



North Carolina
Department of the Secretary of State

Hon. Elaine F. Marshall, Secretary

Securities Division



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**Doctors, Social Workers and Legal Advocates
 Learn How to Combat Financial Frauds Against Seniors**

North Carolina is one of 27 other states to participate in the EIFFE Prevention Program

On Friday, March 23, over fifty doctors, social workers and elder law attorneys gathered at the J. Paul Sticht Center on Aging at Wake Forest Baptist Hospital to learn about a program to combat financial abuse of the elderly.

The Elder Investment Fraud and Financial Exploitation (EIFFE) Prevention Program trains medical professionals with elderly patients to watch for signs that their patients may be victims of financial exploitation or fraud. The program is sponsored by the Investor Protection Trust and in North Carolina by the Department of the Secretary of State.

By undergoing the EIFFE training, doctors, nurses and social workers are taught to be aware that Mild Cognitive Impairment (MCI) increases their patients' vulnerability to investment fraud. Clinicians are encouraged to include questions about a patient's financial well-being into their patient intake routines. The program also provides appropriate referral routes for reporting suspected fraud.

(See "EIFFE" on p. 2)



Befitting the occasion, the EIFFE speakers gather in front of the statue, "Grandparents", outside the J. Paul Sticht Center on Aging. Pictured(L-R) are John Maron, Kate Mewhinney, Carol Spainhour, Dr. Jeff Williamson, Secretary Elaine F. Marshall and Dr. Jan Busby-Whitehead. Photo courtesy of WFBH Photoarchive

Women Face Unique Financial Challenges Throughout Lifetime



March is *Women's History Month* and the NC Securities Division wants to remind everyone about an investor education program designed especially for women.

Women can face daunting money challenges during periods of transition like marriage, divorce, job loss, child raising, retirement, and widowhood, especially if her spouse had been responsible for handling the family's finances.

The NC Securities Division and the North American Securities Administrators Association (NASAA) have jointly developed and are sponsoring the [Women In Transition](#) (WIT) program to empower women to become more financially savvy, independent and less vulnerable by teaching them how to exercise caution and how to become better educated investors.

For more information about the WIT program, or to schedule a WIT program in your community, contact Barbara Bennett at (919) 807-2015 or via email at bbennett@sosnc.com.

["EIFFE", continued from p. 1](#)



Dr. Jeff Williamson

All medical professionals have an ethical and legal obligation to report suspected abuse, including financial abuse.

Dr. Jeff Williamson, the Sticht Center's Program Director and Chief of Geriatrics and Gerontology at the Wake Forest Baptist Medical Center, opened the program with welcoming remarks. He told attendees that the J. Paul Sticht Center was built "with the specific goal of helping older people maintain their independence in the face of aging and chronic disease." He cited the need for conferences like this one because "one of the great tensions in this mission is maintaining [a patient's] financial independence in the context of vulnerability. The healthcare system sees this and often turns a blind eye to it because we often don't always know how to deal with it, and the very people we love want to maintain their independence and often lose sight of [their] vulnerability."

Kate Mewhinney, Managing Attorney of the Wake Forest School of Law's Elder Law Clinic, put a human face on the day's program by citing a case that her office had just concluded the day before. A year ago, one of the Sticht Center's doctors referred an elderly woman to the clinic. The patient had confided to the doctor that she was being taken advantage of financially by her son who, after taking her assets, had abandoned her to a long-term care facility. The Elder Law Clinic filed suit and was successful in getting the woman's assets returned to her. "But for an alert physician," Mewhinney said, "this woman would not have had any help."



Kate Mewhinney



Secretary Elaine F. Marshall

Attendees listened as NC Secretary of State Elaine F. Marshall described how con artists operate and the role her office plays in protecting investors and bringing con artists to justice. ([Watch a video excerpt of her remarks on our Multimedia page.](#))

Dr. Jan Busby-Whitehead, Chief of the Division of Geriatric Medicine and Director of the UNC Center for Aging & Health at the UNC School of Medicine, provided the keynote presentation. She explained the

physical changes the brain undergoes as we age and how MCI can affect one's behavior. She also cited some of the red flags doctors should be mindful of during their clinical observations, including a change in a patient's ability to perform activities of daily living, including self care, and how they manage their daily finances or medications. Another warning sign is if the patient is accompanied by an overly protective or suspicious caregiver.



Dr. Jan Busby-Whitehead

Other presenters included Nancy Warren, Program Administrator for the NC Division of Aging and Adult Services, Carol Spainhour, Chair of the NC Bar Association's Elder Law Section, and John Maron, Director of the Securities Division's Investor Education Program. Ms. Warren told attendees that can refer suspected cases of physical or financial abuse to Adult Protective Services (APS) and that APS representatives are housed in each county's Department of Social Services. (For a listing for your county, visit http://www.ncdhhs.gov/aging/adultsvcs/afs_aps.htm.)

