**ALABAMA SECURITIES COMMISSION**
770 WASHINGTON AVE, SUITE 570
MONTGOMERY, ALABAMA 36130-4700
TELEPHONE (334) 242-2984
1-800-222-1253
FAX (334) 242-0240
E-MAIL asc@asc.state.al.us

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# "Top Five" investments to be wary about!

MONTGOMERY, ALABAMA (October 5, 2001) – With Tuesday's interest rate cuts by the Federal Reserve pushing yields on fixed investments such as certificates of deposit and bonds to their lowest levels in years, the Alabama Securities Commission today issued a list of the "Top Five" investments to be wary about.

With many investors, particularly those who are dependent on interest income, worried by volatile stock markets and the terrorist attacks on the World Trade Center buildings and the Pentagon, Joseph P. Borg, Director of the Alabama Securities Commission warned against investing in bogus promissory notes, viaticals, exotic offshore investments and other high-risk or fraudulent investments promising high returns.

"When evaluating an investment, you should remember that risk and reward go together," said Borg. "If someone is promising you high returns with no risk, be very, very skeptical, ask lots of questions and get it in writing."

Here is a list of the five investments, ranked roughly in order of concern or prevalence:

1. **Promissory notes.** Promissory notes are short-term debt instruments. Investors should stay away from notes promising high returns – upwards of 12 percent monthly – from little-known companies (http://www.nasaa.org/nasaa/scripts/prel_display.asp?rcid=158). Many of these high risk notes are sold by independent insurance agents, state regulators warn. In Indiana, 18 elderly investors lost nearly $1.4 million in a promissory note scam. An 80-year-old woman lost her life savings of $324,000. Although praying with their victims to gain their trust, the perpetrators diverted their money to offshore bank accounts and used it to make first-class business trips to China, India and Greece and buy expensive cars.

2. **"Callable" CDs.** Older investors beware: these higher-yielding certificates of deposit, while appropriate for some, won't mature for 10- to 30-years, unless the bank, not the investor, "calls," or redeems, them. Redeeming the CD early may result in a substantial loss – upwards of 25 percent of the principal. In Iowa, a retiree in her 70s invested over $100,000 of her 97-year-old mother's money in three callable CDs with 20-year maturities. Her intention, she told her broker, was to use the money to pay her mother's nursing home bills. State regulators say sellers don't always disclose the risks and restrictions of callable CDs. For help distinguishing callable CDs from traditional CDs, go to: http://www.nasaa.org/nasaa/abtnasaa/display_top_story.asp?stid=196.

3. **Internet stock pitches.** Con artists frequently use the wide reach and relative anonymity of the Internet to "pump and dump" stocks in little-known companies, often claiming tragic events such as last month's terrorist attacks on the World Trade Center buildings and the Pentagon will push up the stock price. Many states have Internet surveillance programs that watch for fraud or investigate investor complaints. State securities regulators urge investors to ignore anonymous financial advice on the Internet and in chat rooms.

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4. **Prime bank schemes.** Scam artists, often operating over the internet, promise investors returns as high as 300 percent through access to the investment portfolios of the world's elite banks. Purveyors of these schemes often target conspiracy theorists, promising access to the "secret" investments used by the world's wealthiest families. In North Dakota, state securities regulators say a small group of salesmen,

including a local pastor, used religion and family ties to bilk investors out of $2 million in a prime bank scam.

5. **Viatical settlements.** Originated as a way to help the gravely ill pay their bills, these interests in the death benefits of terminally ill patients are always high risk and sometimes fraudulent. It works like this: a gravely ill person sells his or her life insurance policy to a viatical broker for between 40 percent and 80 percent of the face value. The broker then sells the policy to a pool of investors, with an estimate of when the insured will die. Investors' profits quickly dwindle if the insured fails to die "on time." In a new twist, state regulators say "senior settlements" – interests in the death benefits of healthy older people – are now being offered to investors as "safe and guaranteed" alternatives to CDs and other fixed investments.

Before purchasing any investment, the Alabama Securities Commission urge investors to ask the following questions:

- *Does the investment meet your personal investment goals?* Whether you are investing for long term growth, investment income or other reasons, an investment should match your own investment goals;
- *Are claims made for the investment realistic?* Some things really are too good to be true. Use common sense and get a professional, third party opinion when presented with investment opportunities that seem to offer unusually high returns in comparison to other investment options. Pie-in-the-sky promises often signal investment fraud;
- *Has the seller given you written information that fully explains the investment?* Make sure you get proper written information, such as a prospectus or offering circular, before you buy. The documentation should contain enough clear and accurate information to allow you or your adviser to evaluate and verify the particulars of the investment; and
- *Are the seller and investment licensed and registered in your state?* Contact the Alabama Securities Commission to find out. If they are not, they may be operating illegally.

Contact the Alabama Securities Commission for information regarding securities broker-dealers, agents, investment advisors, and investment advisor representatives, the registration status of securities, to report suspected fraud, or obtain consumer information:

Call: 1-800-222-1253 Fax: 1-334-242-0240.

Email: asc@asc.state.al.us.

Write:

Alabama Securities Commission

770 Washington Ave., Suite 570

Montgomery, Alabama 36130-4700

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For more information contact:

Joseph P. Borg
Director

Daniel G. Lord
Education and Public Affairs Manager