



A Publication of the Texas State Securities Board  
Regulating the securities industry and  
protecting investors since 1957



## For Investors

# SCAMS AND UNSUITABLE INVESTMENTS

Certain types of investments—even if they are legitimate—should always raise red flags. If an investment seems overly complicated, promises large returns with minimal risk, or claims to be a “can’t miss,” just walk away.

You may think you’ve passed on an investment that is going to make you financially secure. In fact, you’ve passed on an opportunity that was likely to inflict severe financial damage.

This **Investor Alert**, part of our Core Four series on investing, can help you identify threats to your financial health—the investment products, practices, and, equally important, the people who pitch them.

## Unregistered Individuals

Plumbers must be licensed. The same with barbers, realtors, used auto-parts recyclers, and boot companies (the kind of boot that a company affixes to your truck when you don’t pay your parking tickets).

Yet many investors don’t know that people and firms who sell securities in Texas must be registered with the State Securities Board.

Generally, anyone acting as a sales agent for a company selling stocks, bonds, or other investments to the public must be registered to do so.

An investment promoter can’t simply set up a website or YouTube channel and sell investments unless the investments are registered or sold under one of the limited number of exemptions from registration.

Registering with the State Securities Board involves qualifications testing, background checks, and periodic review. To see if a person is registered to sell investments, visit [Registration Checks](#) or call (512) 305-8301.

*A sales agent who isn’t registered is likely violating the law.*

## Scams and Unsuitable Investments

- [Warning Signs of Fraud](#)
- [Guarding Against Scammers](#)

## Registered Sales Agents

Anyone acting as a sales agent for a company selling stocks, bonds, or other investments to the public must be registered to do so. An unregistered investment promoter should raise a three-story-tall red flag.

To see if a person is registered to sell investments, call us at 1-512-305-8301 or [email](#) your request.



### Cashing Out

It's common to cash out some of your assets to make a down payment on a house, or pay education costs. Or to move from one registered investment firm to another.

But it's a different situation when you are solicited to cash out stocks, mutual funds, and even plain old savings accounts for the promise of higher, no-risk returns. You may be told that all you need to do is cash in some of your current holdings and hand them the money to manage.

An unscrupulous investment promoter may invest your money in expensive and risky products that will earn him rich commissions.

People with workplace retirement accounts or those receiving pension benefits – either retirement income or disability payments – should thoroughly examine any offer to cash out some or all of their benefits.

Pension benefits, which provide a monthly annuity payment for life, are a valuable benefit available to fewer and fewer U.S. workers and one not to be surrendered lightly.

One perilous "cash out" scheme is a **pension advance** transaction, also called a **stream-of-income investment**. In this transaction, a pensioner turns over guaranteed future pension payments in exchange for an immediate lump sum of cash.

As always, make sure you deal with a *registered* investment adviser and take the time to understand the fees and costs and you may pay—and the lifetime benefits you may give up.

### Cyberattacks

The old saying about bank robbers – they go where the money is – applies to today's cybercriminals.

Hackers are inundating investors and financial firms with phishing attacks, malware, and other types of online attacks to try to trick you or your firm into disclosing your brokerage account or bank information, passwords, Social Security Number, and other discrete information.

The techniques include using spam email and fake websites to convince investors they're dealing with a legitimate firm. These illicit emails and websites appear authentic, and unsuspecting investors may either click on links that allow third-parties to steal their information or they may transfer funds to an account that appears to be maintained at their firm.

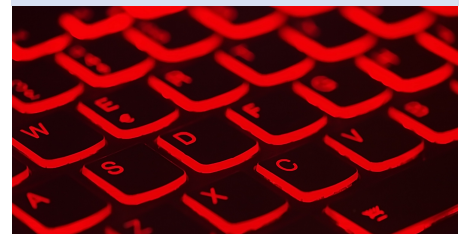
In reality, the account may be controlled by a crook who is operating in anonymity, overseas.

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### Are You Cyber-Secure?

Get clear and comprehensive guidance from the SEC Investor Bulletin, [\*Protecting Your Online Investment Accounts from Fraud\*](#)





If you have any concerns about a website or email you have received from a financial institution, verify that it's from a legitimate source.

Also, check your account statements and trade confirmations for any suspicious activity. If you find a discrepancy, put your questions to the firm in writing so you have a record of your complaint.

### Currency Trading

Currency exchange (forex) investing involves trading the currencies of other nations. Investors should keep in mind the enormous complexity of forex since it involves executing forex contracts in the currencies of dozens of countries with different political systems and economies.