[\(See "EIFFE" on p. 3\)](#)

["EIFFE", continued from p. 2](#)



Some of the attendees of the day's EIFFE event.

Ms. Spainhour said that private attorneys specializing in elder law can assist with the special planning needs of the elderly, including explaining the importance of advance directives and discussing housing and long term care needs. Elder law attorneys must also be sensitive to the ethical issues facing them when dealing with clients with diminished capacity and frequent multi-generational participation in their care and planning. This involves issues of not only Medicare and Medicaid, but also disability, guardianships or other means of asset management, health care through community based services, assisted living, nursing home care and rehabilitation care.

Finally, John Maron underscored Secretary Marshall's remarks by warning attendees that "successful con artists want you to believe that you can eat an entire three layer

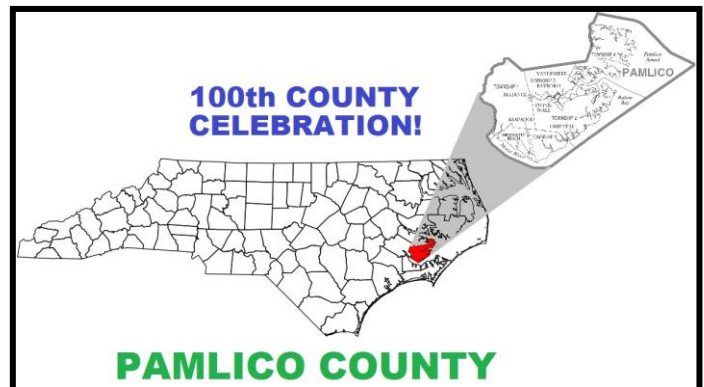
chocolate cake without gaining an ounce. They want you to believe their investment opportunity can give you fantastic investment returns with little or no risk to your money." Investments do not work that way, he said. "Investing is a business decision," he said. "Invest with your head and not your heart."

The EIFFE program was developed by Dr. Robert Roush and his team at the Huffington Center on Aging at Baylor College of Medicine through a grant from the Investor Protection Trust (IPT). North Carolina is one of twenty-seven other states to participate in this national program. The Sticht Center and the Elder Law Section of the NC Bar Association were also sponsors of this presentation. There is growing interest to do a similar presentation in the western part of the state, perhaps Asheville, later this fall. Dr. Williamson has also indicated an interest to hold another presentation during Wake Forest Baptist Hospital's Internal Medicine Grand Rounds next year. More information will become available as plans for these programs are finalized.

From Alamance to Yancey, Manteo to Murphy! (And All Points In Between!)

On March 28, 2006, NC Secretary of State Elaine F. Marshall and John Maron, Director of the Investor Education Program, appeared at an anti-fraud Scam Jam hosted by AARP North Carolina at the NC Mutual Life Insurance Building in Durham, North Carolina. Approximately 200 people listened as Secretary Marshall provided tips on how to avoiding becoming victims of investment fraud.

Since then, the Investor Education Program set its collective eyes on the goal of conducting at least one investor education program in all 100 of North Carolina's counties.



We are pleased to announce that on April 26, 2012, after more than 440 presentations to nearly 30,000 people, we will achieve our goal when John and Barbara Bennett, Investor Education Specialist, conduct a presentation at [Pamlico County Senior Services](#), located at 800 Emerald Pond Lane, in Alliance, NC. The event will be held from 8:00 AM -- 9:30 AM. For more information, contact Linda Potter at (252) 745-7196. Come out and join us for this and help us make this momentous occasion a memorable one!

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Students, Teachers, and Parents Challenged to Tackle National Financial Literacy Exam

Third Annual National Financial Capability Challenge Helps to Prepare Students for Secure Financial Futures

High school-aged students from across the country can test their knowledge about personal finance through the National Financial Capability Challenge and earn a chance to be recognized by the Obama Administration. The annual Challenge enhances students' financial capability by strengthening their understanding of saving, budgeting, and investing, among other central personal financial concepts. The voluntary online exam is available to students now through April 13.

"The Challenge is an exciting way to educate students on basic finance and encourage them to make smart money management part of their everyday behavior," said Deputy Secretary of the Treasury Neal S. Wolin. "It is critically important that young people learn how to succeed financially, and I commend educators and parents across the country for taking the time to teach these valuable skills."

"So many of the challenges we face today, both individually and as a nation, are because we have not taught these basic lessons about managing finances and making smart investments," said U.S. Secretary of Education Arne Duncan. "The Challenge is an excellent tool for educators to help them teach these key skills so every student is receiving a well-rounded education and is prepared to make sound financial decisions, even from a young age."

The U.S. Department of the Treasury, in conjunction with the U.S. Department of Education, has developed

an [Educator Toolkit](#), which can be accessed on [Challenge.Treas.gov](#), to help prepare students for the exam. From saving for college to managing expenses like cell phones, the Challenge helps students to learn about a wide array of topics that together constitute a basic understanding of personal finance.

