



December 2012 NEWSLETTER • Vol. 4, No. 12

Seminar Focuses on Preventing Elder Financial Fraud



Secretary of State Elaine F. Marshall speaking on elder fraud and abuse.

On November 30, over 50 medical professionals and senior advocates from around the state attended a seminar in Asheville, NC, devoted to preventing elder financial abuse.

The seminar, entitled “Preventing Elder Investment Fraud and Financial Exploitation: The Key Role of the Physician and Medical Practice in Screening,” was the third in a series of seminars the NC Department of the Secretary of State Division of Securities has sponsored as part of a grant from the Investor Protection Trust, a Washington, DC-based nonprofit devoted to funding unbiased investor education programs and materials. The ***Elder Investment Fraud and Financial Exploitation (EIFFE) Prevention Program*** is part of the Securities Division’s investor education outreach program. The seminar was held on the campus of the Mountain Area Health Education Center (MAHEC), and was carried live via Web stream, attracting online participants from all across the state.

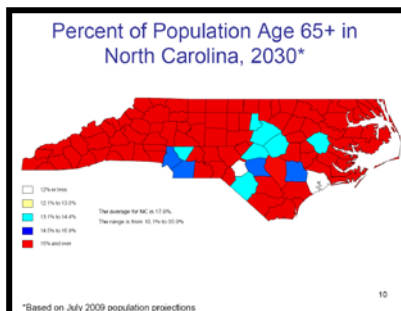
The timeliness of this seminar is even more striking in light of a new study that was conducted by the UCLA Brain Institute showing why older adults are more susceptible to becoming victims of fraud (see story on [page 2](#)).

Secretary of State Elaine F. Marshall told attendees there were two things she wanted them to learn from the day’s seminar. “First,” she said, “I want you to take away some new skills and new sensitivity about how to recognize worry and anxiety in your senior patients. Second, I hope you see it as your duty to get involved when you hear or see warning signs that someone is being victimized financially.”

The keynote speaker was Jan Busby-Whitehead, MD. Dr. Busby-Whitehead is Professor of Medicine and Chief of the Division of Geriatric Medicine at the UNC School of Medicine where she is also Director of the Center for Aging and Health and the Director of the Carolina Geriatric Education Center.



(From left) John Maron, Dr. Jan Busby-Whitehead, Secretary Marshall and Dr. Jeff Heck, Director of MAHEC



During her presentation, Dr. Busby-Whitehead shared a graphic (left) depicting how North Carolina is expected to age by 2030. The red indicates the counties where it is estimated there will be adults in concentrations of 16 percent or greater who will be 65+ years old, making it all the more imperative for medical professionals to be trained to recognize the warnings signs of increased vulnerability to financial abuse. She explained the physiological changes, reinforced by the UCLA study, that occur in the adult brain as it ages, making older adults more susceptible to making ill-informed financial decisions.

(See “Elder Fraud Seminar,” continued on p. 2)

The following is a press release issued by the [UCLA Newsroom](#) and is reprinted here for educational purposes only.



Why Older Adults Become Fraud Victims More Often

Brain shows diminished response to untrustworthiness, UCLA scientists report

By **Stuart Wolpert** December 03, 2012

Why are older people especially vulnerable to becoming victims of fraud? A new UCLA study indicates that an important clue may lie in a particular region of the brain that influences the ability to discern who is honest and who is trying to deceive us.

Older people, more than younger adults, may fail to interpret an untrustworthy face as potentially dishonest, the study shows. The reason for this, the UCLA life scientists found, seems to be that a brain region called the anterior insula, which is linked to disgust and is important for discerning untrustworthy faces, is less active in older adults.

"The consequences of misplaced trust for older adults are severe," said Shelley E. Taylor, a distinguished professor of psychology at UCLA and senior author of the new research, which appears Dec. 3 in the journal *Proceedings of the National Academy of Sciences (PNAS)*. "A recent study estimates that adults over age 60 lost at least \$2.9 billion in 2010 to financial exploitation, ranging from home repair scams to complex financial swindles. This figure represents a 12 percent increase from 2008.

"Older adults seem to be particularly vulnerable to interpersonal solicitations, and their reduced sensitivity to cues related to trust may partially underlie this vulnerability."

