

Investment Fraud Prevention

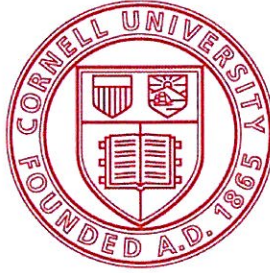
A Presentation of the

Cornell Law School
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<http://securities.lawschool.cornell.edu>

To The Tioga Landowners Association

April 8, 2009

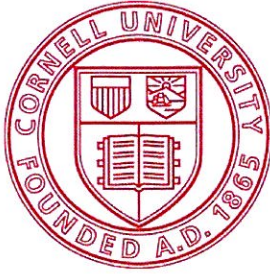


Cornell Law School Securities Clinic
Investment Fraud Prevention

How to Investigate a Broker

Key Addresses and Phone Numbers

1. FINRA BrokerCheck:
 - www.finra.org/investors
2. New York State Investor Protection Bureau:
 - http://www.oag.state.ny.us/bureaus/investor_protection/about.html
3. FINRA BrokerCheck Hotline:
 - (800) 289-9999
4. North American Securities Administrators
 - (202) 737-0900
5. American Association of Retired Persons
 - 1-800-424-3410



Know Yourself – Know Your Investment

Key points

Know yourself

1. each investor has a unique set of needs and limitations
2. understand your personal risk-return profile
3. be honest with yourself and your broker/investment advisor

Know your investment

1. risk and reward go hand in hand, greater reward means greater risk
2. if it looks too good to be true, it probably is
3. do your own due diligence, prevention beats cure

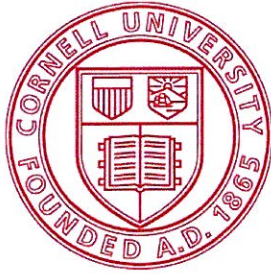
Internet resources

Regulators and government sites (free)

- SEC.gov – investor education and protection information
- FINRA.org - investor education and protection information
- treasurydirect.gov – information on US Treasury bonds, purchase bonds directly from U.S. Treasury on line

Private sites (free)

- finance.yahoo.com – general information on financial markets
- Bloomberg.com – general information on financial markets
- cnbc.com – general information on financial markets
- reuters.com – financial news
- investinginbonds.com (SIFMA) – information on bonds
- municipalbonds.com – information on municipal bonds
- bankingmyway.com – information on CDs
- bankrate.com – information on CDs
- Morningstar.com – information on mutual funds
- lipperweb.com – information on mutual funds
- company websites – information on company's stock and business




THINGS TO KEEP IN MIND WHEN YOU'RE RECOMMENDED A VARIABLE PRODUCT




1. Variable products are investments.

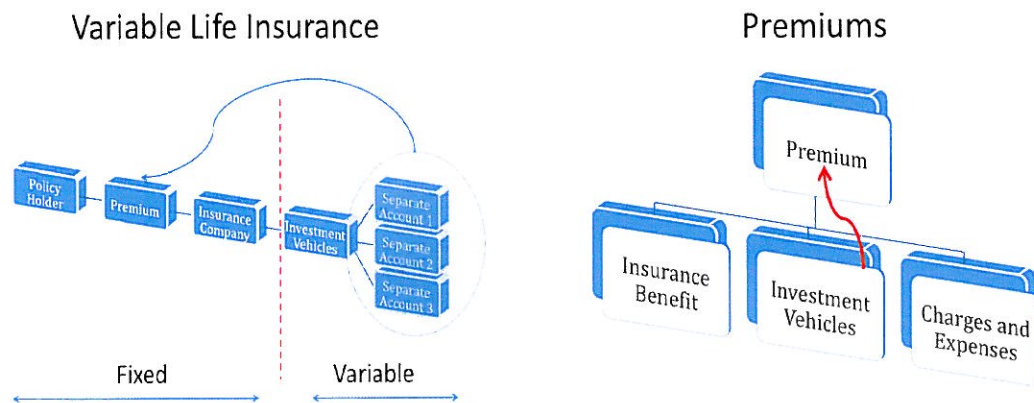
2. Variable Annuities

- a. Remember! 
- i. Tax deferral \neq Tax free
 - ii. Right to annuitize provides low returns
 - iii. You are often better off investing elsewhere
 - iv. Guaranteed minimum death benefit is rarely useful
 - v. High brokers' commission
 - vi. High surrender charges and annual fees

