

Anyone can become a victim of investment fraud. You don't have to be wealthy or live in a big city to be targeted by a con artist. You may be a sophisticated, experienced investor and still fall for a smooth scam.

If you give money to someone expecting to earn a profit or return on that money, you are investing in a security. Securities include shares of stock in a corporation, the loan of money represented by issue of a bond or promissory note, or ownership interest in a limited partnership. All investments carry some degree of risk. You may earn less than you expected, or even lose your money, but that does not necessarily mean you have been defrauded. Fraud occurs where the promoter or salesperson of the investment omits or fails to disclose material information, or makes false statements about the investment, its risk, or the financial background and regulatory history of the promoter selling the investment.

The federal Securities and Exchange Commission (SEC) maintains a free online database of registered investment advisers. You can look up an investment adviser firm and view the form filed with the SEC containing information about the firm, including information about certain disciplinary events involving the adviser and its key personnel. Finally, check with the New Mexico Securities Division to find out whether an individual is a licensed financial professional in New Mexico and whether he or she has been subject of a past disciplinary action.

Do business only with licensed brokers and financial advisers and report any suspicion of investment fraud to the New Mexico Securities Division. One call can protect your financial security and might prevent others from becoming victims.



New Mexico Regulation and Licensing

Securities Division

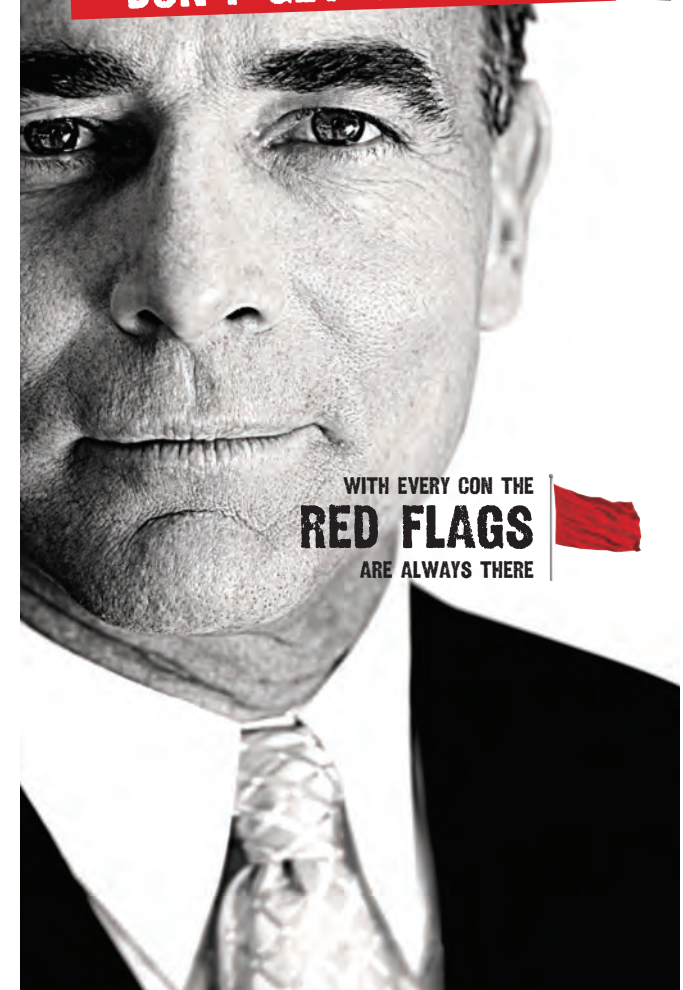
2550 Cerrillos Rd
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1.800.704.5533

www.redflagnm.com

AVOIDING FRAUD

DON'T GET CONNED!



WITH EVERY CON THE
RED FLAGS
ARE ALWAYS THERE



**New Mexico Regulation and Licensing
Securities Division**

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INVESTMENT FRAUD COMES IN A VARIETY OF DISGUISES

PONZI SCHEMES

In a Ponzi, the con artist attracts investors by promising unrealistically high returns, and uses some of the money obtained from new victims to pay earlier participants some return. The scheme lasts only as long as the promoter can continue to lure in new victims.

