



State of Wisconsin
Department of Financial Institutions

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**State agency releases list
of 2017 top investor threats**

MADISON – The Wisconsin Department of Financial Institutions (DFI) today released its annual list of top investor threats, reminding Wisconsin investors to use caution when approached with any unsolicited investment opportunities.

“All investments involve a degree of risk,” said Leslie Van Buskirk, Administrator of DFI’s Division of Securities. “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. In most fraud cases the investors are unable to recover their losses because the promoter has already spent the money.”

The top threats were determined by surveying members of the North American Securities Administrators Association, of which DFI is a member, to identify the most frequently identified sources of current investor complaints or investigations. The following were cited most often:

PROMISSORY NOTES: A promissory note is a written promise to repay a specified sum of money at a stated time in the future or upon demand. Companies may sell promissory notes to raise capital from sophisticated or institutional investors. But not all promissory notes are sold in this way. While promissory notes from legitimate issuers can provide reasonable investment returns at an acceptable level of risk, state securities regulators have identified a high number of promissory note frauds.

REAL ESTATE INVESTMENTS: Seminars promising quick money through investments related to real estate continue to lure investors. Investors should be especially cautious of those marketed aggressively as an alternative to more traditional retirement planning strategies involving stocks, bonds and mutual funds. Two popular current investment pitches at these seminars involve so-called “hard-money lending” and “property flipping.” Hard-money lending refers to real estate investments financed through means other than traditional bank borrowing. Property flipping is purchasing distressed real estate, refurbishing it, and then immediately re-selling it in hopes of earning a profit. When financed through borrowed funds from investors, it can be a source for securities fraud.

PONZI/PYRAMID SCHEMES: In a Ponzi scheme, earlier investors are repaid through the funds deposited by subsequent investors. Often the underlying investment claims are entirely fictional; very

few, if any, actual physical assets or investments may exist. As the number of total investors grows and the supply of potential new investors dwindles, there is not enough money to pay promised returns or cover investors who want to cash out. Similarly, a pyramid scheme is a fraudulent multi-level marketing strategy whereby investors earn potential returns by recruiting more and more other investors. Multi-level marketing strategies are not intrinsically fraudulent where the focus is offering consumer products and services. A multi-level marketing strategy becomes a fraudulent pyramid scheme when it lacks a genuine underlying investment enterprise or product generating income upon which the strategy can be sustained.

OIL & GAS INVESTMENTS: Despite widely varying degrees of risk to the investor, many oil and gas investment opportunities are legitimate and responsible in their marketing and operations. However, as in other investment opportunities, it is not unusual for unscrupulous promoters to take advantage of investors by engaging in fraudulent practices. These investments are often marketed as safe and secure high-yield investments attractive to senior investors, who are interested in safety of principal with some income-producing potential. However, oil and gas ventures are typically highly speculative, and may not be suitable for many investors.

AFFINITY FRAUD: In an affinity fraud, a con artist forms some connection with the victim to facilitate the fraud, such as common ethnicity, attending the same church, belonging to the same club or association, or sharing a common hobby. The con artist knows it is easier for victims to trust someone who seems to be like them. Once trust is gained, it is easier to exploit that trust to perpetrate a scam. Once a victim realizes he or she has been scammed, the victim often refuses to notify the authorities and instead unsuccessfully attempts to solve the problem within the group.

VARIABLE ANNUITY SALES PRACTICES: Variable annuities are hybrid investments containing both securities and insurance features. While these products are entirely legitimate, they are not suitable for all investors, and state securities regulators are concerned about sales practice abuses. Senior investors in particular should beware of the high surrender fees and steep sales commissions agents earn by moving investors into variable annuities. Commissions to agents selling variable annuities are very high, which provides incentive to engage in inappropriate sales. Investors should be especially wary of any broker who recommends a variable annuity to hold inside a qualified retirement plan, such as a 401(k) or traditional Individual Retirement Account (IRA), as these retirement accounts already benefit from tax deferral.

BINARY OPTIONS: A binary option is a type of all-or-nothing investment contract, similar to placing a bet. Like the flip of a coin, there are only two possible outcomes: heads you win or tails you lose. When an investor purchases a binary option contract, the investor predicts the value of an underlying asset (currency, stock, etc.) at a predetermined time or date in the future – similar to placing a bet. If the investor correctly predicts the asset price at the end of the contract, which can be just a matter of minutes, the investor receives the payout agreed upon in the contract. If the investor is incorrect, there is no payout and the investor loses the amount invested in the binary option. Investors should verify the registration status of a binary option offering as well as the firms and agents who sell them, and be wary of companies that greatly exaggerate the investor's odds of "winning."

To check the registration status of your salesperson or the product recommended, investors may call the Division of Securities at (608) 266-2139.

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