3. Variable Life Insurance

- a. Remember! 
- i. Beware of the vanishing premium claim
 - ii. This is not a retirement product
 - iii. Tax deferral is tricky
 - iv. High brokers' commission
 - v. High surrender charges and annual fees

vi. Potential risk of losing entire policy



4. Helpful Websites



Securities and Exchange Commission – Variable Annuities: What You Should Know
<http://www.sec.gov/investor/pubs/varannty.htm>

FINRA Variable Annuities Center
<http://www.finra.org/RulesRegulation/IssueCenter/VariableAnnuities/index.htm>

Consumer Federation of America – Variable Life Insurance: Is it worth it?
<http://www.consumerfed.org/pdfs/VULReport0203.pdf>

COMMON INVESTMENT SCAMS

The Pump and Dump



Step 1:

- Scam artist purchases high volume of cheap, obscure penny stock

Step 2: The Pump

- Scam artist generates **artificial interest** in the penny stock to drive up its price
 - By spreading rumors through cold calls, spam emails, online bulletin boards

Step 3: The Dump

- Scam artist sells his entire inventory and makes a large profit
- Stock price crashes to reflect actual value and all other investors are stuck with a **worthless stock!**



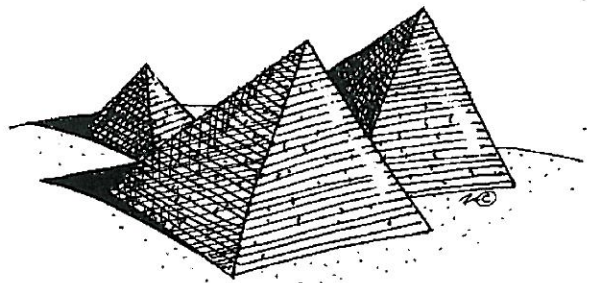
The Ponzi Scheme



- **The Scheme:** Scam artist uses the **payment to pay previous investors** and **recruit more investors** so he can pay you
 - Hook: Scam artist promises to invest your payment and provide a high return
- **The Problem:** Scam artist **cannot continually recruit more investors** → entire scheme collapses
 - In the News: Bernard Madoff case, perpetuated through Affinity Fraud
 - **Affinity Fraud:** Scams that prey on certain identifiable groups (religious, ethnic, etc.) where the scam artist is or pretends to be a member of the group → easier for investors to trust

The Pyramid Scheme

- Similar to the Ponzi Scheme
- **The Difference:** Investors have to recruit others in order to make money
- **Same Problem:** Nothing is invested and mathematically impossible to succeed
 - Key Issue: **No actual product sold**



Viaticals/Life Settlements



- Product: the sale of a terminally ill patient's life insurance policy to an investor at a discounted price
 - **Mutual Benefit:** Investor gets settlement upon patient's death, patient gets lump sum payment to enjoy remaining life
- **Becomes a scam when fraud is involved:**
 - Same policy sold to multiple investors → impossible to collect
 - Defaulted policies → nothing to collect
 - Delayed returns → will never collect

Off-Shore Scams

- Can be used in combination with any of the previously discussed scams
 - Internet usage creates greater exposure for U.S. investors
- May use headlines as hooks → Ex: commodities stocks, bird flu stocks



COMMON WARNING SIGNS



Cold Calls and Spam Emails

- Mysterious source provides an insider tip
- May use **Name Affiliation** or **Professional Designations**

Guarantee of High Returns

- Remember, there is no guarantee in any investment!
- The higher the return, the higher the risk



Pressure to Invest Now!

- Aggressive and pushy solicitation to force investor to make uninformed decision
- Don't let the emotional appeal get you and always investigate the product!

Advance Fee

- Requiring an upfront payment to invest, then scam artist takes the money and runs!
- Know where your money is going before paying!



Missing or Unusual Documentation

- Investment documentation, if any, sent from mysterious locations
 - Legitimate investment firms send from one centralized location
- Make sure to have all relevant documentation: prospectus of stocks, periodic financial statements of companies