Taylor and her colleagues report the results of two new studies in *PNAS*. In the first, 119 older adults between the ages of 55 and 84 (mean age 68) and 24 younger adults (mean age 23) looked at 30 photographs of faces and rated them on how trustworthy and approachable they seemed. The faces were intentionally selected to look trustworthy, neutral or untrustworthy.

The younger and older adults reacted very similarly to the trustworthy faces and to the neutral faces. However, when viewing the untrustworthy faces, the younger adults reacted

(See "[UCLA Brain Study](#)," continued on p. 3)

(Elder Fraud Seminar, continued from p. 1)

Echoing Secretary Marshall's pleas, Dr. Busby-Whitehead challenged seminar attendees -- and clinicians specifically -- to consider adding questions about an elderly patient's financial well-being to their list of questions when conducting routine wellness screenings.

"For instance," she said, "a clinician might begin the conversation with questions like:

"We find that some older adults worry about money; may I ask you a few questions about this?"

or,

"I just read a NY Times article about elders being financially exploited and thought I ought to talk to my mother and my patients."

As an aid for medical professionals, the Baylor College of Medicine's Texas Consortium Geriatric Education Center and the Investor Protection Trust have published the [Clinician's Pocket Guide on Elder Investment Fraud and Financial Exploitation](#). Included in the guide are lists of the red flags of potential abuse clinicians might observe when talking with their elderly patients. The [Guide](#) also provides referral sources when fraud or abuse are suspected. A [Patient Education](#) brochure is also available for clinicians to display in their lobbies or waiting areas.

The [Clinician's Pocket Guide](#) and [Patient Education](#) brochure are available for order (in limited quantities) or for download from the Securities Division's website. Click the links above or call John Maron at (919) 807-2106 or Barbara Bennett at (919) 807-2015.

(UCLA Brain Study, continued from p. 2)



Shelley E. Taylor, author of study

strongly, while the older adults did not. The older adults saw these faces as more trustworthy and more approachable than the younger adults did.

"Most of the older adults showed this effect," said Taylor, a member of the National Academy of Sciences and director of UCLA's Social Neuroscience Laboratory. "They missed facial cues that are pretty easily distinguished."

The second study was conducted at UCLA's Ahmanson–Lovell Brain Mapping Center, where participants underwent functional magnetic resonance imaging (fMRI) brain scans while looking at the faces. This study included 44 participants: 23 older adults between the ages of 55 and 80 (mean age 66) and 21 younger adults (mean age 33).

The younger adults showed anterior insula activation both when they were making the ratings of the faces and especially when viewing the untrustworthy faces. In contrast, the older adults displayed very little anterior insula activation during these activities.

"We wanted to find out whether there are differences in how the brain reacts to these faces, and the answer is yes, there are," Taylor said. "We found a strong anterior insula response both to the task of rating trustworthiness and also to the untrustworthy faces among the younger adults — but the response is much more muted among the older adults. The older adults do not have as strong an anterior insula early-warning signal; their brains are not saying 'be wary,' as the brains of the younger adults are.

"In younger adults, the very act of judging whether a person is trustworthy activates the anterior insula," she added. "It's as if they're thinking they need to make this judgment with caution. This gives us a potential brain mechanism for understanding why older and younger

adults process facial cues about trust differently. Now we know what the brain sees, and in the older adults, the answer is not very much when it comes to differentiating on the basis of trust."

"It's not that younger adults are better at finance or judging whether an investment is good; they're better at

discerning whether a person is potentially trustworthy when cues are communicated visually," she said.

Taylor and her colleagues, including lead author Elizabeth Castle, identified that the anterior insula plays the role of telling us "Something's not right here."

"Older adults are more vulnerable. It looks like their skills for making good financial decisions may be deteriorating as early as their early-to-mid-50s," said Taylor, a founder of the field of health psychology who was honored in 2010 with the American Psychological Association's Lifetime Achievement Award.

"The prototypical victim of financial fraud," Taylor said, "is a 55-year-old male who is an experienced investor."

The prototypical victim of financial fraud, Taylor said, is a 55-year-old male who is an experienced investor.

