



North Carolina  
Department of the Secretary of State  
*Hon. Elaine F. Marshall, Secretary*  
Securities Division



PO Box 29622 | Raleigh NC | 27626-0622 | (919) 733-3924 | (800) 688-4507 | [www.sosnc.com](http://www.sosnc.com) or [www.sos.nc.gov](http://www.sos.nc.gov)

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## April/May 2014 NEWSLETTER • Vol. 6, Nos. 4 & 5

### NC Securities Division Issues Investor Advisory on Virtual Currency



What's in your e-Wallet?

The NC Securities Division has issued an investor advisory (see pages 2-3) cautioning investors to consider the risks associated with virtual currencies.

Unlike traditional currency, virtual currencies typically are not backed by tangible assets, are not issued by a governmental authority and are subject to little or no regulation. Their value is highly volatile and the concept behind the currency is difficult to understand even for sophisticated financial experts. As a result, investors should be aware that investments incorporating virtual currencies present very real risks.

Virtual currency is an electronic medium of exchange that can be bought or sold through virtual currency exchanges and used to purchase goods or services where accepted. These currencies are stored in an electronic wallet, or “e-Wallet,” which allows payments online via a computer or mobile device like a smartphone.

Virtual currencies, which include digital and crypto-currency, are gaining in both popularity and controversy. Growing numbers of businesses and organizations currently accept Bitcoin, one example of crypto-currency, in lieu of traditional currency. Recently, one of the largest Bitcoin exchanges, MtGox, shut down after claiming to be the victim of hackers and losing more than \$350 million of virtual currency. Despite the controversy, virtual currencies may find their way into your e-Wallet.

Some common concerns investors should consider before investing in any offering containing virtual currency include:

- Virtual currency is subject to minimal regulation, susceptible to cyber-attacks and little or no recourse should the virtual currency disappear.
- Virtual currency accounts are not insured by the Federal Deposit Insurance Corporation (FDIC), which insures bank deposits up to \$250,000.
- Investments tied to virtual currency may be unsuitable for most investors due to their volatility.
- Investors in virtual currency will be highly reliant upon unregulated companies that may lack appropriate internal controls and may be more susceptible to fraud and theft than regulated financial institutions.
- Investors will have to rely upon the strength of their own computer security systems, as well as security systems provided by third parties, to protect their e-Wallets from theft.

#### For More Information

- Download the advisory from the Division's [website](#).
- The Conference of State Bank Supervisors (CSBS), and the North American Securities Administrators Association (NASAA), have issued a similar [joint advisory](#).
- The US Securities Exchange Commission (SEC) recently issued its own [investor alert](#).
- The Internal Revenue Service (IRS) has [ruled](#) that virtual currencies will be treated as property for federal tax purposes.

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Securities Division • PO Box 29622 • Raleigh, NC 27626-0622  
(919) 733-3924 • (800) 688-4507  
[secdiv@sosnc.com](mailto:secdiv@sosnc.com) • [www.sosnc.com](http://www.sosnc.com) • [www.sos.nc.gov](http://www.sos.nc.gov)

## What's in your e-Wallet?

*Virtual currency, which includes digital and crypto-currency are gaining in both popularity and controversy. Thousands of merchants, businesses and other organizations currently accept Bitcoin, one example of crypto-currency, in lieu of traditional currency. An ATM in Las Vegas and the arena of the NBA's Sacramento Kings professional basketball team both accept Bitcoin.*

*Two attractive characteristics of virtual currency are lower transaction fees and greater anonymity. However, virtual currency is not without risk. Bitcoin exchanges claim to have suffered losses from hacking. MtGox, one of the largest Bitcoin exchanges, recently shut down after claiming to be the victim of hackers and losing more than \$350 million of virtual currency. Despite the controversy, virtual currency may find its way into your e-Wallet.*

### **What is Virtual Currency?**

Virtual currency is an electronic medium of exchange that, unlike real money, is not controlled or backed by a central government or central bank. Virtual currency includes crypto-currency such as Bitcoin, Ripple or Litecoin. This currency can be bought or sold through virtual currency exchanges and used to purchase goods or services where accepted. These currencies are stored in an electronic wallet, also known as an e-Wallet.

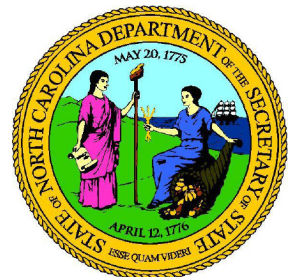
An e-Wallet is a digital system that allows payments online via a computer or mobile device such as a smartphone. While in some instances virtual currency has been recognized as a monetary equivalent, the Internal Revenue Service has announced that it would treat virtual currency as "property" and not "currency" for tax purposes.

