

The seal of the U.S. Securities and Exchange Commission is centered in the background. It features an eagle with wings spread, holding an olive branch and arrows, with a shield on its chest. The text "U.S. SECURITIES AND EXCHANGE COMMISSION" is written around the perimeter of the seal.

**SENIORS:
PROTECT YOURSELF AGAINST
INVESTMENT FRAUD**

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District Administrator
Fort Worth District Office



Disclaimer

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Who We Are & What We Do

- Created in 1934 following the Stock Market Crash of 1929
- Mission: to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation
- SEC Annual Senior Summit: initiative to expand our efforts to educate soon-to-be retired and senior Americans on how to protect against investment fraud



Why Are Seniors Targeted?

- A lifetime of assets
- Often have excellent credit
- Heightened fears about money for retirement, emergencies, basic necessities
- Too Polite to Say No





Why Are Seniors Targeted?

- Tendency to trust or rely on others, especially when planning for the future
- Recent negative life experiences
- Fear of outliving savings
- Often home during the day
- May live alone





Potential Threats to Senior Investors

- Affinity Group Fraud
- Ponzi Schemes
- “High Return” or “Risk Free” Investments
- Unregistered Investment Products
- Promissory Notes
- Unsuitable Recommendations
- “Senior Specialists” and Sales Seminars
- Internet Fraud
- Oil & Gas Schemes





Telltale Signs of Fraud

- Promises of High Returns
- Pressure to Invest Immediately
- Guarantees of Profit
- Promises of No (or Little) Risk
- Offers of “Inside” or “Confidential” Information
- Prey on the Trust or Good Will of the Victim
- Won’t Provide Written Information about the Investment

Warning: Investigate Before You Invest!



Affinity Fraud

- Target members of a group
 - Race
 - Religion
 - Social Clubs
 - Age
 - Union
 - Profession

- Key to scheme = trust
- Scamster may recruit group leader





SEC v. EFS, filed May 2006

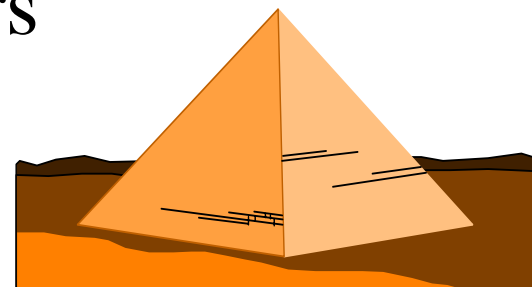
More than 50 Texas Victims

- **SEC alleged that an insurance agent, Jim Pratt, sold promissory notes, backed by sham “prime bank” program.**
- **Pratt guaranteed 3% to 10% per year but offering materials claimed possible 36% to 120% per year.**
- **Complaint charged that Pratt was an avid attendee of a Carrollton, Texas congregation and recruited there.**
- **Pratt never invested the money as he said he would, but sent bogus monthly statements showing fictitious returns.**
- **The offering raised over \$1 million from 85 investors. Over 50 Texas residents invested in those notes.**
- **The SEC discovered the fraud and filed an emergency action to freeze funds and appoint a receiver.**



Ponzi Schemes

- Try to make \$\$ by recruiting new investors
- Promise of sky-high, risk-free returns
- Incoming \$\$ from new investors pays off earlier investors
- Scheme eventually gets too big
- Promoter can't find new investors
- Pyramid collapses





SEC v. Senior Benefit Plans

- **Operating as Senior Benefit Plans, the defendants fraudulently sold \$5 million of unregistered securities to at least 80 senior investors, as charged in SEC complaint.**
- **Used newspaper ads and seminars to offer secure, no risk, high return investments in pay telephone lease programs.**
- **SEC Complaint alleged that representations that there was insurance for the product was false, the companies in which they were investing were not financially sound but had a negative net worth, and that investments were paying out was false.**



“High Return” or “Risk Free” Investments

- Promises of Unrealistic Returns Via “Risk Free” Investments
- Products May Not Exist
- Example: [Prime Bank Frauds](#)

Remember: No Investment is Risk-Free!



