



North Carolina

Department of the Secretary of State

Securities Division

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Is There Such a Thing as a “Free Lunch”?



Have you ever received an invitation to enjoy a free meal at a nice restaurant in exchange for attending a financial seminar? If so, you are not alone. Earlier this month, AARP and the North American Securities Administrators Association (NASAA) released a report entitled *Protecting Older Investors: 2009 Free Lunch Seminar Report*. Researchers surveyed 1,012 Americans aged 55 and over and found that 78 percent indicated that they are “very” or “somewhat concerned” about financial scams affecting them or someone they know. It should be noted that offering a free meal to prospective customers is a legal business practice, and not everyone who offers a nice meal is a crook. However, this is a common method that some con artists use to lure potential victims to attend and learn more about investing in retirement. The following is from the joint AARP-NASAA news release:

“For attendees of these free seminars, the potential cost can be quite high. Of those who attended a seminar, 78 percent expected that the free financial seminar would center on opportunities to learn more about financial issues. However, once at the seminar, half of seminar attendees said the presenter asked them for personal information, such as their contact information or information about their finances and 46 percent reported that presenter attempted to make a follow-up appointment at their home. Nearly 40 percent reported that the presenter tried to sell them financial products either during or after the seminar.

‘This survey illustrates the lesson that nothing is truly free when it comes to your financial security. Often times, those who attend free lunch seminars have no idea that they are potential targets of financial fraud,’ said Jean Setzfand, Director of Financial Security at AARP. ‘Many people go to these seminars hoping to learn about ways to create a more secure retirement, but instead are pitched financial products that are fraudulent or unsuitable for them.’

Nearly 6 million Americans age 55 and older have attended a free lunch or dinner in the past three years, with mail as the most common method of solicitation (63 percent). Over a quarter of invitees (27 percent) have received ten or more invitations.

In response to such solicitations, AARP launched the **Free Lunch Monitor** program in collaboration with NASAA in October 2008. The purpose of the national program is to raise public awareness about the possible dangers of attending free lunch seminars, empower investors of all ages with the tools to decipher fraudulent educational presentations, and share a tool to report suspicious activity—the [Free Lunch Monitor Checklist](#).

After a year of collecting checklists, volunteers reported that many seminars focused on different types of annuities with 39 percent encouraged to purchase one, and nearly half said that the speaker did not discuss the risks associated with the annuity. Attendees were consistently promised that products were

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'low risk' or that they would yield 'high rates of return.'

'Low risk, high reward is a red flag warning for possible investment fraud,' said NASAA President and Texas Securities Commissioner Denise Voigt Crawford. 'Defrauding our senior population is unconscionable and protecting senior investors is a top priority of state securities regulators. I encourage all seniors to investigate before they invest in any offer served at a free lunch seminar. State securities regulators offer extensive employment, disciplinary and registration information about those who sell securities or offer investment advice.'

Setzand added, 'AARP's creation of the Free Lunch Monitor program with NASAA reflects the commitment we have made to provide our members, their families, and older Americans the best information about how to protect their savings. AARP encourages more people to get involved with our programs to help root out fraud that threatens your long-term financial security.'"

To learn more about the survey, the Free Lunch Monitor program or to become a monitor, visit www.aarp.org/freelunchreport.

Annuities: Buyer Beware!

As the previous article makes clear, promoters of "free lunch" seminars frequently try to get attendees to consider purchasing some type of annuity. This begs the question: Why are annuities the products of choice? One reason is that annuity sales are big business for the companies that sell them.

In its [2009 Annuities Fact Book](#), the Insured Retirement Institute (IRI), the non-profit organization that represents the annuities industry, has compiled statistical information showing that annual sales of all annuities grew from \$164.7 billion in 1999 to \$264.1 billion in 2008, a 60% increase. Over 58% of the sales in 2008, or \$154.8 billion, were for variable rate annuities. Although accounting for a smaller segment of total sales, growth in the sales of indexed annuities has skyrocketed from \$5.0 billion in 1999, to \$26.9 billion in 2008, an increase of 438%! At the end of 2008, the annuity industry had more than \$1.68 trillion in net assets.



