North Carolina
Department of the Secretary of State

Hon. Elaine F. Marshall, Secretary

December 2015 SECURITIES NEWSLETTER • Vol. 7, No.12

In this Issue:

SOSNC Urges Caution with Asset Recovery Firms	1
Former Charlotte Resident Sentenced in Fraud Case	2
Fixed Rate Annuities Soaring in Popularity	3
Bulletin: Exchange Traded Notes	4
Advisory: Third– Party Asset Recovery Firms	7
Variable Annuities: An Introduction	9
Investor Education In Your Community	13
On the Docket	14
Enforcement Actions	14
News from The Regulators	15

NC Securities Division Investor Protection Hotline

1-800-688-4507

Mailing Address:

PO Box 29622
Raleigh, NC 27626-0622

www.sosnc.com

NC Secretary of State Cautions Fraud Victims about Third-Party Asset Recovery Firms

The North Carolina Secretary of State's Office on December 10 issued an advisory recommending victims of investment fraud to use caution when they are approached by companies promising to help them recover their money or bring the perpetrator to justice – for a fee.

Many of these third-party asset recovery companies are not law firms, although they may advertise that they can provide legal assistance, the advisory said. Typically, the targeted investors have lost thousands of dollars, perhaps their entire life's savings, to fraudulent investment schemes.

"Because scam artists spend money as fast as they steal it is impossible for courts to return most of the victims' lost money," explained NC Secretary of State Elaine F. Marshall. "Scam artists spend on extravagant lifestyles and to repay earlier investors to maintain the scam. Asset recovery companies often give fraud victims a false hope for recovery when restitution is not possible, or only amounts to pennies on the dollar."

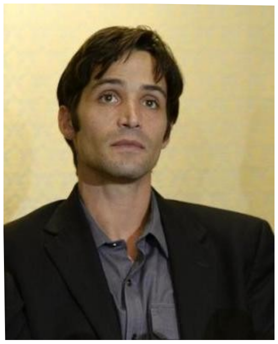
In an example spotlighted in the advisory, a third-party asset recovery company took a sizeable upfront fee from an elderly investor in exchange for filing a complaint with state and federal regulators in an attempt to recover losses on an oil and gas investment that occurred eight years prior. "Little did the investor know, but the perpetrator of the investment scam was already serving time in prison for fraud and had been for several years," the advisory said. It was also discovered by state securities regulators that the asset recovery company named the wrong perpetrator in the complaint; thereby taking a fee to file an erroneous claim.

The advisory said third-party asset recovery firms typically approach fraud victims through an unsolicited telephone call or email promising to recoup lost investment funds for an upfront fee. Once hired, the firm may send demand letters to the perpetrators of the initial investment scheme, then file a boilerplate complaint with state and federal regulators on behalf of the defrauded investor.

"Often, the information contained in these complaints relates to companies that are no longer in business, have filed for bankruptcy, or have already been subjected to previous regulatory action. Sometimes the complaints are based upon information that is too old for legal action," the advisory said. "In the end, the investor risks becoming victimized for a second time."

The advisory includes information to help investors understand how third-party asset recovery firms operate and areas to consider if approached by such a firm, including: its fees; how its investigation will be conducted; what legal services it provides; how it coordinates with securities regulators; and its discussion of recovery.

Former Charlotte Resident Sentenced To 24 Months In Prison On Securities Fraud and Wire Fraud Conspiracy Charges



Michael Francis Egan

On December 8, U.S. District Judge Robert J. Conrad, Jr. sentenced Michael Francis Egan, III, 33, formerly of Charlotte, to 24 months in prison and two years of supervised release on conspiracy to commit securities and wire fraud charges, in connection with a fraudulent investment scheme, announced Jill Westmoreland Rose, U.S. Attorney for the Western District of North Carolina. Judge Conrad also ordered Egan to pay more than $300,000 as restitution to his victims.

U.S. Attorney Rose is joined in making the announcement by John A. Strong, Special Agent in Charge of the Federal Bureau of Investigation (FBI), Charlotte Division.

According to filed court documents and the December 8 sentencing hearing, from August 2007 to February 2012, Egan carried out a fraudulent investment scheme by inducing his victims to enter into various fictitious business and investment contracts. According to court records, Egan promised his investor victims that he would invest their money in various projects, including Halloween and holiday themed attractions, land development, and television shows, among others. To further induce his victims, Egan lied about his financial background and personal assets and about his professional connections and investments. For example, Egan falsely told his victims he was a close associate and friend of the CEO of a major bank, a close associate or employee of a well-known investment mogul and that he owned a percentage of well-known hotels and casinos in Las Vegas. Instead of investing the victims' money as promised, Egan used it to fund his lifestyle and to pay for personal expenses such as rent, his car lease, groceries and pet care. According to court records, Egan defrauded more than 14 victims of over $300,000. Egan pleaded guilty to the charges in April 2015.