"It's people with money, who are comfortable with investing," Taylor said. "Somehow they didn't get the early warning from their brain that said 'Don't invest in that movie, don't buy that land.' The financial losses can be huge."

Castle, a UCLA psychology graduate student who analyzed

the data for the brain-mapping study, said the scientists found a "robust" anterior insula response in the younger adults and a "minimal" response in the older adults.

"One of the functions of the anterior insula is to sense bodily feelings and interpret these visceral states for the brain." Castle said. "This is the response that we see lacking in older adults.

"This neural mapping of bodily states forms the basis of 'gut feelings'" she added. "This leads us to think that older adults have a diminished gut feeling that something is wrong when someone looks untrustworthy."

(See "UCLA Brain Study," continued on p. 4)

(UCLA Brain Study, continued from p. 3)

The life scientists did not find significant differences between women and men.

This project is funded by the National Institute on Aging in an effort to understand the reasons for the vulnerability of older adults to financial fraud.

For Taylor, the topic is personal. Her father and aunt both lost money in financial scams.

"My father was walked to the bank by someone he referred to as 'such a nice man.' The guy was a homeless man. Anybody looking at him should have picked up on the cues that said 'Do not give this man \$6,000.' I still don't know how my father could not pick up that this was not a nice young man," Taylor said. Her father was in his mid-70s at the time.

Her aunt bought jewels through the mail.

"When I give talks on this work, I wear the 'diamond' earrings that she bought in the mail," Taylor said. "They are glass."

What advice does Taylor offer older adults to avoid becoming victims of financial fraud?

"I would tell older adults to just hang up on solicitors. Don't talk to salesmen pushing investments — just say no. Do not go to the free lunch seminars where there are investment pitches. Stay away from these people," she said. "I'm not saying that all of these are fraudulent,

but the best thing that you can do if your brain isn't helping you to make these discriminations is not to have to make them. Be very careful what you do with your money. I don't talk to any solicitors on the phone."

A pivotal point is when people take money from their 401(k) accounts, including when they take required distributions, starting at age 70-and-a-half.

"That's when older adults tend to be targeted — 401(k) conversions, required minimum distributions and inheritances," Taylor said. "These are points when people need to be wary, and many older adults are insufficiently wary."

What does an untrustworthy face look like?

"The smile is insincere, the eye contact is off; it's a gestalt," Taylor said.

(Unfortunately, the UCLA Newsroom is not able to post photos of the untrustworthy faces with this news release because conditions of the study prohibit our doing so.)

Co-authors of the research also include Naomi Eisenberger, a UCLA assistant professor of psychology; Mark Grinblatt, professor of finance at the UCLA Anderson School of Management; and Ian Boggero, a former UCLA psychology research assistant.



Additional Resources

Tricks of the Trade: Outsmarting Investment Fraud – Developed by the FINRA Investor Education Foundation, in partnership with AARP, this is an hour-long documentary on preventing investment fraud. It delves into the psychology behind scams and provides tips on how to spot and avoid possible scams. To order a free DVD copy of this documentary, as seen on public television stations nationwide, contact John Maron at (919) 807-2106 or via email at jmaron@sosnc.com. Please be sure to include your complete mailing address and daytime phone number.

Protecting Mom and Dad's Money: What to do when you suspect financial abuse (Consumer Reports Magazine, January 2013)

UPDATE: *Investor Education in Your Workplace® Program*



In the first full month since its October 22nd launch, the ***Investor Education in Your Workplace® (IEiYW®) Program*** is off to a great start, and North Carolina participants are currently outstripping the participants in other states where the program is also being offered!

As the chart below demonstrates, North Carolina has the greatest number of participating organizations (20) in this fall's program and their employees have completed more total courses (2,289) as of December 11th. We also have the highest number of participants (54) who have completed all 10 courses.

Early results are showing the program is having a strong beneficial impact on all participants' financial knowledge.

When participants start the program, they take a pre-test measuring their financial knowledge as they enter the program. As participants progress through the program, they take additional exams. The results of those later exams are compared to the initial exam. So far, program participants in all eight states and the District of Columbia are showing an aggregated average **31.78 percent** improvement in their financial knowledge!

We will continue to provide updates on the success of this workplace-based investor education program which runs through the first week of February 2013.

