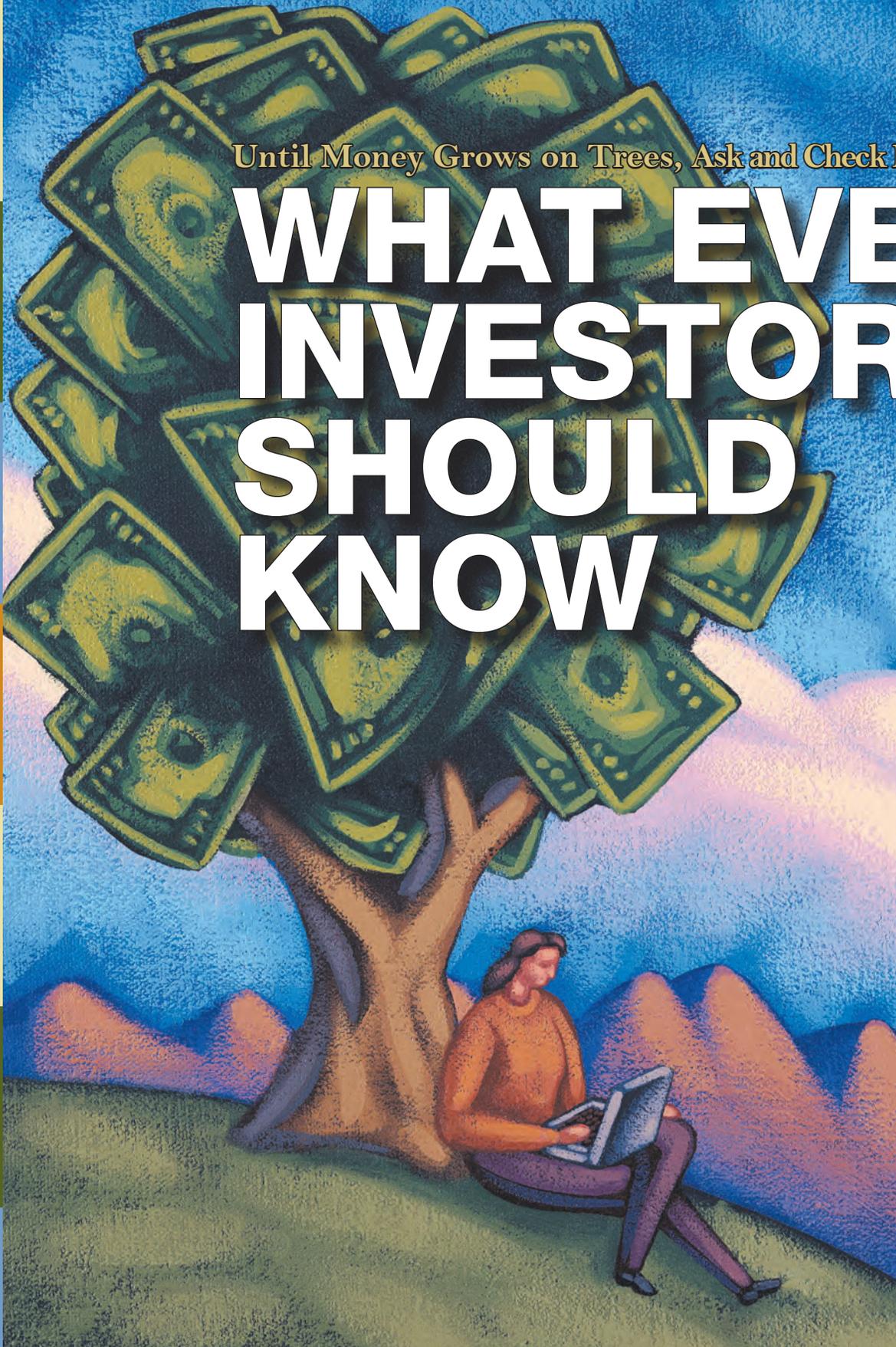


Until Money Grows on Trees, Ask and Check Before You Invest!

WHAT EVERY INVESTOR SHOULD KNOW



SECURITIES EDUCATION PROGRAM

Securities Division

Arizona Corporation Commission

1300 W. Washington, Third Floor / Phoenix, AZ 85007

Tel: 602-542-4242 / Toll-free: 1-866-VERIFY-9 / Fax: 602-388-1335

www.azinvestor.gov

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ABOUT

The Arizona Corporation Commission



WHAT IS THE ARIZONA CORPORATION COMMISSION?

Arizona Corporation Commission is a state regulatory body charged with several important responsibilities. The Commission:

- Governs the offer and sale of securities and investment advice in or from the state,
- Licenses investment advisers and their representatives,
- Registers securities dealers and salespeople,
- Regulates over 500 public utilities serving the state, including setting the rates and charges for service and ensuring adequate, reliable service,
- Registers corporations and limited liability companies doing business in or from Arizona,
- Enforces regulations to ensure railroad and pipeline safety.

WHO FORMED THE COMMISSION AND WHEN?

