

# The ugly side of investing

**Unscrupulous schemers** have many ways to separate unwary investors from their money. Here are some of the most prevalent, according to the Securities Division of the Georgia secretary of state's office:

## 'Boiler room' scams

High-pressure telephone sales where sellers promote abusive deals.

## Ponzi/pyramid schemes

Promise high returns to investors and use money from previous investors to pay new investors.

## Unregistered securities

Promise inflated profits and are among the increasingly complex scams often targeted at senior citizens.

## Variable annuities

Similar to mutual funds, they carry high surrender charges and steep sales commissions. The benefits, including tax deferral, come with strings attached and additional costs.

## Cyberspace fraud

Abuse via the Internet is one of the newer mechanisms of investment fraud. It's hard to detect and stop.

## Promissory notes (short-term notes)

Often sold by independent insurance agents, they are issued by little-known or even nonexistent companies promising monthly returns up to 15 percent with little or no risk.

## How to protect your money

- 1 Don't be a "courtesy victim." Con artists will exploit your good manners.
- 2 If an investment looks too good to be true, it almost certainly is.
- 3 Stay in charge of your money.
- 4 How good someone looks, or sounds on the phone, has no bearing on the soundness of an investment.
- 5 Watch out for salespeople who prey on your fears. Fear of loss can cloud good judgment.
- 6 When coping with the death or illness of a spouse, don't make major financial decisions.
- 7 Monitor your investments and ask tough questions.
- 8 Be aware of trouble when retrieving your principal or cashing out profits.



STEPHEN MORTON / Associated Press  
Savannah widow Patricia Dickinson won a damage claim against "a glib talker who had charisma."

**State estimates** Georgians lost as much as \$80 million last year through fraudulent or inappropriate financial plans.

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When her husband died in 1999, Patricia Dickinson found herself in an all-too-common situation. With no experience in finance and investments — her husband handled the money — she suddenly had an estate worth \$1.3 million to manage.

She was vulnerable to bad investment advice and money management, and that's what she got.

As she tells it, she turned her money over to "a glib talker who had charisma" and whose brokerage office was just outside the gated community where she lives in Savannah. Everything appeared on the up-and-up but wasn't.

"I lost a lot of money, and I didn't know why," says Dickinson. Her losses totaled \$185,000 before she started asking hard questions.

Multiply her experience by the hundreds, and you get an idea of how much Georgians lose every year to scams and investments that are all wrong for them.

Secretary of State Cathy Cox, the chief enforcer of Georgia's securities laws, estimates these losses were as much as \$80 million last year. The total is almost certainly bigger than that, because many people are too embarrassed to tell anyone they've been deceived.

A University of Georgia survey last year provides a clue to how vulnerable many Georgians are to scams, mainly because of ignorance about investing principles.

Among the findings, 50 percent of those polled thought stock market losses are insured, 80 percent could not name

# Investing: Scams, bad judgment abound

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the state or federal agency that regulates investments, and 97 percent admitted they need to be better informed.

Cox and her staff have been able to make a start on that last point, offering free investment classes and information to those who want it. The investment education program — paid for with a \$4.3 million grant from a landmark federal securities settlement last year — also includes a television ad campaign designed to warn against scams and tell people where to go for help.

More than 3,000 Georgians already have attended classes in money management in 10 cities statewide since January.

"We certainly discovered there is a great hunger for good, objective information about managing your money," Cox said.

And the program seems to be working.

H. Wayne Howell, assistant securities commissioner and chief of the Securities Division, said some participants have come forward with information the state is investigating. Aside from those leads, Georgia has 20 pending court cases relating to investment scams.

"With the stock market like it is, stockbrokers and insurance agents are not making as much money as previously, so they are out hustling things like variable annuities and high-risk notes," says Howell. "They are getting people to put money in high-risk investments they shouldn't be in."