Treasury and Education encourage all educators working with U.S. high school-aged students (ages 13-19) to register for the Challenge, download the Educator Toolkit, prepare their students, and administer the online exam. Educators can offer the Challenge in libraries, after-school settings, and in home-school environments as well as in the classroom. Department of Defense schools overseas are also encouraged to participate.

All students who finish first or second at their school or place in the top 20 percent nationwide will receive official award certificates, and top students will be recognized on the Challenge website. We also encourage education foundations, state, and local officials to recognize top scoring students, as some have already committed to do.

More than 84,000 students and 2,500 educators from 1,692 schools in all 50 states participated in the 2011 Challenge. On average it took students less than 30 minutes to complete the Challenge last year. To learn more about the Challenge or to register for this year, educators should visit [Challenge.Treas.gov](#).

An example of the type of question students will answer during the exam is as follows:

John drove his car to the local Gas and Shop store. On the way to the store he got distracted while talking to his friend in the car and hit a street sign. Neither he nor his friend was hurt in the accident, but the front end of the car was damaged. What type of automobile insurance coverage will provide reimbursement for damages to his car?

- A. Liability B. Collision C. Comprehensive D. I don't know

(Click [HERE](#) for the answer)

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The following is an [Investor Bulletin](#) that was issued by the [U.S. Securities and Exchange Commission](#). It is reprinted here for informational purposes only.

Investor Bulletin: Real Estate Investment Trusts (REITs)

Real estate investment trusts (“REITs”) have been around for more than fifty years. Congress established REITs in 1960 to allow individual investors to invest in large-scale, income-producing real estate. REITs provide a way for individual investors to earn a share of the income produced through commercial real estate ownership – without actually having to go out and buy commercial real estate.

What is a REIT?

A REIT, generally, is a company that owns – and typically operates – income-producing real estate or real estate-related assets. The income-producing real estate assets owned by a REIT may include office buildings, shopping malls, apartments, hotels, resorts, self-storage facilities, warehouses, and mortgages or loans. Most REITs specialize in a single type of real estate – for example, apartment communities. There are retail REITs, office REITs, residential REITs, healthcare REITs, and industrial REITs, to name a few. What distinguishes REITs from other real estate companies is that a REIT must acquire and develop its real estate properties primarily to operate them as part of its own investment portfolio, as opposed to reselling those properties after they have been developed.

How to Qualify as a REIT?

To qualify as a REIT, a company must have the bulk of its assets and income connected to real estate investment and must distribute at least 90 percent of its taxable income to shareholders annually in the form of dividends. A company that qualifies as a REIT is allowed to deduct from its corporate taxable income all of the dividends that it pays out to its shareholders. Because of this special tax treatment, most REITs pay out at least 100 percent of their taxable income to their shareholders and, therefore, owe no corporate tax.

In addition to paying out at least 90 percent of its taxable income annually in the form of shareholder dividends, a REIT must:

- Be an entity that would be taxable as a corporation but for its REIT status;
- Be managed by a board of directors or trustees;
- Have shares that are fully transferable;
- Have a minimum of 100 shareholders after its first year as a REIT;
- Have no more than 50 percent of its shares held by five or fewer individuals during the last half of the taxable year;
- Invest at least 75 percent of its total assets in real estate assets and cash;

- Derive at least 75 percent of its gross income from real estate related sources, including rents from real property and interest on mortgages financing real property;
- Derive at least 95 percent of its gross income from such real estate sources and dividends or interest from any source; and
- Have no more than 25 percent of its assets consist of non-qualifying securities or stock in taxable REIT subsidiaries.

Three Categories of REITs: Equity, Mortgage, and Hybrid

REITs generally fall into three categories: equity REITs, mortgage REITs, and hybrid REITs. Most REITs are equity REITs. Equity REITs typically own and operate income-producing real estate. Mortgage REITs, on the other hand, provide money to real estate owners and operators either directly in the form of mortgages or other types of real estate loans, or indirectly through the acquisition of mortgage-backed securities. Mortgage REITs tend to be more leveraged (that is, they use a lot of borrowed capital) than equity REITs. In addition, many mortgage REITs manage their interest rate and credit risks through the use of derivatives and other hedging techniques. You should understand the risks of these strategies before deciding to invest in these types

of REITs. Hybrid REITs generally are companies that use the investment strategies of both equity REITs and mortgage REITs.

Because they often invest in debt securities secured by residential and commercial mortgages, mortgage REITs can be similar to certain investment companies that are focused on real estate. Generally, companies that

invest a majority of their assets in real estate are exempted from the rules that govern investment companies, such as mutual funds. The SEC has [initiated a review](#) to determine whether certain mortgage REITs should continue to be exempt from investment company regulation. Those rules generally limit the amount of leverage that a fund can use and regulate the fees that can be charged to investors.

