

# TOP 10 INVESTMENT Traps

Source: The North American Securities Administrators Association (NASAA) • 2010

## Speculative Inventions and New Products

10 New products are for venture capitalists who know how to assess the risks. They are not good investments for your retirement money even though they may promise high returns.

## Short-term Commercial Promissory Notes

9 Many seniors have lost their life savings by investing in short-term commercial promissory notes that are nine months or less in duration. These notes may be touted as being “insured” or “guaranteed,” but the insurance companies generally are located outside of the United States, are not licensed to do business in the United States, and lack the resources necessary to deliver on the promised guarantees.

## Real Estate Investment Schemes

8 NASAA members have noted a rise in scams disguised as offers to help homeowners caught up in the turbulent housing market “save” their homes or “fix” their mortgages, usually in exchange for a fee paid in advance.

## Private Placement Offerings

7 Private placements offer businesses the opportunity to raise capital by selling securities to a relatively small number of investors as opposed to a public offering made through national securities markets. State securities regulators have observed a steady and significant rise in the number of private placement offerings that are later discovered to be fraudulent, especially those made under a federal registration exemption (Regulation D, Rule 506).

## Ponzi Schemes

6 Despite the heightened awareness of Ponzi schemes following Bernard Madoff’s multi-billion dollar fraud and 150-year prison sentence, these scams continue to trap investors.

## Natural Resource Investments

5 NASAA expects to continue to see a rise in energy and precious metals scams promising quick, high returns, as well as fraudulent offerings of investments tied to natural gas, wind and solar energy, and the development of new energy-efficient technologies.

## Life Settlements

4 While life settlement transactions have helped some people obtain funds needed for medical expenses and other purposes, those benefits come at a high price for investors, particularly senior citizens. Wide-ranging fraudulent practices in the life settlement market include Ponzi schemes; fraudulent life expectancy evaluations; inadequate premium reserves that increase investor costs; and false promises of large profits with minimal risk.

## Leveraged Exchange-Traded Funds (ETFs)

3 This relatively new financial product has been offered to individual investors who may not be aware of the risks these funds carry. The funds, which trade throughout the day like a stock, use exotic financial instruments, including options and other derivatives, and promise the potential to provide greater than market returns as the value of the underlying assets rise or fall. Given their volatility, these funds typically are not suitable for most retail investors.

## Gold Bullion and Currency Scams

2 With the high price of gold, investors should beware of gold bullion scams. Similar are the many forms of foreign exchange (forex) trading schemes. Promoters profit by charging high commissions or selling investment strategies assuming that trades are actually made. In many instances there are no trades; the money is simply stolen.

## Entertainment Investments

1 These unregistered investments, encompassing a variety of products including movies, infomercials, internet gambling and pornography sites, promise high returns while offering little disclosure of risk.



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