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FOR THE CONSUMER

FTC FACTS for Consumers

Test Your Investment IQ



To invest or not? That's the question when a promoter calls with an offer that sounds like a sure thing. Fraudulent investment promoters lure consumers by claiming that the investment can't miss. But the promise of big profits usually turns out to be a costly hoax.

Can you tell whether an investment opportunity is solid or risky? Test your investment I.Q. with this quiz.

1. A promoter tells you he's selling shares in a partnership. You confirm that a large, legitimate firm is making huge profits in a similar business and its stock is doing well. Your promoter says only a few shares in his partnership remain — and they'll be gone if you don't send your money by wire transfer. Buying into the next available partnership opportunity will cost three times as much.

   SOLID ☐ **RI$KY** ☐

2. A promoter sends you glossy materials by overnight courier. An enclosed note mentions that the business is headquartered in New York, and that offices are located in Chicago, Los Angeles, and Washington, DC. A call to directory assistance in those cities confirms that the promoter has addresses in each one.

   SOLID ☐ **RI$KY** ☐

3. A promoter tells you not to worry about any risk in the venture you're considering. The investment is bonded and insured for $50 million and you've received an insurance policy to prove it. You call the insurance company and a representative confirms that they do indeed have a bond for the venture you're considering.

   SOLID ☐ **RI$KY** ☐

4. A promoter gives you names of several satisfied customers around the country. When you call, one claims to be an attorney, another a small businessman, and a third a retired professional. All say they have received returns from investing with the promoter and are making profits.

   SOLID ☐ **RI$KY** ☐

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5. In a phone call, a promoter says the investment he's offering is expected to return about 30 to 40 percent a year, beginning in about 12 months. Best of all, based on the track record, he says there's no significant risk.

SOLID ❑ **RI$KY** ❑

6. A promoter tells you on the phone that the investment he's offering is expected to return about 30 to 40 percent annually within about a year — and your entire investment in 18 months. You check the written materials he sent and find a disclosure: The investment is high-risk and you could lose all your money. You don't find any written claims about the returns.

SOLID ❑ **RI$KY** ❑

7. Because you're considering investing in a venture in the state of Heartland, you call the Better Business Bureau and Attorney General's Office in the state capital. They tell you there are no complaints against the company. You do some research and find an article on your venture in a local Heartland business paper. The article states that your venture is a multi-million dollar investment firm and its principals have been in the investment business for a combined 30 years.

SOLID ❑ **RI$KY** ❑

8. A promoter tells you his company has structured an investment opportunity as a debt-free general partnership. The partnership will raise capital for a sure-fire high-tech telecommunications business in rural areas. Large corporations are just getting into the business, but because of legal restrictions and profit margins, they're getting into large national markets only.

SOLID ❑ **RI$KY** ❑

9. A promoter says your investment has been approved as safe for IRA funds. He sends you printed forms for a company known as IRA-USA. When you call IRA-USA, a representative tells you that the company manages $100 million in IRA funds. You call IRA-USA's bank. IRA-USA's bank tells you IRA-USA has over $100 million in its accounts.

SOLID ❑ **RI$KY** ❑

10. You're considering buying a $10,000 share in a $10 million venture that you learned about through a telemarketer. You see the following chart on the promotional materials you got in the mail:

ESTIMATED USE OF PROCEEDS:

Asset Acquisition:	50%	$5,000,000
Marketing Costs:	15%	$1,500,000
Offering Costs:	10%	$1,000,000
Working Capital:	15%	$1,500,000
Consulting Fees:	10%	$1,000,000

The promoter tells you that sales commissions do not exceed 10 percent and that the remainder of the money raised will finance your venture.

SOLID ❑ **RI$KY** ❑

What's Your Score?

1. **RI$KY.** Even before they've sold the first share of stock, scam artists tell investors that only a few shares are left. But high-pressure sales tactics always mean high-risk investments, and investing thousands of dollars overnight is high risk. Don't let any promoters fool you by equating their ventures with those of large corporations. The only track record that matters has to do with the specific venture you're considering.

2. **RI$KY.** Anyone can rent luxury office space — even fraudulent promoters. But it's more likely that they have a "mail drop" at a luxurious address — a rented box for receiving mail that is forwarded to another location. In fact, each of the "offices" may be a mail drop, an apartment, or even a boiler room. As for glossy promotional materials, they are essential tools of the trade. Scam artists know that these materials may be your main source of information; they're willing to spend money to lend credibility and sophistication.

3. **RI$KY.** Before you rely on an insurance or bonding company, use independent resources to verify that: the insurance or bonding company exists; the policy exists; the insurance or bonding company has the assets to pay the investors; and the investors are the beneficiaries of the policy, not the promoters. Verifying a successful history of under-writing investments is the only way to make this information useful.

4. **RI$KY.** The people you talked with may be "singers" paid by the company to give a good recommendation. Even if references are investors and exactly who they say they are, a promoter may be paying them special "dividends" — to induce them into giving positive references.