At the sentencing hearing, Judge Conrad described Egan's conduct as "a long-term fraud scheme with numerous acts of deception and fraud." Judge Conrad also noted the defendant's "predatory nature of the stealing of money […] considering the amount of money, the amount of victims […] and the defendant's cunning on innocent victims."

Egan will be ordered to report to the Federal Bureau of Prisons upon designation of a federal facility. All federal sentences are served without the possibility of parole.

The FBI investigated the case. The prosecution was handled by Assistant U.S. Attorney Kevin Zolot of the Western District of North Carolina.

Follow SOSNC on Social Media!

The North Carolina Secretary of State's Office now has accounts on several popular social media platforms as part of our ongoing efforts to enhance our community outreach.

You can now follow SOSNC on Twitter, Facebook, LinkedIn and YouTube for updates on everything from investor education to trademarks enforcement and charitable solicitation regulation.

Click on the icons above to go to SOSNC's social media accounts!

Beware of Scams Targeting Seniors During the Holidays

The Consumer Financial Protection Bureau's (CFPB) Office for Older Americans is working to provide older consumers and their families with the tools and information they need to protect themselves from frauds and scams.

Scams that target older people occur every day, but you can count on scammers to ramp up their efforts to prey on people's generosity during the holiday season. Please click here to read the CFPB's blog post in its entirety. Some tips to protect yourself or your elderly parents:

- Before offering your financial help to someone claiming to be a grandchild or other relative, verify that the request is genuine and beware of anyone who insists on secrecy.
- Ask for detailed information when callers claim they are raising funds for an established charity or law enforcement organization. Call the charity directly and ask their development staff if they are aware of the solicitation calls.
- Call the IRS directly at 1-800-829-1040 if you've received a letter claiming you owe the IRS taxes.

InvestmentNews.com

Fixed-Indexed Annuities Soar in Popularity

Since 2011, sales growth has eclipsed variable annuities

We recommend this informative article from InvestmentNews.com about the rise in sales of fixed-indexed annuities (FIAs) and the importance of paying strict attention to the details of annuity contracts.

Though not considered securities, FIAs are often marketed as an alternative investment. Investors should educate themselves about the specific features of these annuity contracts, including caps on returns.

NC Investment Advisers & Representatives: Last Call to Renew!

For you investment advisers and investment adviser representatives who haven't renewed your registration as an adviser or representative yet—the clock is ticking down!

By statute, your registration as an investment adviser or representative automatically terminates on December 31 ***UNLESS*** you take steps to renew it. For the 2016 renewal season, Preliminary Renewal Statements became available in mid-November and the deadline for receipt of Preliminary Renewal Statement payments is **December 18, 2015**.

Firms must use their FINRA Renewal Accounts to pay their annual renewal fees.

Investor Bulletin: Exchange Traded Notes (ETNs)

The SEC's Office of Investor Education and Advocacy is issuing this Investor Bulletin to educate investors about exchange-traded notes ("ETNs"). ETNs are unsecured debt obligations of financial institutions that trade on a securities exchange. ETN payment terms are linked to the performance of a reference index or benchmark, representing the ETN's investment objective. ***You should understand that ETNs are complex and involve many risks for interested investors, and can result in the loss of your entire investment.***

What is an ETN?

ETNs are unsecured debt obligations of financial institutions. They are very different from traditional corporate bonds because, unlike traditional corporate bonds – which pay a stated rate of interest – the return on an ETN is based on the performance of a reference index or benchmark (minus any investor fees you may pay). ETNs generally do not pay interest to their holders. Payments on ETNs may be linked to well-known broad based securities indexes or based on indexes tied to emerging markets, commodities, volatility, a specific industry sector (e.g. oil and gas pipelines), foreign currencies, or other assets. ETNs that offer leveraged exposure pay a multiple of the performance of the reference index or benchmark. Other ETNs (called inverse ETNs) are calculated based on the *opposite* of the performance of the reference index or benchmark. Many ETNs are issued with maturities of 20 or 30 years, and are not intended to be held to maturity. Accordingly, returns to an investor generally arise from trading the ETN rather than from holding the ETN to maturity.

