

## **Investment Fraud**

By Captain Ed Bailey

An estimated \$10 billion a year is lost to investment fraud, according to the North American Securities Administrators Association. Investment swindlers are ingenious criminals who gain people's trust and then offer them a once-in-a-lifetime opportunity to make a lot of money quickly and with little risk. It's an offer that's hard to refuse. These con artists use the telephone, the mail, newspaper, and magazine ads, referrals from initial investors who were paid large profits just for this purpose, or an office that gives the appearance of a reputable investment firm.

Here's a sample of investment frauds:

- The Pinellas County (Florida) Department of Consumer Affairs reported that a financial consultant took nearly \$2 million from 445 elderly clients for campsite investments that were never made (from a 1991 survey by the National Association of consumer Agency Administrators/Consumer Federation of America).
- Satya Paul Gupta invested his life savings of \$80,000 with Deepak Gulati, a fellow Indian with an office on New York's Madison Avenue and a segment on a popular financial advice television program aimed at New York's Indian immigrants. Motivated by faith that his savings would be safe with someone from his native country, Mr. Gupta unwittingly became a victim of what government investigators call an affinity scheme- an investment scam where con artists and their victims relinked by religion, or ethnic background. Gulati sold 12% promissory notes, which were not registered, backed, or insured by collateral, and Gulati used funds from new investors to pay dividends to earlier investors. A Securities and Exchange Commission (SEC) investigation put Gulati out of business, and he pleaded guilty in July 1992 of defrauding fellow immigrants out of at least \$3.2 million. But it is doubtful if Mr. Gupta and other Indian investors will ever get their savings back. In the last five years, the SECF has investigated affinity fraud schemes in which Indian, Polish, Salvadoran, Chinese, and Vietnamese immigrants have been defrauded of millions by fellow immigrants (from "Immigrants Swindle Their Own," New York Times, August 24, 1992)
- By the time the international Gold Bullion Exchange collapsed in 1983. 25,000 customers had lost an estimated \$300 million. Investors purchased precious metals getting a discount price in exchange for agreeing to a delayed delivery program. Small checks were mailed monthly to assure customers that their investment was earning money. Some insistent individuals got their gold and silver, but for most delivery never came (from Investor Alert, Council of Better Business Bureaus.)

Investment swindlers have a wide range of options at their disposal – land sales, timeshares, commodities and future trading, franchises, financial planning services, gold and silver, rare coins, and oil and gas leases. They don't discriminate against people with modest or low incomes – investment scams target the poor as well as the rich. Movie actors, business executives, college professors, widows, retirees, illegal aliens, and blue-collar workers have all been victims of investment fraud.

The National Futures Association stresses that the first line of defense against fraud is the individual's right to ask questions and say "No" until he or she gets the right answers. The Council of Better Business Bureaus echoes this with its basic prevention advice – "Investigate before you invest."

Watch out when phrases such as these are used: *easy money made fast, prizes, the good news is..., limited edition, collector's item, 99 percent safe investment.* And think logically, sure the drug company will get rich off that "thin" pill, but why would those with the inside track let strangers such as yourself in on the deal?

- Any investment, even municipal bonds, annuities, and mutual funds, carries some risk. Investments are not like federally insured bank deposits that pay predictable, even if low, interest. When, in hopes of earning more, you invest money in the stock market or elsewhere, there are no guarantees. Moreover, fees and commissions must often be paid to a middleman whose recommendations assist you to select among investment choices. Such fees are explained ahead of time by reputable brokers, financial counselors, and other professionals in the investment field. Dishonest brokers may churn (repeatedly buy and sell) your account to make money for themselves. Honest professionals also provide written explanations of investments products.

Problems? You have rights under the Consumer Protection, Telephone Solicitation, and Door-to-Door Solicitation Acts. You can complain directly to the bank, insurance company, brokerage house, or office that handled your investment. The problem with buying over the telephone, through the mail, or over the Internet is that you have no local office to contact.

- Before investing, contact the following agencies for information on the legitimacy of those with whom you plan to invest:

The Securities & Exchange Commission  
At 1-800-732-0330;

The National Association of Securities  
Dealers (NASD) at 1-800-289-9999;

Or the state Attorney General's Office.

- After investing, if you are suspicious of your financial planner, register a complaint with your state Attorney General's Office:

Remember:

- + Never buy anything you don't understand
- + Never make an immediate decision
- + Read the fine print
- + You can't get something for nothing