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ALABAMA SECURITIES COMMISSION ANNOUNCES TOP INVESTOR THREATS
Promissory Notes, Real Estate Investments and Ponzi Schemes Top the List

MONTGOMERY, ALABAMA (December 13, 2017) The Alabama Securities Commission (ASC) today released its annual list of top investor threats and reminded investors to use caution when approached with any unsolicited investment opportunities. "All investments involve a degree of risk. Investors can help protect themselves by taking time to research both the investment product and the person selling it. It's best to learn before you get burned," Joseph Borg, ASC Director, said.

The top threats to investors were determined by surveying members of the North American Securities Administrators Association, of which the ASC is a member, to identify the most frequently identified source of current investor complaints or investigations. Promissory note scams seemed to be the most prevalent in Alabama. The following were cited most often:

PROMISSORY NOTES: A promissory note is a written promise to pay (or repay) a specified sum of money at a stated time in the future or upon demand. Companies may sell promissory notes to raise capital, and usually offer them only to sophisticated or institutional investors. But not all promissory notes are sold in this way. Promissory notes from legitimate issuers can provide reasonable investment returns at an acceptable level of risk, although state securities regulators have identified an unfortunately high number of promissory note frauds. Investors should be cautious about promissory notes with durations of nine months or less, as these notes generally do not require federal or state securities registration. Such short-term notes have been the source of most (though not all) of the fraudulent activity involving promissory notes identified by state securities regulators.

REAL ESTATE INVESTMENTS: The promise of earning quick money through investments related to real estate continues to lure investors. Investors should be cautious about real estate investment seminars, especially those marketed aggressively as an alternative to more traditional retirement planning strategies involving stocks, bonds and mutual funds. Two of the most popular current investment pitches at these seminars involve so-called "hard-money lending" and "property flipping." Hard-money lending is a term used to refer to real estate investments financed through means other than traditional bank borrowing. Investors may be tempted by the opportunity to earn greater rates of return by participating on a hard-money loan and may (or may not) appreciate the potential risks. Property flipping is the practice of purchasing distressed real estate, refurbishing it, and then immediately re-selling it in hopes of earning a profit. Property flipping financed through borrowed funds or outside investments can be done entirely lawfully, but it can also be a source for fraud. A scammer may, for example, defraud potential investors in the flip by misrepresenting the value of the underlying property or its profit potential.

PONZI/PYRAMID SCHEMES: A Ponzi scheme (named after 1920's swindler Charles Ponzi) is a ploy wherein earlier investors are repaid through the funds deposited by subsequent investors. In a Ponzi scheme, the underlying investment claims are usually entirely fictional; very few, if any, actual physical assets or investments generally exist. As the number of total investors grows and the supply of potential new investors dwindles, there is not enough money to pay off promised returns and cover investors who try to cash out. Similarly, a pyramid scheme is a fraudulent multi-level marketing strategy whereby investors earn potential returns by recruiting more and more other investors. Multi-level marketing strategies are not intrinsically fraudulent, and there are many legitimate multi-level marketing companies offering various consumer

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products and services. What makes a multi-level marketing strategy into a fraudulent pyramid scheme is the lack of a genuine underlying investment enterprise or product upon which the strategy can hope to be sustained.

OIL & GAS INVESTMENTS: Many oil and gas investment opportunities, while involving varying degrees of risks to the investor, are legitimate in their marketing and responsible in their operations. However, as in many other investment opportunities, it is not unusual for unscrupulous promoters to attempt to take advantage of investors by engaging in fraudulent practices. These investments may be marketed as safe and secure, high-yield investments and therefore attract investors, such as seniors, who are interested in safety of principal with some income-producing potential. Oil and gas ventures are typically highly speculative, though, and may not be suitable for many investors. Because these ventures are so speculative, the potential for fraud is rife. Scammers may misrepresent the likelihood that an oil or gas well will be successful – or may not even ultimately drill a well at all. Fraudulent oil and gas schemes frequently take the form of Ponzi schemes, with investors' funds being "recycled" to keep the scheme going.

AFFINITY FRAUD: In an affinity fraud, a con artist uses some sort of connection with the victim as the basis for the fraud. Affinity frauds may involve people who attend the same church, belong to the same club or association, or share a common hobby. The con artist knows it is often easier for victims to trust someone who seems to be like them. And once trust is gained, it is easier to exploit that trust to perpetrate a scam. Once a victim realizes that he or she has been scammed, too often the response is not to notify the authorities but instead to try (usually unsuccessfully) to solve problems within the group. Affinity fraud can not only be financially devastating to the victims, but often has the perverse effect of causing victims to lose trust in the group or affiliation that was previously a source of comfort or support. The psychological damage can be just as harmful as the financial damage.

VARIABLE ANNUITY SALES PRACTICES: Variable annuities are hybrid investments containing both securities and insurance features. While these products are entirely legitimate, they are not suitable for all investors and state securities regulators are concerned about the risks of sales practice abuses. 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. Commissions to those who sell variable annuities are very high, which provides incentive for sellers to engage in inappropriate sales. Investors should be especially wary of any broker who wants to sell a variable annuity to hold inside a qualified retirement plan, such as a 401(k) plan or Individual Retirement Account (IRA), as these types of retirement account will already benefit from tax deferment. Putting a variable annuity into a 401(k) or IRA adds a layer of expense and investment restriction without any additional tax benefit.

PRIME BANK SCHEMES: Often promising high-yield, tax-free returns, promoters of these schemes offer to let the "little guy" in on what they claim are financial instruments from elite overseas banks usually offered only to the world's wealthiest investors. Prime banks do not exist and the scam artists have no intention of creating a profit for anyone but themselves. Remember: Often the most sophisticated sounding investments are just false promises in fancy garb.

ADVANCE FEE LOAN SCHEMES AND NON-EXISTENT CREDIT DOCUMENTS: In a tight credit environment, small and medium business owners are seeking credit and capital from non-traditional sources. Financial con artists and fraudulent promoters have approached capital hungry businesses with schemes ranging from Advance Fee (collecting fees up front usually from business revenues, income streams or assignments of assets to provide a capital loan/cash infusion after payment by the borrower) to promises of major cash/capital infusion based on (usually) overseas credit or bond documents in exchange for payments, transfer of "collateral", assignments of accounts receivable or an interest in the business.

The ASC offers a wealth of free investor education materials and can help investors research the background of those selling or advising the purchase of an investment. The ASC can be reached at 1-800-222-1253 or through its website at www.asc.alabama.gov.

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The ASC cautions potential investors to thoroughly scrutinize and research any investment opportunity or offer. Contact the ASC with inquiries concerning securities broker-dealers, agents, investment advisers, investment adviser representatives, financial planners, registration status of securities or debt management programs, to report suspected fraud or to obtain consumer information. The ASC provides free investor education and fraud prevention materials in print, on our website and through educational presentations upon request.

For further information contact Dan Lord, Education and Public Affairs Manager, 334-353-4858.

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