### **Risks Associated with Virtual Currency**

As with all investments, those tied to virtual currency have risk. Some common concerns and issues you should consider before investing in any product containing virtual currency include:

- Virtual currency is subject to minimal regulation, susceptible to cyber-attacks and there may be no recourse should the virtual currency disappear.
- Virtual currency accounts are not insured by the Federal Deposit Insurance Corporation (FDIC), which insures bank deposits up to \$250,000.
- Investments tied to virtual currency may be unsuitable for most investors due to their volatility.
- Investors in virtual currency will be highly reliant upon unregulated companies that may lack appropriate internal controls and may be more susceptible to fraud and theft than regulated financial institutions.
- Investors will have to rely upon the strength of their own computer security systems, as well as security systems provided by third parties, to protect their e-Wallets from theft.

(over)



**To learn more or for help with these or other products, contact:**

NC Department of the Secretary of State, Securities Division, PO Box 29622, Raleigh, NC 27626-0622

www.sosnc.com | Phone: (800) 688-4507 or (919) 733-3924 | Fax: (919) 807-2183 | E-mail: secdiv@sosnc.com

## **Virtual Currency as an Investment**

- **Commodities.** Virtual currency can be used as an investment in essentially the same way as gold or other commodities. Investors may purchase virtual currency with the expectation that they will be able to sell the currency for a higher price in the future. This can be highly speculative because virtual currency values can fluctuate dramatically throughout the day and each exchange can value the currency differently. (For details: [NASAA Commodity Alert](#).)
- **Exchange Traded Funds.** A traditional Exchange Traded Fund (ETF) tracks a basket of stocks or a commodity and is traded on a stock market. An ETF may be made up of only virtual currencies, each with a value that fluctuates differently. (For details: [NASAA ETF Advisory](#).)
- **Derivatives.** A derivative is a financial product with value that stems from an underlying asset (i.e. stocks, bonds, or Bitcoin) that contains an agreement between parties. The most common types of derivatives are futures, warrants, convertible bonds and swaps. In this case, an investor bets on the price swing of the virtual currency. (For details: [NASAA Derivatives Advisory](#).)

## **Schemes Involving Virtual Currency**

The Securities and Exchange Commission took enforcement action against a man in Texas who convinced others to give him their Bitcoin holdings in exchange for the promise of receiving even more Bitcoins in the future, plus seven percent interest a week. The scam was exposed when the promoter was not able to pay the promised returns. (For details: [SEC v. Shavers, et al.](#))

## **The Bottom Line**



It pays to do your homework before you invest in any investment opportunity, including virtual currency. If you have any questions about virtual currency, contact the North Carolina Securities Division at (800) 688-4507 or (919) 733-3924.

To learn more about virtual currency, additional resources are provided below:

- [Bitcoin: More than a Bit Risky](#), FINRA
- [Ponzi Schemes Using Virtual Currency](#), U.S. Securities and Exchange Commission

*Elder Abuse Awareness Month: May 11 – June 15, 2014*



## NC Securities Division Joins State-Wide Effort to Combat Elder Fraud

The NC Department of the Secretary of State Securities Division has joined in a state-wide effort organized by the NC Division of Aging and Adult Services and the State Employees Credit Union (SECU) to train community leaders to combat the financial abuse and exploitation of older adults.

As part of Elder Abuse Awareness Month, which runs from Mother's Day to Father's Day (May 11 to June 15, 2014), specially trained SECU employees will conduct local fraud prevention training sessions for community leaders who, in turn, will present the information to members of other local organizations, churches or civic groups.

The anti-fraud training is based on the [Money Smart for Older Adults – Prevent Financial Exploitation](#) curriculum jointly developed by the Consumer Financial Protection Bureau (CFPB) and the Federal Deposit Insurance Corporation (FDIC). Representatives of the Securities Division will provide focused training on how to recognize, avoid and report suspected investment fraud.

"Train-the-trainer" sessions will be held on the following dates and locations:

- May 5 – Fayetteville
- May 19 – Charlotte and Asheville
- June 2 – Goldsboro and Greenville
- June 9 – Raleigh
- June 16 – Greensboro

**Once their representatives are trained, organizations will develop and announce a schedule of local community outreach sessions.**

Other partners in this effort include:

- Office of the Attorney General
- County Departments of Social Services: Adult Protective Services
- Area Agencies on Aging
- North Carolina Cooperative Extension
- North Carolina Retired Governmental Employees' Association
- State Employees' Credit Union

If you or your group would like to conduct a "Money Smart for Older Adults" presentation in your community, please contact John Maron, Director of Investor Education, at (919) 807-2106 or via email at [jmaron@sosnc.com](mailto:jmaron@sosnc.com).

