecured promissory notes, viatical settlements and other investments that are either fraudulent or unsuitable for them based on their particular financial needs.

6. HIGH-YIELD INVESTMENTS

Con artists lure investors with promises of triple-digit returns through access to "risk free guaranteed high yield instruments" or something equally deceptive.

7. INTERNET FRAUD

Stock promoters are using online "boiler rooms," instant messaging, and fake websites to lure investors into "pump-and-dump" stock schemes.

8. AFFINITY FRAUD

Con artists are increasingly targeting religious, ethnic, cultural and professional groups.

9. VARIABLE ANNUITY SALES PRACTICES

Senior investors, in particular, should beware of the high surrender fees and steep sales commissions agents often earn when they move investors into variable annuities.

10. OIL & GAS SCAMS

With oil prices at record levels and continued Middle East instability, regulators warn that con artists may renew schemes promising quick profits in oil and gas ventures.