



# Jesse White

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## SECRETARY OF STATE

# NEWS

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### JESSE WHITE IDENTIFIES TOP 10 TRAPS FACING INVESTORS

Secretary of State Jesse White today released his securities department's annual list of the Top 10 Traps that investors should avoid.

"The path to safe investing is littered with traps that are likely to catch unwary investors. It always pays to remember that any investment that sounds too good to be true, usually is," said White.

Before making any investment, White urged investors to make sure that the salesperson is licensed with his Securities Department and the investment is registered. Investors should also be sure to obtain adequate written information that fully explains the investment.

"Investor traps usually involve slick sales pitches promising high returns for little or no risk," said White, noting that investors should also be careful of legitimate investment products that are suitable for some investors, but too risky for others. "You should make sure that any claims made for the investment are realistic and the product is suitable for you"

White strongly advised investors to contact his office with any questions about an investment product, broker or adviser, before making an investment. He urged them to visit the office's website at [www.AvoidTheScam.net](http://www.AvoidTheScam.net) or to call 800-628-7937.

The following is an alphabetical listing of the Illinois Secretary of State's Top 10 Traps for investors:

**Affinity Fraud-**Some con artists may be members of a particular group or pretend to be members in order to gain trust. Cons often recruit a respected member of a community or religious congregation to promote their schemes by convincing them that a fraudulent investment is legitimate. In many cases, even these leaders become victims of what turns out to be a Ponzi scheme. In a recent case, an Illinois pastor was indicted on 30 counts of securities fraud and theft for luring congregants into a 'Christian' development investment.

**Foreign Exchange Trading-**Foreign exchange (forex) trading can be legitimate for governments and businesses concerned about fluctuations in international currencies, and it can even be appropriate for some individual investors. But the average investor should be wary when it comes to these complex markets. Forex scams attract customers with sophisticated-sounding offers placed in newspaper advertisements, radio promotions, or on Internet sites.

**Internet Fraud-** Scammers continue to take advantage of technology to lure investors into "pump-and-dump" stock schemes. The Securities Department recently issued an order against an individual who used the Internet to get investors for a purported movie deal. Assets of the individual were seized including a \$400,000 home that was paid for in cash.

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**Investment Seminars-** Promoters of unsuitable investments are increasingly seeking potential investors, particularly seniors, by offering seminars, many of them promising a free meal along with “higher returns and little or no risk.” Unfortunately, in many of the cases that securities regulators see, it’s just the opposite: high risk and no returns.

**Oil and Gas Scams-** Rising oil and natural gas prices have made a variety of traditional and alternative energy projects attractive to investors. A recent scam in Southern Illinois resulted in investors losing millions. The perpetrators are facing criminal prosecution.

**Promissory Note Schemes-** Con artists peddling promissory notes promise above market interest rates and safety of principal. They often claim that the investors’ monies will be invested in small businesses, real estate ventures, trading programs and other money-making deals. In reality, the investors’ funds are often spent on the con artist’s personal expenses. The Department handles numerous cases involving promissory note fraud, many leading to criminal convictions.

**Private Securities Offerings-** Con artists are turning increasingly to private securities offerings under Rule 506 Regulation D of the Securities Act of 1933 to attract investors without having to go through the full registration process. Although sometimes legitimate, these offerings are often risky and at times even involve fraud. Generally, private offerings are designed for financially sophisticated investors.

**Real Estate Investment Contracts-** Despite the recent decline in property values, investments in real estate long have been viewed as a “sure thing,” one with little downside risk and the potential for substantial returns. Some real estate investments are securities subject to full regulation under the state and federal securities laws, including registration requirements and antifraud rules. An investment professional lost his license to sell securities because he lured investors into a 'guaranteed safe' real estate deal but instead diverted the money for a speculative investment in a hotel.

**Unlicensed Individuals & Unregistered Products-** Anyone selling securities or providing investment advice about buying or selling securities must be appropriately licensed. Anyone engaging in these activities without a valid license to do so should be a red alert for investors. Con artists also bypass stringent state registration requirements to pitch viatical settlements, pay telephone and ATM leasing contracts, and other investment contracts with the promise of "limited or no risk" and high returns.

**Unsuitable Sales-**What might be a suitable investment for one investor might not be right for another. Securities professionals must know their customers’ financial situation and refrain from recommending investments that they have reason to believe are unsuitable. For example, variable and equity indexed annuities are often unsuitable for senior citizens because those products are generally long-term investments that limit access to invested funds. Make sure your investments match up with your age, your need for access to money, and your risk tolerance.