



PROTECT YOUR POCKETS

Presented by

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The North Carolina Secretary of State Securities Division


Registration Requirements

Registration Requirements

1. With limited exceptions, anyone who sells a security or provides investment advice **must** be licensed and registered with the Securities Division.
2. With limited exceptions, all securities **must** be registered with the Securities Division.


What is a "security"?

Full definition is found at N.C.G.S. 78A-2(11); however, *in general*:




A "security" is any investment in which the investor has a reasonable expectation of making a profit as the result of the managerial or entrepreneurial efforts of another.

Warning Signs of Fraud



- Promises of high returns
- Claims of guarantees and/or “no risk”
- Pressure to make an immediate decision
- Appeals to your fears (psychological tactics)
- Offers to help “make back” lost money


Warning Signs of Fraud



Promoter:

- provides only vague details
- claims inside information
- asks for credit card or other personal information
- suggests suspicious method of payment
- ignores your concerns
- discourages you from performing due diligence

Frauds Aimed at Senior Citizens



- 57% of fraud victims are 50+ years old. (AARP, 2001)
- 20% of seniors 65+ (~7.3 million) have been the victim of a financial crime (IPT, 2010)
- In NC, ~50% of all enforcement actions involve senior fraud.

Frauds Aimed at Senior Citizens

Investment fraud victims are:

- More likely to be male
- College educated
- Incomes >\$50K
- More likely to succumb to persuasion tactics



National Fraud Victim Study
(March 2011, AARP Foundation)

Solutions: "SOS"

NC Dept. of the Secretary of State
Administers And Enforces:

- NC Securities Act (N.C.G.S. 78A)
- NC Investment Advisers Act (N.C.G.S. § 78C)
- NC Commodities Act (N.C.G.S. § 78D)



AND

Elder Investment Fraud and Financial Exploitation
Prevention Program (EIFFE)

EIFFE

**Elder Investment Fraud and Financial
Exploitation Prevention Program**

- 2-year grant from Investor Protection Trust (IPT)
- NC and 23 other states to train doctors
- Docs to refer patients to local resources like APS
- APS refers investment fraud to NC SOS

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Selected Aging Demographics

- 1.2 billion older people worldwide in the year 2025
- Net monthly increase now of one million people 60 years of age worldwide
- Leading edge of 77 million U.S. Baby Boomers reached age 65 in 2011
- 10,000 persons qualify for Medicare every day for the next 19 years!

EIFFE Can Happen to Anyone...



“To those seniors and especially elderly veterans like myself, I want to tell you this: You are not alone and you have nothing to be ashamed of. If elder abuse happened to me, it can happen to anyone.”

Mickey Rooney Testimony to Senate Special Committee on Aging, March 2, 2011

Raising Awareness

- Average savings of 50 year old boomers is about \$50,000.
- Of all elder abuse cases reported, 30% were for financial exploitation. (National Elder Abuse Study, 1998)
- Two nationally representative studies found 4-5% of older adults in the US have been victims of financial abuse.

EIFFE Schemes by Responsible Party

Caregivers or family members

- use older adult's personal materials for own gain, such as: retirement funds, social security checks, etc.

Trusted financial advisors

- sells inappropriate annuities or front-end loaded mutual funds, then churns them to generate inordinately high fees

Strangers

- scams by phone, email, or mail

Responsible Party Characteristics

Traits

- caregiver
- male, usually relative
- living with the patient
- economically dependent on the patient
- history of mental illness, including substance abuse and antisocial behavior or other health problems

American Bar Assoc. & American Psychological Assoc. Assessment of Older Adults with Diminished Capacity: A Handbook for Psychologists: 2008

Red Flags for Potential Abuse

- Social isolation
- Bereavement
- Dependence on another to provide care
- Financially responsible for adult child or spouse
- Alcohol or drug abuse
- Depression or mental illness
- A change in appearance or poor hygiene

Red Flag Observations

- Fearful, distressed
- Suspicious, delusional
- Cognitive problems
- Change in ability to perform activities of daily living, including self care, daily finances, medication management
- Accompanied by caregiver who is overly protective; dominates patient/client