# FRAUD & SCAM PREVENTION FOR SENIORS

## Modern Times



## Modern Crimes:

**“Are You Protected?”**

**May 15, 2014**

**Sign-in & Light Breakfast 8:30 a.m.—9:00 a.m.**

**Program 9:00 a.m.—3:00 p.m.**

**Winter Park Baptist Church Community Center**

**West Bldg—4700 Wrightsville Ave.**

**Wilmington, NC**

**FREE OF CHARGE**



**You Must Register by May 9th to Attend**

**Contact Janeen at 910-395-4553, ext. 205 or [jpadavich@capefearcog.org](mailto:jpadavich@capefearcog.org)**

**A Light Breakfast & Lunch will be Provided**

### Speakers:

**Sheriff Ed McMahon**, *New Hanover County*

**Chris May**, *Cape Fear Council of Governments*

**Elaine Marshall**

*N.C. Secretary of State*

**Caroline Farmer**

*N.C. Attorney General's Office*

**John Maron**

*N.C. Secretary of State's Office*

**Benjamin David**

*District Attorney*

*5th Judicial District*

**Stephanie Bias**

*N.C. Seniors' Health Ins. Information Program*

*N.C. Department of Insurance*

**Kathryn Lanier**

*N.C. Division of Aging & Adult Services*

**Wanda Marino**

*New Hanover Co. Department of Social Services*

**Kathy Graham**

*Better Business Bureau of Coastal Carolinas*

**Jonathan David**

*District Attorney*

*13th Judicial District*

### Discussion Panel

**Paula Bradford**, *Bank of America, Carolina Beach, N.C.*

**Karen High**, *N.C. State Employees Credit Union, Raleigh, N.C.*

**Clarence Hayes**, *New Hanover Co. Sheriff's Office*

**Susie Sprenger, Patti Myers, & Jackie Williams**,

*New Hanover, Brunswick, Pender Departments of Social Services*

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## Survey Finds Inconsistent Broker-Dealer Fee Disclosure and Questionable Markups

*NASAA Seeks to Help Industry Develop Model Fee Disclosure to Help Investors Compare Costs for Services*

DOWNLOAD: [NASAA Broker-Dealer Fee Report](#)

On April 24, 2014, the North American Securities Administrators Association (NASAA) shared survey findings that uncovered a wide disparity in how broker-dealers disclose the fees they charge their customers and questionable practices regarding broker-dealer fee charges and markups.

“The report raises concerns regarding the transparency and reasonableness of broker-dealer fee practices. State regulators will be examining these issues more closely, but welcome the opportunity to work with industry to ensure that fees are reasonable and fairly disclosed to investors. Improved fee disclosure will help investors compare fees effectively and efficiently,” said Andrea Seidt, NASAA President and Ohio Securities Commissioner.

While broker-dealers may be complying with the technical requirements governing fee disclosures, the study concluded that the disclosures lose their effectiveness when hidden in small print, imbedded in lengthy account opening documents, or varied in terminology that does not define the service provided.

“Fees hidden within pages of impenetrable verbiage is not meaningful fee disclosure,” Seidt said. “Investors should be able to easily compare and contrast fees among the various broker-dealers in order to make an informed investment decision.”

Seidt said the survey was prompted by actions taken by state securities regulators in Connecticut involving inappropriate fees charged by broker-dealers. The Investment Products and Services Project Group within NASAA’s Broker-Dealer Section conducted the survey by collecting select fee data from 34 broker-dealers starting in 2012.

*“Broker-dealers in the survey pool reap a significant windfall by charging high markups for services delivered to their customers.”*

— NASAA Report

The survey found:

- Diverse disclosure methods. Disclosures explaining fees to clients ranged from a single paragraph to seven pages in length. Initial fee disclosures lack uniformity whether by method of disclosure, terminology used, or location of the disclosure.
- Questionable markups on fees charged to investors. For example, mark-ups on transfer fees ranged from 100 percent to 280 percent above the wholesale cost to the broker-dealer.

The report notes that pursuant to NASD Conduct Rule 2430 the fees imposed by broker-dealers on customer accounts must be reasonable for the services performed. Fees that are not reasonably related to services, or that are excessive, may constitute violations of state laws and FINRA rules.

The Project Group contacted a clearing firm for a number of the broker-dealers in the survey pool to discern how much the broker-dealer is actually charged for various services and compare those underlying costs with fees charged to the customer. The data received from the clearing firm revealed that . In one case, for example, a broker-dealer charged customers \$500 to receive securities in certificate form, more than eight times the \$60 cost the broker-dealer's clearing firm had charged the broker-dealer for the same service.

Regulators found that Automated Customer Account Transfer (ACAT) fees ranged from zero to \$175 among the broker-dealers surveyed. These fees are charged for the transfer of assets in a customer account from one brokerage firm and/or bank to another. The Project Group also analyzed data from a large clearing firm that provides clearing services to nine of the surveyed broker-dealers. While the clearing firm charged \$25 to facilitate an account transfer, the broker-dealers charged customers between \$50 and \$100 to facilitate the transfer, a markup ranging from 100 percent to 280 percent.

Based on the survey's findings, the report recommends that NASAA work with FINRA and the broker-dealer industry to develop a model fee disclosure that is simple to read, easily accessible, and can be used effectively by investors to understand and compare fees. The report also suggests greater investor education to help investors find and understand the fees they are being charged and calls for the creation of a task force to work with industry in standardizing the language, placement, and structure of fee disclosures similar to the model for simplified fee disclosed now being implemented by the banking industry. Finally, the report recommends that individual NASAA member jurisdictions review the issues raised regarding disclosure and fee markups.



