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FOR IMMEDIATE RELEASE

ASC Releases "Unlucky 13" List of Investor Traps for 2006

MONTGOMERY, ALABAMA (February 16, 2006) The Alabama Securities Commission today outlined a forecast of the 13 most common ways investors are likely to be trapped in 2006.

"This list is anything but lucky," Joseph P. Borg, Director of the Alabama Securities Commission said. "Investment scams can be devastating for the investor who falls victim, both financially and emotionally. Scams come in many disguises, but they all share a common goal of separating victims from their money. As regulators, we are especially concerned that as the first of the Baby Boomers turn 60 this year they not become trapped in bad investments as their retirement nears."

Before making any investment, Borg encouraged investors to ask the following questions: Are the seller and investment licensed and registered in your state? Has the seller given you written information that fully explains the investment? Are claims made for the investment realistic? Does the investment meet your personal investment goals? Borg also urged investors to contact the Commission with any questions about an investment product, broker or adviser, <u>before making an investment</u>. "One phone call can save a lot of money and misery, just call 1-800-222-1253," Borg said.

The traps shown below are listed in order of most common to least common for the past year.

1. Affinity Fraud. Con artists frequently target members of closely knit religious, political, or ethnic groups. Their pitch is essentially, "since I am like you and believe like you, you can believe in me and in what I say." When an investment is presented in this context, the potential investor should be extremely wary. This pitch seeks to substitute an emotional appeal for careful analysis and critical thought.
[Alabamians lost over $5,023,818 million to affinity fraud from 2003-2006. One congregation also lost their building to foreclosure due to a scam implemented by church members.]

2. Registered High-Interest Promissory Notes Publicly Advertised. Generally, the higher the return promised, the greater the risk to your money. A track record of paying high interest and repaying principal is not an assurance that you will get your money back if the company fails. These notes are not suitable for retirement funds. [ASC is aware of over 189 Alabamians who were scammed on promissory notes for losses of over $12,485,213 from 2003-2006.]

3. Oil and Gas Investment Fraud. High oil prices mean oil and gas scams will continue to attract victims. Oil and gas deals are complicated investments that generally require a significant investment, often requiring a minimum deposit of thousands of dollars. Increasingly, these deals are being promoted via the Internet with claims of attractive tax advantages. Sales materials with "official-looking" surveyor maps and "geologist" opinion letters touting the likelihood that the "managers" of the drilling enterprise will hit pay dirt are sent regularly to prospective investors more than 1,000 miles from the region being "prospected." Overall, these deals are highly risky, but the lure of high profits often proves irresistible to investors. [ASC has opened 29 investigations concerning oil and gas well deals during the past 5 years.]

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4. Unsuitable Recommendations. Just as every investor is different, so too are investments. What may be a suitable investment for one investor may not be right for another. Securities professionals must know their customers' financial situation and refrain from making recommendations of securities that they have reason to believe are unsuitable. When securities professionals fail to live up to applicable ethical standards, great harm can be done to individual investors.

5. Variable Annuities. Variable annuities are tax-deferred investments that typically place mutual funds inside of an insurance wrapper for tax deferred potential investment growth. While these products are legitimate investments, regulators are concerned about their popularity in the sales community. Commissions received by those who sell variable annuities are very high, which provides incentive for sellers to engage in inappropriate sales. <u>Variable annuities are only suitable for a very small percentage of the investing public and generally are not appropriate for most seniors.</u> The steep penalties for early withdrawals also make variable annuities unsuitable for short-term investors. Be especially wary of any broker who wants to sell you a variable annuity to hold inside a 401(k) or IRA. You are already getting tax-deferred growth in an IRA or a 401(k), and the variable annuity simply adds a layer of cost with no additional tax benefit.

6. Sale and Leaseback Contracts. In an attempt to avoid the investor protections of securities laws, some investments are structured to resemble the sale of a piece of equipment such as a payphone, ATM machine or Internet booth located at a remote venue where the investor cannot service and maintain the equipment and must enter into a servicing agreement. In order to make the deal more attractive, investors are told that after a given period the equipment can be sold back to the seller at the investor's original purchase price. The investor is also promised a specific rate of return. In a variant of this scheme, a real estate interest such as a long-term lease in a resort community is sold instead of physical equipment. Frequently the equipment or property does not exist and the seller lacks the financial capacity to keep the promise of repurchase.

7. Self-Directed Pension Plans. Many types of securities fraud require the victim to remove funds from legitimate investments such as stock brokerage accounts, mutual funds, insurance policies, deferred compensation plans and mutual funds so that they can be invested in a worthless scam. This scam may begin with advice to convert an employer-sponsored pension into a self-directed pension plan. While these plans may serve legitimate investment purposes, all too often they only serve to benefit the scam artist.