Comparison of Publicly Traded REITs and Non-Traded REITs

Many REITs (whether equity or mortgage) are registered with the SEC and are publicly traded on a stock exchange. These are known as publicly traded REITs. In addition, there are REITs that are registered with the SEC, but are not publicly traded. These are known as non-traded REITs (also known as non-exchange traded REITs). The table on the next page compares the characteristics of publicly traded and non-traded REITs.

	PUBLICLY TRADED REITs	NON-TRADED REITs
Overview	REITs that file reports with the SEC and whose shares trade on national stock exchanges.	REITs that file reports with the SEC but whose shares do not trade on national stock exchanges.
Liquidity	Shares are listed and traded, like any publicly traded stock, on major stock exchanges. Most are NYSE listed.	Shares are not traded on public stock exchanges. Redemption programs for shares vary by company and are typically very limited. Investors may have to wait to receive a return of their capital until the company decides to engage in a transaction such as the listing of the shares on an exchange or a liquidation of the company's assets.
Transaction Costs	Brokerage costs the same as for buying or selling any other publicly traded stock.	Typically, fees of 9 - 10 percent of the investment are charged for broker-dealer commissions and other upfront offering costs. Ongoing acquisition and management fees and other expenses also are typical. Backend fees may be charged.
Management	Typically, the managers are employees of the company.	Typically, the company has no employees and is managed by a third party pursuant to a management contract.
Minimum Investment Amount	One share.	Typically, \$1,000 - \$2,500.

Independent Directors	Stock exchange rules require a majority of directors to be independent of management. NYSE and NASDAQ rules call for fully independent audit, nominating, and compensation committees.	North American Securities Administrators Association (“NASAA”) guidelines, which have been adopted by many states, require a majority of directors to be independent of management. NASAA guidelines also require that a majority of each board committee consist of independent directors.
Investor Control	Investors elect directors.	Investors elect directors.
Corporate Governance	Specific stock exchange rules on corporate governance.	Subject to state and NASAA guidelines.
Disclosure Obligation	Required to make regular SEC disclosures, including quarterly financial reports and yearly audited financial reports.	Required to make regular SEC disclosures, including quarterly financial reports and yearly audited financial reports.
Share Value Transparency	Real-time market prices are publicly available. Wide range of analyst reports available to the public.	No independent information about share value available. Company may provide an estimated share value 18 months after the offering has closed.

Some Caveats about Non-Traded REITs

- Lack of Liquidity:** Non-traded REITs are illiquid investments; they generally cannot be sold readily on the open market. If you need to sell an asset to raise money quickly, you may not be able to do so with shares of a non-traded REIT. Although non-traded REITs usually offer share redemption programs, these are typically subject to significant limitations and may be discontinued at the discretion of the company. Investors may have to wait to receive a return of their capital until the company decides to engage in a transaction such as the listing of the shares on an exchange or a liquidation of the company’s assets. The timing of these liquidity events is at the discretion of the company, and may be more than 10 years after the investment is made.
- Share Value Transparency:** While the market price of a publicly traded REIT is readily accessible, it can be difficult to determine the value of a share of a non-traded REIT. Because non-traded REITs are not traded on an exchange there is no market price available. Non-traded REITs typically do not provide an estimate of their value per share until 18 months after their offering closes, but this may be years after you have made your investment. As a result, you may not be able to assess the value of your non-traded REIT investment for a significant time period and may not be able to assess the volatility of your investment.
- Significant Up-Front Fees:** Non-traded REITs are typically sold by financial advisers. Non-traded REITs generally have high upfront fees that lower the value of the investment by a significant amount. They usually charge sales commissions and upfront offering fees of approximately nine to 10 percent. Investors should understand that a portion of the share purchase price represents sales commissions and that the amount actually invested in the company is reduced by these commissions.
- Distributions May Be Paid from Offering Proceeds and Borrowings:** Investors may be attracted to non-traded REITs by their relatively high dividend yields compared to those of publicly traded REITs. However, investors should consider the total return of a non-traded REIT – capital appreciation plus dividends – instead of focusing exclusively on the high dividend yield. Unlike publicly traded REITs, non-traded REITs frequently pay distributions in excess of their funds from operations. To do so,

they may use offering proceeds and borrowings. This practice, which is typically not used by publicly traded REITs, reduces the value of the shares and reduces the cash available to the company to purchase additional assets. In considering an investment in a non-traded REIT, you should assess the extent to which distributions have been paid from sources other than funds from operations.

- **Conflicts of Interest:** Non-traded REITs are typically externally managed—meaning the REITs do not have their own employees. The external manager may be paid significant fees by the REIT for things that may not necessarily be aligned with the interests of shareholders, such as fees based on the amount of property acquisitions and assets under management. In addition, the external manager may also manage other companies that may compete with the REIT.