## NASAA Members Approve Streamlined Multi-State Coordinated Review Program

### ***States Call on SEC to Allow Small Businesses to Benefit from the Program by Removing Preemptive Language from Regulation A Proposed Rule***

On March 11, 2014, the North American Securities Administrators Association (NASAA) announced that its members have voted to approve a streamlined multi-state review protocol to ease regulatory compliance costs on small companies attempting to raise capital under a provision of the Jumpstart Our Business Startups (JOBS) Act.

“This approval is an important first step toward creating a state-level filing and review program that eases regulatory hurdles for filers without sacrificing important investor protections,” said Andrea Seidt, NASAA President and Ohio Securities Commissioner. “We look forward to implementing this program so that Regulation A will be an attractive and efficient option both for small businesses that need capital and the investors asked to provide it.”

Under the new program, Regulation A filings would be made in one place and distributed electronically to all states. Lead examiners would be appointed as the primary point of contact for a filer and each state will be given 10 business days for review. Lead examiners alone will interact with issuers to resolve any deficiencies.

The new program was initiated in response to Title IV of the JOBS Act, which raised to \$50 million from \$5 million the amount of money that can be raised through offerings exempt from registration under Regulation A. Congress directed the Securities and Exchange Commission (SEC) to adopt a rule implementing this JOBS Act provision. The SEC’s proposed rule, contrary to Congressional intent, seeks to transform Regulation A offerings into covered securities, which by law are not subject to state review. By doing so, the rule would eliminate state authority to review Regulation A offerings before they are sold to the public. ***[Editor’s Note: For an in-depth explanation of this topic and why it is important to investors and small businesses alike, refer to the article on pages 6-7 in our [February/March 2014 newsletter](#).]***

“State securities regulators have two core missions: protecting investors and helping small businesses access the capital they need to start their companies and grow much-needed jobs for the economy,” Seidt said. “We can’t fulfill either if the Commission prohibits our review as it proposes to do.”

For more information about NASAA’s coordinated review program and concerns about the SEC’s proposed Regulation A rule, visit NASAA’s Regulation A Resource Center at <http://www.nasaa.org/issues-and-advocacy/issue-brief-regulation-a>.



## North Carolina Man Ordered to Pay \$2.1 Million for Defrauding Customers in Commodity Pool Scheme



Mitchell Brian Huffman

The U.S. Commodity Futures Trading Commission (CFTC) obtained a federal court supplemental Consent Order requiring CFTC Defendant Mitchell Brian Huffman, of Charlotte, North Carolina, to pay a \$2.1 million civil monetary penalty for operating a fraudulent commodity pool scheme that defrauded customers of more than \$3.2 million in connection with exchange-traded commodity futures contracts (see CFTC Press Release [6183-12](#), February 17, 2012). In an separate Order as part of Huffman's criminal sentencing, Huffman was ordered to pay \$3.2 million in restitution to defrauded customers (see *United States v. Mitchell Bran Huffman*, Case Number 3:1-cr-00246 RJC filed in the U.S. District Court for the Western District of North Carolina). ***[Editor's Note: In addition to having to pay \$3.2 million in restitution as part of his criminal case, Huffman was also sentenced to 60 months in prison, followed by three years of supervised release. For more information, please see our [January/February 2013 newsletter](#).]***

The supplemental Order was entered on March 20, 2014, by Judge Graham Mullen of the U.S. District Court for the Western District of North Carolina and follows a Consent Order of permanent injunction entered on May 10, 2012, by Judge Mullen.

The Consent Order finds that Huffman operated a fraudulent commodity pool scheme that defrauded customers of more than \$3.2 million in connection with exchange-traded commodity futures contracts. In agreeing to the entry of the Consent Order, Huffman admitted to the factual and legal allegations contained in the CFTC's Complaint, and the findings of fact and conclusions of law in the Consent Order. The Consent Order also imposes permanent trading and registration bans against Huffman, prohibits him from violating federal commodities law, as charged, and requires him to pay restitution and a civil monetary penalty as provided for in the supplemental Order.

According to the CFTC's Complaint, from at least August 2006 to March 11, 2011, Huffman solicited prospective and actual pool participants, mainly family and friends, via in-person and direct telephone solicitations, to allow him to buy and sell exchange-traded commodity futures contracts on their behalf. During the period, Huffman accepted at least \$3.2 million from approximately 30 participants throughout the United States. Huffman entered into "sponsorship agreements" with pool participants wherein Huffman represented that he would pool participants' funds to trade commodity futures contracts on their behalf. Huffman represented to participants that he utilized a "proprietary trading program" that generated "profits" of 100 percent to 150 percent per year. Huffman claimed to retain 20 percent of all profits purportedly made from the "proprietary trading program."

