



U.S. Securities and Exchange Commission

How To Avoid Fraud

Your net worth might make you a target for scams. Scam artists don't care how you have come across your money. They don't care whether you worked hard all your life to earn your money, or whether you hit the lottery the first time you played. It is your money they want. The only thing that may stand between a fraudster and your money is your preparedness when you are approached.

What can I do to avoid being scammed?

Ask questions and check out the answers. Fraudsters rely on the sad truth that many people simply don't bother to investigate before they invest. It's not enough to ask a promoter for more information or for references - fraudsters have no incentive to set you straight. Savvy investors take the time to do their own independent research.

Research the company before you invest. You'll want to fully understand the company's business and its products or services before investing. Before buying any stock, check out the company's [financial statements](#) on the SEC's website, or contact your [state securities regulator](#). All but the smallest public companies have to file financial statements with us. If the company doesn't file with us, you'll have to do a great deal of work on your own to make sure the company is legitimate and the investment appropriate for you. That's because the lack of reliable, readily available information about company finances can open the door to fraud. Remember that unsolicited emails, message board postings, and company news releases should never be used as the sole basis for your investment decisions.

Know the salesperson. Spend some time checking out the person touting the investment *before* you invest - even if you already know the person socially. Always find out whether the securities salespeople who contact you are licensed to sell securities in your state and whether they or their firms have had run-ins with regulators or other investors. You can check out the disciplinary history of [brokers](#) and [advisers](#) quickly - and for free - using the SEC's and NASD's online databases. Your [state securities regulator](#) may have additional information.

Be wary of unsolicited offers. Be especially careful if you receive an unsolicited fax or e-mail about a company -- or see it praised on an Internet bulletin board -- but can find no current financial information about the company from other independent sources. Many fraudsters use e-mail, faxes and Internet postings to tout thinly traded stocks, in the hopes of creating a buying frenzy that will push the share price up so that they can sell their shares. Once they dump their stock and quit promoting the company, the share price quickly falls. And be extra wary if someone you

don't know and trust recommends foreign or "off-shore" investments. When you send your money abroad, and something goes wrong, it's more difficult to find out what happened and to locate your money.

Here are some red flags warnings of fraud:

- *If it sounds too good to be true, it is.* Compare promised yields with current returns on well-known stock indexes. Any investment opportunity that claims you'll get substantially more could be highly risky. And that means you might lose money.
- *"Guaranteed returns" aren't.* Every investment carries some degree of risk, and the level of risk typically correlates with the return you can expect to receive. Low risk generally means low yields, and high yields typically involve high risk. If your money is perfectly safe, you'll most likely get a low return. High returns represent potential rewards for folks who are willing and financially able to take big risks. Most fraudsters spend a lot of time trying to convince investors that extremely high returns are "guaranteed" or "can't miss." Don't believe it.
- *Beauty isn't everything.* Don't be fooled by a pretty website - they are remarkably easy to create. If you'd like to see what an online fraud looks like, [click here](#).
- *Pressure to send money RIGHT NOW.* Scam artists often tell their victims that this is a once-in-a-lifetime offer, and it will be gone tomorrow. But resist the pressure to invest quickly, and take the time you need to investigate before sending money. If it is that good an opportunity, it will wait.

Con artists are experts at gaining your confidence. So be certain to treat *all* unsolicited investment opportunities with extreme caution. Whether you hear about the opportunity through an email, phone call, or a fax, be certain to check out both the person and firm making the offer and the investment they are pushing.

Remember - an educated investor is our best defense against fraud! For more information on how to invest wisely and avoid fraud, please visit the [Investor Information](#) section of our website.

<http://www.sec.gov/investor/pubs/avoidfraud.htm>

We have provided this information as a service to investors. It is neither a legal interpretation nor a statement of SEC policy. If you have questions concerning the meaning or application of a particular law or rule, please consult with an attorney who specializes in securities law.