Prime Bank Fraud

- Funds supposedly will be used to buy and trade “prime bank” instruments from the “world’s top 25 banks”
- “Special Access” to programs reserved for top financiers in world financial centers
- Promise of huge returns with little risk
- Promoters distribute documents that seem official, complex, and sophisticated
- References to overseas clandestine markets



SEC v. David Tanner d/b/a Capital Enhancement Club

- **SEC took action in May 2005 against a fraudulent, Internet-based, high-yield investment club that raised \$15 million.**
- **SEC alleged that CEC promised to pay monthly interest of 7% to 11% through investments in undisclosed “international trading.” Claimed the program was run by the US Federal Reserve.**
- **CEC offered interests in private invitation only meetings primarily targeted to seniors.**
- **SEC alleged that funds were used for Ponzi payments and personal expenses.**



Unregistered Investment Products

- Securities can be more than stocks & bonds
 - Promissory Notes
 - Investment Contracts (including sale and lease-back contracts)
 - Certificates of Deposits
 - [Viatical Settlements](#)
- Promise high returns with little or no risk

Warning: Fraudsters often avoid state and federal registration and disclosure requirements



SEC v. One Wall Street, Inc.

- **SEC charged defendants with offering unregistered stock. SEC took action in August 2006 to shut down ongoing sales that had raised \$1.6 million from at least 64 mostly-senior investors.**
- **SEC alleged that the defendants made false statements that they would be conducting an IPO and that they were working with E*Trade.**
- **Investor funds were being used for personal expenses.**



Viatical Settlements

- Risky investments although promoted as “guaranteed”
- Your return depends upon the seller’s life expectancy and the actual date he or she dies
- Some companies may not payoff on the investment when it becomes due



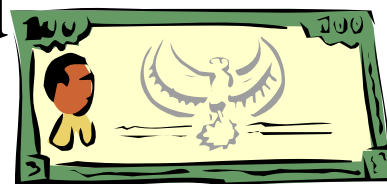
SEC v. Mutual Benefits Corp.

- **SEC alleged that Mutual Benefits raised over \$1 billion from 29,000 investors worldwide.**
- **Complaint alleged that defendants sold fractionalized interests in viaticals and life settlement and promised fixed returns of 12% to 72% depending on term**
- **Charged defendants with making false statements about life expectancies, failing to disclose that 90% of the policies surpassed life expectancy, and shortfalls in premiums paid with new investor money.**
- **SEC obtained TRO, asset freeze and receiver.**



Promissory Notes

- May be legitimate, but if marketed broadly to individuals, are often scams
- Promise high returns with little or no risk
- Sometimes marketed by independent insurance agents
- May be part of a Ponzi scheme
- Interest on note may be guaranteed by a bogus investment





Unsuitable Recommendations

- Unscrupulous brokers may pressure investors to invest in products inappropriate for their financial goals or needs
- Brokers have an obligation to “know their customers”

Tip: Make sure you understand how an investment meets your financial goals!



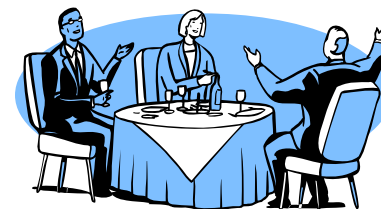
Variable Annuities and Equity Indexed Annuities

- Insurance and securities products
- High surrender charges and lengthy surrender periods
- Investors aren't always told about high surrender charges, exposure to market risk, the steep sales commissions paid, and tax consequences



“Senior Specialists” and Sales Seminars

- There is no “Free Lunch”
- Beware of outright scams
- Don’t be fooled by titles or designations, such as “Senior Financial Counselor”
- Make sure the product is suitable to your financial needs, not the financial needs of the salesperson





Internet Fraud: Old Scams, Modern technology



- Glitzy websites
- Online newsletters
- Message boards
- E-mail spams



Oil & Gas Offerings

- Usually limited partnership units or fractional interests in oil & gas leases
- Be aware:
 - Some types of oil & gas interests are paid profits before others
 - Oil & gas investments are explained in “terms of art” that may be hard to understand
 - The oil & gas interests offered may be unregistered
 - The limited partnership may not yet own the oil & gas interests and may not have even been formed yet
- Exploration activities may be in remote locations so may be hard to verify



SEC v. Sunray Oil Company

- **SEC alleged that Sunray conducted a fraudulent offering of limited partnership interests in an oil and gas leases and raised \$1.14 million from 52 investors.**
- **According to the Complaint, for \$100 extra investment, Sunray would buy back the investment for 150% of the purchase price. The guarantee was allegedly backed by an insurance bond but, the SEC found, no guarantee was ever purchased.**
- **SEC alleged that Sunray did not disclose previous failures in oil exploration of its principal, Larry Stiles.**
- **The limited partnership did not own the oil and gas interests Stiles represented.**
- **SEC filed an emergency action to freeze assets and appoint a receiver.**



SEC v. PetroSite Assets Inc.

