

PROMISSORY NOTES are investments that typically involve investors loaning money to a company in exchange for a fixed amount of periodic income. Some fraudsters falsely tell investors the money invested is guaranteed by insurance companies, often located offshore, or is backed by surety bonds or other collateral. In most cases, issuers either have no insurance, collateral or other means to guarantee payment, or have significantly underinsured or under-collateralized the promissory notes. Often, an independent life insurance agent functioning as an unregistered broker-dealer makes the sale of the promissory notes. These insurance agents, lured by high commissions, frequently rely solely on information provided to them by the issuers, which, as demonstrated by the cases brought by the SEC and the states, often is false or misleading.

SEC, or Securities Exchange Commission, is the federal government agency responsible for protecting investors and maintaining the integrity of the securities markets. For information about filing a complaint or obtaining investor education information or alerts, contact the SEC at 1-800-732-0330 or through its web site at www.sec.gov.

SECRETARY OF STATE, through the Securities Division, protects investors in North Carolina by regulating firms or individuals required by state law to register themselves and their investment products. Obtain information about filing a complaint, determining the status of a dealer or product, or finding investor education information or alerts, by contacting the Securities Division at 1-800-688-4507 or through its web site at www.sosnc.com.

SECURITIES are any investment opportunity in which the investor has a reasonable expectation of making a profit as a result of the managerial or entrepreneurial efforts of others, but where the investor generally has little power over enterprise management and limited access to the enterprise's business records. As a general rule, all securities **and** the people who sell them must be registered with the State.

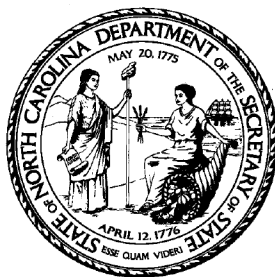
VIATICAL SETTLEMENTS are investment products where an investor purchases a terminally ill person's life insurance policy for a certain percentage of the policy's face value. The return depends upon the seller's life expectancy and the actual date he or she dies. If the seller dies before the estimated life expectancy, the investor may receive a higher return. But if the seller lives longer than expected, the return will be lower. If the person lives long enough, the investor may lose money due to additional premiums required to maintain the policy. Viatical settlements are extremely risky investments.

Don't think you can become a victim of fraud?

Every week there are new reports of victims being cheated out of their money. To read some of these stories, visit our web site at:
<http://www.secretary.state.nc.us/sec/nasaa.aspx>.

North Carolina Department of the
Secretary of State

Hon. Elaine F. Marshall
Secretary of State



*For more information,
please contact us at:*

NC Department of the Secretary of State
Securities Division

P.O. Box 29622

Raleigh, NC 27626-0622

Telephone: 919-814-5400

Toll-free: (800) 688-4507

Fax: (919) 821-0818

Email: secdiv@sosnc.com

Visit us on the Internet at:

<http://www.sosnc.com>

15,000 copies of this public document were printed courtesy of the North Carolina Investor Protection and Education Trust Fund (N.C.G.S. §147-54.5) at a total cost of \$1,396.00, or \$0.093 per copy.

NORTH CAROLINA DEPARTMENT
OF THE SECRETARY OF STATE
SECURITIES DIVISION

INVESTMENT TERMINOLOGY:

WORDS TO EARN BY



The financial world can be confusing. To understand how financial markets and various investment products work, you must understand some terms. Some of the more common terms or phrases you may encounter as you learn about markets are:

AFFINITY FRAUD is fraud directed against members of a group sharing a common characteristic. They may belong to the same ethnic or religious group. They may be retirees or senior citizens. They may have the same career or occupation. They may engage in the same community activity. By convincing the victim that they share something in common, the con man gains the person's trust, making it easier to defraud the victim. (For more information, see our brochure *Affinity Fraud: Scamming an Entire Group*.)

ANNUITIES are insurance contracts designed to give retirees a steady stream of income. Investment earnings in these accounts grow tax-deferred until withdrawal. Fixed annuities guarantee a specific payment amount. Variable annuities do not, but do have potential for greater returns. An annuity's death benefit is the higher of the annuity's current value or the amount the buyer has paid into it. If the owner dies during the accumulation phase, his or her heirs receive the accumulated amount in the annuity.

ARBITRATION is a dispute resolution process in which a neutral third person, the arbitrator, makes a decision after hearing both sides of a case. It is not part of the court system, but it is binding and subject to judicial review on a very limited basis. (For more information, see our brochure *Resolving Problems with Securities Firms*.)

