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FOR IMMEDIATE RELEASE

INVESTOR ALERT – WATCH OUT FOR THESE FIVE INVESTOR TRAPS "NOW"

MONTGOMERY, ALABAMA (June 16, 2006) Joseph Borg, Director of the Alabama Securities Commission outlined five common ways Alabama investors may be conned in 2006.

"Investment scams can be devastating, both financially and emotionally. Scams come in many disguises, but they all share a common goal of separating victims from their money. The Alabama Securities Commission is especially concerned that, as the first of the Baby Boomers turn 60 this year and near retirement, they not lose their money in a scam," Commissioner Borg said.

Before making any investment, Commissioner Borg urged investors to ask the following questions:

- Are the seller and investment licensed and registered in Alabama?
- 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?

Director Borg also urged investors to contact the Alabama Securities Commission with any questions about an investment product, broker or adviser, before making an investment. "One phone call can save a lot of money and misery," Borg noted.

Director Borg identified the following as the greatest potential threats to Alabama investors this year.

- **Unregistered Securities.** In an attempt to avoid the investor protections of securities laws, some investments are structured to resemble the sale and leaseback of a piece of equipment such as a pay telephone, ATM machine, billboard, 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.

  Another common unregistered security being marketed is a viatical settlement or life settlement. Originated as a way to help the gravely ill pay their bills, the insured gets a percentage of the policy amount in cash and investors get a share of the policy benefits when the insured dies. These interests in life insurance policies are always risky and sometimes fraudulent.

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- **Unlicensed Individuals, Such as Insurance Agents, Selling Securities.** While most insurance agents are honest professionals, many are lured by high commissions into selling fraudulent or high-risk investments, such as promissory notes, brokered certificates of deposit, ATM and payphone investment contracts and viatical settlements. "Scam artists continue to entice independent insurance agents into selling investments they may know little about," Director Borg said. The person running the scam instructs the independent sales force – usually insurance agents but sometimes investment advisers and accountants – to promise high returns with little or no risk.

  Often 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 a "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.

- **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 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. The lure of promised high profits often proves irresistible to investors.

- **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 naive investors have purchased the stock at inflated prices. The balloon breaks when the promoters no longer maintain the myth that there is value in the shares and investors are left holding worthless shares. These schemes frequently appear through unsolicited e-mail messages and unsolicited faxes.

- **Unscrupulous Brokers.** 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. Many of these frauds require the victim to remove funds from legitimate investments such as stock brokerage accounts, insurance policies, deferred compensation plans and mutual funds so that they can be invested elsewhere.

  One of the more common redirection of funds is into annuities. Equity indexed annuities are hybrid products that offer an interest coupon payment or return that is based on a stock market

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index, usually the S&P 500. Returns are dependent on the performance of the stock market. A declining stock market means the possibility of no return on the investment. Variable annuities are tax-deferred investments that typically place mutual funds inside of an insurance wrapper for tax deferred potential investment growth. While these annuity products are legitimate investments, they are only suitable for a very small percentage of the investing public and generally are not appropriate for most seniors. The steep penalties for early withdrawals also make annuities unsuitable for short-term investors. Likewise, commissions to those who sell annuities are very high, which provides incentive for sellers to engage in inappropriate sales.

Another abusive sales practice is "churning," 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.

Recognizing that financial education is a powerful weapon in the fight against investment fraud, the Alabama Securities Commission provides tips on how to avoid becoming a victim and how to detect con artists. Before investing, investors should call the Alabama Securities Commission and ask if the individual selling the investment or seeking to manage your money is licensed to do so and whether the investment itself is registered. To check out an investment or salesperson, contact the Alabama Securities Commission by calling 1-800-222-1253 or visit their website at www.asc.state.al.us.

(Note: Portions of this article provided courtesy of the Texas State Securities Board.)

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