For more information about this program, or if you think you might want to bring it to your business or organization, please contact John Maron at (919) 807-2106 or via email at jmaron@sosnc.com, or visit the Investor Protection Trust's website at <http://www.investorprotection.org/ipt-activities/?fa=ieiyw>.

Fall 2012 IEiYW® -- Summary by State as of 12/11/2012					
State	Orgs	Total # of Participants	Total # of Courses Completed	% of Total Available Courses Completed	# of Participants Who Have Passed All 10 Courses
AK	8	307	1070	35%	16
CO	12	694	1319	19%	20
DC	5	69	176	26%	3
DE	5	1146	600	41%	13
IA	18	816	1911	23%	25
NC	20	820	2289	28%	54
OK	7	176	473	27%	6
WA	10	125	447	36%	13
WI	9	1022	1990	23%	28
OVERALL	94	4175	10275	26%	178

Fall 2012 IEiYW® Knowledge Improvement				
	Course Pre-Tests	Course Post-Tests	Points Improved	% Improved
OVERALL	67.34%	88.74%	21.4	31.78%

NASAA Sees Sharp Spike in Crowdfunding Presence on the Internet

NASAA Task Force Monitoring Internet for Increased Signs of Fraud



Crowdfunding's presence on the Internet has risen sharply in recent months in anticipation of rules to allow small businesses and entrepreneurs to raise investments online, a task force of state and provincial securities regulators announced on December 5.

Crowdfunding is an online money-raising strategy that began as a way for the public to donate small amounts of money, often through social networking websites, to help finance projects or causes. Through the Jumpstart Our Business Startups (JOBS) Act, small businesses and entrepreneurs will be able to tap into the "crowd" in search of investments to finance their business ventures once the Securities and Exchange Commission adopts rules to do so. The rules are expected sometime next year.

"Investors soon can expect to be inundated with crowdfunding pitches, legitimate or otherwise," said Heath Abshire, NASAA President and Arkansas Securities Commissioner.

An analysis of Internet domain names by state and Canadian securities regulators found nearly 8,800 domains with "crowdfunding" in their name as of November 30, 2012, up from less than 900 at the beginning of the year. Of these websites, about 2,000 contained content, more than 3,700 had no content and more than 3,000 appeared to be "parked" and serving as placeholders to reserve a domain name for later use or sale. Of the domains with "crowdfunding" in their name, about 6,800 have appeared since April, 2012 when the JOBS Act was signed into law.

"Many of these sites appear to have been formed by large credible organizations while others appear to be created by individuals that may be operating out of their basements," said Robert Moilanen, Minnesota Securities Director and chair of the North American Securities Administrators Association's Internet Fraud Investigations Project Group. "The pure volume suggests that the wave is about to overtake the dam."

Anticipating an increase in online fraud stemming in part from passage of the JOBS Act, NASAA created a task force on Internet fraud investigations shortly after the enactment of the JOBS Act to monitor crowdfunding and other Internet offerings. The group is currently coordinating multi-jurisdictional efforts to scan various online offering platforms for fraud, and, where authorized, will coordinate investigations into online or crowdfunded capital formation fraud.

In addition, NASAA members are being trained in the use of an innovative online data mining tool developed by the staff of the Enforcement Division of the New Brunswick Securities Commission to help identify potentially fraudulent websites. The task force also is working with NASAA's Investor Education Section to develop investor and industry awareness programs regarding crowdfunding. (See the brochure, "[**Are You an Informed Investor? Crowdfunding**](#)" posted on the NC Securities Division's website and the "[**Small Business Advisory: Crowdfunding**](#)" also posted on the website and reprinted on [pages 7-8](#) of this newsletter.)

"NASAA is promoting a proactive approach to identify problematic websites, rapidly share information about those websites with appropriate state and provincial securities regulators and engage in a prompt, meaningful and coordinated education and enforcement response," Abshire said. "Cooperation among NASAA members is a critical component to addressing unregistered crowdfunding sites or registered crowdfunding sites that are engaged in illegal activities nationwide."

Small Business Advisory: Crowdfunding



On April 5, 2012, President Obama signed into law the Jumpstart Our Business Startups (JOBS) Act, a series of legislative provisions intended to facilitate capital formation in the United States. Part of this legislation included the CROWDFUND Act, which makes significant changes in current federal and state securities laws.