- SEC found that PetroSite raised in excess of \$2.2 million by selling participation interests in oil and gas well production to 70 investors nationwide, many of whom were Texas residents.
- SEC alleged that funds were not invested in the wells and that production revenue, when received, was not paid to investors. Funds were diverted to Ivan Dearaujo, the company's principal.
- Simultaneously with the case, the Commission issued an investor alert regarding oil and gas scams
<http://www.sec.gov/investor/pubs/oilgasscams.htm>



How Can You Protect Yourself?

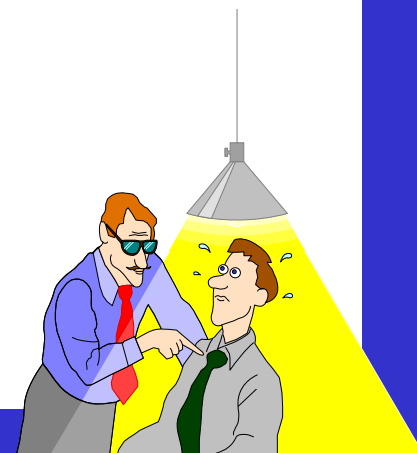
- Ask questions, get / keep written info, monitor investments, be wary of promoters who try to scare or befriend you
- If you don't understand how the investment works, don't make it
- Resist psychological and manipulative tactics, and try to separate business relationships from personal feelings
- Question whether the investment may be a fraudulent scheme
- Discuss the investment with an objective third party whom you trust
- Don't be afraid to talk to loved ones about past and future investments, especially if you are investing to leave a legacy for future generations (remember, you could be the victim of someone preying on your generosity)





Questions to Ask: Is the Seller Licensed? Is the Investment Registered?

- Seller:
 - Call the Texas State Securities Board @ 1-888-663-0009 to find out.
 - Visit www.nasaa.org
 - Check out disciplinary history by calling the NASD at (800) 289-9999 or visiting NASD BrokerCheck at www.nasdbrokercheck.com
- Investments:
 - Check SEC's [EDGAR](http://www.edgar.gov) database
 - Call the SEC





Where to Get Information About Companies & Investments

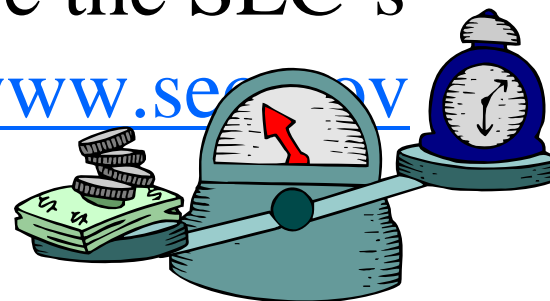
- From the SEC's [EDGAR](#) database
- From the Texas State Securities Board
- Commercial databases
- Secretary of State, Corporation Division (see if the company has been duly formed and registered)
- From the company (documents showing formation and financial information)





Where to Turn for Help

- Firm: Call the broker and, if that doesn't work, write a letter to the broker's firm
- Texas State Securities Board @ **1-888-663-0009**
- SEC: Get information and use the SEC's online complaint center via www.sec.gov





SEC Contact Information

- Website: www.sec.gov
- Phone: **1-800-SEC-0330** (1-800-732-0330)
- Email: help@sec.gov
- Mail:
 - U.S. Securities and Exchange Commission
 - Complaint Center
 - 100 F Street, N.E.
 - Washington, D.C. 20549-0213
- Central Region / FWDO
 - (817) 978-3821
 - 801 Cherry Street, Suite 1900, Ft Worth, TX 76102