Foreign currency is a vast global market where prices are volatile, and losses can pile up in a few hours. An individual is taking a huge risk by buying into an investment promoter's promise that he can predict currency prices and lock in enormous profits with little or no risk.

Currency traders must be registered with one or more federal regulatory agencies and in most cases licensed by the Texas State Securities Board to sell investments based on forex trading.

### Oil and Gas

Oil and gas investments are highly speculative and staggeringly complex to anyone not versed in the energy business.

Yet some investors, attracted by the mythology surrounding the oil industry, have a blind spot when approached to invest in the business.

It is difficult for a potential investor to investigate a promoter's claims about how much oil or gas will be produced or the time it will take to start production. The structure of the investment will affect revenue and potential profits.

In addition, not all investors in oil and gas projects have the expertise to decipher geological maps, production reports, and filings with state energy regulators.

Investors should not rely solely on the promoter's promises about any aspect of the investment. It's also critical to know the background of the promoters – some may be inexperienced or have repeatedly failed in previous ventures, but have not disclosed those facts to investors.

Energy investments can pose a significant risk for individuals whose primary financial goal is saving for retirement and should be avoided by anyone who cannot afford to strike out when trying to strike it rich.

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### Cryptocurrency Offerings

Regardless of the price of Bitcoin and other cryptocurrencies – boom, bust, or stagnating in between – there is a continuing steady stream of investment promoters looking to take advantage of investors who see virtual currencies as a quick path to wealth.

Investors who were once only comfortable purchasing stocks, bonds and mutual funds from regulated professionals are now using online marketplaces and social media to identify investments tied to cryptocurrencies.

Even seniors and retirees, who traditionally prioritize security over speculation, are being introduced to such things as initial coin offerings and cryptocurrency mining pools.

Cryptocurrency prices are extremely volatile and the investments tied to them operate with hard-to-understand technologies. To a lay person it is nearly indecipherable technology, let alone investment opportunity.

For that reason, some promoters of fraudulent cryptocurrency investments craft their promotions to emphasize guaranteed, secure profits while concealing material information that would otherwise reveal the very real risk of loss of principal or outright theft of funds.

Unscrupulous promoters are unlikely to provide audited records or other financial information that permits independent verification of the ability to ensure the timely return of principal, much less the timely payment of principal plus profits.

### Promissory Notes and High-Yield Investment Programs

A promissory note is basically an IOU from a company or individual. The notes are sold to fund everything from property development to oil and gas exploration, or as a way to buy interests in a business partnership.

Sophisticated investors and corporations are likely to have the resources and expertise to evaluate the terms and conditions of promissory notes.

Individual investors may not be able to accurately evaluate the credit-worthiness or prospects of a project that is supposed to generate enough revenue to pay the promised return on the notes.

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### Initial Coin Offerings

In an ICO an issuer raises money by selling a new cryptocurrency to investors, typically in exchange for bitcoin or another established cryptocurrency.

The ICO coin can represent an equity or debt interest in the issuer itself or the business the issuer creates.

Warning signs of fraud in the ICO market, where hundreds of billions of dollars are raised annually, include “guaranteed” high investment returns, unsolicited offers, and unlicensed sellers.

The risks may become increasingly dire in ICOs because the issuer may exist only in cyberspace and without any physical location. Its principals may leverage the anonymity associated with cryptocurrencies to abscond with investors' funds.



### Private Placement Offerings

Companies use private placement offerings to raise capital without having to comply with the registration requirements of securities laws. These often have a limited operating history, and the investments themselves generally lack transparency.

In exchange for the exemption from registration, companies are allowed to raise money only from “accredited” investors—those having a net worth of \$1 million, excluding the value of their primary residence, or annual income of \$200,000 or more.

Investors should be careful they’re not putting money into an unlawful private placement or dealing with a promoter who isn’t verifying the accredited status of investors.

### Real Estate

It's one thing to buy a home or a piece of land or even rehabilitate and flip a house.

Investment offerings in real estate are more complicated. They are often sold through investment contracts, notes, and other securities.

Promoters promise steady returns from a variety of investments, including the purchase, rehabilitation and sale of distressed houses and other property; the purchase of mortgage notes and real estate assets; and the development of shopping centers and other projects.

Investors should be skeptical of claims that real estate investment carries minimal risk because it is backed by a “hard asset” – which may or may not exist.

Depending on the structure of the offering, risk factors may include your money being locked in for a long period of time; changes in interest rates that can affect costs and profits; and changes in demographics, property valuation, and rental rates.

Some promoters of fraudulent real estate investments also claim to have special expertise that guarantees investors unrealistically high returns on investment.

