Jesse White — Secretary of State — NEWS

ILLINOIS SECRETARY OF STATE

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Secretary White Announces Updated Securities "Top 10 Scams"

SPRINGFIELD –– Illinois Secretary of State Jesse White released a list today of the Top 10 types of securities scams. The Illinois Secretary of State's Securities Department as well as other regulatory agencies compiled the list. Securities regulators estimate that securities fraud costs Americans billions of dollars each year. "With the increased instability of our Securities markets and the recent downturn in the economy, it becomes even more important that Illinois investors remain on the alert to the possibilities of fraudulent investment schemes," warns Secretary White.

"State and national securities law enforcement officers are doing their best to protect investors, but people must also do their share to prevent fraud," White said. "By the time the regulators are notified, the investors money is usually gone and is rarely recovered. Knowledge and awareness are the first line of defense against fraud." White reminds consumers to remember to investigate before you invest.

Here is a list of the Top 10 Scams:

1. Unlicensed individuals selling unregistered unlicensed often-fraudulent securities. Scammers often target independent unlicensed insurance agents to sell their "products". Generally they claim in bold letters that the product is NOT a security. These agents generally are working on high commission payouts and have very little knowledge of the investment they are peddling to their clients.

2. Affinity group fraud. Many scammers use their shared

religious or ethnic identity to gain the victim's trust. Last year, 19 individuals were indicted for mail and wire fraud, money laundering and conspiracy in connection with securities fraud in east central Illinois. Investors in this state have lost millions to these unscrupulous promoters who promised unrealistic returns and fabulous wealth based upon their faith in God. Never underestimate the capacity for deviousness these crooks employ to separate you from your money.

3. Pay Phones and ATM swindles. In early March, Illinois and 24 other states and the District of Columbia announced actions against companies and individuals-many of them independent life insurance agents-that bilked approximately 4,500 persons out of $76 million by selling coin-operated customer-owned telephones. Investors leased pay phones for between $5,000 and $7,000 and were promised annual returns of up to 15% for the operation of these phones. In Illinois, 165 investors were defrauded of approximately $5.4 million involving the sale of investments in pay phones.

4. Risky or fraudulent promissory notes. Short term debt instruments issued by little known or sometimes non-existent companies may promise high returns but offer higher risk. Independent insurance agents often sell these notes to investors. Last year, in one case alone, Illinois investors and others lost about $7 million investing in high yield promissory notes sold by independent insurance agents.

5. Internet Fraud. Scammers use the wide reach and supposed anonymity of the Internet to perpetrate "pump and dump" schemes via investment "chat rooms." They will use the chat rooms to promote a thinly trade security over which they have controlling interest, promote bogus offshore "prime bank" notes and publicize pyramid schemes. As a general rule, any investment advice generated from an unaccredited source in these chat rooms should be avoided.

6. Ponzi/Pryamid schemes. These swindles promise high return to investors, but the only people who consistently make money are the promoters who set them in motion, using money from previous investors to pay new investors. Inevitably, the schemes collapse when the flow of "new money" dries up and the promoters cannot be found.

7. Callable CD's with undisclosed risks. These higher-

yielding certificates of deposit won't mature for 10 to 20 years, unless the bank, not the investor, "calls" or redeems them-a fact many investors fail to understand or appreciate. Redeeming the CD early may result in large losses to the investor. Sellers of callable CD's often don't adequately disclose the risks and restrictions to investors.

8. Risky or fraudulent viatical settlements. Originated as a way to help the gravely ill pay their bills, these interests in the death benefits of the terminally ill are always risky and sometimes fraudulent. The insured gets a percentage of the death benefit in cash; investors get a share of the death benefit when the insured dies. Because of uncertainties of predicting when someone will die, the return on these investments is always speculative.

9. Prime Bank schemes. Scammers promise investors triple-digit returns through access to the investment portfolios of the world's elite banks. These scammers often target conspiracy theorists, promising access to the "secret" investments used by the Rothchilds or the Saudi royal family. Obviously, none of these schemes have any basis in fact.

10. "Investment seminar" consumer frauds. Often the people getting rich are those running the investment seminar, making money from admission fees and the sale of books and audiotapes. These seminars are marketed through newspaper, radio and TV ads and "infomercials" on cable television. These seminars are often outrageously overpriced for the type of information they generate which usually involves some esoteric "system" for making money on your investments.

If you suspect you have been the victim of a securities fraud or you want to verify the registration of a broker dealer or investment adviser, call Secretary White's Securities department at 800-628-7937.