Investing in REITs

As with any investment, you should take into account your own financial situation, consult your financial adviser, and perform thorough research before making any investment decisions concerning REITs. You can review a REIT's disclosure filings, including annual and quarterly reports and any offering prospectus at sec.gov. You can invest in a publicly traded REIT, which is listed on a major stock exchange, by purchasing shares through a broker (as you would other publicly traded securities). Generally, you can purchase the common stock, preferred stock, or debt securities of a publicly traded REIT. You can purchase shares of a non-traded REIT through a broker that has been engaged to participate in the non-traded REIT's offering. You can also purchase shares in a REIT mutual fund (either an index fund or actively managed fund) or REIT exchange-traded fund.

Special Tax Considerations

The shareholders of a REIT are responsible for paying taxes on the dividends that they receive and on any capital gains associated with their investment in the REIT. Dividends paid by REITs generally are treated as ordinary income and are not entitled to the reduced tax rates on other types of corporate dividends. For this reason, some investors prefer to own shares of a REIT or REIT fund inside a tax-deferred account (such as a retirement account) in order to defer paying taxes on the dividends received and any capital gains incurred from that REIT until they start withdrawing money from the tax-deferred account. Finally, a REIT is not a pass-through entity. This means that, unlike a partnership, a REIT cannot pass any tax losses through to its investors. Consider consulting your tax adviser before investing in REITs.

Related Information

[SEC Division of Corporation Finance Disclosure Guidance: Topic No. 3—Staff Observations in the Review of Promotional and Sales Material Submitted Pursuant to Securities Act Industry Guide 5](#)

[SEC Concept Release: Companies Engaged in the Business of Acquiring Mortgages and Mortgage-Related Instruments \(September 7, 2011\)](#)

[FINRA Investor Alert: Public Non-Traded REITs—Perform a Careful Review before Investing](#)

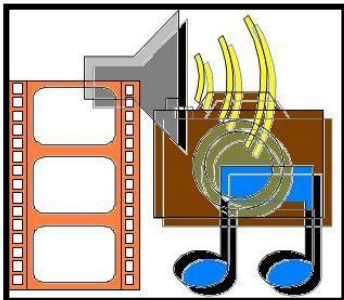
Notice to Investment Advisors Subject to the Dodd-Frank Switch

Advisors who are subject to the switch from federal to state regulatory oversight now have until **April 30, 2012** to participate in a program to help them navigate the switch to state registration.

The Investment Adviser Coordinated Review Program is open to SEC-registered investment advisers switching their registration to between four and 14 states. Under Dodd-Frank, investment advisers registered in 15 or more states can remain with the SEC. For more information on how to participate in the Coordinated Review Program, visit the [IA Switch Resource Center](#) on the NASAA website (www.nasaa.org) in addition to filing all materials required by the states in which the adviser is applying for registration. (There is also a [Frequently Asked Questions](#) page about the coordinated review process.)

There is no additional cost to use the program. Advisers will be subject only to the filing fees specified by the states in which the investment adviser is applying for registration. For more information, contact the Securities Division at (800) 688-4507 and ask to speak with an investment adviser registration agent.

MULTIMEDIA SECTION



Each month we feature a new video or audio clip on some topic relating to investor education.

This month, we are featuring excerpts from Secretary Elaine F. Marshall's March 23 speech to attendees of the Elder Investment Fraud and Financial Exploitation (EIFFE) Prevention Program at the J. Paul Sticht Center on Aging at Wake Forest Baptist Hospital.

The following is an investor alert issued by the Financial Industry Regulatory Authority (FINRA) and is reprinted here for informational purposes only.



It Pays to Understand Your Brokerage Account Statements and Trade Confirmations

FINRA often reminds investors to review their brokerage account statements and trade confirmations—with good reason. Not only do these documents help you stay on top of your investment holdings, but they also provide valuable information that can alert you to errors, or even misconduct by your broker or brokerage firm such as unauthorized trading or overcharging customers for handling transactions. The accuracy of statements and trade confirmations is something securities regulators take very seriously.

FINRA is issuing this alert to guide investors through the key elements of their brokerage account statements and trade confirmations and to provide tips that can help avoid problems. Investors should review their statements carefully—and immediately call the firm that issued the statement or confirmation about any transaction or entry they do not understand or did not authorize, and re-confirm any oral communication in writing with the firm.

In most cases, brokerage firms are required to provide customers with quarterly account statements¹ and written notification of trade confirmations at or before completion of a transaction. Be aware that the brokerage firm you opened an account with may not be the one that sends you your account statements and trade confirmations. **Introducing firms** generally make recommendations, take orders and have an arrangement with **clearing and carrying firms**, which are the ones that finalize ("settle" or "clear") trades and hold the funds or securities. If you work with an introducing firm, your statements most likely come from the clearing firm.