All of these representations by Huffman were false, according to the Consent Order. Unknown to participants, Huffman misappropriated participants' funds for a variety of personal uses, including but not limited to (1) purchasing multiple motor vehicles for his personal use, including two Land Rovers and a Smart Car, (2) at least \$71,255 for purchases related to Huffman's classic car collection, (3) approximately \$188,583 on personal travel and luxury vacations, including Disney cruises and first-class airfare to Hawaii and Las Vegas, Nevada, and (4) approximately \$51,540 in charitable contributions in Huffman's name. The trip to Hawaii was a 25<sup>th</sup> wedding anniversary celebration for Huffman, and Huffman brought along several pool participants on the trip to Hawaii, purportedly at his own expense, according to the Consent Order. These participants were completely unaware that their funds were being used by Huffman to pay for the luxury vacation. When Huffman could no longer sustain his fraudulent scheme, he admitted to special agents of the Charlotte, North Carolina office of the Federal Bureau of Investigation the fraudulent scheme described above and his participation therein, the Consent Order finds.

The Securities and Exchange Commission's (SEC) Office of Investor Education and Advocacy is issuing this [Investor Bulletin](#) to help you understand what to expect when opening a brokerage account, including what information you will need to provide, what decisions you will be asked to make, and what questions you should ask your broker.



# Investor.gov

U.S. Securities and Exchange Commission

## INVESTOR BULLETIN: HOW TO OPEN A BROKERAGE ACCOUNT

Brokerage accounts differ from investment advisory accounts, which generally are governed by different rules and regulations. For information on advisory accounts in general, as well as differences between a broker-dealer and an investment adviser, please see the SEC's [Study on Investment Advisers and Broker-Dealers](#). For additional information on working with broker-dealers and investment advisers, please see Investor.gov's [Working with Brokers and Investment Advisers](#).

Before opening an account with any broker, you should always remember to check the broker's background and disciplinary history. For guidance in finding a broker's background or disciplinary history, as well as other tips to consider when selecting a broker, please read the SEC's bulletin "[Top Tips for Selecting a Financial Professional](#)."

### Information You Will Need to Provide

Brokers generally request personal information from their customers, including financial and tax identification information. Brokers need this information to comply with laws and other regulations. Some of the information a broker will likely ask you to provide includes:

- Your name
- Social security number (or taxpayer identification number)
- Address
- Telephone number
- E-Mail address
- Date of birth
- Driver's license, passport information, or information from other government-issued identification
- Employment status and occupation
- Whether you are employed by a brokerage firm

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- Annual income
- Net Worth
- Investment objectives and risk tolerance

For additional information on why brokers require this personal information, please see "[Broker-Dealers: Why They Ask for Personal Information](#)" on SEC.gov, as well as "[What to Expect When You Open a Brokerage Account](#)", a publication from the Financial Industry Regulatory Authority (FINRA).

### **Decisions You Will Need to Make**

- *Would you like to open a cash or margin account?*

Brokerage firms generally offer at least two types of brokerage accounts - a cash account and a margin account:

- In a *cash account*, you must pay the full amount for securities purchased. You may not borrow funds from your brokerage firm in order to pay for transactions in the account.
- In a *margin account*, you can borrow funds from your brokerage firm to purchase securities (this is called buying securities "on margin"). The brokerage firm uses the securities in your margin account as collateral for the money it lends to you to purchase these securities and you pay interest on the money you borrow. Margin accounts can offer you greater purchasing power, but also expose you to the potential for larger losses.

For additional information on margin accounts and cash accounts, please review the SEC Investor Bulletins "[Understanding Margin Accounts](#)" and "[Trading in Cash Accounts](#)."

- *Who will make decisions for your account? Are you comfortable giving discretionary authority to another person?*

You will make your own investment decisions for your account, unless you grant "discretionary authority" to someone else to make decisions for you on your account. If you want someone else to have discretionary trading authority on your account, you will need to provide him or her with written legal authorization. Ask your broker for the correct form to fill out. Before granting anyone discretionary authority over any brokerage account, you should seriously consider the risks involved in allowing someone else to make decisions about your money.

- *What are your investment goals and how much risk are you comfortable taking?*

When you open a new brokerage account, you may be asked to specify your overall investment goals (or "objectives") and how much risk you are willing to tolerate. Different firms use different terms to describe investment

objectives or risk tolerance levels. Some common terms are: "capital preservation," "income," "growth," "moderately aggressive," "aggressive growth," and "speculation." Make sure you understand what these terms mean and how much risk is involved with each objective. In selecting an objective/risk category, you should also consider when you expect to need fast access to the funds in your account. If you have questions, ask your broker.

- *How do you want to manage cash in the account?*

Sometimes you may have cash in your brokerage account that has not been invested. When you open a brokerage account, your broker may ask you to choose a cash management program for this uninvested cash. Brokerage firms may offer several cash management programs to their customers:

- A "bank sweep program" involves the automatic transfer of any uninvested cash in the brokerage account into a deposit account at a bank or banks that may or may not be affiliated with the broker-dealer;
- Some programs allow you to "sweep" funds to one or more [money market mutual funds](#); or
- You may simply leave uninvested funds in the brokerage account.

