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Investment Frauds You Need to Know



Promissory Note





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A dime a dozen



Many investment frauds are a “dime a dozen” –
 We will review Ponzi Schemes, Affinity Fraud and Free Lunch scams – Plus I will introduce several other lesser-known scams!

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- Ponzi, Free Lunch, and Affinity Fraud Schemes
- Pump n’ Dump, Promissory Note, and Prime Bank Investment Schemes
- Common red flags of investment schemes

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A Ponzi Scheme is an investment “opportunity” that promises “high rates of returns” with little or no risk to you or other investors.




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Ponzi Scheme

- Charles Ponzi – 1920’s
- No actual business
- Money is paid to original investors, from funds that come in from new investors
- Promise great returns that are higher than other opportunities



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Bernie Madoff

- Arrested 12/08 – \$multi-BILLION Ponzi scheme
 - Originally operated a legitimate investment business
 - Had multiple sets of records – one for regulators, one for investors
- Pled guilty to 11 felony charges:
 - Money laundering
 - Perjury
 - False filings with SEC
 - Fraud
- Sentenced 6/09 – 150 years in prison
 - Got no leniency
 - No plea bargains




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Jan Lewan stole about \$5 MILLION from his fans and investors in Pennsylvania, Delaware, and New Jersey...



He was sentenced as follows:

- PA – 5 years & 11 months
- DE – 5 years
- NJ – 7 years

He served a total of 5 years – the sentences ran concurrently...

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Affinity Fraud

Relies on trust and friendship within groups of people who have something in common.

- Church organizations
- Civic clubs
- Community groups
- Athletic organizations

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Red Flags of Affinity Fraud

- Someone you just met tries to encourage you to invest in a “new investment” that is making big returns
- They may not be able to provide you written information about the investment
- Push you to invest because “everyone else” is doing it

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Tips to Avoid Affinity Fraud

- Check out everything – no matter how well you know the person
- Don’t fall for promises of high returns
- Be wary of any “opportunity” that isn’t made in writing
- Know that fraudsters use email and other virtual connections to entice investors

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Free Lunch Seminar

- The mailer invites you to a free “no strings attached” gourmet meal
- The promise of a “guaranteed” a higher rate of return than normal
- High pressure sales at or shortly after “dinner” is served



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Free Lunch – Red Flags

- ▣ Glossy bright, expensive invitations
- ▣ Advertised in local papers (no expense spared)
- ▣ “Free” advice by experts who will “guarantee” much higher returns than anywhere else





- ▣ Strictly educational, no sales – until the follow up calls
- ▣ Expensive meal at a high class restaurant
- ▣ “No market risk” to you, “you cannot lose money”

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Pump and Dump Scam

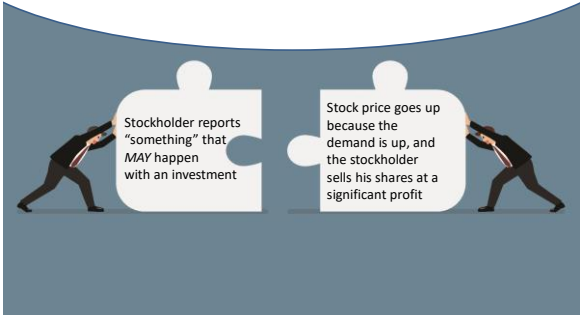


“Pump up” the price of individual shares and “dump” your shares when the stocks are high!

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Two pieces to a “pump and dump” scam...



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Once the price of the stock increases based on the fraudulent information, initial stockholders sell their stock at the inflated price and in the end turn a significant profit.

You should know:

- Typically involve small cap companies
- These schemes are often found on the internet
- May involve cold calling and leaving a message regarding an investment opportunity

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Red Flags of a Pump and Dump Scam



- 1) Unsolicited investment opportunities – may come by mail, email, phone call, or even social media
- 2) The “too good to be true” – remember, if it sounds too good to be true, it probably is
- 3) Likely a small company, or one that may not have much history/public information


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Promissory Note

A promissory note is a written promise to (re)pay a specified sum of money at certain time. These are like IOUs and pay interest (defined in the contract) to investors. Real promissory notes are only offered to “sophisticated” or institutional investors.



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The fraudsters convince individuals to buy promissory notes as a “safe, dependable investment,” that pays a much higher rate of return (as much as 20-30%).

You should know:

- Legitimate promissory notes are a security, and must be registered with the SEC
- The seller must be licensed to sell securities
- Know that securities are never “risk free,” “guaranteed,” or “insured.”

Red Flags of a Promissory Note Scam



- 1) Guaranteed return – there is always a risk associated with an investment
- 2) Risk-free notes – there is always a risk that the company won’t be able to repay their debt
- 3) Short-term offer – the company will repay the debt in a short amount of time (less than nine months)

Prime Bank Investment Fraud

“Prime Bank Instrument Fraud” is the general term given to fraud schemes that go by many different names, including:

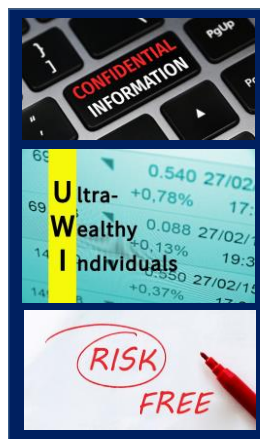
- Prime Bank Debentures
- Prime Bank Guarantees
- High-Yield Trading or Roll Programs
- Standby Letters of Credit
- International Chamber of Commerce (ICC) 3039 or 3034 Letters of Credit
- Guaranteed Bank Notes
- Discounted U.S. Treasury Securities
- International Monetary Fund Backed Securities

<https://oig.treasury.gov/Scams/Prime-Bank-Investment-Fraud>

Prime Bank Investments

You should know:

- “Prime Bank notes” do not exist
- Confidentiality is a must – research in the investment will result in being “kicked out”
- Federal and international officials or governments do not endorse investments



Red Flags of a Prime Bank Scam

- 1) Name dropping – using the names of well-known investors
- 2) Lack of details regarding the investment – because it’s so complicated
- 3) Promise of very high return on your investment with little or no risk



Common red flags of investment fraud

- An offer is too good to be true
- Higher rates of return than anywhere else
- “Everyone is doing it”
- You must invest now – tomorrow is too late
- Asked to pay by “non-traditional” means



SPEAK UP!

If you or someone you know become a victim of these or other type of fraud contact:

- PA Department of Banking and Securities www.dobs.pa.gov or 800.PA.BANKS
- Securities and Exchange Commission www.sec.gov/tcr or 800.SEC.0030

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Want to verify an investment offering?

Search the company's filings on the EDGAR (Electronic Data Gathering, Analysis, and Retrieval) Database:

<https://www.sec.gov/edgar/searchedgar/companysearch.html>

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www.brokercheck.finra.org

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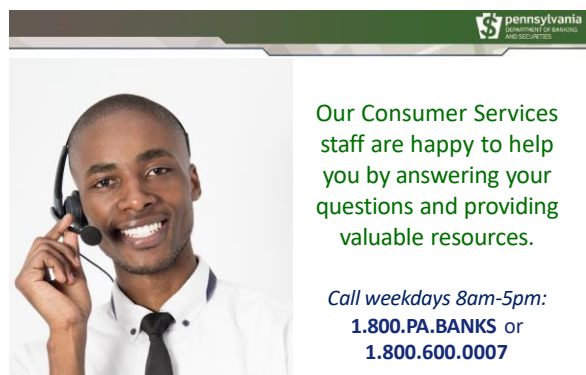


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