Spotting Fraud: Appearance Counts

Keep an eye peeled for statements that look unprofessional, crooked or altered in any way. This may signal fraud. Check graphic elements such as logos—if a logo has poor resolution or is inconsistent with other statements or communications from the firm, it is a red flag. In some cases, fraudsters simply cut and paste the logo of a legitimate firm onto their own bogus statement.

Anatomy of Your Account Statement

Brokerage account statements provide valuable information, including your account number, contact information for your financial professional and clearing firm, and a summary of your holdings. Your statement also generally includes the recent market value of your holdings or, in the case of illiquid securities (such as direct participation programs or public non-traded REITS), an estimated value. Account statements may not all look the same—and can come to you either electronically or in the mail—but they all contain certain common information. Below are some key elements of account statements, why each element is important and red flags that can help you recognize or avert problems.

Key Information	Why Is It Important?	Red Flags
Statement period or statement end date	The value of your investments is figured at the end of the statement period, so it is an important reference point for how your investments are doing.	<ul style="list-style-type: none"> • No specified end date or statement period. • End dates or statement periods that don't follow a consistent pattern (such as the last day, last business day or last Friday of each month).
Account number and account holder(s) name and address	Identifies account ownership as well as the type of account (for example, an individual account, joint account or UGMA account). Promptly notify your firm with any change in account ownership status (for example, from a personal to a business account, or from an individual account to a joint account) or contact information, including a change in your name. If you receive account information electronically, notify the firm if you change your email address—or if your email account is "hacked" or otherwise compromised. If there are multiple account holders on the statement, give each holder an opportunity to review the statement.	<ul style="list-style-type: none"> • Account number that doesn't match previous statements. • Wrong or outdated address, which could hamper delivery of account information. • Incorrect or outdated account ownership information.
Contact information	Name and contact information for your financial professional. Statements from online brokerages or other investment firms that do not provide investment advice generally will not include the name of a specific financial professional, but are required to provide a phone number to call for information about your account.	<ul style="list-style-type: none"> • The financial professional's name is unfamiliar to you. • A phone number that is out of service or always busy or not answered.
Clearing firm name and contact information	The clearing firm holds your securities. FINRA rules require that account statements provide clearing firm contact information, including a phone number.	<ul style="list-style-type: none"> • No clearing firm information on your statement. • A phone number that is out of service or calls that do not get answered or returned.
Account summary	Offers a helpful, high-level picture of your account performance from the end point of the previous statement, including the total value of your account. Careful review can be helpful in assessing buy/sell/hold decisions.	<ul style="list-style-type: none"> • Information that you suspect is incorrect or activity you did not authorize or expect. • Performance that seems unrealistic (return is always positive).

Key Information	Why Is It Important?	Red Flags
Income	Often consolidated with your account summary, deposits, withdrawals, dividends interest and maturity dates of bonds. Helps you stay in tune with your investments and "follow the money."	<ul style="list-style-type: none"> • Unfamiliar sources of dividend and interest income. • Income that appears on your statement, but has not been deposited to your account.
Fees	Fees associated with your account are required to be disclosed and should be factored into the overall performance of a given investment.	<ul style="list-style-type: none"> • Fees, including commissions, handling charges or other costs that seem excessive or are unfamiliar.
Account activity	This is where you find detailed information about account activity during a statement period, including any trades that have been made in your account, money or securities coming in/going out of your account and your beginning and ending balance for the statement period. Compare trades in your account statement with trade confirmations, especially if your financial professional has the ability to make trades on your behalf (this is called a discretionary account).	<ul style="list-style-type: none"> • Information that is inaccurate or does not match trade confirmations.
Margin	Margin is a loan from the firm that is secured by the securities you purchase and therefore comes with costs and risks. Your statement will tell you which securities, if any, have been purchased on margin. Margin interest charges let you know, in effect, how much interest you have paid on this loan in a given account period.	<ul style="list-style-type: none"> • Securities purchased on margin without your authorization. • Margin costs that exceed disclosed interest rate.
Portfolio detail	Shows you the individual assets in your account, allowing you to check the accuracy and details of each of your holdings. This area may also include a breakdown of investments by asset class, which can help you determine if you are adequately diversified. Other information such as bond insurance ratings, income, yield and unrealized gains and losses may also be included and help you assess whether your investments are in line with your financial goals.	<ul style="list-style-type: none"> • Missing assets that you believe to be held at, or purchased through, your brokerage firm. • An asset mix that does not match your risk profile.

Key Information	Why Is It Important?	Red Flags
Disclosures and definitions	From explanations about fees to definitions of various terms and codes used in your statement, this information helps you understand your statement and stay informed and protected. For instance, this is where you will find an explanation of any account type that may appear on your statement, such as cash, short or margin. It is also where you will find details about new or revised legal information and fee details. Your statement may also include “stuffers” such as brochures or letters deemed to be important, or in some cases mandated by regulators.	<ul style="list-style-type: none"> • Absence of any disclosures or definitions. • Fee disclosures that are not in keeping with actual fees assessed to your account.

