



# E-Schemes and E-Scams

## What Investors Should Know About Internet Investment Fraud

By all accounts the Internet has had a tremendous impact on the investment community. For many investors it is an invaluable research tool that helps them evaluate investment opportunities and learn about different strategies and techniques. However, it has also become a playground for unscrupulous individuals looking to take advantage of investors through a variety of schemes and scams that already have caused financial harm to unsuspecting individuals.

Providing inexpensive, convenient access; anonymity; and an attentive, affluent audience of millions, it's no surprise that the Internet is a popular medium for con artists. In response to the growth of online investment fraud, the SEC, Federal Trade Commission, and National Association of Securities Dealers have all devoted resources to help lessen fraudulent activity. However, the use of investment scams likely will continue to proliferate despite enforcement efforts, therefore it is extremely important that investors educate themselves on the types of scams that exist and thoroughly investigate all investment opportunities and information disseminated through the Internet.

Providing the ability to communicate to large audiences without spending a lot of time, effort, or money, there are three Internet forums that are especially popular with con artists; they include online investment newsletters, bulletin boards, and e-mail.

### Online Newsletters

Online investment newsletters have become very popular on the Internet. Because newsletters can easily be made to look like unbiased information sources that offer access to research and expert stock picks, they have become a choice medium for con artists looking to prey on unsuspecting investors. Masquerading as outlets of credible information, some individuals who publish online newsletters accept money from companies in exchange for promoting the stock of the company. In an effort to maintain credibility with investors, many of these newsletters will fail to disclose this arrangement.

Another common tactic employed by illegitimate newsletters is to spread inaccurate information or promote worthless stocks in an effort to drive up the price of their personal holdings.\* Once the price has risen sufficiently, the individuals who touted the stock will quickly sell their shares and reap the profits.

### Bulletin Boards

Consisting of "threads" that are made up of individual messages referring to a particular stock, bulletin boards are a popular forum for investors searching for information on specific companies. Unfortunately, they are also another tool used by individuals looking to defraud investors.

Because many bulletin boards allow participants to disguise their identity with an alias – there is no way of telling how credible the information is on many bulletin boards. In an attempt to capitalize on this opportunity, fraudsters often pretend to reveal "inside" information on a company or attempt to pump up a company's stock price by posting multiple positive messages under different aliases – thereby giving the impression that there is widespread interest and support behind the particular stock. Referred to as "pumping and dumping" this tactic is usually done using small-cap stocks

because they are less heavily traded and therefore prices are more easily manipulated.

### E-Mail

The popularity and convenience of e-mail provides con artists with an effective means of reaching countless investors with hardly any effort or cost. By sending personalized messages to thousands of individuals in broadcast e-mails, con artists can communicate false information about a company or promote a baseless investment opportunity. In many cases, e-mail has replaced cold calling and mass mailing as a means of targeting individuals to solicit their participation in a particular scam. Con artists also use e-mail to draw attention to their own fraudulent online newsletters and bulletin board threads.

While investment fraud can be a problem facing investors who use the Internet for advice and research, it is important to note that there is a significant

amount of legitimate information on the Internet. By taking a few precautionary steps, investors can successfully tap into the wealth of knowledge available on the Internet. Here are some basic tips for investors who use the Internet to research investment opportunities:

- Do not make investment decisions based solely on information in an online newsletter, bulletin board, or e-mail. Consult a qualified financial advisor who is capable of analyzing financial statements, verifying claims about new products, and reviewing the quality of management before an investment decision is made.

- Avoid investing in companies that do not regularly file reports with the SEC. This can be checked by accessing the SEC's EDGAR database online or by calling the SEC at 202.942.8090.

- If you are at all unsure about the legitimacy of an opportunity after doing research, contact the SEC or your state securities regulator and check to see if any complaints about the company or its promoter have been filed.

- Beware of investments that use terms like "guaranteed," "risk-free," "limited offer," "high return," "fast profits," "insider information," and "safe as a CD." Remember, investments that sound too good to be true, are usually just that.

- Exercise particular caution when evaluating offshore opportunities and investment opportunities in other countries. In the event that something goes wrong, getting answers or locating your money is often extremely difficult.

A well-informed investor is a scam artist's worst enemy. And while the vast majority of Internet resources are credible, falling victim to an Internet investment fraud can be a very expensive lesson to learn firsthand. To find out more about researching investment opportunities and protecting yourself against investment fraud, you can contact us at 1.800.321.0013.

\*Source: Securities Exchange Commission

# Beware!



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