Your brokerage firm may not offer all of these options for your uninvested cash. For example, some brokerage firms require a bank sweep program for uninvested cash. Each of these cash management programs offer different benefits and risks, including different interest rates and insurance coverage. The terms and conditions of these cash management programs vary between brokerage firms. Make sure you understand and carefully consider the available options, benefits and risks associated with each cash management program before selecting one for your uninvested cash.

- *How do you want to receive your account statements and confirmations?*

Brokers generally are required to provide you with account statements and confirmations. Your broker may give you the choice of whether to receive account statements and transaction confirmations on paper or electronically. Others may not offer a choice. For example, some online-only firms may limit their customer communications to online or electronic means, and charge customers a fee to receive account statements and confirmations on paper. Account statements and confirmations help to protect you. You may also want to consider whether you want a person whom you trust to receive duplicate account statements and transaction confirmations.

## **Understand Your Fees**

You will pay a variety of fees in connection with your brokerage account. These fees and their amounts will vary among broker-dealers. Before opening your brokerage account, make sure you understand what fees will apply to your account. Some examples of common fees include:

- Transaction Costs - These are the costs you will pay when buying or selling securities. Some examples of transaction costs include:
  - Commissions - a fee you pay to the broker-dealer for executing a trade often based on the number of shares traded or the dollar amount of the trade.
  - Markups/Markdowns - an amount to compensate a broker-dealer for sales from/purchases into the broker-dealer's inventory. When buying or selling from its own inventory, the broker-dealer generally will be compensated by selling the security to you at a price that is higher than the market price (the difference is called a *markup*), or by buying the security from you at a price that is lower than the market price (the difference is called a *markdown*).
  - Loads - a sales charge you pay when buying or redeeming shares in a mutual fund or variable annuity.
  - Account Maintenance Fees - a monthly, quarterly, or annual fee that a broker-dealer may charge you for certain brokerage accounts  
below a certain dollar threshold to keep these accounts open at the brokerage. Account maintenance fees vary among broker-dealers and they do not necessarily apply to all brokerage accounts at a broker-dealer.
  - Inactivity Fees - a fee that a broker-dealer may assess on your brokerage account if you have made few or no transactions for a period of time.
  - Account Closing Fee - a fee that a broker-dealer may charge you when you close your account.
  - Margin Interest - the interest that a broker-dealer may charge you for loans from your margin account.
  - Wire or Transfer Fees - fees a broker-dealer may charge you to wire money from your brokerage account or to transfer assets or cash to another broker-dealer.

In addition to fees associated with your account, you will likely have additional fees in connection with certain investments, such as mutual funds, ETFs and variable annuities.

For additional information on fees associated with brokerage accounts and investments, please read the SEC's Investor Bulletin "[How Fees and Expenses Affect Your Investment Portfolio](http://www.investor.gov/sites/default/files/ib_fees_expenses.pdf)" at [http://www.investor.gov/sites/default/files/ib\\_fees\\_expenses.pdf](http://www.investor.gov/sites/default/files/ib_fees_expenses.pdf).

### **A Note About Transferring Securities to a New Account**

When you move an existing account, in addition to paying fees, you may also find that you cannot transfer certain securities. For example, your new broker-dealer may not accept all of the securities in your old brokerage account. In these circumstances, you may consider leaving these securities with the broker-dealer or selling these securities and transferring cash to your new broker-dealer. You probably will pay a commission or other fees in connection with any securities you sell. Depending on the type of account you held with your former broker-dealer, you may find that there are taxes, penalties or restrictions for selling or moving your securities.

## Securities Investor Protection Corporation (SIPC)

If your brokerage firm goes out of business and is a member of the Securities Investor Protection Corporation (SIPC), then your cash and securities held by the brokerage firm may be protected by SIPC coverage up to \$500,000, including a \$250,000 limit for cash. If a SIPC member becomes insolvent, SIPC will ask a court to appoint a trustee to supervise the firm's liquidation and to process investors' claims. SIPC protection applies to most types of securities, such as stocks, bonds, and mutual funds. However, SIPC does **not** protect you against losses caused by a decline in the market value of your securities, and it does **not** provide protection for investment contracts not registered with the SEC. For additional information on SIPC please read the SEC's fast answer on SIPC located on the SEC's website at <http://www.sec.gov/answers/sipc.htm>.

## Additional Information

For additional investor education information, see the SEC's website for individual investors, [www.investor.gov](http://www.investor.gov).

For FINRA's resources related to opening a brokerage account, visit <http://www.finra.org/Investors/SmartInvesting/GettingStarted/OpeningaBrokerageAccount/>.

## Key Questions You Should Ask Before Opening a Brokerage Account

- What services will I receive with this brokerage account?
- What are the fees associated with this account? Is there a complete schedule or list of fees?
- Who will make investment decisions for my account (if this is a discretionary account)?
- I am moving my account from another broker-dealer. Will all my securities transfer from my old broker-dealer? If not, which securities will not transfer? Do you charge a fee for moving the securities from my old account into my new account?
- Is this a margin or cash account? Can you explain the differences between the two?
- What choices do I have regarding investments? What choices do I have regarding cash sweep programs? Can you explain the benefits and risks of these programs, including any insurance protection, interest rates and costs I will incur?
- How can I access funds in my account and how much time does that take?
- How will I receive my account statements? Will they be online or in paper?
- Who do I contact if I have a question or concern regarding my account?

