



New Mexico Regulation and Licensing Department SECURITIES DIVISION

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**For Immediate Release
August 3, 2010**

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AGENCY ANNOUNCES TOP INVESTOR TRAPS

SANTA FE, NM – The Regulation and Licensing Department New Mexico Securities Division today released a list of traps that cautious investors should avoid when seeking to jump-start their investment portfolios.

As the impact of the financial crisis and increased market volatility continue to reverberate along Main Street, Securities' Acting Director Michael Vargon said investors rebuilding nest eggs damaged by the market collapse as well as those frustrated with low interest rates are particularly susceptible to speculative investments that most often turn a promise for profit into thin air.

“Knowledge, attention to detail and a healthy sense of skepticism are a triple threat to fight investment fraud,” Vargon said. “The Securities Division can provide detailed background information about those who sell securities or give investment advice, as well as about the products being offered. The more you are prepared, the better your chance of sidestepping a trap that can leave you in a financial hole for many years.”

Top 10 Investor Product and Practice Traps

Practices

- **Affinity Fraud.** Scam artists abuse association with an identifiable group to convince a potential investor to trust the legitimacy of the investment. Typical affinity groups include religious, ethnic, professional, educational, language, age and any other group with shared characteristics that allow investors to trust members of the group.
- **Undisclosed Conflicts of Interest.** When obtaining investment advice about securities, investors need to know that not all advice is given in their best interest. Some salespeople can receive lucrative commissions, but don't have to disclose that. Investors should demand that anyone giving advice or recommendations disclose how they are compensated.

- **Private or Special Deals.** Some investors encounter investment opportunities or deals couched as “private” or only for “special” clients. Although properly used by many legitimate issuers, private offerings have become an attractive option for con artists.
- **“Off the Books” Deals.** “Off the books” sales are an increasingly common threat to investors. These “off books” investments may not only be illegal, but they can also be especially risky without the oversight and supervision of the broker’s employer.

Products

- **Oil & Gas Schemes.** Fraudulent energy promoters continue to capitalize both on interest in the commodity and on oil and gas as investment alternatives to the stock market. Oil and gas investments tend to be highly risky and unsuitable for traditional, smaller investors.
- **Exchange-Traded Funds (ETFs).** ETFs are highly volatile and may contain hidden traps and complexities.
- **Foreign Exchange Trading Schemes.** Currency trading and foreign exchange (forex) trading schemes require extensive resources. Promoters profit by charging high commissions or selling investment strategies assuming that trades are actually made.
- **Gold and Precious Metals.** High gold prices have trapped some investors in gold bullion scams in which a seller offers to retain “purchased” gold in a “secure vault” and promises to sell the gold for the investor when it gains in value. In many instances the gold does not exist.
- **Green Schemes.** Investment opportunities tied to the development of new energy-efficient “green” technologies are increasingly popular. Scammers also exploit headlines to cash in on unsuspecting investors.
- **Life Settlement Investments.** Investors should be wary of investments based on life insurance and death benefits because they are complex and the regulation of them varies by state. Some transactions and products may not be regulated at all, and others are illegal in certain states.

For more information on these products and practices, visit the North American Securities Administrators Association:

http://www.nasaa.org/nasaa_newsroom/current_nasaa_headlines/13048.cfm.

The Division cautioned investors to familiarize themselves with the warning signs of investment fraud and 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 state securities regulator,” said Regulation and

Licensing Superintendent Kelly O'Donnell. "One call can protect your financial security and might prevent others from becoming victims."

The New Mexico Regulation and Licensing Department Securities Division has a link to its <http://protectyourmoneynm.org/> website that offers access to the Investment Adviser Public Disclosure (IAPD) website, giving access to information about individuals who work for money management, financial planning and other firms that offer investment advice to clients. Consumers can also call the Securities Division at 800-704-5533.

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