What is the Difference Between an ETN and an ETF?

ETNs are often confused with exchange-traded funds (ETFs). ETNs and ETFs are both traded on a securities exchange and can be bought and sold throughout the day, but there are important differences. ETFs are registered investment companies. An investor in an ETF owns shares of a fund, which represents an ownership interest in an underlying portfolio of assets. An ETF discloses to investors the value of its portfolio of assets by publishing an end-of-day net asset value and by disseminating an estimate of its value generally every 15 seconds during the trading day, which is sometimes called an *intraday indicative value*. An ETF issues and redeems its shares in creation units, at their net asset value.

ETNs share some characteristics with ETFs. For example, ETNs also issue and redeem notes in creation unit sizes (generally, 25,000 to 50,000 notes); like with ETFs, the creation and redemption process affects the number of notes trading at any point in time. For both ETNs and ETFs, the purchasers of the creation units split them up to sell the individual notes or shares, as applicable, to investors in transactions on an exchange. But there is a fundamental difference between ETFs and ETNs. Unlike ETFs, ETNs do not own an underlying portfolio of assets and this makes holders of ETNs subject to the creditworthiness of the issuer. As ETNs do not own assets, when issuing new ETNs, ETN issuers calculate the value of the ETN using a described formula, rather than using net asset value.

Market Trading and Valuing ETNs

ETNs are listed on an exchange and may be bought and sold at market prices. An ETN's prospectus will describe both how the value of the note is determined on any particular trading day, as well as how the value of the reference index or benchmark is calculated. Issuers publish a value at the conclusion of each trading day representing the amount an issuer would be obligated to pay the investor. Market prices may vary from these published values.

Potential Risks to Consider Before Investing in ETNs

Potential risks of investing in ETNs include the following:

Complexity – You and your broker should take time to understand the manner in which the reference index or benchmark is calculated, including the fees that are included in either the reference index or the calculation of the value of the ETN. Compare and contrast the ETN to other investment products offering a similar investment strategy.

Credit Risk (Issuer Default) – You should be aware that when you purchase an ETN you are subject to the creditworthiness of the issuing financial institution and would be a creditor if the issuer defaults on payments due.

Market Risk – In addition to the credit risk of the issuer, ETNs also expose investors to the performance risk of the reference index or benchmark.

Leverage – Leveraged, inverse, or inverse-leveraged ETNs reset on a daily basis their exposure to the leveraged, inverse, or inverse-leveraged exposure stated in the prospectus, meaning that all investors receive an equal amount of leveraged, inverse, or inverse-leveraged exposure. As a result, investors holding such ETNs for more than one day should not expect to receive returns proportional to the exposure stated in the prospectus. The difference can be significant. Consequently, leveraged, inverse, or inverse-leveraged ETNs are not typically used as buy-and-hold instruments.

Price Volatility (Market Price versus Indicative Value) – ETNs can trade at premiums or discounts to their indicative value, especially in instances in which the issuer has suspended further note issuances. If you are considering purchasing ETNs, you should compare market prices against indicative values.

Liquidity Risk – There is a risk that if you need to *cash out* your investment, you may not be able to sell the ETN immediately and at a price that you would consider reasonable (for example, you may have to sell the ETN at a lower price than if you were able to wait to liquidate your investment). This is the case for most illiquid securities and the liquidity of ETNs varies significantly. For example, some ETNs have daily volume in excess of a million notes, while others may have little trading activity over several days. You should consider your overall timeframe for the investment, including how quickly you may need to sell the ETN.

Additional Considerations:

Do not invest in something that you do not understand. Before purchasing an ETN, you should consider:

- Whether ETNs are a suitable investment for you. You should review your investment objectives and tolerance for risk with your broker or financial adviser before you consider investing in an ETN. They can help you determine whether or not the risks associated with a particular ETN are within your tolerance for risk, or whether your investment needs are better served by investing in another product. Your broker should only recommend transactions and investment strategies that are suitable for you based on your investment profile.

- What fees are associated with an ETN, such as fees included in the reference index or benchmark, daily investor fees that reduce the closing indicative value of the ETN, and the amount of brokerage commissions you may pay when buying and selling an ETN.

- Whether you understand how the reference index or benchmark is calculated.

- Whether you understand how the indicative values and redemption values are calculated and what they measure.
-
- Whether you understand the tax implications, if any, because the tax treatment can vary depending upon the nature of the ETN. It may be appropriate to consult a tax professional.