PYRAMIDS

Often disguised as multi-level marketing opportunities or even charitable endeavors, pyramids require victims to go out and recruit a certain number of new participants in order to “rise up” the pyramid and collect their promised reward. In this way, pyramid schemes spread through families and communities, preying on the mutual trust people have in their friends, neighbors and co-workers.

PUMP AND DUMP STOCK SCAMS

In this fraud, unscrupulous promoters obtain large blocks of stock in a small, publicly traded company. With high-pressure telephone sales, mass e-mails and phony ‘newsletters,’ the promoters use false rumors about the company’s prospects to drive up the stock price. When the promoters dump their shares at a profit, the other investors are left holding worthless stock.

LIMITED PARTNERSHIPS

These are investment vehicles in which investors purchase a share in a business venture such as drilling oil or gas wells, making a movie, or developing a real estate project. While partnerships may be genuine investments, con artists can defraud investors by misrepresenting the risks and potential profits, or by manipulating the enterprise to drain off the revenues in “expenses.”

PROMISSORY NOTES

Like partnerships, promissory notes can be a legitimate tool for businesses that need to borrow money for short periods. It's not investment fraud as long as the borrower discloses all the risks, and provides you with the information you need to make an informed decision. It is a fraud when backed by a non-existent company, or promoted by promising high returns with little or no risk.

GLOBAL BANK SCHEMES

In these scams the promoter offers a ‘risk free’ opportunity to earn high returns by investing in exotic-sounding financial instruments traded in the global financial markets. The investment is often presented as a secret strategy shared only by very wealthy, sophisticated investors. In fact, the ‘major world bank’ may be no more than a fancy letterhead or a fake web page. Although the con artist may move the money overseas through foreign banks to cover his tracks, there is no real investment.

QUESTIONS TO ASK

WHAT RISKS ARE INVOLVED?

Don't be dazzled by the prospect of making big money on your investment. Ask about what can go wrong. What's the risk you'll lose some or all your money?

CAN I GET A DETAILED EXPLANATION OF THIS INVESTMENT IN WRITING?

Don't rely on verbal promises or vague explanations. Get a clear, detailed description of your investment in writing, and make sure you understand the offering before you invest.

ARE YOU LICENSED TO SELL SECURITIES IN THE STATE OF NEW MEXICO?

Individuals who sell securities or provide investment advice are required to earn a license by passing rigorous examinations before they can offer their services to the public. Those who bypass this requirement often are predators offering bogus investments.

IS THIS INVESTMENT OFFERING REGISTERED WITH THE SEC OR THE NM SECURITIES DIVISION?

The law requires that investments offered to the public in New Mexico must be reviewed by either state or federal regulators.

CHECK OUT THE ANSWERS. DON'T JUST TAKE THE PERSON'S WORD FOR IT

Contact the New Mexico Securities Division before you make an investment. We can't tell you whether this is a good investment for you, or whether you're going to make money on this deal, but we can tell you about the background of the person and company involved - whether the individual is a licensed financial professional, and whether the individual or the company he or she works for has been the subject of any regulatory or disciplinary actions in New Mexico or elsewhere.

CHECK THE BACKGROUND OF YOUR INVESTMENT PROFESSIONAL

FINRA, the Financial Industry Regulatory Authority, provides a free online tool to help investors check the professional background of current and former FINRA-registered securities firms and brokers. It should be the first resource investors turn to when choosing whether to do business with a particular broker or brokerage firm.

WARNING SIGNS

- ▶ The promoter claims to have secret, inside, or non-public information that he is willing to let you in on, but you need to keep it confidential. He is trying to get you to act without getting an outside opinion or checking his story with the authorities.
- ▶ Risk free or guaranteed returns especially when linked with higher-than-market rate returns should ring alarm bells for you. There is no risk free investment. And the higher the return offered, the more risk you're taking with your money. Something is wrong when a promoter promises to make you eye-popping returns on your investment with little or no risk.
- ▶ “Act Now” or “Don't miss out on this once-in-a-lifetime opportunity.” High pressure tactics intend to get you to make a snap decision without thinking it through. The promoter doesn't want you to take time to check his story.
- ▶ If it sounds too good to be true, it probably is. Compare promised yields with current returns on well-known stock indexes. Any investment opportunity that claims you'll get substantially more is certain to be highly risky.