*The Office of Investor Education and Advocacy has 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.*

## Calendar of Upcoming Events



A representative from the Securities Division will be giving an anti-fraud presentation on the following dates and locations. Although rare, dates and times are subject to cancellation, so please call the contact number listed to confirm the event is still on before leaving for it. Unless otherwise indicated, all presentations are free and open to the public. If you would like to schedule a speaker for your church, business, group or organization, please contact [John Maron](#) or [Barbara Bennett](#) at (800) 688-4507.

Date	City	Details
05/12/14	Goldsboro	<a href="#">Wayne County Chapter AARP</a> , K&W Restaurant, 621 N. Berkeley Blvd. Time: 11:00 AM -- 1:00 PM. Open to AARP members and their guests. For more information, contact Minnie Beverly at (919) 734-8649.
05/13/14	Clyde	“Business Essentials” presentation at Haywood County Community College, 185 Freedlander Drive. Time: 10-noon. Free, but <a href="#">registration</a> requested.
05/14/14	Yadkinville	<a href="#">Yadkin County Senior Center</a> , 207 E. Hemlock Street. Time: 10:30 AM -- 11:30 AM. For more information, contact Lavania Gilliam at (336) 679-3596.
05/14/14	Statesville	Kick Off for Older Americans Month, <a href="#">Iredell Senior Center</a> , 344 East Front Street. Time: 2:00 PM -- 3:30 PM. For more information, contact Debbie Preston at (704) 873-8568.
05/15/14	Wilmington	“Modern Times, Modern Crimes.” Anti-fraud presentation at Winter Park Baptist Church, 4700 Wrightsville Ave. Time: 8:30 AM -- 3:00 PM. Free, but you must register by May 9. For more information, see the announcement on p. 5 of this newsletter.
05/15/14	Bayboro	Aging Well Expo, <a href="#">HeartWorks</a> , 709 Main Street. Time: 10:00 AM – 1:00 PM. For more information, contact Violet Ollison at (252) 745-7196.
05/16/14	Fuquay-Varina	Career Day at <a href="#">Fuquay-Varina Middle School</a> , 109 Ennis Street. Time: 8:00 AM – Noon. For more information, contact Rodney Jenkins at (919) 557-2755.
05/20/14	Raeford	Scam Jam. <a href="#">Hoke County Senior Services</a> , 423 E. Central Avenue. Time: 10:00 AM -- 2:00 PM. For more information, contact Kristen Elk at (910) 272-5061.
05/21/14	Hayesville	Senior Expo, <a href="#">Clay County Senior Center</a> , 196 Ritter Road. Time: 9:00 AM -- 3:00 PM. For more information, contact Kathy Tant at (828) 389-9271.
05/21/14	Rocky Mount	“Business Essentials” presentation at Nash County Community College, Business and Industry Center - Room 1211, 522 N. Old Carriage Road. Time: 1:00 PM – 3:30 PM. Free, but <a href="#">registration</a> requested.
05/22/14	Wilmington	<a href="#">NC Society of Accountants - Wilmington Chapter</a> . Jackson’s Big Oak Barbecue, 920 S. Kerr Avenue. Time: 6:00 PM -- 8:00 PM. Open to Society members and their guests only. For more information, contact Louise Pistole at (704) 847-8275.
05/28/14	Durham	“Business Essentials” presentation at Durham County Public Library - Auditorium 1st Floor, 300 N. Roxboro Street. Time: 10:00 AM – 12:30 PM. Free, but <a href="#">registration</a> requested.
06/05/14		Scam Jam in Bladen County. Place TBA. Time: 10:00 AM -- 2:00 PM. For more information, contact: Kristen Elk at (910) 272-5061.
06/10/14	Kill Devil Hills	“Elder Investment Fraud & Financial Exploitation Prevention,” <a href="#">Thomas A. Baum Senior Center</a> , 300 Mustian Street. Time: 1:00 PM – 2:00 PM. For more information, contact Emily Karr at (252) 475-5635.
06/11/14	Elizabeth City	“Elder Investment Fraud & Financial Exploitation Prevention,” <a href="#">Fountain of Life Ministries</a> , 1107 US 70 South. For more information, contact Debra Sheard at (252) 426-5753.



## On The Docket

The following cases are ones in which the Securities Division has had some involvement, either as the lead investigative agency or in a supporting role.

**Walter Ray Reinhardt**, of Durham, NC, was served with 62 felony arrest warrants for securities violations on November 17, 2010. He is alleged to have defrauded 16 victims in Durham County out of more than \$1 million. Reinhardt had his first appearance in Durham County District Court on November 18, 2010 on 38 felony counts of securities fraud, 12 felony counts of common law forgery, and 12 felony counts of common law uttering. He is currently being held in the Durham County Jail under a \$4 million bond.