Finally, you may wish to consider seeking the advice of an investment professional. If you do, be sure to work with someone who understands your investment objectives and tolerance for risk. Your investment professional should understand complex products, such as ETNs, and be able to explain to your satisfaction whether or how they fit with your objectives.

Five Minutes Could Save Your Life Savings

Regular readers of this newsletter know that investors have a lot of potential pitfalls when investing their money, from legitimate but risky or inappropriate investments to outright scams.

One simple tip that can catch a scam artist is to check their registration. With a few limited exceptions, anyone who sells or promotes an investment – or who is paid to provide individualized investment advice – has to be registered with the NC Securities Division in order to lawfully do business in North Carolina.

While registration in and of itself is no guarantee against fraud, not being registered is a very big red warning flag. **We urge you to call our NC Securities Hotline at 1-800-688-4507** to see if the person you have been dealing with – perhaps even for years – is properly registered and/or has a disciplinary history. You owe it to yourself and your family to check.

Third-Party Asset Recovery Companies:

Are They Advocating for You?

Victims of investment scams are wise to use caution if approached by companies promising to help them recover their lost investment funds and bring the perpetrators to "justice." A third-party asset recovery company is a company that charges a fee to assist individuals in recovering money lost in scams. The company claims to gather information on the scam and assist the individual in recovering lost investment dollars. Many of these self-proclaimed recovery companies are not law firms, although they may advertise that they can provide legal assistance. Typically, the targeted investors have lost thousands of dollars, perhaps even their entire life's savings, to fraudulent investment schemes.

How it Works

Months after an investor realizes (s)he has been defrauded in an investment scheme, the investor may receive an unsolicited telephone call or email from a representative of a recovery company promising to recoup lost investment funds for an upfront fee.

The recovery companies employ high pressure sales tactics such as calling numerous times a week or daily until the investor agrees to "hire" the company. The recovery company conducts a cursory search, gathering information from the investor, random Internet searches and state regulators - all of which is readily available public information. They may send demand letters to the perpetrators of the initial investment scheme, then file a boilerplate complaint with state and federal regulators on behalf of the defrauded investor.

Often, the information contained in these complaints relates to companies that are no longer in business, have filed for bankruptcy, or have already been subjected to previous regulatory action. Sometimes the complaints are based upon information that is too old for legal action.

In the end, the investor risks becoming victimized for a second time.

Issued: December 2015

To learn more, contact:
NC Department of the Secretary of State, Securities Division, PO Box 29622, Raleigh, NC 27626-0622
www.sosnc.com | 1(800) 688-4507 or (919) 733-3924 | Fax: (919) 807-2183 | secdiv@sosnc.com

In an actual complaint received by a state securities regulator, a third-party asset recovery company took a sizeable upfront fee from an elderly investor in exchange for filing a complaint with state and federal regulators in an attempt to recover losses on an oil and gas investment that occurred eight years prior. Little did the investor know, but the perpetrator of the investment scam was already serving time in prison for fraud and had been for several years. It was also discovered by the state securities regulator that the asset recovery company named the wrong perpetrator in the complaint. Therefore, the asset recovery company took a fee to file an erroneous claim.

Things to consider before hiring a third party asset recovery company:

- **Fees** – What is the service going to cost? Some firms charge an upfront fee between $2,500 and $10,000 or use a sliding scale based on the amount of the original investment.

- **Investigation** – What information will you receive? Promises to gather information usually only include compiling data available from public sources.

- **Legal services** – What does this mean? Often these companies lack the legal expertise to advise you on all of your available legal options or to initiate a class action lawsuit. Most are unable to negotiate beyond a demand letter.

- **Coordination with state, federal or provincial regulators** – In fact, these companies file boilerplate complaints on behalf of investors that contain little information useful to a regulator. These companies mislead you into paying for a service that is available for free through your local regulator.

- **Promise of recovery** – These companies give investors false hope that they will recover lost funds. In reality, the investment scheme is often so old that the company is either defunct or bankrupt, and recovery is very unlikely.

How to Protect Yourself

- If you find yourself the victim of investment fraud, contact the North Carolina Department of the Secretary of State Securities Division and file a complaint.

- Remember, most defrauded investors rarely recover any lost funds. If any money is recovered, it is usually only pennies on the dollar.

- Read the fine print of any contract for service before you provide the company your money. Ask for specifics on what services they are providing for the fee.

- Consider whether you can risk losing more money for the possibility that the company may not be successful in recouping anything on your behalf.

