Ohio | Department of Commerce

Division of Securities

Investor Alert

FIVE INVESTMENT MYTHS

1. **My investment is safer if I invest through someone I know from church/religious organization/fraternal organizations/retirement group etc.**

   Be alert to Affinity Fraud. Affinity frauds target members of groups, such as older investors or religious or ethnic communities. The Division has initiated several cases, including criminal cases, that involve investments solicited through a religious, ethnic or fraternal association. The lesson from these cases is that even if you know the person making the investment offer, be sure to check out both the investment and the investment professional's background – no matter how trustworthy the person seems.

2. **I should maximize my returns by always choosing the investment with the highest return on investment.**

   Be wary of an investment that sounds too good to be true. Claims that an investment is a "can't miss" opportunity or promises "guaranteed" returns are classic warning signs of fraud. Be alert to *any* promise of high returns with little or no risk. And never invest before you have a chance to think about it and do research. No legitimate investment requires a rash decision.

3. **Investing through a self-directed IRA managed by a third-party custodian protects my investment.**

   While self-directed IRAs can be a safe way to invest retirement funds, investors should be mindful of potential fraudulent schemes when considering a self-directed IRA. Investors should understand that the custodians and trustees of self-directed IRAs may have limited duties to investors, and that the custodians and trustees for these accounts will generally not evaluate the quality or legitimacy of an investment and its promoters.

   The Division of Securities has seen a recent increase in reports or complaints of fraudulent investment schemes that utilized a self-directed IRA as a key feature. State securities regulators have investigated numerous cases where a self-directed IRA was used in an attempt to lend credibility to a fraudulent scheme. Similarly, the SEC has brought numerous cases in which promoters of fraudulent schemes steered investors to self-directed IRAs. http://www.nasaa.org/5866/self-directed-iras-and-the-risk-of-fraud/

4. **If a friend or family member refers me to an investment or financial adviser, I can trust that the adviser and the investment are legitimate.**

   While obtaining referrals from family and friends can lead to good investment opportunities, a referral alone should not prevent you from conducting your own research. To avoid potential financial fraud, investors are encouraged to call the Division's Investor Protection Hotline at 877-683-7841 before they invest money and ask:
   - Is the brokerage firm and salesperson licensed to sell securities in Ohio?
   - Have any enforcement actions been taken against them?

- Has the security been properly registered with the Division of Securities?

5. **My adviser sends me a written contract and periodic investment statements, which is evidence I'm getting a return on my investment.**

   A written document alone does not negate the potential for fraud. Clever scammers may prepare and provide quarterly or annual account statements showing a return on your investment. These false statements allow the fraud to continue for years without detection. Always inquire about the underlying assets and, if applicable, ask for copies of the investment or brokerage statements directly from a third party, not affiliated with your adviser. The Division has investigated cases where the fraudster created false statements using Microsoft Word or through websites such as www.dailyfinance.com and http://finance.aol.com/portfolios, which allow hypothetical investment accounts to be created to track potential returns. Confirm and verify and, when in doubt, contact the Division.