The CROWDFUND Act will allow entrepreneurs to raise capital by offering to sell interests in their businesses over the Internet. Under the CROWDFUND Act, a small business will be allowed to raise \$1 million in a 12-month period by selling its securities to investors without registering that offering with federal or state securities regulators. However, the Act places limitations on how and to whom a small business can sell its securities. The Act directed the Securities and Exchange Commission to adopt rules within 270 days to implement a new exemption to allow securities sales through crowdfunding

EDITOR'S NOTE: As of this writing, the SEC has not yet adopted any rules implementing the crowdfunding exemption. Until it does, **no company may make – and no investor may purchase – any securities offering through any crowdfunding platform.**

What is Crowdfunding?

Crowdfunding is an online money-raising strategy that began as a way for the public to donate small amounts of money, often through social networking websites, to help artists, musicians, filmmakers and other creative people finance their projects.

The concept has recently been promoted as a way of assisting small businesses and start-ups looking for investment capital to help get their business ventures off the ground. Traditionally, investment opportunities are offered by professionals, such as broker-dealer firms and investment advisers, who must recommend investments that are based on their clients' investment objectives and levels of sophistication.

Through crowdfunding, individuals will be able to invest in entrepreneurial start-ups through an intermediary, such as a broker-dealer or a "funding portal." A funding portal is a website, also called a "platform," that advertises the investment opportunities and facilitates the payment from the investor to the issuer. Some portals advertise a variety of investment opportunities on one website, allowing investors to select one or more projects. By law, "funding portals" are not allowed to provide investment advice.

Crowdfunding Concerns for Small Businesses and Entrepreneurs

- **Don't rush in.** Do not start using any Internet resources to raise capital for your business under the crowdfunding exemption until the SEC rulemaking is complete, which won't be for at least several months. Until that time, federal and state securities law prohibitions remain in place against publicly accessible Internet securities offerings.
- **Don't discount disclosure.** The crowdfunding exemption is only an exemption from securities law registration requirements. It does not change the securities law disclosure requirements. The requirements of federal and state securities laws regarding disclosures, including disclosures of all material facts and risks to investors, remains in place.

(See "Crowdfunding," continued on p. 8)

(Crowdfunding, continued from p. 7)

If you do not comply with these disclosure requirements, you and your business can be liable for securities fraud and subject to private lawsuits as well as administrative enforcement actions. Existing federal and state registration laws are specifically designed to protect small businesses soliciting investments by ensuring that the key terms and risks of their offerings are disclosed on brief, short-form filings. This is a huge benefit for entrepreneurs and other unsophisticated businesses that may be unaware of the legal pitfalls that await them when such disclosures are not made.

In light of statistics showing that roughly 50 percent of all small businesses fail within the first five years, the next generation of small businesses could quickly find themselves facing multi-million dollar civil and criminal fraud claims simply because those businesses were no longer prompted on the need to disclose the risks typically associated with start-ups.

- **Carefully choose a broker or funding portal.** Be aware of unscrupulous persons offering to take fees from you now to help you raise capital over the Internet. Because the CROWDFUND Act is not implemented yet, such offers could be a scam, preying upon those entrepreneurs less familiar with the Act's requirements. A premature offer could also indicate that the individual making the offer is unfamiliar with the intricacies of the new laws and is perhaps less sophisticated than would be desired. If your broker or funding portal does not comply with the SEC's rules on the CROWDFUND Act, your exemption may be voided, subjecting you to liability for an unregistered offering. When you do select one, be sure that the broker or funding portal thoroughly complies with the requirements of the CROWDFUND Act and its rules.

It is your business, after all, so ask questions to ensure that the broker or funding portal is thoroughly familiar with the act and is motivated to see that your business properly and legally get off the ground. For example, since small businesses will be held responsible for making misrepresentations to investors or failing to disclose important information, you should be wary of crowdfunding platforms that seem careless about making adequate disclosures to investors.