- If the firm alludes to providing legal services, such as filing a class action lawsuit, ask for the names and license numbers of the attorneys who work at the firm and verify their licensure with the appropriate state bar association or provincial equivalent.

Bottom Line: Before making any decisions with your money, ask questions, do your homework and contact the North Carolina Department of the Secretary of State Securities Division at 1-800-688-4507.

Variable Annuities—
An Introduction

The SEC's Office of Investor Education and Advocacy is issuing this bulletin to educate investors about variable annuities and how they work. Variable annuities are complex products, and this Investor Bulletin focuses solely on the basics. For more in-depth information about variable annuities, see our companion publication, Variable Annuities: What You Should Know.

What is a variable annuity?
A variable annuity is an investment product with insurance features. It allows you to select from a menu of investment choices, typically mutual funds, within the variable annuity and, at a later date—such as retirement—allows you to receive a stream of payments over time. The value of your variable annuity will depend on how your investment choices perform.

What should I do before I invest in a variable annuity?

- **Know how they work.** Before you buy a variable annuity, know how it works, look up key terms you might not be familiar with, figure out how you'll be charged, and be prepared to ask your financial professional questions about whether the product is right for you.

- **Get the details—read the variable annuity prospectus**. Different products have different features. Ask your financial professional for the variable annuity prospectus, which will describe the product you're considering in detail. Read the prospectus carefully, and ask questions about what you don't understand. The prospectus—which should be available free of charge—contains important information about much of what's described in this Investor Bulletin, including charges, investment choices, death benefits, payout options, and other features

Caution!

- **Variable annuities are generally not appropriate for investors with shorter time horizons.** Variable annuities are long-term investments for retirement savings purposes and other long-range goals. If you withdraw your money too early from the variable annuity (generally within six to eight years of acquiring the annuity, but sometimes 10 years or longer), substantial taxes and insurance company charges, among other things, may apply.

- **You could lose money**. Variable annuities involve investment risks, just like mutual funds do. If the investment choices you selected for the variable annuity perform poorly, you could lose money.

What's different about a variable annuity?
Although variable annuities usually are invested in mutual funds, they are different from mutual funds in important ways:

- **Variable annuities allow you to receive periodic payments**. A variable annuity allows you to receive **periodic payments** for the rest of your life or for the life of your spouse

- **They offer a range of features, but be prepared to pay extra for them**. For example, most variable annuities offer a death benefit, which means that if you die before the insurer has started making payments to you, a person you have named as a beneficiary will receive a specified amount. But you'll pay for this feature during the time you own the product. Same with other features such as optional "riders," including so-called "guarantees," which are discussed in more detail below. Consider whether these features are right for you and are worth what you're paying for them.

- **Earnings are tax-deferred, but there are penalties for early withdrawal**. You pay no taxes on any income and investment gains on the investments that you hold in the variable annuity until you withdraw your money. But when you take your money out, you will be taxed on the earnings at **ordinary income tax rates** rather than at lower capital gains tax rates associated with other investments, like mutual funds. In addition, you may face a 10% federal income **tax penalty** if you withdraw the money before you are 59½ years old. Finally, if you're putting a variable annuity into a tax-advantaged account, like an IRA or other retirement account (*e.g.*, a 401(k) plan), you'll get no extra tax advantage.

> The tax rules that apply to variable annuities can be complicated—before investing, you may want to consult a tax adviser about the tax consequences to you of investing in a variable annuity.

How is my money in a variable annuity invested?
You allocate your payments (during what's called the "**accumulation phase**") to the investment choices available through the variable annuity. For example, you might direct 40% of your payments to a bond fund, 40% to a U.S. stock fund, and 20% to an international stock fund. The money you direct to each mutual fund investment choice will increase or decrease over time, depending on the mutual fund's performance. In addition, variable annuities often allow you to direct part of your purchase payments to a **fixed account run by the insurance company**. A fixed account, unlike a mutual fund, pays a fixed or minimum rate of interest.

Ask your financial professional for the prospectuses of the investment choices available through the variable annuity before you decide how to invest your money. Consider these important questions for each investment choice you are thinking about: (1) investment objectives, (2) fees and expenses, (3) risks and volatility, and (4) how the fund fits into your overall investment strategy.

How do I get my money out of the variable annuity?
When you begin to take money out of the variable annuity, that's called the "payout phase." At the beginning of the payout phase, you can elect to receive the value of your variable annuity all at once. Or, you can choose to receive a stream of payments—for example, for a period that you select (say, 20 years) or for a specified person's lifetime (such as your lifetime or the lifetime of you and your spouse).

