

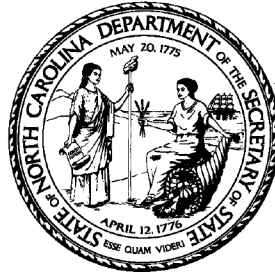
9. **Registered High-Interest Promissory Notes Publicly Advertised.** Generally, the higher the return promised, the greater the risk to your money. A track record of paying high interest and repaying principal is not an assurance that you will get your money back if the company fails. These notes are not suitable for retirement funds.
10. **Sale and Leaseback Contracts.** In an attempt to avoid state securities laws, some investments are structured to resemble the sale of a piece of equipment such as a payphone, ATM machine or Internet booth located where the investor cannot service and maintain the equipment and must enter into a servicing agreement. Investors are told that after a given period the equipment can be sold back to the seller at the investor's original purchase price. The investor is also promised a specific rate of return. In a variant of this scheme, a real estate interest, such as a long-term lease in a resort community, is sold instead of physical equipment. Frequently the equipment or property does not exist and the seller lacks the financial capacity to keep the promise of repurchase.
11. **Self-Directed Pension Plans.** This scam may begin with advice to convert an employer-sponsored pension into a self-directed pension plan. While these plans may serve legitimate investment purposes, all too often they only serve to benefit the scam artist.
12. **Unsuitable Recommendations.** Securities professionals must know their customers' financial situations and refrain from making recommendations of securities that they have reason to believe are unsuitable.
13. **Variable Annuities.** Senior investors, in particular, should beware of the high surrender fees and steep sales commissions agents often earn when they move investors into variable annuities.

Don't think you can become a victim of fraud?

Every week there are new reports of victims being cheated out of their money. To read some of these stories, visit our web site at: <http://www.secretary.state.nc.us/sec/nasaa.aspx>.

North Carolina Department of the Secretary of State

Hon. Elaine F. Marshall
Secretary of State



*For more information,
please contact us at:*

NC Department of the Secretary of State
Securities Division
P.O. Box 29622
Raleigh, NC 27626-0622
Telephone: 919-814-5400
Toll-free: (800) 688-4507
Fax: (919) 821-0818

Email: secdiv@sosnc.com

Visit us on the Internet at:
<http://www.sosnc.com>

The North Carolina Department of the Secretary of State's Securities Division gratefully acknowledges the assistance of the North American Securities Administrators Association, Inc., and the Pennsylvania Securities Commission.
All Rights Reserved.

15,000 copies of this public document were printed courtesy of the North Carolina Investor Protection and Education Trust Fund (N.C.G.S. §147-54.5) at a total cost of \$1,396.00, or \$0.093 per copy.

NORTH CAROLINA DEPARTMENT OF THE SECRETARY OF STATE SECURITIES DIVISION

CHECK BEFORE YOU INVEST: TEN DO'S AND DON'TS FOR INVESTORS



If you want to avoid being suckered in an investment scam, the smart approach is to ask questions before you part with your money!

Smart investing requires good information. The Securities Division of the North Carolina Department of the Secretary of State offers the following advice for prospective investors.

1. Be suspicious when strangers offering get-rich-quick schemes contact you with “cold” phone calls, e-mails, or unannounced visits to your home. The phone calls could be “boiler room” scams, in which the operators rent offices with impressive addresses and hire unlicensed salespeople to work banks of phones calling individuals from lists they buy. The e-mails may be totally bogus attempts to fleece you of your money.

“Crooks are very skilled at producing impressive-looking (but fake) prospectuses.”

2. Be skeptical of fantastic promises of extraordinary returns on your investments. Too-good-to-be-true offers are, in reality, too good to be true.

3. Resist high-pressure sales techniques

requiring you to turn your investment money over immediately. Scam artists sometimes send messengers to investors’ homes to pick up their checks almost as soon as they end a phone call, so that the investor won’t have time for second thoughts or time to inquire with the authorities.

4. Avoid investments in which the seller has little or no written information about the company or its past performance. If the opportunity is legitimate, details about the investment should be given to you in writing. But remember, even printed materials, no matter how slickly presented, can be fakes. Crooks are very skilled at producing impressive-looking (but fake) prospectuses. Read all materials carefully, ask questions, and check with expert advisers.
5. Stay away from investments sold on the basis of rumors, tips or supposedly “inside information.” Inside information is usually just lies, or information obtained illegally.
6. Demand that the seller give you written information about the investment, including the prospectus (also called an offering circular) and financial statements. Such information is

required for many types of investments, including stock offerings, limited partnerships, franchise offerings and mutual funds. Read them or get an expert adviser to read them before you sign a purchase order to pay for an investment.

“When in doubt, wait! If something seems fishy, if your questions are not satisfactorily answered, don’t commit your money.”

7. Consult with a registered stockbroker or investment adviser about investment “opportunities” that are pitched to you. Check out the company with the National Association of Securities Dealers’ (NASD) BrokerCheck Hotline at 1-800-289-9999.
8. Contact the Securities Division of the NC Department of the Secretary of State (1-800-688-4507) to find out if a company or individual is properly licensed to sell investments or has any history of violating the law. A person or company who has failed to properly register or has had a history of trouble with authorities should be a “red flag” to any prospective investor.
9. Deal with established investment professionals whose reputations are known in the community.
10. When in doubt, wait! If something seems fishy, if your questions are not satisfactorily answered, don’t commit your money. There will always be another investment opportunity coming along. Remember, even legitimate investments present the risk of loss of your investment money.

THE “UNLUCKY” 13 INVESTOR TRAPS

The following is an alphabetical listing of the 13 most common ways investors can be trapped in bad investments or financial scams:

1. **Affinity Fraud.** Con artists frequently target members of closely-knit religious, political, social or ethnic groups.
2. **Churning.** An abusive sales practice in which unethical securities professionals make unnecessary and/or excessive trades in order to generate commissions.
3. **Equity Indexed Certificates of Deposit.** These very complex, hybrid securities products offer an interest coupon payment or return that is



based on a stock market index, usually the S&P 500. Returns are not FDIC insured.

4. **Oil and Gas Investment Fraud.** With oil prices at record levels and continued Middle East instability, con artists are renewing schemes promising quick profits in oil and gas ventures.
5. **Personal Information Scams.** Con artists frequently style themselves as “senior specialists,” or adopt a pretext of helping senior citizens qualify for prescription benefits by preparing forms when really all they are trying to find out is what assets are available for the taking.
6. **Prime Bank Schemes.** These schemes often promise high-yield, tax-free returns that are said to result from “off-shore trades of bank debentures.” Investors are told that only very wealthy people can get the benefit of these programs but the promoter is able to make it available to the victim. There are no such programs, no such debentures and no such high-yield trades.
7. **Pump and Dump Schemes.** This is the unethical practice of “pumping” up the value of low-priced securities traded on the NASDAQ “pink sheets” and then “dumping” the stock after investors have purchased the stock at inflated prices. These schemes frequently appear through unsolicited e-mail messages.
8. **Recovery Rooms.** Crooks know that people who have been deceived once are vulnerable to additional scams, especially scams that give hope of recovering lost money. If you have been the victim of a fraud, never give out your credit card or other personal information to someone who contacts you with a promise to recover your money.