- **Don't go it alone.** The crowdfunding exemption is meant to lower your capital-raising costs by exempting \$1 million or less capital formation efforts from registration. However, a small business using this exemption still needs legal guidance as to how to comply with the CROWDFUND Act's requirements as well as the general federal and state securities laws. During the time until you can use the crowdfunding exemption, consider speaking with a licensed and experienced securities law attorney to help you in your offering.
- **Avoid distractions.** Having hundreds of "owners" may distract the company's management from devoting the time and energy that is necessary to run a successful business. Venture capital companies or private equity funds may be less inclined to invest in a company that already has a crowd of small investors.
- **Consider your funding alternatives.** Crowdfunding may be less expensive than doing a public offering of securities, but it will be more expensive than other alternatives. Federal and state laws provide other ways for a company to raise money from limited numbers of investors with little or no cost. Contact your state securities regulator to learn the different options for raising capital.

The Bottom Line

Get advice from a competent professional to determine the appropriate course of action for your particular circumstances. Be sure to guard your company's reputation by avoiding disreputable crowdfunding platforms. For more information on offering securities and raising capital, contact the NC Securities Division at (919) 733-3924 or (800) 688-4507. For more information about the JOBS Act, visit the SEC's website at <http://www.sec.gov/spotlight/jobs-act.shtml>.

The SEC's Office of Investor Education and Advocacy is issuing this updated [Investor Alert](#) because we are aware of continuing fraudulent solicitations that purport to be affiliated with or sponsored by the Securities and Exchange Commission, Commission staff, as well as particular Commissioners (including a recent bogus email scam using the name of Commissioner Daniel Gallagher). It is reprinted here for informational purposes.



SEC

OFFICE of INVESTOR
EDUCATION and ADVOCACY

Updated Investor Alert: SEC Warns of Government Impersonators

The SEC does not endorse investment offers, assist in the purchase or sale of securities, or participate in money transfers. SEC staff will not, for example, contact individuals by telephone or email for purposes of:

- seeking assistance with a fund transfer;
- forwarding investment offers to them;
- advising individuals that they own certain securities;
- telling investors that they are eligible to receive disbursements from an investor claims fund or class action settlement; or
- offering grants or other financial assistance (especially for an upfront fee).

SEC staff does not make these types of unsolicited communications, including emails or telephone calls asking for detailed personal and financial information, such as shareholdings and PIN numbers. If you receive a telephone call or email from someone claiming to be from the SEC (or another government agency), always verify the person's identity. Use the SEC's personnel locator, (202) 551-6000, to verify whether the caller is an SEC staff member and to speak with him or her directly. In addition, you can call the SEC at (800) SEC-0330 for general information, including information about SEC enforcement actions and any investor claims funds. Our online [Question Form](#) is another way you can ask us about a solicitation.

If you have been contacted by someone misrepresenting himself as an SEC staff member, please let us know by either calling us or submitting a [Complaint Form](#). You may also report the incident to the Federal Bureau of Investigation (FBI) at <http://www.ic3.gov/default.aspx/>.

It's not hard to figure out who the real regulators are and how you can contact them. You'll find a list of international securities regulators on the website of the [International Organization of Securities Commissions](#) (IOSCO) and a directory of state and provincial regulators in Canada, Mexico, and the U.S. on the website of the [North American Securities Administrators Association](#) (NASAA). If someone encourages you to verify information about a deal with an entity that doesn't appear on these lists, you should be wary.

For additional tips on investing wisely and avoiding fraud, please visit the following web pages on the [SEC's website](#) and [Investor.gov](#):

[Investor Alert: Investors Beware of Government Impersonators](#) (February 2012)

[Investor Alert: Investors Beware of Government Impersonators](#) (October 2010)

[Investor Alert: SEC Warns of Government Impersonators](#) (April 2010)

[PAUSE List of Fictitious Governmental Agencies and International Organizations Associated with Soliciting Entities](#)

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Calendar of Upcoming Events



A representative from the Securities Division will be giving an anti-fraud presentation on the following dates and locations. Dates and times are subject to cancellation (although cancellations are rare), so please call the contact number listed to confirm the event is still on before leaving for it. All presentations are free and open to the public unless otherwise indicated. If you would like to schedule a speaker for your church, business, group or organization, please contact [John Maron](#) or [Barbara Bennett](#) at (800) 688-4507.