What are living benefits?
Many variable annuities offer features designed to provide some protection from investment losses. These features are sometimes called "living benefits." They may also have names such as "guaranteed minimum income," "guaranteed minimum withdrawal," "guaranteed lifetime withdrawal," or "guaranteed minimum accumulation" benefits. Some such features provide that you will be able to receive a specified level of payments, regardless of the performance of your investment choices.

You pay extra for these features, so be sure what you choose is right for you, and worth what you're paying for it. Our variable annuity publication—*Variable Annuities: What You Should Know*—has more information about these features generally, and the product prospectus will have more information on how the particular living benefit you are considering works.

Caution!

You should consider the financial strength of the insurance company selling the variable annuity. This could affect the company's ability to meet its obligations to you under a living benefit, or to meet other obligations, such as a death benefit or a fixed account obligation.

Living benefits are complex and often have limitations and conditions. For example:

- You may be forced to select only certain investment choices, which may limit the return on your investment.
- Withdrawals can reduce the amount that would otherwise be paid under the living benefit.

What will I pay to invest in a variable annuity?

You pay charges when you invest in a variable annuity. Be sure you understand all the charges before you invest. **These charges will reduce the value of your account and the return on your investment.** Often, they will include:

- **Surrender charges.** Withdrawals made within a certain period after your purchase payment (usually within six to eight years, but sometimes 10 years or longer) will usually have a "surrender" charge deducted from the amount you withdraw.
- **Mortality and expense risk charge.** This charge is based on the value of your account—usually around 1.25% of the value of your account *per year*. It pays for the death benefit, and is sometimes used to pay the insurance company's costs to sell the contract—like commissions.
- **Investment option expenses.** Expenses for the investment choices you select.
- **Charges for other features.** Special features, such as a living benefit, an enhancement to the basic death benefit, or long-term care insurance, often cost extra.

A variable annuity may offer different share "classes" with different charges (including mortality and expense fees) and different surrender charge periods. For example, "L class" shares may have a shorter surrender charge period, but may have higher ongoing fees, while "B class" shares may have a longer surrender charge period and lower ongoing fees. Consider how long you expect to own the variable annuity and your need to access funds when you think of any tradeoff between the length of the surrender charge period and the level of ongoing fees. Also, because fees are paid from the amount you invest, they can reduce your potential investment return.

Be aware that product charges may go towards your financial professional's compensation, which means that they may receive higher compensation for some products (and for different share classes of the same product) than for others.

Read the variable annuity prospectus and ask your financial professional to explain the charges that may apply.

What are tax-free exchanges?

Under U.S. tax law, you can exchange a variable annuity contract for a new annuity contract without paying any tax on any income and investment gains in your current variable annuity. These exchanges might be useful to you if you own a variable annuity but another annuity has features that you prefer, such as a larger death benefit, different annuity payout options, or different living benefits.

Exchanging your original variable annuity for a new one may have drawbacks. For example, when you surrender the old variable annuity, you may have to pay surrender charges. (Remember—exchanging your original variable annuity contract for a new annuity contract ***generally is considered a withdrawal***.) Also, a new surrender charge period generally begins when you exchange into the new variable annuity. This means that, for a significant number of years, you typically will have to pay a surrender charge if you withdraw funds from the new variable annuity. In addition, features under the original contract, such as the death benefit and living benefits, might be better than you might have under the new contract. And the new variable annuity may have higher fees and charges than the old variable annuity, which will reduce your returns.

> ***Caution!***
>
> Before you exchange one variable annuity product for another, compare both carefully.
> If you decide to do an exchange, you should first consult your financial professional or tax adviser to make sure that the exchange will be tax-free.
>
> See our variable annuity publication—*Variable Annuities: What You Should Know*—for more information about what you should think about, including a checklist of questions to ask yourself before you make your investment decision.

What are bonus credits?

Some insurance companies give you a credit that is added to your variable annuity contract value based on a percentage (typically from 1% to 5%) of your purchase payments. Sometimes the bonus is limited to money you put in initially or during the first year of owning the contract.

> ***Caution!***
>
> Variable annuities with bonus credits may have a downside—like higher expenses, higher surrender charges, and longer surrender charge periods— that can outweigh the benefit.
>
> Also, some products take back the bonus under certain conditions, for example, if a death benefit is paid, or if you make a withdrawal.