Many account statements include an investment objective that characterizes your investment strategy—for example "growth," "speculative" or "conservative." Make sure this description accurately describes your financial goals, and that the activity in your account reflects these goals. Keep in mind that your financial objectives may change over time and should be updated accordingly.

Consolidated Account Statements

Consolidated account statements are growing in popularity as a way to provide customers with a single document that combines information regarding most or all of the customer’s financial holdings, regardless of where those assets are held. These consolidated reports offer a broad view of customers’ investments, and may provide not only account balances and valuations, but also performance data. In many cases, these consolidated reports are prepared at the request of the customer, who may also direct which of his or her accounts to include and provide access to data for accounts not held by their brokerage firm.

Investors should understand that these communications supplement, **but do not replace**, the required brokerage account statement. If you receive consolidated statements—read them carefully. Many of the red flags cited above also apply to consolidated statements. But you shouldn’t substitute the reading of your brokerage statement with reading only the consolidated one. If you get both—read, compare and understand both—but keep in mind that it is the official brokerage statement which is used in case of a dispute with your broker or brokerage firm.

Carefully Review Your Trade Confirmations

Trade confirmations contain key trade details. These include the date and time of the transaction, price at which you bought or sold a security and the quantity of shares bought or sold. When a single keystroke can make the difference between 100 and 1,000 shares, it is important to review this information carefully—and as soon as you receive a confirmation.

Confirmations also inform you of whether your broker acted as an **agent** for you or another customer, or whether the broker or brokerage firm acted as a **principal** for its own account. In equity transactions, if the firm acts as agent, that means the firm acts on your behalf to buy or sell a security. In this capacity, the firm must disclose the amount of the commission you were charged either on the confirmation, or upon request by you. If the firm acts as principal, it is acting for its own benefit, and any markup, markdown or commission-equivalent must be disclosed on

the confirmation. In bond transactions, if the firm acts as agent, it must disclose the amount of the commission you were charged either on the confirmation, or upon request by you, just as with equity transactions. However, where the firm acts as principal and executes trades from its own account at **net prices** the price you pay (or receive) for the bond includes the firm's markup or markdown. The firm is not required to disclose this amount to you.

Don't Be Shy

Don't hesitate to ask your broker to provide the details about mark-up, mark-downs or any fees or commissions associated with your investment. These costs ultimately impact the overall return on your investment and you have a right to know this information. If you feel that these costs are excessive, you may file a complaint using FINRA's online [Complaint Center](#).

As with account statements, trade confirmations also include the clearing firm and its contact information, which may be extremely helpful should you have trouble tracking down your investments, or in the event your brokerage firm closes its doors.

Many of the tips and red flags associated with account statements also apply to trade confirmations. In addition, the following checklist can help you avoid problems:

- Check your trade confirmation against the information in your brokerage statement for the period in which the trade took place. Confirm the date and transaction amount. Contact the firm about any trade you did not authorize, and re-confirm any oral communication in writing with the firm.
- Confirmations might indicate whether trades are unsolicited or solicited. Check to be sure trades are properly categorized. Treat as a red flag an investment that was the broker's idea, but reflected on the confirmation as an unsolicited trade.
- Scrutinize any fees that might have been added—for example, handling fees or mailing charges—and be sure to ask for an explanation for any fees you had not expected or that seem unreasonable. For example, FINRA recently took [enforcement actions](#) against five brokerage firms that mischaracterized commissions on trade confirmations and fee schedules to look like handling services and postage charges.

Bottom Line

Always check to see if there are inaccuracies or discrepancies in any of your statements—and, if so, contact your broker or firm as soon as possible. If the problem is not resolved, file a complaint using FINRA's online [Complaint Center](#).

¹ [FINRA Rule 2231](#) (Customer Account Statements) is currently pending with the SEC. The rule would require FINRA-registered firms to provide customers with account statements at least once every calendar month if there has been any account activity during that month, subject to certain exceptions.