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### Overseas Investments

International investments are often sold with the promise of profits to be made in offshore banks or by selling much-needed products in untapped markets.

But investors should ask themselves if they really understand how money will be made.

In what are called "prime bank" scams, promoters try to entice investors with guaranteed, high-yield returns that can be generated by international banks.

Prime bank promoters specialize in throwing exotic-sounding terms at investors, hoping to impress with references to "Guaranteed Bank Notes," "Standby Letters of Credit," and instruments backed by the International Monetary Fund.

In other instances of overseas investment offerings, the State Securities Board has issued sanctions in cases involving real estate in France, medical testing kits in Southeast Asia, and bank deposits in West Africa and the Philippines.

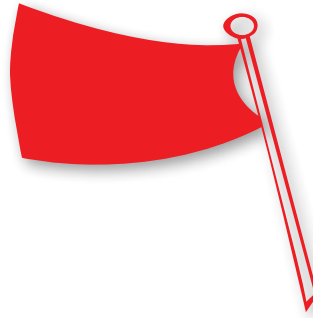
How much could an individual investor possibly know about those investments? Too often, investors make decisions based solely on the profits they have been promised.

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# WARNING SIGNS OF FRAUD



Regardless of how tempting a financial offer may seem, there are certain warning signs you should always heed. If you suspect fraud, immediately contact someone you trust and explain why you are suspicious—before you act!

1. **Pressure to act.** Never be pressured into making a hasty decision, especially if you're told you only have a limited time to act. A good investment today will still be a good investment once you have time to evaluate it.
2. **Little or no risk.** If a promoter tells you the investment is full-proof and there's no risk of loss, don't believe it. Every investment carries some risk. The bigger the guaranteed return, the bigger the risk you're likely taking.
3. **Exclusive or limited offer.** Be especially cautious if a salesperson describes the investment as a once-in-a-lifetime opportunity, a chance to get in on the ground floor, or available exclusively for you. If you buy this line, that's probably all you'll end up with.
4. **All talk, no documents.** Legitimate financial promoters explain costs and risks and provide the paperwork to go with their words. No paperwork? Don't buy it.
5. **Things you don't understand.** Never hesitate to ask hard questions if you are unclear about an investment. If the answers you get are confusing or evasive, that's a sure sign should there may be hidden risks that you want to avoid.

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### **If You Suspect Fraud**

If you suspect fraud or that you have received inappropriate financial advice, you can contact the [Texas State Securities Board](#) to ask questions or [file a formal complaint](#).

The Agency will respond to your inquiry, and, if it determines that a violation has occurred, may initiate administrative proceedings or request that a court action be taken.

If you are seeking restitution of funds, you should also consult with a private attorney to find out what remedies may be available.





# GUARDING AGAINST SCAMMERS

Fraudsters have mastered the art of presenting investment offers in the most seemingly innocuous ways. Knowing their techniques can help you keep your guard up and recognize a potential deception.

Here are the things to be on the lookout for.

1. **Tips from those you know.** Some con artists are adept at exploiting an affiliation with a group, such as a church, community organization, or even family, to win investors' confidence while their guard is down. Affinity fraud is difficult to spot since the person offering the investment appears to be a member of your group. If you are approached this way, be sure to check for the **warning signs of fraud** and check with a person you trust before making any commitments.
2. **Advertising.** Social media and digital communications in general have provided many more avenues for fraudsters to hawk their wares. It's relatively simple to create an attractive website that appears totally professional and legitimate, but visual appeal is meaningless when it comes to selling investments. Remember, also, that investments offered on radio or in printed media, including newspapers and magazines, may be equally fraudulent.
3. **Free lunch or dinner offer.** Invitations to seminars, often held at restaurants, are often ruses for marketing and selling high-cost, unsuitable investments.
4. **Unsolicited calls.** A roomful of salespeople making unsolicited calls—called a “boiler room”—is one con technique that's easy to avoid. Just use call screening and not answer these calls. And if you do, you can just hang up.
5. **Junk mail.** There's an endless stream of investment offers that appear in your mailbox and your email account. There is always the shredder and the delete key.

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### **Beware of Pundits**

Self-proclaimed investing experts are everywhere on the internet, television, and especially, it seems, the AM radio dial.

Speaking through a media megaphone doesn't mean someone has special knowledge. Too often, these gurus are handing out unsuitable advice and in several instances in Texas have failed to disclose serious regulatory sanction.

Sound investing isn't a gimmick or a game. Tune out the noise that makes it difficult to invest wisely.