



INVESTOR ALERT

For Immediate Release

April 13, 2009

FINANCIAL LITERACY MONTH TIP OF THE WEEK **Beware of these Investor Traps!**

Boise, Idaho Governor Otter has declared April as "Financial Literacy Month." One action being taken by the Department of Finance to support financial literacy during April is to issue a consumer bulletin each week.

The turmoil in the credit, securities and real estate markets has led some investors to seek higher returns in non-traditional, speculative investments – a proven feeding ground for unscrupulous promoters and salesmen. Gavin Gee, director of the Idaho Department of Finance, warns that investors who choose to navigate these exotic products should keep in mind these three tried and true investment rules:

- The key to avoid getting burned by any investment is to make sure you understand the product being offered and thoroughly check out both the salesperson and the product with your state securities regulator and a trusted independent financial professional.
- The opportunity for profit is always accompanied by risk, and the larger the potential profit, the greater the risk.
- "If it sounds too good to be true, it usually is!"

The Department's picks for current Investor Traps (*listed alphabetically*):

Deficient Disclosure

The recent investigations by state securities regulators related to auction-rate securities (ARS) have reinforced that investors should remain cautious when pitched complex investment products accompanied by deficient disclosures or when advised to concentrate their investments too heavily in one investment product. It is best to avoid investment pitches that would lead you to put all of your eggs in one basket, especially if it's a basket you don't fully understand.

Online Affinity Fraud

In a new twist on affinity and online investment fraud, unscrupulous individuals are trying to use social networking websites to lure people to meetings that may promote fraudulent or unsuitable investment products. Social networking websites can create an environment ripe for affinity fraud. Fraudsters can take advantage of the fact that people freely share information with both their real and 'virtual' friends by posting it to their profile. Communication tools provided by some social networking websites make it easy to advertise and promote investment scams to a wide audience for free. Investors need to do their own research before making an investment and should not simply rely on 'expert' advice given at a seminar or meeting.

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Ponzi Schemes

The Ponzi scheme is a house-of-cards swindle in which high returns are paid to initial investors out of the funds of later investors. While some initial payments are made to new investors to drum up new recruits, the vast majority of investors lose all their money. Frequently, Ponzi scheme promoters rely on word of mouth to line up new investors and such schemes often involve affinity fraud. In a recent twist since all the publicity surrounding the Bernie Madoff Ponzi scheme, multiple on-line Ponzi schemes have sprung up on a number of popular websites.

Private Securities Offerings

Con artists are turning increasingly to private securities offerings under an exemption from registration known as Federal Regulation D Rule 506 to attract investors without having to go through the full registration process. Although generally legitimate, these offerings are increasingly associated with fraud. Also, proceed with caution when encouraged to invest in “general partnership” or “limited liability companies.” Speculative deals often are packaged as such in an attempt to evade the investor protection requirements of state and federal securities laws.

Promissory Notes

For sophisticated or corporate investors, promissory notes can be a good investment, providing a reasonable reward for those who are willing to accept the risk. However, promissory notes that are marketed broadly to the general public often turn out to be scams. Promissory notes are sold as instruments that guarantee above-market, fixed interest rates, while safeguarding their principal. These notes, however, can become vehicles for fraud when the issuer of the note has no intention or capability of ever delivering the returns promised by the salesperson.

“Pump and Dump” Schemes

E-mail and fax spam, phony press releases and telemarketing drives are the tools of fraudsters who “pump” up the value of low priced securities traded on the electronic over-the-counter markets which are then “dumped” on naïve investors who purchase 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 stock certificates.

Real Estate Investment Schemes

As the housing market continues to reel from the subprime lending crisis, schemes promising large returns from various types of real estate-related investments also are increasing. Some real estate alternatives may actually be worthless real estate investments that promoters are trying to dump off to unsuspecting retail investors.

Unsuitable Sales

State and provincial securities regulators continue to see the sale of complex hybrid financial products, such as variable and equity-indexed annuities, to investors for whom they are not suitable—typically seniors. These products frequently contain features so complicated that even licensed financial professionals are not adequately trained to understand them.



Department of Finance Press Releases and a list of financial literacy month free events can be found on the Internet via the worldwide web at <http://finance.idaho.gov> and may be obtained by contacting the Department at (208) 332-8004 or toll-free at (888) 346-3378.