BROKER/DEALERS, also called B/Ds, are salesmen or firms that buy and sell securities for themselves and others. B/Ds must be registered with the SEC and the State Securities Division. They are duty bound to "know the customer" and make recommendations in keeping with the client's investment objectives and risk tolerance. B/Ds are **not** required to put the client's interests ahead of their own. For further information, contact the Securities Division of the NC Department of the Secretary of State at 1-800-688-4507.

CALLABLE CDs are deposit accounts generally offering higher interest rates than regular savings accounts. They can be redeemed prior to the maturity date

without penalty only by the issuer, not the investor. (For more information, see our brochure *Callable CDs*.)

CHURNING refers to excessive trading in a client's account by a broker seeking to maximize commissions regardless of the client's best interests. This practice, also called "twisting" or "overtrading", is a violation of NASD rules. (For more information, see our brochure *Resolving Problems with Securities Firms*.)

EQUITY-INDEXED ANNUITIES, or EIAs, are financial instruments in which the issuer, usually an insurance company, guarantees a stated interest rate and some protection from loss of principal. EIAs provide an opportunity to earn additional interest based on the performance of a securities market index. EIAs are very complex investments with high commissions, long holding periods and stiff early withdrawal penalties. Many are exempt from federal or state securities registration requirements because they are considered insurance products. Risks of this product may not be fully disclosed or apparent to the investor. For more information, visit the SEC web site at: <http://www.sec.gov/investor/pubs/equityidxannuity.htm>.

FINANCIAL PLANNER is an investment professional who helps clients set and achieve long-term financial goals, through investments, tax planning, asset allocation, risk management, retirement planning, and estate planning. These activities do not generally require registration with the state. Planners advising clients on buying and selling securities must meet certain competency requirements and register with the State. To find out if your planner is registered, contact the Securities Division at 1-800-688-4507. (For more information, see our brochure *Fraud and Abuse in Financial Planning*.)

HAPPY LETTERS are letters your brokerage firm may send you when they detect unusual (and possibly troublesome) activity in an account, possibly due to "churning." You should follow up by contacting the firm's compliance officer. Ask him or her to explain the letter, or else you may be deemed to be "happy" with the existing situation. (For more information, see our brochure *Resolving Problems with Securities Firms*.)

INVESTMENT ADVISERS, or IAs, are people or organizations in the business of managing their clients' securities portfolios or providing advice about investing in securities. IAs have a fiduciary responsibility to the client. Depending on the amount of assets under management, investment advisers are required to be registered with the SEC or the State. To find out if your investment adviser is registered, contact the Securities Division at 1-800-688-4507. Not every financial services professional with "Adviser" in his/her job title is actually a registered Investment Adviser. (For more information, see our brochure *Fraud and Abuse in Financial Planning*.)

NASAA or North American Securities Administrators Association. Founded in 1919 in Kansas, it is the oldest international investor protection association. Membership includes regulators from all 50 states, including the NC Secretary of State, and from the District of Columbia, Canada, Mexico, Puerto Rico and the U.S. Virgin Islands. (For more information, please visit <http://www.nasaa.org/>.)

NASD or National Association of Securities Dealers. NASD is the securities industry's leading self-regulating organization (SRO). NASD licenses individuals and admits firms to the industry, writes rules to govern their behavior, examines them for regulatory compliance and disciplines those who fail to comply. It oversees and regulates trading in equities, corporate bonds, securities futures and options, and provides education and qualification examinations to industry professionals, and supports securities firms in their compliance activities. (For more information, please visit <http://www.nasd.com/>.)

PONZI SCHEMES, named after Charles Ponzi, are fraudulent investment schemes where investors are promised high returns and little risk. Promoters of these investment schemes typically pay early investors false returns using money collected from new investors. All Ponzi schemes eventually collapse because the number of new investors needed to pay earlier investors is unsustainable, but usually not before the promoter disappears with all the money. Ponzi schemes consistently rank among the top areas of investor fraud. (For more information, please see our brochure *Ponzi Schemes*.)

PROFESSIONAL DESIGNATIONS refer to the letters following the name of a financial services professional, or is included in his/her title. State regulations (18 NCAC 06.1709) only exempt persons with certain certifications from examinations required for registration as investment advisers or investment adviser representatives. These certifications include the Certified Financial Planner (CFP), the Chartered Financial Consultant (ChFC), the Personal Financial Specialist (PFS), the Chartered Financial Analyst (CFA), and the Chartered Investment Counselor (CIC). All other individuals — **including** those with the term "Certified" in their titles — must take the state's exams if they wish to be properly registered as an investment adviser or investment adviser representative. To view a partial list compiled by the NASD of professional designations by acronym, complete with information about what is required to obtain the certification and whether there is a complaint process, visit <http://www.sosnc.com/>.