8. Prime Bank Schemes. These schemes often promise high-yield, tax-free returns that are said to result from "off-shore trades of bank debentures." Investors are told that only very wealthy people can get the benefit of these programs but the promoter is able to make it available to the victim. Sometimes the victim is required to execute a "confidentiality agreement" in order to invest and is told not to consult an attorney, accountant or financial planner because they keep these programs for the "big boys" and will deny that they exist. There are no such programs, no such debentures and no such high-yield trades. These prime bank schemes are the securities equivalent of a purse snatch. Once the seller has your money, it's gone "off shore" forever.
[The International Chamber of Commerce has called them…"the scam of the 21st Century."]

9. Pump and Dump Schemes. Unethical broker-dealers frequently "pump" up the value of low-priced securities traded on the NASDAQ "pink sheets" and then "dump" the stock after naïve investors have purchased the stock at inflated prices. The balloon breaks when the promoters no longer maintain the

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myth that there is value in the shares and investors are left holding worthless shares. These schemes frequently appear through unsolicited e-mail messages. [Hundreds of millions of dollars have been lost by U.S. citizens in penny stock, micro cap and related pump and dump scams and Alabamians have lost millions of dollars.]

10. Recovery Rooms. Scam artists buy and sell the names and financial information of victims who have lost money to "recovery room" operators who promise, in return for a fee that the victim must pay in advance, to recover the money lost in a worthless investment. These "sucker lists" are bought by crooks who know that people who have been deceived once are vulnerable to additional scams; especially scams that give hope of recovering lost money. If you have been the victim of a fraud, never give out your credit card or other personal information to someone who contacts you with a promise to recover your money. Remember, in the scam world this caller is known as a "reloader" and he is setting you up for a second bite at the apple.

11. Personal Information Scams. The first step in separating a victim from his or her money is convincing the victim to divulge personal financial information. When the sales agent is a local tax preparer or unaffiliated insurance agent, he or she enjoys a position of trust in the community. Con artists not enjoying such a position of trust frequently style themselves as "senior specialists" or adopt a pretext of preparing "living will" or a "living trust." A pretext that is of current concern to insurance and securities regulators is the offer to help senior citizens qualify for prescription benefits by preparing forms. In the guise of filling out forms, the scamster may ask unnecessary questions about personal financial assets. To the con artist, this information provides a comprehensive laundry list of what is available for the taking. [Do you <u>really</u> know the person who wants <u>your private information</u>? Check them out first and call ASC at 1-800-222-1253.]

12. Churning. An abusive sales practice in which unethical securities professionals make unnecessary and/or excessive trades in order to generate commissions. Most churning occurs where a broker has discretion to trade the account. In such cases, it is not necessary that the broker receive prior approval from the client to complete a transaction. [Are you reviewing and checking out your account statements carefully? It's up to you to make sure unauthorized trades are not taking place.]

13. Equity Indexed Certificates of Deposit. Remember the days of FDIC-insured, bank-issued certificates of deposit with guaranteed principal and interest? Equity Indexed CDs are **<u>not</u>** the same product. These hybrid securities products offer an interest coupon payment or return that is based on a stock market index, usually the S&P 500. Returns are not FDIC insured. They are dependent on the performance of the stock market. These are complex securities that promise a rate of return calculated over a defined period of time based upon some form of securities market index. A declining stock market means the possibility of no return on your investment. As a result, these products pose liquidity problems and are therefore, not suitable for seniors who may need the money for retirement living.
[Do you understand what you're buying? INVESTIGATE BEFORE YOU INVEST!]

The Alabama Securities Commission Snapshot for FY2004-2005*:

Orders Issued: <u>313 respondents</u>

Convictions: <u>13</u>

Restitution and Recessions: <u>$18,828,205</u>

Status of Defendants end of FY2005: <u>44 awaiting Grand Jury, 11 pending arrest, 32 awaiting trial</u>

Net Income to State of Alabama: <u>$23,294,007</u>

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*Note: ASC does not operate from money provided by Alabama tax payers or use any General Fund appropriations. Revenues are collected from registration fees and after operating expenses, remaining funds are transferred to the General Fund at the end of each fiscal year.

The Alabama Securities Commission provides personal financial education materials and makes available seminars to citizens of Alabama for free. Financial education is a powerful weapon in the fight against investment fraud. You can contact ASC for inquiries regarding securities broker-dealers, agents, investment advisors, investment advisor representatives, financial planners, the registration status of securities, to report suspected fraud, or obtain consumer information. The Commission's website is a great place to start at www.asc.state.al.us.

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If you have questions or require more information call Dan Lord, Education and Public Affairs.