Risky Investments

A practical guide for protecting your investment dollars

Investor Information Program

Department of Consumer & Business Services

Division of Finance and Corporate Securities

INVESTIGATE BEFORE YOU INVEST

About the Division of Finance and Corporate Securities

The sale of securities in Oregon is regulated by the Division of Finance and Corporate Securities, a part of the Oregon Department of Consumer and Business Services. Our major responsibilities include registration of securities offerings, licensing of brokerage and investment advisory firms and their salespeople, and investigation of alleged violations of the securities laws.

The Division of Finance and Corporate Securities sponsors an Investor Information Program, established to help prevent investor fraud. Oregonians with complaints or questions relating to securities transactions should contact:

Division of Finance and Corporate Securities

350 Winter St. NE, Room 410
Salem, OR 97301-3881
P.O. Box 14480
Salem, OR 97309-0405
Telephone: 1-866-814-9710, 503-378-4140
Fax: 503-947-7862
Web site: **www.dfcs.oregon.gov**

Investigate before you invest

In today's complex financial world, there are many investment opportunities. As a potential investor, you are undoubtedly solicited through telephone calls, faxes, mailings, and even your computer. Some investment opportunities hold great promise of financial return; others do not. No matter how you choose to invest your money — whether through a broker or via the Internet — a degree of risk exists. The greater the "promise" of a return, the riskier the investment. Often, the investment that sounds like a sure winner is the invention of a con artist and should be avoided altogether.

Each year, Oregonians lose millions of dollars to securities and commodities fraud. More than three-fourths of all investment scams are sold over the telephone by high-pressure salespeople promoting get-rich-quick schemes. With their slick sales pitches, con artists will try to cash in on just about any type of investment.

The techniques practiced by these swindlers are well-rehearsed and often hard to resist.

Your best protection: **Investigate before you invest.**

To help you outsmart the con artist, the Oregon Department of Consumer and Business Services Division of Finance and Corporate Securities has prepared this brochure.

Remember:

Before giving your money to anyone offering a "guaranteed investment," contact us at 1-866-814-9710 or 503-378-4140. We can tell you if the firm or salesperson is licensed to sell investments in Oregon and if the investment is registered for sale in Oregon. We can't make the investment decision for you, but we have information to help you make an informed decision.

Beware of risky investments

Many investment opportunities are offered by legitimate brokers *and* by con artists. A legitimate investment can offer excellent returns, while a deal with a con artist is guaranteed to result in financial loss. Con artists commonly use the following techniques:

- They promise a rate of return better than what similar investments are paying.
- They guarantee that the investment won't fail.
- They insist that the opportunity to invest exists today only — tomorrow will be too late.
- They promise to send someone to your home to pick up the funds today.

Investment scams are sold in many ways. The methods and promotions outlined on the following pages represent some of the most risky investment ventures; they are often illegal.

"Pump-and-dump" stock schemes

Scam artists continue to take advantage of technology to lure investors into "pump-and-dump" schemes. In these schemes, scam artists tout company stocks through unsolicited e-mails, phone calls, faxes, and phony blogs and Web sites. Unwitting investors purchase the stock in droves, creating high demand and pumping up the price. But when the fraudsters behind the scheme sell their shares at the peak and stop aggressively promoting the stock, the price plummets, and investors lose their money.

Boiler rooms

These common fly-by-night operations flaunt impressive-sounding addresses and use high-pressure salespeople to make thousands of unsolicited phone calls to potential investors. The term “boiler room” describes the “heat” and high pressure generated by the callers as they try to convince investors to send in their money. In most cases, either the company or the product does not exist, or it doesn’t operate as represented. If you receive an unsolicited call offering a deal that sounds too good to be true, be careful. It probably isn’t true, and you’re probably talking to a con artist.

Ponzi or pyramid schemes

With these schemes, con artists offer high rates of return on various impressive-sounding investments. However, instead of using the funds for investments, a portion of the original money is paid back to investors as their return. Satisfied investors then report these high returns to their friends, who in turn invest. In reality, there is no underlying business. The early investors are simply being paid with funds received from the later investors. When the scheme collapses — as it always does — current investors lose their money and the promoters walk away rich.

Affinity fraud

Con artists are not shy. They target religious, ethnic, cultural, and professional groups. Some may be members of the group or pretend to be members in order to gain trust. Con artists often recruit a respected member of a community or religious congregation to promote their schemes by convincing them that a fraudulent investment is legitimate.

