

We all like to believe we're good judges of character, able to spot an honest man by the look in his eye, the tone of his voice, and the strength of his handshake. Appearances can be deceiving, and financial predators are experts at deception. "Con" is short for "confidence," and a successful con artist relies on his ability to appear honest and trustworthy even as he cheats you of your money.



**New Mexico  
Regulation and Licensing**

**Securities Division**

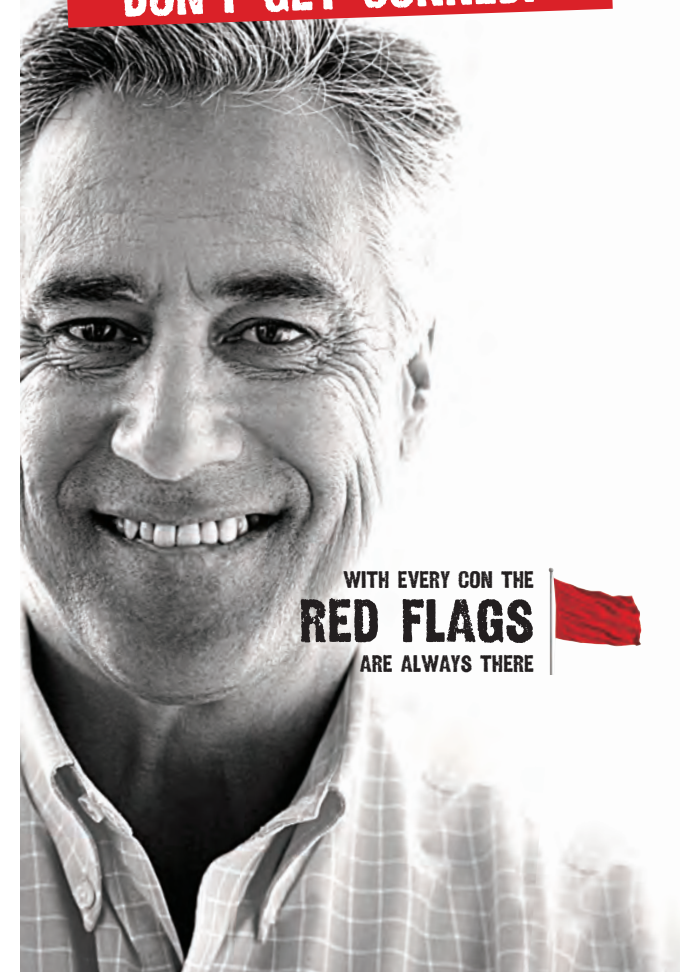
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# INVESTMENT FRAUD PREVENTION

**DON'T GET CONNED!**



WITH EVERY CON THE  
**RED FLAGS**  
ARE ALWAYS THERE

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## CHECK BEFORE YOU INVEST

### CON ARTISTS ARE EXPERTS AT GAINING YOUR CONFIDENCE

No matter how good it sounds, treat any investment offer with extreme caution. Whether you hear about the opportunity through an e-mail or phone call, or from a friend or business contact, be certain to check out both the person and the investment he or she is promoting, before you write a check!

### ASK QUESTIONS, THEN CHECK THE ANSWERS

Savvy investors take the time to do their own research. Don't rely on oral promises or representations. Get a full explanation of the proposed investment in writing, and make sure that you fully understand how this investment works and what the risks are.

### CALL THE NEW MEXICO SECURITIES DIVISION

Confirm that the person you are dealing with is a licensed investment professional in New Mexico, and whether he or she has ever been disciplined or has any complaints pending.

### BEFORE BUYING ANY STOCK, REVIEW FINANCIAL STATEMENTS

The company is required to file these with the Securities and Exchange Commission.

### DON'T BE TALKED INTO TREATING ANY INVESTMENT OFFER AS "SECRET" OR "CONFIDENTIAL"

Have the documents reviewed by an attorney, tax adviser or someone you trust who understands investing.

## 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

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.

## 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.