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Alabama Securities Commission Releases Top Investor Threats Investors Urged to Approach Unsolicited Offers with Caution

MONTGOMERY, ALABAMA (December 21, 2015) – The Alabama Securities Commission (ASC) today released its annual list of top investor threats and urged investors to use caution when approached with unsolicited investments, especially those involving promissory notes, oil and gas deals and real estate investment opportunities, including non-traded real estate investment trusts.

“Education and information are an investor’s best defense against investment fraud,” ASC Director, Joseph Borg, said.

The top threats to investors were determined by surveying members of the North American Securities Administrators Association, of which the ASC is a member, to identify the most problematic products, practices or schemes. The following were cited most often in North America and Alabama:

1. **Unregistered Products/Unlicensed Salesmen:** The offer of securities by an individual without a valid securities license should be a red alert for investors. Con artists also try to bypass stringent state registration requirements to pitch unregistered investments with a promise of “limited or no risk” and high returns.
2. **Promissory Notes:** In an environment of low interest rates, the promise of high-interest-bearing promissory notes may be tempting to investors, especially seniors and others living on a fixed income. Promissory notes generally are used by companies to raise capital. Legitimate promissory notes are marketed almost exclusively to sophisticated or corporate investors with the resources to research thoroughly the companies issuing the notes and to determine whether the issuers have the capacity to pay the promised interest and principal. Most promissory notes must be registered as securities with the SEC and the states in which they are sold. Average investors should be cautious about offers of promissory notes with a duration of nine months or less, which in some circumstances do not require registration. Short-term notes that appear to be exempt from securities registration have been the source of most – but not all – of the fraudulent activity involving promissory notes identified by regulators.
3. **Advance Fee Loan Schemes and Non-Existent Credit Documents:** In a tight credit environment, small and medium business owners are seeking credit and capital from non-traditional sources. Financial con artists and fraudulent promoters have approached capital hungry businesses with schemes ranging from Advance Fee (collecting fees up front usually from business revenues, income streams or assignments of assets to provide a capital loan/cash infusion after payment by the borrower) to promises of major cash/capital infusion based on (usually) overseas credit or bond documents in exchange for payments, transfer of "collateral", assignments of accounts receivable or an interest in the business.

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4. **Fleeing the Flock:** Church is one of the most common places for Alabama citizens to be scammed. Thieves find ways to “worm into” the church community and work hard to build trust among leaders, i.e. ministers, elders, and deacons. The thieves then use the church leadership to convince members of the congregation to invest their hard earned dollars into a bogus venture that does not exist and is often simply a Ponzi scheme.

5. **Oil/Gas Investments:** Many oil and gas investment opportunities, while involving varying degrees of risks to the investor, are legitimate in their marketing and responsible in their operations. However, as in many other investment opportunities, it is not unusual for unscrupulous promoters to attempt to take advantage of investors by engaging in fraudulent practices. Fraudulent oil and gas deals frequently are structured with the limited partnership (or other legal entity) in one state, the operation and physical presence of the field in a second state, and the offerings made to prospective investors in states other than the initial two states. As a result, there is less chance of an investor dropping by a well site or a nonexistent company headquarters. Such a structure also makes it difficult for authorities and victims to identify and expose the fraud.

6. **Real Estate-related Investments:** Troublesome real estate-related investments identified by securities regulators included non-traded real estate investment trusts (REITs), timeshare resales, and brokered mortgage notes. These types of products often carry higher risk. For example, non-traded REITs are sold directly to investors and are not traded on exchanges (as are conventional REITs). Non-traded REITS can be risky and have limited liquidity, which may make them unsuitable for certain investors.

7. **Ponzi Schemes:** The premise is simple: pay early investors with money raised from later investors. The only people certain to make money are the promoters who set the Ponzi in motion. “Investors should always be wary of unsolicited financial advice or investment opportunities,” Borg said.

Before making any decisions with your money, ask questions, make sure you understand the risks, and contact the ASC for detailed background information about those who sell securities or give investment advice, as well as about the products being offered. The Alabama Securities Commission can be reached, toll-free, at 1-800-222-1253 or through its website at www.asc.alabama.gov.

The ASC cautions potential investors to thoroughly scrutinize and research any investment opportunity or offer. Contact the ASC with inquiries concerning securities broker-dealers, agents, investment advisers, investment adviser representatives, financial planners, registration status of securities or debt management programs, to report suspected fraud or to obtain consumer information. The ASC provides free investor education and fraud prevention materials in print, on our website and through educational presentations upon request.

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For further information contact Dan Lord, Education and Public Affairs Manager, 334-353-4858.

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