

Investor Alert*
Investors Over Fifty

- **Free Meal Seminars**
- **Senior Financial “Specialists”**
- **Dishonest Sales Practices**



Louisiana’s Office of Financial Institutions (OFI) warns investors over fifty to be aware that a combination of “free lunch” seminars, misleading “senior specialist” designations, and dishonest sales practices can create a perfect storm for investment fraud.

Background

From the “Greatest Generation” to the “Baby Boomers,” seniors have worked hard to build both our nation’s economic prosperity and a lifetime’s worth of savings. In the United States alone, an American turns 50 once every seven seconds. The 50-plus population is the fastest growing segment worldwide and predicted life expectancies are at a historical high. Today’s retirees have more than \$8.5 trillion in investible assets and over the next 40 years, they stand to inherit at least \$7 trillion from their parents, according to industry estimates.

Because seniors are a growing segment of investors, financial services firms are increasingly focusing their marketing and sales of investment products towards senior investors as well as investors nearing retirement age. So too, are criminals.

State and federal securities regulators are increasingly concerned about the possibility of dishonest sales practices and investment fraud targeted towards senior investors. While people age 60 and older make up 15 percent of the U.S. population, they also account for about 30 percent of fraud victims, estimates Consumer Action, a consumer-advocacy group.

Free Meal Investment Seminars

Many individuals over the age of 50 have received an invitation in the mail offering a free lunch or dinner investment seminar. There’s a certain consistency to the invitations enticements: *a free gourmet meal, tips on how to earn excellent returns on your investments, eliminate market risk, grow your retirement funds, and, spouses are urged to attend.* These words should be red flags for investors.

Free meal sales seminars are often advertised in local newspapers, through mass-mailed invitations, mass-email, and on websites. The seminars are commonly held at

upscale hotels, restaurants, retirement communities, and golf courses. In addition to providing a free meal, the firms and individuals that conduct these seminars often use other incentives such as door prizes, free books, and vacation deals to encourage attendance.

Many free meal seminars are designed to solicit seniors. In addition to a free meal, the bait for many of these seminars is that “income” will be “guaranteed” and substantially higher than the returns someone on a fixed income can expect to get from certificates of deposit, money market investments or other traditional financial products.

Advertised with names like “Seniors Financial Survival Seminar” or “Senior Financial Safety Workshop,” these seminars offer “free” advice by “experts” on how to attain a secure retirement, or offer financial planning or inheritance advice. The advertisements often imply that there is an urgency to attend. For example, invitations include phrases such as “limited seating available” or “call now to reserve a seat.”

And while the ads may stress that the seminars are “educational,” and “nothing will be sold at this workshop,” many of these seminars are intended to result in the attendees’ opening new accounts with the sponsoring firm and in the sales of investment products -- or to result in a private appointment later -- where these goals will be pursued.

Below are some common phrases used in ads:

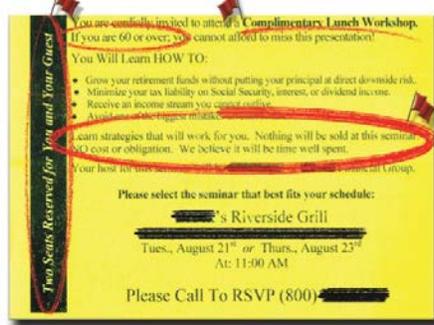


Red Flags for Seniors



Eliminate total market risk - guaranteed!
A "free gourmet meal"

Spouses are "urged to attend"
Targeted towards the retired



Phrases used to attract investors to free meal seminars: *free gourmet meal, how to earn excellent returns on your investments, eliminate market risk, grow your retirement funds, and, spouses are urged to attend.* These words should be red flags for investors.

Promoters of free meal seminars often use the promise of high commissions to lure brokers, insurance agents, investment advisers, accountants, and lawyers, some of them not licensed to sell securities, into offering investments they may know little about, such as variable or equity-indexed annuities, limited partnerships or promissory notes. Some of these individuals hold nothing more than a “designation” as “senior specialists” implying that they have expertise in helping seniors structure their retirement portfolios in such a manner as to reduce taxes, minimize risk and avoid state probate laws.

State securities regulators are seeing a variety of violations associated with many of these seminars, ranging from outright lies and the conversion of investor funds to more sophisticated forms of abuse. Often, in a follow-up sales pitch, the salesman recommends selling securities and using the proceeds to purchase indexed or variable annuity products that the specialist offers. These products are often grossly unsuitable for senior citizens. Securities professionals must know their customers’ financial situation and refrain from recommending investments that they have reason to believe are unsuitable. It pays to make sure investments match up with your:

1. Age
2. Need for access to the money
3. Tolerance for risk

These investment recommendations also may represent the offering of investment advice for compensation. If the salesman is not properly licensed, then he or she is offering investment advice as an *unregistered* investment adviser, which is a violation of state securities law in Louisiana.

Since 2003, when NASAA first identified the risk that seniors face at free meal investment seminars, state securities regulators like OFI have been actively investigating cases to stop the spread of unethical sales practices that often arise from these events. For example:

- The Missouri Division of Securities issued a Cease and Desist Order against an Ozark man for allegedly misleading senior investors and using their money for personal expenses, such as credit card and country club bills. The individual, who previously served time in federal prison for fraud, generated potential clients by conducting seminars targeting older investors. During the seminars he would discuss tax, investment, and insurance issues with the participants – but not important facts and risks about the investments he was offering -- or his felony fraud conviction. The state’s investigation found that of the \$1.3 million was transferred between accounts controlled by this individual over a two-year period, only \$12,000 remained.

