



# IDAHO

DEPARTMENT OF FINANCE

C.L. "BUTCH" OTTER  
Governor

GAVIN M. GEE  
Director

Contact:  
Marilyn Chastain  
Bureau Chief  
Securities Bureau  
(208) 332-8000

## NEWS RELEASE

For Immediate Release

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### IDAHOANS WARNED ABOUT INTERNATIONAL INVESTMENT FRAUD

Boise, Idaho – Governor Otter has designated April as "Financial Literacy Month" in Idaho. As part of Financial Literacy Month, Gavin Gee, Director of the Idaho Department of Finance, today issued a warning to Idaho investors to approach overseas investing with caution. Gee noted, "Swindlers, with bogus overseas investment schemes, are using high-pressure telephone and email 'boiler room' sales tactics to defraud investors of potentially billions of dollars."

Complaints about overseas investment deals involving precious metals, coins, currency speculation and special foreign banking instruments, such as certificates of deposit (CDs) with "sky-high, no risk" rates, have been reported to the Idaho Department of Finance and local Better Business Bureaus (BBBs). The Department filed a civil lawsuit last month against a Coeur d'Alene man alleged to be involved in selling an Iraqi currency investment program.

Gee and other officials also warn that the rise of off-shore boiler room operations will make it much more difficult, if not impossible, for investors to recover their funds and for law enforcement agencies to investigate and prosecute cases. Even mainstream foreign investments sometimes involve special risks and circumstances due to differing standards of marketplace regulation.

#### Legitimate Overseas Investments

North Americans are investing overseas in greater numbers and with more money than ever before. In part, this is a reflection of the fact that the international marketplace is becoming increasingly integrated and that international funds have made investing abroad easy. Today, there are hundreds of mutual funds which can be grouped into four basic categories: 1) global funds that invest in both U.S. and foreign markets, 2) international funds that invest only outside the U.S., 3) regional funds, and 4) country funds. The number of foreign listings has also grown steadily on U.S. exchanges.

Investors venturing overseas for the first time need to remember, however, that there are major risks involved. A strengthening U.S. dollar can reduce the value of foreign investments owned by American investors. A 20 percent drop in the value of a foreign currency relative to the U.S. dollar has the same impact as a 20 percent drop in that country's stock market prices. On the other hand, if the dollar weakens, foreign assets rise in value.

Foreign governments could be overthrown -- touching off market declines -- or they could nationalize industries. In some countries, only a few hundred stocks trade in large quantities. This may result in exorbitant premiums not justified by the book value and fundamentals of the company involved.

#### SECURITIES BUREAU

Bureau Chief – Marilyn T. Chastain  
800 Park Boulevard, Suite 200, Boise, ID 83702  
Mail To: P.O. Box 83720, Boise ID 83720-0031  
Phone: (208) 332-8004 Fax: (208) 332-8099  
<http://finance.idaho.gov>

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There also are differing views among nations about what constitutes acceptable market practices. In some countries, few prohibitions exist against insider trading. Other countries have no government agency to safeguard the interests of investors and to guard against marketplace misconduct.

These are some of the issues and differences that regulators will grapple with as the world's marketplaces become even more tightly interwoven. Through the North American Securities Administrators Association (NASAA), state securities agencies have taken a major role in the promotion of uniform registration requirements in the U.S. for foreign offerings and have joined in cooperative enforcement agreements in the international arena.

### **Phony Overseas Investments**

Con artists are quick to pick up on the psychology of the current investment climate and they try to create "look-alike" investment swindles that mirror "hot" investments in legitimate markets. Today, con artists see that U.S. investors are paying increasing attention to overseas investment opportunities. As a result, a new generation of scams has also "gone international."

Most troubling is a growing pattern of former U.S. boiler room operators who have moved their telephone sales operations outside the U.S., often to locations that have no extradition arrangements with U.S. law enforcement agencies.

### **Protect Yourself From International Securities Swindles.**

Gee says, "What is true of all securities swindles -- that the best protection is to recognize a scam before turning over your money -- is perhaps most important when it comes to international securities swindles." Here are some simple steps that investors can take to protect their interests:

### **Don't Be Stampeded Into International Investing.**

If you listen to fellow investors and read the business news columns, it is easy to get the impression that everyone is investing overseas. But don't give in to the pressure to send your dollars overseas just to join the crowd. Make sure an investment is appropriate for your financial goals and, in particular, your ability to assume risk.

### **Learn About Foreign Markets.**

How are investments regulated in the nation where you are thinking about sending your money? To what extent are investors in this market protected from investment fraud and abuse? What if you have to resolve some sort of dispute related to your investment? To what government agency would you go for assistance in resolving your problem?

### **Consider U.S. Investment Alternatives That Provide Foreign Exposure.**

Many American corporations listed on U.S. exchanges have large operations in foreign countries and get a significant portion of their revenue from sales overseas. Investing in the stocks and bonds of these companies, or in mutual funds made up of several of these companies, is one way to participate in the growth of foreign markets while keeping your dollars invested in U.S.-regulated corporations. The business reference section of the library is a good place to research these companies. Keep in mind that while these U.S. corporations may face stricter regulations than foreign firms, a company's earnings, and potentially its stock price, will still be affected by foreign currency fluctuations and political instability.

### **Check With The Idaho Department Of Finance And The BBB For Complaints.**

If an investment is being sold to you, its promoter should be registered with the Department of Finance. Ignore claims that overseas investment promoters are somehow exempt from state and federal securities law registration requirements -- they aren't. Also, take the time to inquire with your BBB about the company in question. It may have a record of customers' experiences with, or government actions against, the company.

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**Remember That If You Are Dealing With A Stranger About Something You Can't Personally Check Out... Trouble May Follow.**

Just because someone says that they have an oil well in Europe or a gold mine in South America does not mean that you have enough information on which to base an investment decision. Don't be deceived by slick brochures that may make an enterprise look legitimate. If you don't have the contacts or financial resources to personally inspect your investment, think twice before giving up your money. In general, investors are best advised to deal with people they know and in investments they understand.

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This publication is adapted from a fact sheet prepared by the Council of Better Business Bureaus and the North American Securities Administrators Association

*Department of Finance Press Releases and other information 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) 332-8000 or Idaho toll-free at 1-888-346-3378.*