



HOW TO PROTECT YOURSELF FROM INVESTMENT SCAMS

As American consumers feel the pinch of a tight economy, many are looking for faster ways to make money and save for retirement. Unfortunately, such a mindset opens the door for investment scams, which are currently on the rise in terms of quantity and variety.

Those who fall prey to investment scams often lose much more than what they would have put into a typical investment. Many are cheated out of their life savings, insurance payments, and even equity out of their homes. To make matters worse, regulators are usually unable to protect the victims after they have been “taken” by the scam. So in other words, the victims have little recourse or hope to recoup even a small fraction of their loss.

The key to avoid being conned by an investment scam is to educate oneself on the various scams out there and to follow sound investing strategies. The following guidelines can help you with both.

WHAT TO LOOK OUT FOR

You’ve probably received offers in the mail to attend a free lunch or dinner where you can learn more about a potential investment opportunity. Beware, because these free meals may not be “free” at all. Free lunches and free dinners are where many scammers entrap their victims. A smooth-talking host (con artist) puts you at ease with some good food and then promises to protect you from market risk, estate taxes, and probate when you act now and invest today. The host may even claim that he or she has obtained a designation with “senior” in the title, hoping you’ll never know many of these titles are not recognized by industry regulators.

This is not to say that all free lunch or dinner offers are scams. You have to do your homework. Some things to investigate are:

- Is the host (advisor) properly registered? Dealing with an unregistered individual is a big risk.
- Have any regulatory authorities or professional associations taken disciplinary actions against the

advisor? This information is available at www.finra.org.

- Are the advisor’s product recommendations legitimate? For an investment offering make sure it is registered with an appropriate regulator, such as your state securities agency or SEC. For insurance policies, check to make sure the policy and the insurer are approved by your state insurance department and that the advisor is licensed to do business in that state.

If you’re wondering if the recent free lunch and dinner invitations you received are legitimate or scams, you need to know the top investment frauds to watch out for. Here the five most common ones to know about.

- **Ponzi Schemes or Investment Pyramids.** Named after Charles Ponzi, a swindler from the early 1900s, who conned \$10 million from investors by promising 40 percent returns, these scams promise rich rewards by using money from later investors to pay early investors. In time they collapse, leaving everyone connected with them, except the con artist, a lot poorer. Ponzi scammers often blame government intervention for the failure of their system.
- **Unregistered securities.** Stocks and other funds sold on national exchanges that must be registered with a state’s security agency. This registration is important because it protects consumers from dubious investment opportunities. Unregistered securities typically promise no risk and high returns.
- **Prime Investment or Prime Bank Schemes.** With this scam, con artists tell investors they will be given access to investment opportunities reserved for the world’s elite or top Wall Street financiers. These investments often have names like “bank debentures,” “bank guarantees” and “offshore trading programs.” Such fancy programs simply don’t exist.

- **Promissory Notes.** These are short-term debt instruments often sold by independent insurance agents and issued by little known or non-existent companies. They “guarantee” above market, fixed interest rates, while “preserving” principal. They are usually worthless, as the borrower has no intention or ability to repay.
- **Affinity Fraud.** With this scam, the con artist takes advantage of the tendency people have to trust others with whom they share similarities. As such, scammers use their victim’s religious or ethnic identity to gain their trust and then steal their life savings.
- **Annuities.** Another investment which is frequently highlighted by the regulators are annuities. While annuities are not scams, a selling agent can misrepresent them, most notably with the omission of disclosures about costly surrender charges and steep sales commissions.

HOW TO PROTECT YOURSELF

With so many scams making their way around the globe, you may be wondering how you can ensure that you don’t become the con artists’ next victim. To protect yourself, keep the following strategies in mind:

- **Take it slow.** Don’t rush to make an investment decision, no matter how “urgent,” “hot” or “time sensitive” the advisor makes the investment seem.
- **If it sounds too good to be true...** The old saying may be trite, but it’s especially true when it comes to investing. If something sounds too wonderful or unusually good, run in the opposite direction.
- **Educate yourself.** Read all written materials and prospecti, and then ask questions. Don’t be afraid to get a second opinion.
- **Be of sound mind.** Don’t make investment decisions when you’re vulnerable, such as after a death in the

family, severe illness or before or after a wedding. Life changing experiences are stressful enough without an investment decision to worry about.

- **Use logic, not emotion.** Don’t fall prey to either fear or greed. When evaluating investments, use your head, not your emotions. Scam artists often appeal to your emotions to get at your money.
- **Fancy isn’t always better.** Just because someone has a fancy brochure doesn’t mean the product is legitimate. Also remember that a friendly, authoritative voice can usually mask a worthless investment.
- **Know whom you’re paying.** Never make a check out to an advisor. Instead, make the check out to the insurance or investment company providing the product. Also, do not pay cash for any investment or insurance.
- **Read everything.** Look for timely reports and statements. Read your statements thoroughly to check for excessive or unauthorized trading.

THE SCAM STOPS HERE

Unfortunately, investment scams and con artists will never totally disappear, even with good regulations. Therefore, you need to be a smart consumer and do your “due diligence” prior to making any investment or purchase decision. The more you educate yourself about the various scams and the techniques to keep your money safe, the better decisions you’ll make for yourself and your family’s future.

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This article is provided by courtesy of Douglas Charney, a senior Vice President/Investments with Wachovia Securities in Harrisburg, PA. He welcomes your comments and you can reach him at 888-529-2973.



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