- In Utah, World Group Securities, a broker-dealer based in Duluth, Georgia, agreed to pay a \$50,000 fine and strengthen its supervisory practices after two of its agents were found offering “free lunch” seminars for seniors and misrepresenting the credentials of one of the agents. An investigation by the Utah Division of Securities found that the two agents found their senior clients through investment seminars, where misleading information was presented in an attempt to persuade senior investors to transfer their investment accounts to one of the agents.

For example, one agent told seniors that due to his skills, one of his clients could now afford to take three vacations a year and had invited him and his family to join the client on vacation. In truth, the client with whom the agent vacationed was his father.

- In Colorado, the state Division of Securities and county law enforcement authorities won the securities fraud conviction and 20-year prison sentence of a con man who defrauded at least 25 people – mostly senior investors – of almost \$600,000 in retirement savings. Between 1999 and December 2002, the fraudster solicited money primarily through “free lunch” seminars and presentations at retirement and senior centers in Colorado and New Mexico.
- In California, the Department of Corporations charged an individual with fraudulently operating as an investment adviser after he made recommendations to some 40 clients, primarily seniors, who invested \$15 million in mutual funds. This investment activity generated an average of at least \$150,000 annually in commissions for the “adviser” who hosted the seminars. Not only did this individual lack a state license to operate as an investment adviser, but he also had a history of disciplinary actions by the NASD.

Senior “Specialist” Designations

State securities regulators continue to see another disturbing trend in the area of senior abuse. Increasingly, unregistered individuals are using impressive-sounding but misleading titles and professional designations. Many of these designations suggest that whoever bears the title has a special expertise in addressing the financial needs of seniors.

While some of these designations reflect genuine credentials, many do not. These titles can serve as an easy way for an unscrupulous sales agents or advisers to gain a senior’s trust, which is the first step in a successful fraud. Often these designations are used in conjunction with “free lunch” seminars. In other cases, they are highlighted in mass mailings, business cards, and other promotional materials.

It is becoming more difficult for prospective investors – particularly senior citizens – to determine whether a particular designation represents a meaningful credential by the agent or is simply an empty marketing device. Use of such professional designations by

anyone who does not actually possess special training or expertise is likely to deceive investors. Such aggressive marketing results in unsuitable investments being sold to clients by salespersons with little regard for the individual, specific needs of the senior client or understanding of the product which they are selling.

The requirements to obtain designations and certifications vary greatly, as can the processes for monitoring compliance with a code of conduct or ethics used by the organization which awards the designation or certification. Investors often have insufficient information about the designation or certification when trying to determine which designation or certification represents meaningful educational achievement by the salesperson, or which designation or certification merely represents a marketing tool.

While there are organizations whose members complete rigorous programs of study and pass extensive examinations to earn “senior specialist” designations, there are other organizations that require little or no training to use one of these designations. For this reason, senior investors should make sure they deal only with individuals who are licensed with OFI, Louisiana’s state securities regulator. OFI licenses brokers and investment advisers after they pass rigorous competency examinations.

How to Protect Yourself

You can avoid becoming an investment fraud victim by following these self-defense tips developed by NASAA for senior investors.

Check out strangers peddling strange deals. Trusting strangers is a mistake anyone can make when it comes to their personal finances. Say “no” to any investment professional who presses you to make immediate decisions without giving you an opportunity to check out the salesperson, firm and the investment opportunity itself. Extensive background information on investment salespeople and firms is available from OFI at no charge through their *CRD Reports*, available upon written request.

Stay in charge of your money. Beware of anyone who suggests investing your money into something you don’t understand, or who urges that you leave everything in his or her hands.

Watch out for salespeople who prey on your fears. Con artists know that you worry about either outliving your savings or seeing all of your financial resources vanish overnight as the result of a catastrophic event, such as a costly hospitalization. Fear can cloud your good judgment. Don’t allow promoters to “bait” you by playing on your fears.

Don’t make a tragedy worse with rash financial decisions. The death or hospitalization of a spouse has many sad consequences – financial fraud shouldn’t be one of them. If you find yourself suddenly in charge of your own finances, get all the facts before you make any decisions, and get them in writing.

Monitor your investments and ask tough questions. Don't compound the mistake of trusting an unethical investment professional by failing to keep an eye on the progress of your investment. Insist on regular written reports directly from the company holding your investment, not from the person who sold you the investment. Look for signs of excessive or unauthorized trading of your funds. Report suspicions of investment fraud to OFI for a confidential investigation.

Look for trouble retrieving your principal or cashing out profits. If a stockbroker, financial planner or other individual with whom you have invested stalls you when you want to withdraw your principal or profits, you have uncovered someone who wants to cheat you. Some kinds of investments have certain periods when you *cannot* withdraw your funds, but you must be made aware of these kinds of restrictions before you invest.

Don't let embarrassment or fear keep you from reporting investment fraud or abuse. Criminals know that you might hesitate to report that you have been victimized in financial schemes out of embarrassment or fear, and count on these fears to prevent senior investors from reporting scams to OFI and other authorities. Every day that you delay reporting fraud or abuse is one more day that the criminal is spending your money -- and finding *new* victims.

OFI cautions investors to thoroughly check out every investment opportunity before investing.

To inquire about a securities salesperson or report suspected fraud, contact OFI at:

Call: (225) 925-4512
OR 1-877-516-3653

Write: Office of Financial Institutions
Securities Division
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Second Floor
Baton Rouge, Louisiana 70809

Fax: (225) 925-4511

Website: www.ofi.la.gov/SecuritiesInvestorEd.htm

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