Drilling for riches

Oil- and gas-well interests are another common investment scam. Rising oil and natural gas prices have made a variety of traditional and alternative energy projects attractive to investors. Most of these investments are highly risky and not appropriate for smaller investors. Those looking for investors will talk about “proven” oil fields or “surefire” wildcat wells, and promise great riches. Often, however, the wells do not exist or hold no further reserves. Watch out for deals on “ore-bearing” dirt that promise fantastic mineral reserves and profits. These deals may be illegal — claims of a “secret” or “new” formula for removing valuable minerals from old mines signals a scam.

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.

Investment seminars

Promoters of investments that are unsuitable due to age or financial situation seek potential investors, particularly seniors, by offering seminars, many of them promising a free meal along with “higher returns and little or no risk.” These seminars commonly pitch real estate investments or annuities. Unfortunately, in many cases that securities regulators see, the investment delivers just the opposite of what the seminars promise: high risk, no returns, and disastrous losses.

Coin & precious-metal schemes

These schemes attempt to sell "investment grade" coins or gold, silver, and platinum bars and bullion. Con artists claim that the value of the coins or metals will increase dramatically in the future. However, if you send money, no coins or metals are shipped to you. Instead, you're told the coins or metals have been deposited in a vault or bank with an impressive name. Even if they have been deposited, their value is usually much less than was represented to you. The high commissions charged by the seller would require a great increase in the value of the coins or metals before you could break even. Worse yet, the coins or bullion may not even exist; the promoter may simply pocket your money.

Mortgages and trust deeds

This type of transaction involves loaning money to someone who wishes to purchase or refinance real estate. The investor counts on receiving interest payments as the return on the investment and expects to receive the title to the property if the borrower defaults.

More often than not, the borrower is unable to repay the loan. The investor may discover that the property's value does not cover the investment or that the deed wasn't recorded in the investor's name.

High-yield bonds

Also known as "money market" substitutes; they may be legitimate but they still are risky.

Auction-rate securities (ARS)

Auction-rate securities are debt instruments with long-term maturities, such as bonds or notes, issued by municipalities or student-loan agencies that have interest rates reset by auction every seven to 35 days. The securities are often promoted as being similar to cash deposits or money market accounts, however, due to tight credit markets stemming from the sub-prime mortgage crisis, many auctions where auction-rate securities are traded have failed. As a result, many investors found that they are unable to access their money — contrary to what they were told when they bought the product.

Exotic investments

Investors are constantly approached to buy investments that are tied to recent technological developments or scientific breakthroughs. While such investments can be legitimate, often these opportunities are scams dressed in high-tech language. These schemes are designed to take advantage of investors' familiarity with news events. These red flags should alert you to the possibility of a scam:

- The details about the investment are obscure or confusing.
- A fabulous rate of return is promised.
- You are pressured to act immediately.
- The person offering the investment opportunity is a stranger.

Know what entity you're dealing with. Brokers housed in banks, credit unions, and other financial institutions generally are not bank employees. Usually, the FDIC, NCUA or other insurance does not follow the investment offered by the broker. If you hear an investment described as "like" a CD, it usually isn't.

ONLINE INVESTING

If you're thinking about investing online, read this first.

Today, you can buy almost any kind of stock, bond, or mutual fund online; there are hundreds of firms with millions of accounts.

Investing online **can be** convenient, and online commissions **can be** lower than commissions you would pay a stockbroker, but be careful. Make sure you do the same research for an online broker as you would for a traditional one.

First, know your investing needs — this will help you select the online firm that meets your needs. Next, check to make sure who you plan to work with is legitimate. Enter the investment firm and/or salesperson's name in an online search engine such as Yahoo or Google. Look for articles, press releases, and other information, but be wary of potential "planted" positive information as you research.

As you are researching, don't rely on hunches, tips, or "chat-room" gossip. Read national financial publications that evaluate online brokers, and visit sites on the Web. (See WEB SITES, Page 15.) Above all, take your time: Don't be pressured into a hasty decision that you'll regret.

Whether you are investing online or through traditional means, the more information you have, the better decisions you can make to achieve your goals. The following are definitions and other information that you need to know about investing — from A to Z.

ITEMS TO CONSIDER BEFORE INVESTING

COMMISSIONS

As you hone down the list of brokers or services, you will want to know how commissions are calculated. Commissions vary according to what firm you select, what stocks you trade, how often you trade, and whether or not "limit" or "stop" orders are involved. Ask as many questions as you can to ensure you are comfortable with the commission rates.
(See LIMIT ORDERS, Page 12.)

CONFIRMATION

Be certain that you understand your firm's method of confirmation that a trade has been executed. You could lose a lot of money duplicating orders that you think have not been processed.

CUSTOMER SERVICE

Before you select a firm, make sure it has an adequate method of dealing with customer complaints or inquiries. Some of the most common complaints about online firms are rude customer service representatives and lack of response to customer inquiries or complaints.