**Darren Joseph Capote**, of Patterson, NY, was indicted on July 11, 2011, in Ashe County Superior Court on three Class C felony counts of securities fraud. He is alleged to have defrauded an elderly victim in Ashe County. He was released from custody on a \$100,000 secured bond. His next court appearance in Ashe County has not been scheduled.

**Michael Anthony Jenkins**, of Raleigh, NC, was served on August 17, 2012, with three felony arrest warrants for securities fraud. Investigators with the Secretary of State Securities Division allege that Jenkins told investors he would use their funds to trade commodities futures or "E-mini futures" through his company, Harbor Light Asset Management, LLC. Investigators allege Jenkins instead converted funds to his personal use and used money from later investors to pay earlier investors in what is commonly referred to as a Ponzi scheme. Jenkins is in the Wake County Jail under \$500,000 secured bond. During his first hearing on August 20, 2012, the prosecutor told the court that there are 377 known victims of Jenkins' approximately \$1.79 million Ponzi scheme. The Securities Division's investigation is continuing. Anyone who has made investments with Harbor Light Asset Management, LLC is asked to contact the Securities Division at (800) 688-4507 or (919) 733-3924.

## Recent Enforcement Actions

(For prior administrative and criminal actions, click on the badge to the right.)

## News from the Regulators

(The following are selected public notices issued by one or more securities regulator. Click the links to view the full notices. These are offered for informational purposes only.)

### [FINRA Rule Change to Limit Self-Trading Approved](#)

May 2, 2014 – The Financial Industry Regulatory Authority (FINRA) announced the SEC's recent [approval](#) of a FINRA rule change to limit self-trading. This change to FINRA Rule 5210 requires firms to have policies and procedures in place that are reasonably designed to review their trading activity for, and prevent, a pattern or practice of self-trades resulting from orders originating from a single algorithm or trading desk, or related algorithms or trading desks. Self-trades are "[t]ransactions in a security resulting from the unintentional interaction of orders originating from the same firm that involve no change in the beneficial ownership of the security." Self-trades by single or related algorithms or trading desks raise heightened concerns because this type of trading may not reflect genuine trading interest, particularly if there is a pattern or practice of such trades. FINRA will announce an effective date for this change to FINRA Rule 5210 in a *Regulatory Notice* to be published in the near future.

### [FINRA Board Approves Amendment to Supervision Rule Requiring Firms to Conduct Background Checks on Registration Applicants](#)

April 24, 2014 – The Financial Industry Regulatory Authority (FINRA) announced that its Board of Governors approved amendments to FINRA's supervision rule that would expand the obligations of firms to check the background of applicants for registration, including first-time applications as well as transfers, to verify the accuracy and completeness of the information contained in an applicant's Form U4. Firms would also be required to adopt written procedures in this area that include searching public records. The Form U4 is the Uniform Application for

North Carolina Department of the Secretary of State  
Securities Division • PO Box 29622 • Raleigh, NC 27626-0622  
(919) 733-3924 • (800) 688-4507  
[secdiv@sosnc.com](mailto:secdiv@sosnc.com) • [www.sosnc.com](http://www.sosnc.com) • [www.sos.nc.gov](http://www.sos.nc.gov)





Securities Industry Registration or Transfer used by FINRA, other self-regulatory organizations (SROs) and states to elicit employment background, disciplinary and other information to register individuals with appropriate SRO(s) and/or jurisdiction(s). Separately, FINRA also plans to perform an initial search of public financial records for all registered representatives. Additionally, FINRA will conduct a search of publicly available criminal records for all registered individuals who have not been fingerprinted within the last five years. Once these searches are completed, FINRA will conduct periodic reviews of public records to ascertain the accuracy and completeness of the information available to investors, regulators and firms. FINRA is also considering whether additional data from the CRD system used by regulators should be included in BrokerCheck. FINRA's Chief Economist has initiated a study to see if there is a meaningful relationship between that data – which includes failed examinations – and broker misconduct. The amendments to the supervision rule will be submitted to the Securities and Exchange Commission for review and approval.

### **Financial Education & Account Access Among Elementary Students: Findings from the Assessing Financial Capability Outcomes Youth Pilot (Full Report)**

*April 15, 2014* – The U.S. Department of the Treasury and the Corporation for Enterprise Development (CFED) has released the findings of a first-of-its-kind study on the impact of financial education and financial access on elementary students. With funding from Treasury, CFED partnered with the [Center for Financial Security](#) at the University of Wisconsin-Madison (CFS) and [OpportunityTexas](#)—an initiative of the Center for Public Policy Priorities and RAISE Texas—to test the impact of approximately five hours of classroom-based financial education and access to a bank or credit union branch in school on 4th and 5th grade students' financial knowledge, behavior and attitudes. Overall the research found improved outcomes for students from the approach, including improved financial knowledge, more positive attitudes towards savings and financial institutions, and higher rates of being banked if students had access to accounts in school. For more information about the study, read the [full report](#) or the [research brief](#).

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](http://www.sosnc.com). Click on 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), Director of the Investor Education Program, or call (919) 807-2106.

**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](mailto: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!