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
04/02/12	Kernersville	Kernersville Senior Enrichment Center , basement of the Kernersville Public Library, 130 E. Mountain Street. Time: 1:00 PM -- 2:00 PM. For more information, contact Lisa Miller at (336) 992-3180.
04/03/12	Brevard	College Walk Retirement Community , 100 N. College Row. Time: 2:00 PM -- 3:00 PM. Open to residents and their guests only. For more information, contact Valerie Tilson at (828) 884-5800.
04/03/12	Hendersonville	Lake Pointe Landing Retirement Community , 333 Thompson Street. Time: 4:00 PM -- 5:00 PM. Open to residents and their guests only. For more information, contact Amy Towery (828) 693-7800.
04/04/12	Asheville	Scam Summit hosted by the Land-of-Sky Community Resources Connections (CRC) for Aging and Disabilities . Location: Asheville-Buncombe Technical Community College, Simpson Hall, 340 Victoria Lane. Time: 9:30 AM – 12:30 PM. Click the link for more details and to register.
04/04/12	Arden	Ardenwoods Retirement Community , 2400 Appalachian Blvd. Time: 3:00 PM -- 4:00 PM. Open to residents and their guests only. For more information, contact Janice Husk at (828) 684-0041, ext. 31
04/12/12	Lexington	Scam Jam, Davidson County Department of Senior Services , 555 W. Center Street Extension. Time: 1:00 PM -- 4:00 PM. Register by April 9 th by calling (336) 242-2290 or by clicking the link above.
04/19/12	Durham	Men's Breakfast, Emerald Pond Retirement Community , 205 Emerald Pond Lane. Time: 8:00 AM – 9:30 AM. Open to residents and guests only. For more information, contact Lorene Currin at (919) 493-4713.
04/26/12	Alliance	Pamlico County Senior Services , anti-fraud presentation and 100 th County Celebration! 800 Emerald Pond Lane. Time: 8:00 AM -- 9:30 AM. For more information, contact Linda Potter at (252) 745-7196.
04/29/12	Cary	Jordan Oaks Retirement Community , 10820 Penny Rd. Time: 11:00 AM – Noon. Open to residents and guests only. For more information, contact Shelia Bullock at (919) 387-0430.
05/12/12	Cary	Jordan Oaks Retirement Community , 10820 Penny Rd. "Women In Transition (WIT)" presentation. Time: 11:00 AM – Noon. Open to residents and guests only. For more information, contact Shelia Bullock at (919) 387-0430.
05/17/12	Matthews	Plantation Estates , 733 Plantation Estates Drive. Time: 10:00 AM – 11:00 AM. Open to residents and guests only. For more information, contact Stephanie Harper at (800) 582-4316.
05/17/12	Columbus	Tryon Estates , 617 Laurel Lake Drive. Time: 2:30 PM -- 3:30 PM. Open to resident and guest only. For more information, contact Sara Staton at (828) 894-3083.



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.

Sean Fitzgerald Mescall, of Denver, NC, 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 is 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.

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 is expected sometime later this year.

Recent Enforcement Actions

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

On January 3, 2012, the Securities Division of the North Carolina Department of the Secretary of State issued a **Temporary Order to Cease and Desist to Joseph Maurice DeBerry and Sweetwater Capital Management, LLC**. **Joseph Maurice DeBerry and Sweetwater Capital Management, LLC** 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 **Joseph Maurice DeBerry and Sweetwater Capital Management, LLC** become registered as a dealer or salesman of securities. The **Temporary Order to Cease and Desist** found that **Joseph Maurice DeBerry and Sweetwater Capital Management, LLC** offered and sold investment contracts in the construction of student housing at privately owned colleges in violation of the North Carolina Securities Act. **Joseph Maurice DeBerry and Sweetwater Capital Management, LLC** were also ordered to cease and desist from making untrue statements of a material fact and omissions of material facts in connection with the offer, sale or purchase of any security. 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.



On **March 6, 2012**, the Securities Division of the North Carolina Department of the Secretary of State issued a **Final Order to Cease and Desist** against **Joseph Maurice DeBerry and Sweetwater Capital Management, LLC**, a limited liability company formed in North Carolina. The **Final Order to Cease and Desist** permanently ordered that Respondents shall cease and desist from offering for sale, soliciting offers to purchase or selling, in or from North Carolina, any securities, including but not limited to investment contracts in the construction of student housing at privately owned colleges, in violation of the North Carolina Securities Act. The **Final Order to Cease and Desist** finds that **Joseph Maurice DeBerry** was not licensed to sell securities in North Carolina and **Sweetwater Capital Management, LLC** employed an unlicensed salesman to offer and sell its securities, in violation of the North Carolina Securities Act. The **Final Order to Cease and Desist** also permanently ordered

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Respondents to cease and desist from making untrue statements of a material fact and omitting to state material facts in connection with the offer, sale or purchase of any security. Click [here](#) to view the Final 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.)

Proposed Rule Change to Amend FINRA's Customer and Industry Codes of Arbitration Procedure to Raise the Limit for Simplified Arbitration from \$25,000 to \$50,000

[SR-FINRA-2012-012](#)

Feb. 9, 2012 – The Financial Industry Regulatory Authority, Inc. (“FINRA”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule change to amend FINRA’s Customer and Industry Codes of Arbitration Procedure to raise the limit for simplified arbitration from \$25,000 to \$50,000. Notice of the proposed rule change was published in the Feb. 28, 2012 edition of the [Federal Register](#).

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!

Answer to sample question of the National Financial Literacy Exam:

B. Collision

Click [here](#) to go back.