

rently prevailing on the spot market; (2) interest rate on the loan is typically 1% to 2% above prime; and (3) storage fees are extremely high and, in many instances, are not fully disclosed at time of sale. Since the investor is buying on margin, backed by the metal, a drop in its price may prompt a demand from the bank to the investor to advance additional funds or cause the bank to sell off a portion of the metal held as collateral. Investigate these programs thoroughly.

★ **Promissory Notes.** Interest rates substantially greater than the going market rate for such notes entrap eager investors anxious for an abnormally high return. All too often the fraudulent notes are not secured and the investor does not know that the money has been put to use in a precarious venture or misapplied and lost. When interest payments stop and the original loan cannot be repaid, investors become aware of their mistaken investments.



★ **Pyramid Schemes.** These promotions combine the apparent attempt to sell a product and the recruitment of new investors. A promoter claims to have a magic formula for financial planning, franchising a small business, selling a new "miracle cleaner," buying real estate for nothing down or some other similar lure. These promoters sign up a few investors who are told they can get rich quick if they go out and recruit new investors. The early ones in believe they are receiving huge returns on their investments, and actually might be obtaining great returns, when really all they are getting is the investment by the latecomers. Last ones in are big losers.

Precautions Against Securities Fraud

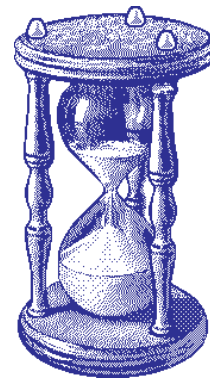


Investigate before you invest. Ask for written information about potential investments. Don't be pressured into making an investment before you read the material and understand the risks and returns. Also get the names of the broker and salesperson and check if they are licensed by the Ohio Division of Securities.



Understand how your money is to be used. How is the investment to operate so as to produce profits for you? Learn the facts and the risks about the investment. Beware of "can't miss" deals which have no downside. They may be too good to be true.

Avoid investment offering "guaranteed returns," quick profits such as "double your money in six months," or based on "inside information." Con artists like to make victims think they're getting in on the "ground floor" of the next major investment trend. A little healthy skepticism could save you money.



Don't be pressured. "Tomorrow may be too late," is a common phrase slick operators use to get you to invest immediately. Most con artists begin by calling you on the telephone saying they only have one investment left and you must act now. Remember, you did not ask them to call you. If they try to pressure you, hang up.

If you think you have been the victim of securities fraud, telephone or write to the Ohio Department of Commerce, Division of Securities. Call the Division's hotline at 800-788-1194 for a complaint form. Or a letter can be sent to the Enforcement Section at the address below telling what you "bought," and who sold it to you, and enclosing copies of pertinent documents, such as a copy of your cancelled check. Regardless of how you make contact, hold on to all records and documents relating to your purchase. Regulators will work with you to put a stop to illegal promotions and protect the interests of Ohio investors.

AVOIDING FRAUD IN YOUR SECURITIES INVESTMENTS



STATE OF OHIO
DEPARTMENT OF COMMERCE
DIVISION OF SECURITIES
77 SOUTH HIGH STREET, 22ND FLOOR
COLUMBUS, OH 43215-6131
(614) 644-7381
<http://www.com.ohio.gov/secu>

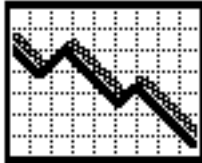
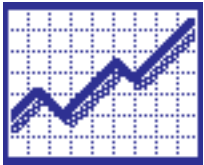
The State of Ohio is an Equal Opportunity
Employer and Service Provider.
1-800-750-0750 (TTY/TDD)


INVESTOR PROTECTION HOTLINE
COLUMBUS AREA: (614) 644-7381
LONG DISTANCE: (800) 788-1194

Know Your Investment Before You Buy

Investing in securities makes sense for many Ohioans. Wise investments grow and can provide a handsome return over a period of time.