Date	City	Details
01/10/13	Cape Carteret	Crystal Coast Republican Men's Club , Ribeye's Steakhouse, 104 Golfing Dolphin Drive. Time: 5:30 PM – 7:30 PM. Open to club members and their guests only.
01/16/13	Farmville	Farmville Garden Club. Time: 9:30 AM – 11:00 AM. For more information, contact Barbara Bennett at (919) 807- 2015.
02/04/13	Charlotte	Charlotte North Rotary Club , Byron's South End Restaurant, 101 W. Worthington Avenue. Time: 12:15 PM -- 1:30 PM. Open to Rotary Club members and their guests only. For more information, contact Sean Gautam at (704) 266-0080.
02/07/13	Cumberland	Ft. Bragg Marriage Money Matters, Army Community Support (ACS), Building 4-2843, 3rd Floor, Soldier Support Center, Normandy Drive. Time: 5:30 PM -- 7:30 PM. For military personnel and their families only. For more information, contact Lynn Olavarria at (910) 907-3670.
02/09/13	Raleigh	Good Shepherd Lutheran Church , 7000 Creedmoor Road. "Brunch & Learn" Time: 10:00 AM -- 11:30 AM. For more information, call (919) 848-1573 for reservations.
02/18/13	Danbury	Stokes Advisory Council to Seniors (ACTS) , 700 North Main Street Danbury. Time: 1:00 PM -- 2:00 PM. For more information, contact Darlene Nelson at (336) 593-8156.



On The Docket

The following cases are ones in which the Securities Division has had some involvement, either as the lead investigative agency or in a supporting role.

On December 6, 2012, **Sean Fitzgerald Mescall** (right), of Denver, NC, was convicted in U.S. District Court for the Western District of North Carolina on federal felony counts of securities fraud, wire fraud and money laundering. Sentencing is expected sometime during the first half of 2013. Mescall was arrested by law enforcement agents of the Securities Division on September 9, 2009, on charges of securities fraud, obtaining property by false pretense and conducting an unlawful telephone room. He was alleged to have defrauded approximately 69 victims of approximately \$1.3 million in a Ponzi scheme involving foreign currency trading since at least September 2006. In a separate action, the CFTC has filed a civil action against Mescall and Capital Street Financial. On May 25, 2010, US District Court Judge Robert Conrad, Jr., ruled Mescall to be in contempt of the Court's Sept. 2009 Preliminary Injunction. On May 4, 2011, he was sentenced to 27 months in federal prison for criminal contempt relating to the CFTC action.



Sean F. Mescall

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Walter Ray Reinhardt, of Durham, NC, was served with 62 felony arrest warrants for securities violations on November 17, 2010. He is alleged to have defrauded 16 victims in Durham County out of more than \$1 million. Reinhardt had his first appearance in Durham County District Court on November 18, 2010 on 38 felony counts of securities fraud, 12 felony counts of common law forgery, and 12 felony counts of common law uttering. He is currently being held in the Durham County Jail under a \$4 million bond. No trial date has been set.

Darren Joseph Capote, of Patterson, NY, was indicted on July 11, 2011, in Ashe County Superior Court on three Class C felony counts of securities fraud. He is alleged to have defrauded an elderly victim in Ashe County. He was released from custody on a \$100,000 secured bond. His next court appearance in Ashe County has not been scheduled.

Michael Anthony Jenkins, of Raleigh, NC, was served on August 17, 2012, with three felony arrest warrants for securities fraud. Investigators with the Secretary of State Securities Division allege that Jenkins told investors he would use their funds to trade commodities futures or "E-mini futures" through his company, Harbor Light Asset Management, LLC. Investigators allege Jenkins instead converted funds to his personal use and used money from later investors to pay earlier investors in what is commonly referred to as a Ponzi scheme. Jenkins is in the Wake County Jail under \$500,000 secured bond. During his first hearing on August 20, the prosecutor told the court that there are 377 known victims of Jenkins' approximately \$1.79 million Ponzi scheme. The Securities Division's investigation is continuing. Anyone who has made investments with Harbor Light Asset Management, LLC is asked to contact the Securities Division at (800) 688-4507 or (919) 733-3924.

Recent Enforcement Actions

(For prior administrative and criminal actions, click on the badge to the right.)