## Unsuitable strategies

Not all the cases that come before Howell and his staff are outright frauds, such as Ponzi schemes. Many times what happens is legal, but the investments lack "a thing in securities regulation called 'suitability,'" explains Howell. "Before you sell a security, it should be determined if it is suitable for you," he explains. "It's the 'know your customer' rule. The broker has to determine whether it is a good investment for that particular person. You wouldn't sell a 30-year, high-risk bond to an elderly widow. But there are some

## RESOURCES

- Georgia secretary of state's investor-oriented Web site: [www.georgiainvests.org](http://www.georgiainvests.org)
- Secretary of state's Securities Division: 404-656-3920; toll-free division hotline, 1-888-733-7427; online at [www.sos.state.ga.us/securities](http://www.sos.state.ga.us/securities)
- Georgia Department of Insurance: 404-656-2070; online at [www.inscomm.state.ga.us/](http://www.inscomm.state.ga.us/)
- Office of the secretary of state, professional licensing boards: 478-207-1400; online at [www.sos.state.ga.us/plb/accountancy/](http://www.sos.state.ga.us/plb/accountancy/)
- State Bar of Georgia: 404-527-8700 or 1-800-334-6865; online at [www.gabar.org/](http://www.gabar.org/)
- National Association of Securities Dealers "Investor Alerts": [www.nasd.com/investor/alerts](http://www.nasd.com/investor/alerts)



T. LEVETTE BAGWELL / Staff

Cathy Cox: "We know a lot of crimes go unreported because a lot of people feel guilty about [being victimized] — senior citizens especially — so they don't report it. We want to change that dynamic."

of the Georgia Securities Association, the industry's He's also managing director of the Atlanta office of Morgan Keegan.

"We may get a bad apple in the barrel occasionally, but we do what we can to report it and prevent it," he said. "Most of the people who perpetrate harm are outside the regulation of [state and federal authorities]."

## Moving target

Explaining why people fall victim to investment scams is not simple. Lack of experience and knowledge are basic reasons.

Some groups make easier targets than others. "The victim profile changes depending on economic conditions," said Duane Fry, director of the major fraud department of the Securities Division.

"Right now, the money belongs to the elderly — to baby boomers who accumulated savings and hope to retire and live a good life. But they may find that the funds are not available to continue to live as they have in the past, and they're looking for other ways to continue to live that way."

Some opt for questionable investments that seem to offer deceptively safe, and quick, returns.

That's especially true of offers on the Internet, an instrument that has added a new dimension to investment scams, Howell said.

But the old-fashioned variety are still around, such as Ponzi schemes — current collections pay off, earlier investors, until the money stops coming in. And there are certain promissory notes, or IOUs, that promise unrealistically high interest rates at little or no risk.

The Securities Division is also concerned about the sale of unregistered securities and excessive fees, said Howell.

As difficult as it is to enforce securities laws, there are some notable successes. An instance of a "bad apple" resulted in one the most important cases by the secretary of state's office. It was against two brokers in the Augusta office of A.G. Edwards, a highly reputable national securities firm that Cox said cooperated fully in settling the case on terms favorable to the victims of bad money management.

It resulted in more than \$27 million in restitution for 119 investors. Four others were compensated in other ways. Many of the investors were employees at a Procter & Gamble plant and had no investment experience outside the company stock they accumulated over the years.

Here, too, ignorance of investment fundamentals was a factor. "We know a lot of crimes go unreported because a lot of people feel guilty about [being victimized] — senior citizens especially — so they don't report it," Cox said. "We want to change that dynamic."

It's a war that's never completely won. "The limits of this type of fraud are constrained only by the imagination of the crooks," she said. "That means the crooks will always be coming up with new scams that fool smart people into thinking it is a legitimate way to make money."

## HOW TO GO

- **What:** "Georgia Invests" money management class
- **Where:** Columbus Convention and Trade Center, Thursday; Georgia International Convention Center in College Park, Nov. 18
- **Cost:** Free
- **More information:** [www.georgiainvests.org](http://www.georgiainvests.org) or 1-888-733-7427

Source: Georgia secretary of state

At the same time, Cox said it's important for people not to be turned off to investing because scams exist. Investing is not only safe and rewarding if done correctly, it is essential if anyone wants to create an estate or build personal wealth.

"We try to say at these classes that no matter what your financial goals are, whatever your objective is, unless you win the lottery, you can't reach that objective without investing your money," Cox said. "You need to be investing, but you've got to do it carefully."

And not all instances of lost money end badly.

Dickinson spent three years fighting her case, and ultimately won a damage claim of approximately \$140,000 against the stockbrokers who had managed — or mismanaged — her money.

Edward Dovan, her attorney, said Dickinson won her case because "she was very forthright with the arbitration panel and was able to tell them what she had been told by her brokers and what she had not been told."

"Arbitrators want to hear from the investors themselves why they believe they have been wronged," added Dovan, whose firm, Gard Smiley Bishop & Dovan, also represented most of the victims in the A.G. Edwards case.

"I was very happy about the outcome but very saddened," Dickinson now says. "I got an education as to what had happened to me."