Ask questions before you invest—in anything

Don’t be afraid to ask the financial professionals who are trying to sell you a variable annuity whether the product is right for you. Keep asking them questions until you are satisfied with their answers. And write down their answers, so there won’t be any confusion later as to who said what.

Remember: Before purchasing a variable annuity, learn as much as possible about how it works, the benefits it provides, and the charges you will pay.

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, Leo John or Lauren Benbow at (800) 688-4507. For a complete list of all upcoming events, please check out our online calendar.

Date	City	Details
12/15/15	Cary	An official from the Secretary of State's Office will give a presentation on "Starting and Financing a Business in NC" covering what you need to know when starting and financing a new business. Location: Cary Innovation Center, 201 W. Chatham Street. Time: Noon — 1 PM. For more information, contact Ian Henshaw at ian@caryinnovationcenter.com.
12/15/15	Raleigh	An official from the Secretary of State's Office will present information about investor protection and what businesses setting up shop in North Carolina need to know as part of the 18th Annual Small Business Expo. Location: Southeast Raleigh Magnet High School, 2600 Rock Quarry Road. Time: 4:00 PM—6:00 PM. For more information please contact Maria Torres at 919-996-4271 or Maria.a.torres@raleighnc.gov.
1/6/16	Chapel Hill	Secretary of State Elaine F. Marshall presents CLE to Orange County Bar Association. Location: 1663 Restaurant. Time: Noon—1:30 PM. For more information, please contact Jeremy Browner at 919-537-8039 or jb@brownerlaw.com.
1/27/16	Pittsboro	"Scam Jam Anti-Fraud event. Location: Galloway Ridge at Fearrington. Event is open to Galloway Ridge residents and their guests only. Time: 2:00 PM— 4:30 PM. Representatives from the NC Secretary of State's Office, the NC Department of Justice's Consumer Protection Division, and the NC Department of Insurance's Senior Health Insurance Information Program will provide information on how to protect yourself from a wide range of scams. Presentations will include information on securities fraud, identity theft, Medicare fraud and how to establish a protective "freeze" on your credit report. For more information contact Debbie Williams at (919) 545-2611
2/8/16	Williamston	"Investment Fraud: Guarding Your Assets in a Scary World." A representative of the NC Secretary of State's Office will give a presentation on investment fraud aimed at senior citizens, as well as information on the secure, online Advance Health Care Directive Registry maintained by the Secretary of State's Office. Open to Martin County Collaborative members only. Location: Martin County Department of Social Services. 222 E. Main Street. Time: 9 AM — 10 AM. For more information contact Lori Furr, Life Enrichment Coordinator, at (704) 532-7017.

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.

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 hearing is set for March 7, 2016.

David Alan Topping, of Oak Island, NC, was arrested by law enforcement agents with the NC Secretary of State Securities Division on November 4, 2014 and charged with one felony count of securities fraud. The Brunswick County Sheriff's Office also charged Topping with one felony count of obtaining property by false pretenses and one misdemeanor charge for solicitation to obtain property by false pretenses. A Brunswick County Grand Jury has indicted Topping on the felony charges, which are now pending in Superior Court. Topping is alleged to have defrauded multiple victims out of more than $100,000. He is currently out of jail on a $250,000 unsecured bond.

Charles Caleb Fackrell, of Booneville, NC, was arrested by the Yadkinville Police Department in December, 2014 and to date has been charged with seven felony counts of obtaining more than $500,000 in by false pretense. On Monday, August 31 in Yadkin County Superior Court his case was continued until January 25, 2016. Fackrell remains in custody in the Yadkin County Detention Center under a $2.25 million bond.

To assist in the NC Securities Division's ongoing criminal investigation into Fackrell, we ask that any person who may have invested with Fackrell or his company, Fackrell Trivette Wealth Management, LLC, **please contact the Division immediately at 1-800-688-4507.** The Division would be interested in receiving **copies – not originals** – of any and all correspondence anyone may have had with Fackrell relating to the offer, sale of purchase of any investments. Anyone wishing to file a complaint against Fackrell or his company may do so by submitting a complaint form, located on the NC Secretary of State's website.

Recent Enforcement Actions

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

On **May 15, 2015,** the Securities Division of the North Carolina Department of Secretary of State issued a **Final Order of Revocation (Order) against Aegis Capital,** LLC (Aegis). The Order revoked Aegis's registration to operate as an Investment Adviser in North Carolina. The Order found that Aegis had violated provisions of the Investment Advisers Act. Click here to view the Final Order Revocation.