On **November 20, 2012**, the Securities Division of the North Carolina Department of the Secretary of State issued a **Temporary Order to Cease and Desist** to **Rondell Scott Hedrick** and **Hedrick Consulting, Incorporated**. Rondell Scott Hedrick and Hedrick Consulting, Incorporated were ordered to cease and desist from offering for sale, soliciting offers to purchase or selling, in or from North Carolina, any securities unless and until such securities have been registered and **Rondell Scott Hedrick** and **Hedrick Consulting, Incorporated** become registered as a dealer or salesman of securities. The **Temporary Order to Cease and Desist** found that **Rondell Scott Hedrick** and **Hedrick Consulting, Incorporated** offered and sold investment contracts in transactions involving the purchase and sale of gold bars, in violation of the North Carolina Securities Act. The **Temporary Order to Cease and Desist** gives Respondents 30 days in which to request a hearing. If no such request is made during that time, the **Temporary Order to Cease and Desist** shall become final. Click [here](#) to view the Temporary Order.



News from the Regulators

(The following are selected public notices issued by one or more securities regulator. Click the links to view the full notices. These are offered for informational purposes only.)

[SEC, FINRA Issue New Investor Alert: Year-End Investment Considerations For Individual Investors](#)

Dec. 6, 2012 -- The SEC's Office of Investor Education and Advocacy and the Financial Industry Regulatory Authority (FINRA) have issued a new Investor Alert called [Year-End Investment Considerations for Individual Investors](#). This new alert provides individual investors with a few suggestions for year-end investment planning as the year draws to a close.

[SEC Charges 10 in Insider Trading Ring Around Investment Banker's Illegal Tips on Impending Mergers](#)

Dec. 5, 2012 — The Securities and Exchange Commission has charged an investment banker who was primarily based in Charlotte, N.C., and nine others involved in an insider trading ring that garnered more than \$11 million in illicit profits trading on confidential information about impending mergers. The SEC alleges that **John W. Femenia** misused his position at Wells Fargo Securities to obtain material, nonpublic information about four separate merger

transactions involving firm clients. Upon learning inside information about an impending deal, Femenia's first call to set the insider trading ring in motion was typically to his longtime friend **Shawn C. Hegedus**, who worked as a registered broker. Femenia and Hegedus illegally tipped other friends who in turn tipped more friends or family members in a ring that spread across five states. The SEC has obtained a court order freezing the assets of the illegal traders. According to the [SEC's complaint](#) filed in U.S. District Court for the Western District of North Carolina, Femenia was based in Wells Fargo's Charlotte office when most of the misconduct occurred, but later moved and worked in New York where he currently resides. Femenia's tippees included his friends **Aaron M. Wens**, who lives in Encinitas, Calif., and **Matthew Musante**, who lives in Miami. Musante tipped his father **Anthony Musante**, who lives in Melbourne, Fla. Hegedus tipped his girlfriend **Danielle Laurenti** and his business colleague **Roger A. Williams**, who lives in Georgetown, S.C. Williams tipped three of his friends: **Frank M. Burgess, Jr.** of Charlotte, **James A. Hayes IV** of Charlotte, and **Kenneth M. Raby** of Greer, S.C.

All investors are strongly encouraged to contact the Securities Division at (919) 733-3924 or toll-free at (800) 688-4507 to check that their investment professional is properly registered ***before*** transferring any assets to that person's control. One five-minute telephone call to the Securities Division could protect your entire life's savings from being stolen from you. For a wealth of investor education information, please visit our Web site, www.sosnc.com. Click on the yellow box entitled "Investment Securities".

This newsletter is produced by the Investor Education Program of the Securities Division of the North Carolina Department of the Secretary of State. If you have questions or comments about this publication, or would like to schedule an investor education presentation with your group or organization, please email [John Maron](mailto:John.Maron@sosnc.com), Director of the Investor Education Program, or call (919) 807-2106.

Please help us publicize the educational information in this mailing by forwarding it to your contacts around the state. If you no longer wish to receive mailings from the Securities Division, please send an email to: jmaron@sosnc.com with "Remove from mailing list" in the subject line.

Remember that if an investment sounds too good to be true, it *probably* is!