Annuities can be great products for some people. They can, as they are often promoted, provide a lifetime stream of income for annuitants and can provide tax advantages for some people. What is not always clear, however, is that, under North Carolina law, annuities are regulated not as securities, but as insurance products under the jurisdiction of the North Carolina Department of Insurance. However, in North Carolina, only securities salesmen registered with the Securities Division may lawfully sell variable annuities.

It cannot be emphasized enough: **Annuities are not one-size-fits-all financial products.** They are very complex financial instruments and are not suitable for everyone, especially the elderly. Although disclosure is required, some annuity holders do not fully understand the fees and surrender charges that may be applied if the holder needs to get out of the contract before it matures. If you are thinking of purchasing an annuity, it might be helpful to speak first with a registered investment adviser who has no interest in the financial arrangement, and who can give an objective, unbiased opinion as to whether an annuity is right for you given your financial circumstances, needs and goals. As a service, we have provided links on the [Division's Web site](#) to other non-commercial sites that discuss the various types of annuities in greater detail and are free from advertisements so that consumers can make an informed decision when considering whether to purchase an annuity.

NASAA Appoints Barbara Bennett to Women in Transition Panel



Barbara Bennett

The North American Securities Administrators Association (NASAA) recently appointed Barbara Bennett to its newly-created Women in Transition Outreach Project Group. Barbara currently serves as the Investor Education Program Specialist with the Securities Division of the North Carolina Department of the Secretary of State. Her service on the Women in Transition Outreach Project Group complements her official responsibilities for the State.

Since joining the Securities Division in October 2008, Barbara has helped carry out the Division's investor education outreach responsibilities. She has conducted in-person investor education presentations for dozens of social, civic and professional organizations. She has also helped prepare a number of informational pamphlets and articles that have been published in various newsletters, including a recurring feature in the *Tarheel Guardsman*, the news magazine for the NC National Guard Association. As the wife of a retired Navy Chief Petty Officer, Barbara has been an effective liaison for the Division with the state's military communities. She also has a keen understanding of what it means to be a woman in transition. Before coming to the Division, Barbara's previous career spanned 22 years in mortgage lending as an underwriter, auditor and manager. Barbara has lived in Raleigh for thirteen years and is originally from Rochester, New York. She also has traveled the world with her husband as he was reassigned to different naval stations.

Of her appointment, Barbara said, "I am very excited about being appointed to the Women in Transition Outreach Project Group. We are working to define which demographics need the most focus and what issues need to be addressed in our outreach materials. The six women comprising the project group are all very energetic and enthusiastic, and come from all corners of the United States, including North Carolina, New Jersey, Oklahoma, New Mexico, Washington, and California."

With Barbara's appointment, the North Carolina Securities Division now has seven of its employees serving in voluntary leadership positions within NASAA. North Carolina, then, plays an important role nationally in the development of policies, practices or informational materials regarding securities regulation and the protecting of the general investing public from investment fraud. In last month's [newsletter](#), it was announced that David Massey, North Carolina's Deputy Securities Administrator, will serve this year as NASAA's President-Elect and will assume its presidency next fall. Other members of the Securities Division with continuing NASAA responsibilities include: **Tina Cecil** (Arbitration Project Group); **Shawn Pruett** (Enforcement Technology Project Group); **Elizabeth Guido** (Investment Adviser Operations Project Group); **Darren Kearns** (Investment Adviser Training Project Group); and **Patricia Norman** (Senior Outreach Project Group).

[NASAA](#) is the oldest international investor protection organization. Today, NASAA membership consists of 67 state, provincial, and territorial securities administrators in the 50 states, the District of Columbia, the U.S. Virgin Islands, Puerto Rico, Canada, and Mexico.

Barbara and Scam Jam Partners Coming to Mitchell County!