Securities investments always carry some degree of risk. Securities vary in their track record from government bonds or blue chip mega-million dollar companies to investments in small business ventures just getting started. Thousands of different securities, each with its own distinct organization and potential, are listed on the various exchanges or are available in the market place. The risk of investment success or failure varies with the company.



 Remember the general rule that the higher the potential return, the higher the risk. Before you place your hard-earned money in securities, you need to understand the basics about what you are buying. **Know your investment goals.**

Although most securities sales are legitimate, there are some securities that are too risky, unsuitable or downright fraudulent and should not be purchased. There are those who make a living by cheating the unwary investor with the sale of the securities.

That's the goal of this pamphlet: to give you information you need to avoid becoming a securities fraud victim.

Be Sure Securities Sales Requirements Are Met

All securities sold in Ohio must be registered with the Ohio Division of Securities or be exempt from such registration. Salespersons of securities must be licensed by the Division. These requirements are necessary regardless of whether the seller is in or outside of Ohio.



If you are called or approached to buy securities:

- ★ Ask if the security is registered in Ohio.
- ★ Ask if the person and dealer proposing the sale are licensed to sell securities in Ohio.

If there are questions, write or call the Ohio Division of Securities at the address and the hotline number given. Be sure to learn the complete and correct name and addresses of the company issuing the security and the salesperson.

Be Alert To Possible Fraud

Some of the types of investments which can be the source of fraud include:

- ★ **Deferred Delivery and Leverage Contracts.** Upfront cash payment for "delayed" delivery of commodities, such as silver or coal, is how promoters push these deals. The commodities sometimes do not exist. Unrealistic promises of profit are usually made by telephone.

- ★ **Federal Oil and Gas Lease Lotteries.** The Federal Bureau of Land Management conducts a lottery for options to lease oil and gas interests on government property. Agents claim the chance for obtaining a favorable lease in the lottery can be improved through their filing services in exchange for an excessive fee. Individuals can participate directly in the lottery and avoid any additional fee.

- ★ **Jewels and Coins.** Hustlers sell certificates for coins the company "holds in its vault." Investors are usually promised quarterly checks which they may actually receive for a couple of months. Often the company goes bankrupt and the investor finds out that the certificates were worthless.

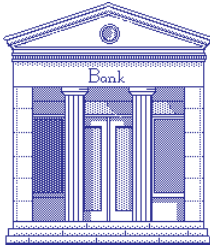


- ★ **Mining Schemes.** Some Ohioans have sunk their investments in piles of dirt when promoters promise that the "mine" contained untapped lodes of gold, silver, uranium or other precious metals. Often, these schemes are sold with the promise that a company has a "revolutionary new method" for extracting the metal.

- ★ **Oil and Gas.** Still a common source of complaints regulators receive. Promoters sell partnership interests or fractional undivided interests in wells which are never drilled, or by overstating the value of existing wells. Sometimes several investors are sold the same interests. Tax advantages that might have been available to investors previously have dried up with changes in the tax code. Can be a risky investment.

- ★ **Penny Stocks.** Penny stocks sell for less than \$5.00 a share and usually are not traded on any exchange. These stocks can be a legitimate investment for some purchasers. They are often sold in connection with highly speculative start-up companies that have no economic substance. Common complaints investigators receive about penny stocks are that the risk wasn't clearly explained or that the stock didn't perform as promised.

- ★ **Phony Foreign Banks.** The rising popularity of overseas investing and problems with domestic financial institutions paved the way for a surge in fraudulent investment promotions involving foreign banks. Schemers lure investors by promising high rates of return on certificates of deposit saying bank rules allow it. Overseas scams and their promoters are difficult to regulate and provide further support for the investment warning, "Don't invest with anyone you don't know."



- ★ **Precious Metals Bank Financing Programs.** Typically under these programs, a customer must put down 20% to 30% of the purchase price of the precious metals being bought, such as gold, silver or platinum, and pay an additional "buy charge." The balance on the purchase price is financed by a loan obtained from a bank suggested by the seller. Before agreeing to buy into such a program, the investor should be alert to certain high costs and charges frequently associated with such deals, including: (1) purchase price of the metal is generally higher than that cur-