FOR IMMEDIATE RELEASE **No. 17-033**

Contact: Kevin Anselm
Director, Division of Banking & Securities
(907) 269-4157
kevin.anselm@alaska.gov

Alaskans Urged to Beware of Top Investor Threats

Promissory notes, real estate investments, and Ponzi schemes top the list

December 18, 2017 ANCHORAGE – The Alaska Division of Banking and Securities has released its annual list of top investor threats. Alaskans are advised to use caution when approached with any unsolicited investment opportunities.

"All investments involve a degree of risk but investors can help protect themselves by taking time to research both the investment product and the person selling it. It's best to learn before you get burned," said Kevin Anselm, director of the Division of Banking and Securities.

Compiled from a survey of members of the North American Securities Administrators Association, the most cited products and schemes across the country in 2017 were:

PROMISSORY NOTES: A promissory note is a written promise to pay or repay a specified sum of money at a stated time in the future or upon demand. Promissory notes from legitimate issuers can provide reasonable investment returns at an acceptable level of risk. However, investors should be cautious about promissory notes with durations of nine months or less, as these notes generally do not require federal or state securities registration.

REAL ESTATE INVESTMENTS: The promise of earning quick money through investments related to real estate continues to lure investors. Investors should be cautious about real estate investment seminars, especially those marketed as an alternative to more traditional retirement planning strategies involving stocks, bonds and mutual funds. Two of the most popular current investment pitches at these seminars involve so-called "hard-money lending" and "property flipping."

- *Hard-money lending* is a term used to refer to real estate investments financed through means other than traditional bank borrowing. Investors may be tempted by the opportunity to earn greater rates of return by participating on a hard-money loan.
- *Property flipping* is the practice of purchasing distressed real estate, refurbishing it, and then immediately re-selling it in hopes of earning a profit. Property flipping financed through borrowed funds or outside investments can be done entirely lawfully, but a scammer may, for example, defraud investors by misrepresenting the value of the underlying property or its profit potential.

PONZI/PYRAMID SCHEMES: A Ponzi scheme is a ploy in which early investors are repaid through the funds deposited by subsequent investors. In a Ponzi scheme, the underlying investment claims are usually entirely fictional; very few, if any, actual physical assets or investments generally exist. As the number of total investors grows and the supply of potential new investors dwindles, there is not enough money to pay off promised returns. Similarly, a pyramid scheme is a fraudulent multi-level marketing strategy whereby investors earn potential returns by recruiting additional investors. Multi-level marketing strategies are not intrinsically fraudulent; fraudulent pyramid schemes lack a genuine underlying investment enterprise or product upon which the strategy can hope to be sustained.

OIL & GAS INVESTMENTS: Many oil and gas investment opportunities are legitimate in their marketing and responsible in their operations. However, oil and gas ventures tend to be highly speculative, and may not be suitable for many investors. Fraudulent oil and gas schemes frequently take the form of Ponzi schemes, with investors' funds being recycled to keep the scheme going.

AFFINITY FRAUD: In an affinity fraud, a con artist uses some sort of connection with the victim to gain trust. Affinity frauds may involve people who attend the same church, belong to the same club or association, or share a common hobby. Affinity fraud can not only be financially devastating to the victims, but often also causes victims to lose trust in the group or affiliation that was previously a source of comfort or support.

VARIABLE ANNUITY SALES PRACTICES: While variable annuities (hybrid investments containing both securities and insurance features) are legitimate, they are not suitable for all investors. State securities regulators are concerned about the risks of sales practice abuses. Senior investors, in particular, should beware of the high surrender fees. Additionally, brokers often receive very high commissions for selling variable annuities, which provides incentive for them to encourage inappropriate sales. Investors should be wary of any broker who wants to sell a variable annuity to hold inside a qualified retirement plan, such as a 401(k) plan or Individual Retirement Account (IRA); putting a variable annuity into a qualified retirement plan adds a layer of expense and investment restriction without any additional tax benefit.

Contact the Division of Banking and Securities for help with researching the background of those selling or advising the purchase of an investment. The division can be reached at (907) 269-8140 or by email at securities@alaska.gov. Consumers can also check the national registration information and background of a broker or brokerage firm at brokercheck.finra.org or information about an investment adviser at adviserinfo.sec.gov.

The Division of Banking and Securities is a division of the Department of Commerce, Community, and Economic Development tasked with protecting consumers in Alaska. For information about the division, visit commerce.alaska.gov/web/dbs. For additional information about the Department of Commerce, Community, and Economic Development and its other agencies, visit commerce.alaska.gov.

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