DAY TRADING

You have probably heard of day trading — a version of online trading. However, online trading differs from day trading. A typical online trader may make 8-10 trades a year and uses technology to execute a traditional kind of investment strategy. A day trader trades all day long, attempting to make tiny profits on many trades, then zeroes out the account — in other words, the trader sells or buys to end the day at 0.

DIVERSIFICATION

Many online investors deal primarily in stocks. Don't forget about the importance of **balancing** your portfolio with stocks, bonds, and cash.

EXPERIENCE

You want to make the best decisions when it comes to your investments. If you feel inexperienced, you may want to work with a stockbroker who can offer help. When you trade online you are responsible for researching and answering your own questions.

FEES

Discount firms offer a variety of services and charge many types of fees, including annual, maintenance, account closing, inactivity, and other fees. Ask, e-mail, or write to firms you're interested in and request an up-to-date fee and commission schedule before you open an account. (Some firms will pay you to open an account with a minimum balance.)

FILING COMPLAINTS

If you have a complaint against your firm, promptly file a written (not e-mail) complaint with the broker. Include details of the transaction and copies of pertinent documents. If there is no response within two weeks, write another letter. Send a copy of the complaint to the Financial Industry Regulatory Authority (FINRA) and to us. The address for FINRA's nearest office is Two Union Square, 601 Union St., Suite 1616, Seattle, WA 98101-2327. Our address is on Page 1. If your complaint is not satisfactorily resolved, your next step may be requesting mediation (non-binding) or arbitration (binding).

HARDWARE/SOFTWARE

There are a couple of considerations if you decide to go online: one is whether your personal computer and its software (browsers, for instance) are compatible with the firm's; the other is whether the firm's system is adequate to handle sometimes huge increases in numbers of clients. Although firms advertise 24-hour-a-day Internet access, some firms may not have systems capable of handling the load imposed on them. Make sure the firm has a secure Web site before you submit any personal information such as financial account numbers or your Social Security number. You can ensure a Web site is secure if there is an "s" after "http" or there is a graphic of a padlock at the lower right-hand corner of the screen. And make sure you have up-to-date virus protection on your computer. Do some investigating if your computer or software is behaving differently.

LAWYERS

If you have filed a complaint against your firm, and it gets to the level of arbitration, you'll want a lawyer experienced in securities cases.
(See WEB SITES, Page 15.)

LEVEL OF TRADING

How many trades you expect to make in a day, a week, or a month can help you decide what commissions you're willing to pay. Some firms offer price incentives for "active" trading patterns. While this may benefit the firm by bringing in more commissions, it may not be to your advantage as an investor.

LIMIT ORDERS

Because the price of a stock may move up or down before your trade is executed, a limit order can protect you. A limit order instructs your brokerage to execute your trade only at the price you specify. For instance, if you made a decision to buy a stock quoted briefly at $9 a share, then instructed your firm to buy 100 shares at market, but the price had gone up to $20 a share by the time the purchase was executed, you could have saved a lot of money by originally placing a limit order at $10 a share. Be aware that most firms charge higher commissions for limit orders.

MARGIN ACCOUNTS

Brokers can open a margin account for you, allowing you to borrow against the market value of your portfolio, so that you can purchase securities on a non-cash basis. “Margin” means that you are borrowing money from the firm to buy stocks. In addition to the risks of the market, you will be charged interest on the money the broker loaned you. If prices — and the value of your stocks — fall, there may be a “margin call,” in which your broker can sell your stock to repay your loan. The broker may contact you first to ask for more collateral, but the broker isn’t required to contact you first.

MEDIATION and ARBITRATION

To open accounts, customers must generally agree to resolve disputes through mediation or arbitration in lieu of the court system. Neither mediation nor arbitration is free; mediation is non-binding and less expensive. Arbitration is binding, meaning that the parties in the case must accept the arbitrator’s ruling, with limited appeal options.

MINIMUMS

Most brokers require a minimum deposit to open an account, and a few charge if your account balance falls below a minimum. Minimums range from nothing to $15,000 or more, and some firms require that you hold other assets as well.

PROFIT

Many investors don't make a profit. Start small and don't invest more than you can afford to lose. Not surprisingly, those who do thorough research are most likely to profit. Don't fall for the "easy wealth" concept promoted by some investment firms.

QUOTES

Know whether the stock quotes you get from your firm are real-time or delayed and when your account information was last updated. Some firms charge a monthly fee for real-time quotes, some offer 100 free quotes per trade, and some may not offer real-time quotes.

RESEARCH

Some firms offer free basic research, such as capsule financial reports and summary earnings estimates. Some offer no research and others charge for it.

SPEED of TRADING

For online investing, you can **usually** access your account on the Internet, but orders won't be **executed** until the market is open or until the firm executes your trade. It may be minutes or hours — and prices will probably have changed by the time your trade is executed.