On Wednesday, December 2, 2009, Barbara will be at the Spruce Pine campus of Mayland Community College as part of the series of anti-fraud Scam Jam presentations the Securities Division is cosponsoring with AARP and other state partners. Barbara will share tips about how to recognize and avoid falling victim to investment fraud. The Scam Jam will be held in the auditorium of the [Samuel L. Phillips Center for Business & Technology](#), 200 Mayland Drive, Spruce Pine. Registration begins at 8:30 a.m., and the program runs from 9:00 a.m. until noon. The program is **free** and open to the public. We hope to see you there!



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Recent Enforcement Actions

On **November 18, 2009**, NASAA announced that a settlement in principle had been reached between Wells Fargo Investments LLC and state securities regulators to return approximately \$1.3 billion to the firm's clients who have had their funds frozen in the auction rate securities (ARS) market. **North Carolina**, through the Securities Division of the Department of the Secretary of State, is one of the states that has been involved in this investigation which is part of a larger, ongoing effort directed by state securities regulators to address problems in connection with the offer and sale of ARS securities. In 2008, state securities regulators began receiving hundreds of complaints from Main Street investors. As a result, in April 2008, NASAA announced the formation of a multi-state Task Force, comprised of securities regulators in 12 states, including **North Carolina**, to investigate whether the nation's prominent Wall Street firms had systematically misled investors when placing them in ARS securities. **North Carolina** is the lead state investigating the role Credit Suisse played in the offer and sale of ARS securities. Since the collapse of the ARS market in 2008, state securities regulators have secured settlements calling for firms to repurchase from investors more than \$61 billion in auction rate securities, the largest return of funds to investors in history.



On **November 20, 2009**, a federal jury in Columbia, SC, convicted Joseph B. Brunson, Timothy McQueen and Tony Pugh, collectively known as the Three Hebrew Boys, for running a Ponzi scheme disguised as a religious, charitable program of debt elimination that collected \$82 million from approximately 7,000 investors world-wide, a significant number of whom were from North Carolina. Many of the victims were members of the U.S. military stationed at Ft. Bragg. Brunson, McQueen and Pugh were convicted on 58 separate counts, including mail fraud, money laundering and transporting stolen goods. They face a maximum possible sentence of 940 years' imprisonment and a fine of \$14.5 million. The investigation of the Three Hebrew Boys began with the **North Carolina Securities Division**, which uncovered evidence of the scheme in 2006. Since the three defendants resided in South Carolina, the Division worked very closely with the South Carolina Attorney General's office, the Federal Bureau of Investigation, and the Defense Criminal Investigative Service and provided each of these agencies information it had collected, ultimately resulting in the arrest and conviction of these men in federal court.

NEW! Check out the Securities Division's latest anti-fraud brochure, [Fighting Fraud 101](#), a publication produced in association with the FINRA Investor Education Foundation as part of its "Ask & Check" campaign. Click the [link](#) to view, download or order a free copy today.

All investors are strongly encouraged to contact the Securities Division at (919) 733-3924 or toll-free at (800) 688-4507 to check that their investment professional is properly registered **before** transferring any assets to that person's control. One five-minute telephone call to the Securities Division could protect your entire life's savings from being stolen from you. For a wealth of investor education information, please visit our Web site, www.sosnc.com. Click the yellow box entitled "Investment Securities".

This newsletter is produced by the Investor Education Program of the Securities Division of the North Carolina Department of the Secretary of State. If you have questions or comments about this publication, or would like to schedule an investor education presentation with your group or organization, please email [John Maron](mailto:John.Maron@sosnc.com), Director of the Investor Education Program, or call (919) 715-1067.

Please help us publicize the educational information in this mailing by forwarding it to your contacts around the state. If you no longer wish to receive mailings from the Securities Division, please send an email to: jmaron@sosnc.com with "Remove from mailing list" in the subject line.

Remember that if an investment sounds too good to be true, it ***probably*** is!