DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
Business Registration Division – Securities Enforcement Branch

DCCA News Release

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HAWAII COMMISSIONER OF SECURITIES UNVEILS TOP 13 INVESTOR TRAPS FOR 2006

HONOLULU – Hawaii Commissioner of Securities Corinna Wong today unveiled a list of the 13 most common investor traps for 2006.

The traps below are listed alphabetically; however, personal information scams, variable annuities, and high yield investment schemes are the greatest potential threats to investors in the State of Hawaii this year.

The top 13 threats to investors are:

1. **Affinity Fraud.** Con artists frequently target members of closely knit religious, political, or ethnic groups. Their pitch is essentially, "since I am like you and believe like you, you can believe in me and in what I say."

2. **Churning.** An abusive sales practice in which unethical securities professionals make unnecessary and/or excessive trades in order to generate commissions. Most churning occurs where a broker has discretion to trade the account, and does not need prior approval from the client to complete a transaction.

3. **Equity Indexed Certificates of Deposit.** Remember the days of FDIC-insured, bank-issued certificates of deposit with guaranteed principal and interest? Equity Indexed CDs are **not** the same product. These hybrid securities products offer an interest coupon payment or return that is based on a stock market index, usually the S&P 500. Returns are not FDIC insured, and are dependent on the performance of the stock market.

4. **Oil and Gas Investment Fraud.** Oil and gas deals are complicated investments that generally require a significant investment, often requiring a minimum deposit of thousands of dollars. Increasingly, these deals are being promoted via the Internet with claims of attractive tax advantages.

5. **Personal Information Scams.** The first step in separating a victim from his or her money is convincing the victim to divulge personal financial information. Con artists frequently style themselves as “senior specialists” or adopt a pretext of preparing “living will” or a “living trust.” A pretext that is of current concern to insurance and securities regulators is the offer to help senior citizens qualify for prescription benefits by preparing forms. In the guise of filling out forms, the con artist may ask unnecessary questions about personal financial assets, which provides a comprehensive laundry list of what is available for the taking.

6. **High Yield Investment Schemes (Prime Bank Schemes).** These schemes often promise high-yield, tax-free returns. Investors are told that only very wealthy people can get the benefit of these programs but the promoter is able to make it available to the victim. Sometimes the victim is required to execute a “confidentiality agreement” in order to invest and is told not to consult an attorney, accountant or financial planner.

7. **Pump and Dump Schemes.** Unethical broker-dealers frequently “pump” up the value of low-priced securities traded on the NASDAQ “pink sheets” and then “dump” the stock after naïve investors have purchased the stock at inflated prices. The balloon breaks when the promoters no longer maintain the myth that there is value in the shares and investors are left holding worthless shares. These schemes frequently appear through unsolicited e-mail messages.

8. **Recovery Rooms.** Scam artists buy and sell the names and financial information of victims who have lost money to “recovery room” operators. These con artists promise, in return for a fee that the victim must pay in advance, to recover the money lost in a worthless investment. These “sucker lists” are bought by crooks who know that people who have been deceived once are vulnerable to additional scams -- especially scams that give hope of recovering lost money.

9. **Registered High-Interest Promissory Notes Publicly Advertised.** Generally, the higher the return promised, the greater the risk to your money. A track record of paying high interest and repaying principal is not an assurance that you will get your money back if the company fails. These notes are not suitable for retirement funds.

10. **Sale and Leaseback Contracts.** In an attempt to avoid the investor protections of securities laws, some investments are structured to resemble the sale of a piece of equipment such as a payphone, ATM machine or Internet booth located at a remote venue. In these cases, the investor cannot service and maintain the equipment and must enter into a servicing agreement. Frequently the equipment or property does not exist.

11. **Self-Directed Pension Plans.** Many types of securities fraud require the victim to remove funds from legitimate investments such as stock brokerage accounts, mutual funds, insurance policies, deferred compensation plans and mutual funds so that they can be invested in a worthless scam. This scam may begin with advice to convert an employer-sponsored pension into a self-directed pension plan.

12. **Unsuitable Recommendations.** Just as every investor is different, so too are investments. What may be a suitable investment for one investor may not be right for another. Securities professionals must know their customers' financial situation and refrain from making recommendations of securities that they have reason to believe are unsuitable.

13. **Variable Annuities.** Variable annuities are tax-deferred investments that typically place mutual funds inside of an insurance wrapper for tax-deferred potential investment growth. While these products are legitimate investments, regulators are concerned about their popularity in the sales community. Commissions to those who sell variable annuities are very high, which provides incentive for sellers to engage in inappropriate sales. Variable annuities are only suitable for a very small percentage of the investing public and generally are not appropriate for most seniors. The steep penalties for early withdrawals also make variable annuities unsuitable for short-term investors.

"Investment scams can be financially and emotionally devastating for investors," warned Commissioner Wong. "As regulators, we want people to be wary of bad investments – especially as they approach their retirement years."

Before making any investment, Commissioner Wong urges investors to ask the following questions:

- Are the seller and investment licensed and registered in your state?
- Has the seller given you written information that fully explains the investment?
- Are claims made for the investment realistic?
- Does the investment meet your personal investment goals?

Before doing business with any investment professional, all investors, especially senior investors, should check with the State's Securities Enforcement Branch to determine whether the individual is properly licensed and if there have been any complaints or disciplinary problems involving the individual or his or her firm.

Securities Enforcement Branch

Oahu	586-2744
Kauai:	274-3141, followed by 62744 and the # sign
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For more information, visit the Senior Investor Resource Center on the NASAA website at www.nasaa.org for additional investor education and protection tips.

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