STOP-LOSS ORDERS

A "stop-loss" order or "stop" order sets a sell price for a stock. When the stock's price drops below the stop-loss level, the stock is automatically sold, thus preventing the investor from further loss. There is a fee for stop-loss orders.

TOO-QUICK CLICKS

If you're purchasing via the Internet, double-check before you click so you don't buy the wrong stock. Clicking the mouse is easy — making sound investing decisions is not.

INVESTIGATE BEFORE YOU INVEST

The best way to stop investment fraud is to prevent it from occurring. Don't be afraid to ask questions and to investigate investment opportunities before you invest. The Oregon Division of Finance and Corporate Securities is here to help you. If you have questions about securities regulations or have encountered potential investment fraud, please call our office.

Community groups or organizations who want additional information or educational materials about investment fraud may call us at 503-378-4140 or toll-free in Oregon 1-866-814-9710, ask for the investor information coordinator. We can provide public speakers as well as brochures on various investment-related topics.

Outsmart financial fraud. Learn how to identify and avoid a con artist. For tips and other information, go to **www.protectyourmoneyoregon.org**.

VERIFICATION

Verify the registration, licensing, and disciplinary history of online or traditional brokerage firms with the Financial Industry Regulatory Authority (FINRA) through their online BrokerCheck site at **www.finra.org/brokercheck**, or by calling 1-800-289-9999, or check with the Oregon Division of Finance and Corporate Securities: 503-378-4140 or 1-866-814-9710.

WEB SITES

These are a few of the Web sites you may need:

- For help finding a securities lawyer:
  www.osbar.org
  (Oregon State Bar);
  www.piaba.org
  (Public Investors Arbitration Bar Association) or
  www.martindale.com
- To find an arbitrator:
  piaba@piaba.org
  (Public Investors Arbitration Bar Association)
- To file an online complaint or find a mediator:
  www.finra.org/complaint
  (Financial Industry Regulatory Authority)
- To access lists of state regulators and investor information:
  www.nasaa.org
  (North American Securities Administrators Association). *Click* on “Contact your Regulator” under “Quicklinks”
- To find out about online investment scams:
  www.sec.gov/consumer/cyberfr.htm
  (Securities and Exchange Commission)
- To file a claim with the Securities Investor Protection Corporation (SIPC), go to their Claim Form Online Center at **www.sipc.org**
- **To contact Oregon Division of Finance and Corporate Securities:**
  www.dfcs.oregon.gov

How you can investigate

Before you invest, investigate the company, the salesperson, and the investment by asking questions and checking references.

You should thoroughly understand the investment **before** you invest. Don't be afraid to ask questions and write down the answers for future reference. Some of the most important questions you should ask the person selling the investment are:

- → What is your name, your firm's name, and your phone number?
- → How did you get my name?
- → Where is your office located?
- → Are you and your firm licensed with the Oregon Division of Finance and Corporate Securities to sell this investment?
- → Is the investment registered with the Oregon Division of Finance and Corporate Securities?
- → What are the risks of this investment?
- → Can you send me a prospectus or other offering document telling me the details of the investment? (Keep all written materials provided.)
- → How much commission are you receiving on this investment?
- → What statements or other documents will I get regarding this investment, and how often will I receive them?
- → How do I liquidate my investment?

Smooth-talking con artists **will** have answers to your questions. They may or may not be true answers. So it is important that you do some further investigating by contacting the following:

CHECK WITH THE ...

Oregon Division of Finance and Corporate Securities

Check our Web site: **www.dfcs.oregon.gov**. Call us at 503-378-4140 or toll-free in Oregon at 1-866-814-9710 to see if the firm or salesperson is licensed to sell investments in Oregon. We can also tell you if the investment is registered for sale in Oregon.

Oregon Insurance Division Consumer Advocate

For free help with your insurance question or complaints call the Consumer Advocacy hotline at 1-888-877-4894 (toll-free) or 503-947-7984.

Financial Industry Regulatory Authority (FINRA)

For information about a firm and the salesperson:
1-800-289-9999, 8 a.m. to 8 p.m. EST.
www.finra.org. Click on FINRA BrokerCheck.

Oregon Attorney General's Financial Fraud Hot Line

Hours are 8:30 a.m. to noon. Check to see if the Attorney General's office has received complaints about a company.

Portland: 503-229-5576
Salem: 503-378-4320
Toll-free: 1-877-877-9392

U.S. Securities and Exchange Commission

1-800-SEC-0330; **www.sec.gov**

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503-378-4140

866-814-9710

www.dfcs.oregon.gov

Click on “Investor Information Program”

440-2098 (1/10/COM)