



Top 10 investor traps named by the Alabama Securities Commission

Published: Friday, August 06, 2010, 7:15 AM Updated: Friday, August 06, 2010, 7:32 AM



Roy L. Williams -- The Birmingham News



stock.xchng

At least if you stuff it in your mattress, you'll know you're not being scammed.

Worried about getting scammed? You should be.

The lingering economic downturn and a growing number of folks looking to make a quick buck have made more Alabamians more vulnerable to investment scams, the state's top securities cop says.

The Alabama Securities Commission has released its Top 10 Investor Traps for 2010, and like in past years, religious-related scams and oil and gas schemes are at the top of the list.

Alabama Securities Commissioner Joe Borg says fraudsters have found a ripe target in investors looking to rebuild nest eggs damaged by 2008's market collapse.

His advice? Knowledge, attention to detail and "a healthy sense of skepticism are a triple threat" to avoid investment fraud.

"There is no secret lottery here in Alabama promising you untold riches overnight," Borg said in an interview. "Don't fall for those phony lines from people promising business opportunities and can't miss investments."

Borg said investors need to familiarize themselves with the warning signs of fraud and always independently verify any investment opportunity, as well as the background of the person and company offering the investment.

"Investors should do business with licensed brokers and advisers and should report any suspicion of investment fraud to their securities regulator," Borg said in a statement. "One call can protect your financial security and might prevent others from becoming victims."

'GREEN' SCHEMES

Investment opportunities tied to "green" technologies are growing ever more popular with investors and scammers alike.

Smart scammers also exploit headlines to target unsuspecting investors, pitching investments related to the clean-up of the

Gulf of Mexico oil spill or rising interest in so-called "clean" energy innovations.

"With the ongoing oil spill, we are seeing a growing number of companies promising new technology and targeting people wanting to cash in," Borg said.

GOLD AND PRECIOUS METALS

Gold prices around \$1,200 an ounce have lured some investors into bullion scams in which a scam artist pledges to buy the metal at a low price and sell it after a surge in value. Investors have also been burned by fraudsters and promoters pitching "investment pools" in precious metals and gold mines, the Alabama Securities Commission says.

AFFINITY FRAUD

Given Alabama's location in the heart of the Bible belt, this type of religious-related rip-off has been common across the state for years, Borg said.

The scam uses the legitimacy of a group to persuade a potential investor to hand over his or her money. Typical affinity groups include religious, ethnic, professional, educational organizations.

CURRENCY TRADING SCHEMES

Trading in foreign currencies is really beyond the ability of most individual investors. Promoters profit by charging high commissions or selling investment strategies, leaving the investor poorer.

In some cases, these are actually Ponzi schemes in which there are no trades and the money is simply stolen, Borg said.

EXCHANGE-TRADED FUNDS

ETFs resemble mutual funds in many respects and are perfectly legal. But some of them may contain hidden traps and consist of highly-leveraged and exotic financial instruments, including options and derivatives.

Plus, given their potential volatility, many ETFs may not be suitable for most ordinary investors. Many are primarily designed for short-term traders.

UNDISCLOSED CONFLICTS OF INTEREST

Investors need to know an ugly fact: Not all investment advice is given with their best interest at heart.

Some salespeople can receive fat commissions when selling a product that is risky or inappropriate for an investor -- though they don't have to disclose their financial incentive. Investors should demand that anyone giving advice or recommendations disclose how they are compensated, Borg's office says.

OIL AND GAS SCHEMES

High gasoline prices unsettle ordinary folk and provide an opportunity for swindlers, Borg said. They continue to capitalize both on the commodity's high profile and the fact that oil and gas can be easily advanced as investment alternatives to a volatile stock market.

But oil and gas investments tend to be highly risky and unsuitable for ordinary investors who really cannot afford the risk or prices that spike up only to collapse.

"Gas prices remain high, so that has made these type frauds popular in recent years," Borg said.

UNSOLICITED ONLINE PITCHES

E-mail scams are yesterday's curse. Promoters of investment schemes are now turning to social media -- Facebook, Twitter, Craigslist and YouTube to trap unsuspecting investors.

Some rip-off artists may use these sites to spread misinformation to artificially inflate the value of stock before selling in a "pump and dump" scheme, Borg's office says. Others simply dangle the promise of rich, tax-free returns from offshore investments.

'OFF THE BOOKS' DEALS

This scam, which is growing in frequency, involves so-called "brokers" who offer an investment on the side instead of one sold directly through his or her employer. These "off the books" investments may be illegal and especially risky since they are made without the oversight and supervision of the broker's employer.

'PRIVATE' OR 'SPECIAL' DEALS

Some investors are seeing investment opportunities or deals described as "private" or "only for special clients."

While securities laws do offer businesses limited opportunities to raise capital by selling securities to a relatively small number of investors in a non-public offering, these securities are not subject to the same review as others, making them risky.

MORE INFORMATION

To report a fraud, call 800-222-1253 or go to **asc.alabama.gov**.

E-MAIL: **rwilliams@bhamnews.com**

© 2010 al.com. All rights reserved.