

Don't assume that two or more people talking up a stock are actually two or more different people!

- **Don't get fooled by claims made about "inside information," including pending news releases, contract announcements, and products.** It is extremely unlikely that genuine "insider information" is going to be publicly broadcast on an investment bulletin board.
- **Don't assume that just because someone says that they have checked something out that they have actually done so.** Keep in mind that you may not be able to verify who is making these claims, much less whether any of the information is true and accurate.
- **Watch out for conflicts of interest.** Some of those people who analyze stocks online are receiving cash or stocks in exchange for making glowing comments about the companies in question. Some of these individuals prominently disclose this fact, while others make little or no mention of the fact that they are paid "touts."
- **Make sure that an investment opportunity and the person promoting it are properly registered with your state securities agency.** Laws designed to protect small investors from fraud and abuse apply even to statements made on the Internet. A failure by an issuer or broker to follow the state securities registration requirements is often a major "red flag" of an investment scam.

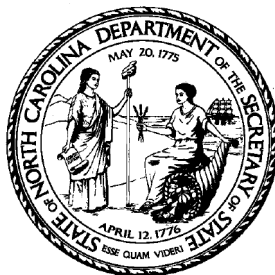
Don't think you can become a victim of fraud?

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>

The North Carolina Department of the Secretary of State's Securities Division gratefully acknowledges the assistance of the North American Securities Administrators Association, Inc.
All Rights Reserved.

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

INTERNET FRAUD AND ABUSE



With the Internet becoming a common part of daily life for increasing numbers of people, it should be no surprise that con artists have made cyberspace a prime hunting ground for victims.

The Internet has made it easier for con artists to reach millions of potential victims at minimal cost. Many of today's online scams are merely updated versions of schemes that have been fleeing offline investors for years.

The Internet has been called the greatest money-making machine for scammers ever seen. According to the Federal Trade Commission, the amount of money lost to Internet-related fraud jumped from over \$112 million in 2002 to over \$265 million in 2004.

The Rise of Online Investment Schemes

State securities regulators have identified the following as being among the major investment scheme problems in the online world today:

- **Manipulation of obscure, thinly traded stocks.** Most commercial bulletin board services allow individuals to post messages not only under an alias, but under multiple aliases. Acting alone or with accomplices, one company insider, broker, public relations executive or even just a large shareholder can leave numerous messages calculated to spark interest in an obscure stock.
- **Misconduct by phony and unlicensed brokers/investment advisors.** The Internet is used

“...there will never be enough “cybercops” to keep the online world free from fraud and abuse.”

frequently by disreputable, unregistered sellers of investments to contact new clients without having first complied with state securities laws.

- **Undisclosed interests of promoters.** In reading a bulletin board message about a stock, you have no way of knowing if the person who posted the message is a company official, PR representative or market-making brokerage firm. More importantly, you don't know whether the person hyping the stock has been paid to do so and, if so, whether that payment has been adequately disclosed.
- **Promotion of “exotic” scams.** Con men have posted messages on the Internet promoting a wide variety of highly suspect, unregistered investment deals (such as pay telephone investments, bond trading programs, and bogus viatical settlements), as well as flat-out rip-offs (e.g., pyramid schemes, “gifting programs,” and Ponzi schemes). These so called “exotic” securities may pose a greater threat to consumers than other cyber-schemes, since the business “opportunities” allegedly packaged in out-and-out scams often appeal to individuals who do not feel sophisticated enough to speculate in stocks.

“Don't assume that two or more people talking up a stock are actually two or more different people!”

Protecting Yourself Against Online Investment Schemes

If you use the Internet for investment research, perhaps the most important thing to keep in mind is that there will never be enough “cybercops” to keep the online world free from fraud and abuse.

This does not mean that you should avoid the Internet. Rather, it means that investors should be mindful of the danger of fraud and abuse.

The good news is that there are self-defense steps that you can take to fend off Internet-related fraud:



- **Don't expect to get rich quick.** You have to evaluate the information you get online with the same caution that you would use for any news magazine article, television report, or whispered “hot tip.”
- **Don't assume that your online computer service polices its investment bulletin boards.** Most don't. The vast majority of services take a “hands off” attitude to validating claims made in message postings. The volume of postings, which adds up to literally millions of messages each month, swamps even the Internet service providers that do minimal policing.
- **Don't buy thinly traded, little-known stocks strictly on the basis of online hype.** These are the stocks that are most susceptible to manipulation. The market price of low-volume stocks can be driven up or down through relatively small strategic trades. This is why online hype usually involves previously unknown securities, often for companies involved in mining or the world of high-tech.
- **Don't act on the advice of a person who hides his or her identity.** Keep in mind that many computer bulletin board services allow people to use aliases and nicknames. As a result, you may end up dealing with someone intent on driving up the price of a stock through false information or baseless speculation that is difficult or impossible to disprove.