Interactions with Possible Responsible Party

Be aware of these behaviors:

- Demeaning comments about the patient
- Defensive, suspicious attitude
- Hostility about your inquiries
- A change in appearance or poor hygiene

Tueth, M (Am J Geriatr Psychiatry 8:2, Spring 2000)

Referral Sources in North Carolina

- NC Securities Division (800-688-4507)
www.sosnc.com
- Adult Protective Services (County DSS Office)
http://www.ncdhhs.gov/aging/adultsvcs/afs_aps.htm
- National Association of Professional Geriatric Care Managers
www.caremanager.org
- Case Management Society of America (Piedmont Triad)
www.cmsapiedmonttriad.org
- NC Bar Association Elder Law Section
<http://elderlaw.ncbar.org>
- WFU Elder Law Clinic
<http://elder-clinic.law.wfu.edu/>

Common Advisor Scams & Schemes

- Unsuitable investments
- Unauthorized transactions (power of attorney abuse)
- Margin trading
- Churning
- Unreasonable expectations
- Complex investments
- High fees and expenses

Common Types of Fraud

Investment Fraud

- Affinity fraud
- Theft in brokerage accounts
- Internet and email investment scams
- Ponzi and pyramid schemes
- Oil & gas schemes
- Coins & precious metals

Caregivers/Family/Friends

- Power of Attorney
- Change of last will and testament
- Property conversion

Prevalence of Cognitive Problems

35% of Americans (8.8 million) over the age of 71 have either:

- Mild cognitive impairment (MCI)
- Dementia
- Changes in executive cognitive functions*

* Plassman, BL et al. *Annals of Internal Medicine*, Vol. 148, No. 6, pp. 427-434, March 18, 2008

Financial Services Professionals

The Name Game

Not knowing the difference between these professionals could be harmful to your financial health:

- Stockbroker
- Investment Adviser
- Financial Planner

Financial Services Professionals

Stockbroker

(aka Broker-Dealers)

- ✓ Buys/sells securities
- ✓ Must be registered with SEC and State Regulator
- ✓ Must "know the customer"

BUT...
IS NOT REQUIRED TO ACT AS THEIR CLIENT'S FIDUCIARY



Financial Services Professionals

Investment Adviser
(aka IAs)

- ✓ Provides investment advice
- ✓ Manages client's securities portfolio
- ✓ Based on total assets under management, must be registered with SEC or State

Does have A FIDUCIARY DUTY TO CLIENT

Financial Services Professionals

Financial Planner

Unlike "broker" or "adviser", there is no legal definition of "planner"

Helps set financial goals via investments, tax planning, retirement planning

NOT REQUIRED TO BE REGISTERED WITH SEC OR STATE UNLESS INVESTMENT ADVICE IS PROVIDED

Professional Titles/Certifications

Financial Analyst Senior Consultant
Financial Adviser (Advisor)

- All are generic terms or job titles, and may be used by investment professionals who may not hold any specific designation.
- Some include terms like "Certified", "Professional", "Registered", but are marketing tools and not issued by any regulatory body.
- "Trust but verify." Do not rely solely on a person's title or certification - it may very well be meaningless. Check their credentials with the Securities Division, FINRA or the SEC.
- Go to www.finra.org and search for "Professional Designations" for more info.


Professional Titles/Certifications

C.H.S.G.

**CERTIFIED
HIGH
SCHOOL
GRADUATE !!!!!**

AFFINITY FRAUD

- Group with a common characteristic
- Targets: Social networking groups, seniors citizens, ethnic groups, religious groups, professional or civic groups
- "You can trust me, I'm just like you."



AFFINITY FRAUD

Beware of **divinely inspired** investment advice



Investigate BEFORE You Invest

If it sounds too good to be true ...
it probably is.

THE DIVISION can help you:

- ✓ Check securities sellers or advisors and their products
- ✓ Report victimization

Call **919-733-3924** or **800-688-4507**
or visit www.sosnc.com