On **May 4, 2015**, the Securities Division of the North Carolina Department of Secretary of State issued a **Final Order to Cease and Desist** to **CAUSwave, Inc.** CAUSwave, Inc. This Order made permanent the terms of the Temporary Order to Cease and Desist issued on March 12, 2015. The Final Order found that CAUSwave, Inc. has violated the North Carolina Securities Act. The Order directs CAUSwave, Inc. and any person, employee, officer, director, entity or independent contractor under the direction or control of CAUSwave, Inc. to cease and desist from offering for sale, soliciting offers to purchase or selling, in or from North Carolina, any securities unless and until: (1) such securities have been registered under the provisions of the North Carolina Securities Act, and (2) CAUSwave, Inc. and any person or entity under the direction or control of CAUSwave, Inc. is properly registered as a securities dealer or salesman under the provisions of the North Carolina Securities Act. Click here to view the Final Order.

On **February 12, 2015**, the Securities Division of the North Carolina Department of the Secretary of State issued a **Final Order to Cease and Desist** to Respondents **Stark Innovations, L.L.C.**, and **David Alan Topping**, doing business as "Stark Investments, Inc." This Order made permanent the terms of the Temporary Order to Cease and Desist issued on November 5, 2014 in this matter. Respondents failed to object to the issuance of the Final Order or to seek any hearing in this matter. Respondents are prevented and restrained from offering to sell, or selling, securities interests in Stark Innovations, L.L.C., or any other security, in North Carolina without first complying with the North Carolina Securities Act. Click here to see the Order.

On **January 27, 2015**, the Securities Division of the North Carolina Department of the Secretary of State entered into a **Final Consent Order** with Respondent, **McGrath & Associates, Inc.** McGrath & Associates, Inc. is a registered investment adviser in the State of North Carolina. McGrath & Associates, Inc. violated the registration provisions of the North Carolina Investment Advisers Act by employing an unregistered investment adviser representative. The unregistered investment adviser representative was fully qualified for registration. The registration violation came to the Securities Division's attention through a routine audit of the investment adviser. McGrath & Associates, Inc. properly registered the investment adviser representative on May 13, 2014. Click here to view the Final Order.

News from the Regulators

The following are links to 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.

Corporate Bond Liquidity Healthy by Most Measures: FINRA Research

December 10, 2015**—**The Financial Industry Regulatory Authority (FINRA) today issued new research that provides a deep and focused look at the state of liquidity in the U.S. corporate-bond market. Analyzing all TRACE transactions from 2003 to September 2015, the research found:

- Most measures indicate a healthy market. New bond issuance is at a record level, transaction volumes have continued to grow, and the number of trades is rising. The cost of trading corporate bonds has been decreasing, as indicated by narrower bid-ask spreads and falling price impact to block trades.

- However, several measures offer evidence of potentially significant changes in how the market is working, including smaller average trade size and a declining proportion of bonds traded in blocks of $5 million or more. These trends are consistent with a market that has a larger number of issues, more electronic trading and a growing network of counterparties.

"Given the range of public discussion about bond-market liquidity, our research provides additional, empirical evidence on the subject," said Jonathan Sokobin, Chief Economist at FINRA. "While the data indicate a robust market, they also highlight several areas of potential emerging risk that merit more attention and further study." According to the research note, these issues include increased electronic trading in corporate bonds, the volatility of bond ETFs and sector-specific problems in high yield originating in the energy sector.

Atlanta Business Charged in Nursing Home Investment Scheme

November 20, 2015—The Securities and Exchange Commission today announced fraud charges and an emergency asset freeze obtained against an Atlanta-based businessman accused of misusing investor funds raised to purchase and renovate senior living facilities.

The SEC alleges that Christopher F. Brogdon amassed nearly $190 million through dozens of municipal bond and private placement offerings in which investors supposedly earn interest from revenues generated by the nursing home, assisted living facility, or other retirement community project supported by their investment. But Brogdon secretly commingled investor funds instead of using the money to finance the project described to investors in the disclosure documents for each offering. From the commingled accounts, he has diverted investor money to other business ventures and personal expenses.

“As alleged, Brogdon deceived investors about the true nature of these investment opportunities,” said Sanjay Wadhwa, Senior Associate Director of the SEC’s New York Regional Office. “Brogdon falsely promised investors they were investing in specific senior living projects when in reality they also were funding his personal expenses and other businesses, including some that are struggling financially.”

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, 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!