5. **RI$KY.** High returns carry a high degree of risk. A salesman who doesn't disclose this is being dishonest. Even investing in the stock market is risky: The market can turn down.

6. **RI$KY.** Get profit projections in writing. Ask for evidence of the promoter's profit projections and try to confirm them with independent sources. If written materials say you could lose all your money, believe it. Investing is risky. If the talk is rosy but the written materials paint an ominous picture of the risk, trying to recover any money you've invested could be difficult.

7. **RI$KY.** Just because no complaints have been lodged against a company doesn't mean it's a bona fide operation. Even information in local business papers could come from the promoter's press release. Find an independent source or an expert you trust for information on the company's track record. Otherwise, consider the company an unknown and high-risk investment.

8. **RI$KY.** General partnerships often impose risks on the partners as individuals. Scam artists often structure investments as general partnerships as a way to avoid securities regulation. But some partnerships may be securities and subject to regulation despite a promoter's claim. In addition, a partnership may be debt-free because it has no business history or assets. The reason a large corporation enters only a "top" market may be that it is the only place entrepreneurs are likely to make a profit.

9. **RI$KY.** No government agency reviews investments for self-directed IRAs. To see if you face tax consequences for using your IRA money on a venture, have an independent tax consultant check any potential investments. Don't be impressed by IRA trustees with large holdings and accounts. The Securities and Exchange Commission sued one IRA promoter in 1996 who allegedly transferred more than $270 million from more than 14,500 consumers' IRA accounts to fraudulent telemarketers and unregistered securities promoters. Do your homework!

10. **RI$KY.** Once you invest, you should receive an accounting of your funds from independent sources as a matter of routine. Otherwise, you have no guarantees that your money is being used as you were told. Fraudulent promoters often hide costs in their charts. "Marketing costs" may mean the telemarketing costs of selling investments to people like you. The principals behind the venture may call themselves "consultants" and take a share of your investment as their salary. These deceptions and the promoter's commission alone could cost you a significant portion of your investment. Even your partnership's "asset" may not really cost $5 million. That may be the price the scam artist is charging your partnership to "acquire" an asset that's really worthless.

For More Information

These government agencies and business organizations register, regulate, investigate, or monitor companies and individuals who offer investment opportunities. If you have questions about a company or an individual, or you wish to make a complaint, contact one or more of these offices, as appropriate. When you seek information, understand that the absence of complaints filed with governmental and private agencies does not mean that a company or an investment is necessarily sound.

- **The FTC** works for the consumer to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them. To file a complaint or to get free information on consumer issues, visit www.ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. The FTC enters Internet, telemarketing, identity theft, and other fraud-related complaints into Consumer Sentinel, a secure, online database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.
- **Your State Attorney General's office and your local District Attorney's office** investigate and prosecute fraud cases. You can find their telephone numbers by checking your local directory in the state and local government section.
- **Your State Securities Commission, Securities Department, or Department of Corporations** regulates the public offer and sale of securities by companies in your state. You can get the name and telephone number by calling the operator in your state capital or visiting NASAA on the Internet at www.nasaa.org.
- **The Chief United States Postal Inspector (USPIS)**, United States Postal Service handles complaints about and has jurisdiction over fraudulent investment services that use, advertise, or sell through the mail or by overnight courier service. Write the USPIS at Criminal Investigations Service Center, Mail Fraud Unit, 222 S Riverside Plaza, Suite 1250, Chicago, IL 60606-6100; call 1-800-FRAUDIS (372-8347); or visit www.usps.com/postalinspectors on the Internet. The Federal Bureau of Investigation also has jurisdiction when investment offerings constitute mail or wire fraud, or other violations of criminal law.
- **The Commodity Futures Trading Commission** regulates most firms that deal in commodity futures markets. Futures trading markets include petroleum products, U.S. government securities, foreign currencies, options on futures contracts, and dealer options. Write the Commodity Futures Trading Commission at 1155 21st Street, NW, Washington, DC 20581 or visit www.cftc.gov on the Internet.
- **The Securities and Exchange Commission** is a federal agency that regulates the public offer and sales of securities. Call the SEC toll-free at 1-800-SEC-0330 or visit www.sec.gov on the Internet.
- **The Better Business Bureau** mediates disputes between consumers and businesses and may be able to inform you about complaints lodged against local investment firms. Contact the BBB in the city in which the firm is located for information or to report a problem. For the phone number of an out-of-state BBB, write to the Council of Better Business Bureaus, 4200 Wilson Boulevard, Suite 800, Arlington, VA 22203.
- **The National Association of Securities Dealers** is a self-regulatory organization that governs stock brokers. Check your phone directory for a local district office of the National Association of Securities Dealers, or call toll-free 1-800-289-9999.
- **The National Futures Association** is a self-regulatory organization that governs all registered individuals and brokerage firms that sell commodities. Call the National Futures Association toll-free at 1-800-621-3570.

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