



Investor Alert

Avoid Getting Ripped Off by These Common Scams

If you've been targeted by any of these familiar tactics, you're not alone. Chances are you or someone you know will be the next potential victim.

Here's a list of well-known scams to avoid:

Affinity Fraud – This type of fraud occurs within organizations of like-minded members, such as a business or professional group, social club, church or religious-oriented fellowship. The scammer is often a member of the group or is known by a member, which provides a certain amount of automatic trust. But that trust is destroyed when the scammer walks away with everyone's money. Be cautious when approached by someone using the affiliation of a group as a method to get you to invest in something. Promoters and their so-called investments should be investigated before handing them any money.

Unregistered Products/Unlicensed Sales Representatives – The offer of securities by a person without a valid securities license should be a red alert for investors. Con artists bypass stringent state registration requirements to pitch unregistered investments with a promise of "limited or no risk" and high returns.

Ponzi Schemes – Ponzi schemes are based on fraudulent investment management services. Investors contribute money to the "portfolio manager" who promises them a high-rate of return, and then when those investors want their money back they are paid out with the incoming funds contributed by later investors. The person organizing this type of fraud is in charge of controlling the entire operation; they merely transfer funds from one client to another and forgo any real investment activities. The fraud is self-sustaining as long as the money coming in from new investors matches or exceeds the cash being paid out to earlier investors.

Pyramid Investments – A pyramid scheme is structured so that the initial schemer must recruit other investors who will continue to recruit additional investors, and those investors will then continue to recruit additional investors and so on. Sometimes there will be an incentive that is presented as an investment opportunity, such as the right to sell a particular product. Each investor pays the person who recruited them for the chance to sell this item. The recipient must share the proceeds with those at the higher levels of the pyramid structure. The guilty party in the pyramid scheme is the originator of the corrupt business practice, not the additional participants as long as they are unaware of the illegal business practices.

Promissory Notes – A promissory note is a financial instrument that contains a written promise by one party to pay another party a definite sum of money either on demand or at a specified future date. These short-term debt instruments are issued by little-known or sometimes non-existent companies that promise high returns with little or no risk.

Investment Seminars – There are all kinds of "seminars" promoted to the public, most of which promise big financial returns for little effort. Flipping houses, stock market day trading, commodity investments and other get-rich schemes are marketed through newspaper, radio and TV ads and "infomercials" on television. Sadly, the only people getting rich are those running the seminar by making money from admission fees and the sale of books and audiotapes.

Be wary of an investment strategy that claims to be easy, simple or so unique that it can make more money than any other investment. Also watch out for claims of high profits at low risk, guaranteed results, and pressure to “sign up now” to lock in a discount. Before attending any investment seminar, investors should research the people or company promoting the seminar to see if they have any history of complaints, fraud or criminal activity.

Oil and Gas Wells – Although there are legitimate investment opportunities in oil and gas development, it is not unusual for unscrupulous promoters to take advantage of investors by engaging in fraudulent practices. Fraudulent oil and gas deals frequently are structured with the limited partnership (or other legal entity) in one state, the operation and physical presence of the field in a second state, and the offerings made to prospective investors in states other than the initial two states. As a result, there is less chance of an investor dropping by a well site or a nonexistent company headquarters. Such a structure also makes it difficult for authorities and victims to identify and expose the fraud.

Real Estate – Troublesome real estate-related investments identified by securities regulators included non-traded real estate investment trusts (REITs), timeshare resales, and brokered mortgage notes. These types of products often carry higher risk. For example, non-traded REITs are sold directly to investors and are not traded on exchanges (as are conventional REITs). Non-traded REITS can be risky and have limited liquidity, which may make them unsuitable for certain investors.

To avoid potential financial fraud, investors are encouraged to call the Division’s Investor Protection Hotline at 877-683-7841 before they invest money and ask:

- Is the brokerage firm and salesperson licensed to sell securities in Ohio?
- Have any enforcement actions been taken against them?
- Has the security been properly registered with the Division of Securities?