The authors of the Arizona Constitution created the Commission in 1912 as an agency independent of the legislature, the executive branch, and the judiciary. The Commission is an unusual public entity in that only a handful of other states in the U.S. have constitutionally formed commissions. Then, as now, the goal was to have an agency that could balance the enormous economic power wielded by large corporations—such as the railroads of that era—and ordinary citizens.

WHO CHOOSES THE COMMISSIONERS?

You do! As a registered Arizona voter, you choose the Commissioners when voting in a statewide election. The Commission is governed by five commissioners. Each Commissioner serves a four-year term with the ability to serve a maximum of two

consecutive terms. In case of a vacancy, the Governor appoints a replacement of the same political party as the outgoing Commissioner.

The ultimate responsibility for final decisions on granting or denying rate adjustments, enforcing safety and public service requirements, and enforcing securities laws rests with the Commissioners, who are the state's regulators.

The Commissioners oversee a staff that is organized into eight divisions: Administration, Corporations, Hearing, Information Technology, Legal, Railroad and Pipeline Safety, Securities, and Utilities.

To find more detail on each division's authority and responsibilities, and to view the biographies of the commissioners serving you today, visit www.azinvestor.gov and click on the Commission's seal.





The Securities Division



Your First Line of Defense Against Investment Fraud

OUR MISSION

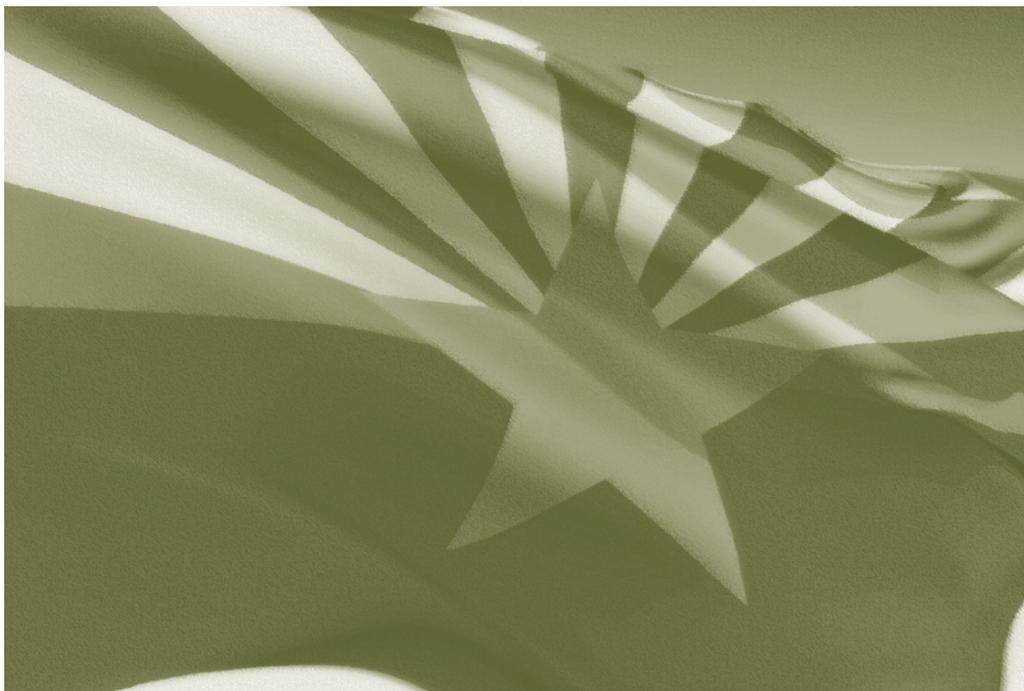
The Securities Division is part of a state agency charged with preserving the integrity of the securities marketplace through investigative actions, registration and oversight of securities, securities dealers and salespeople, and investment advisers and their representatives, while minimizing the burden of legitimate regulatory compliance by legitimate business.

The Securities Division, which is one of eight divisions of the Arizona Corporation Commission, monitors the activities of investment professionals doing business in Arizona, initiating enforcement action if the law is violated. The Securities Division

examines the books and records of securities dealers, securities salesmen, investment advisers and their representatives to determine if they are in compliance with state rules and regulations.

Also, the Securities Division reviews investor complaints and analyzes documentation to determine compliance with the law. If warranted, the Securities Division seeks administrative or civil remedies, or refers the case for criminal prosecution.

Read more about what the Securities Division does to protect investors at www.azinvestor.gov.



HOW CAN THE SECURITIES DIVISION



HELP ME?

Depending on your situation, you may wish to contact different people within the Securities Division. Here are those employees who can assist you:

DUTY OFFICER

TEL: 602-542-0662

DUTIES: Answers questions about specific investment products and provides background information on securities salespeople, dealers, and investment advisers. Responds to public inquiries about the substance of the state's securities laws found within the Arizona Securities Act and Investment Management Act. The Duty Officer does not, however, provide legal advice or legal counseling to the public.

INVESTOR EDUCATION COORDINATOR

TEL: 602-542-0428

DUTIES: Helps spread the word about avoiding investment scams and promotes wise investing through speaking engagements, brochures, and investing information on the investor education website, www.azinvestor.gov.

PUBLIC INFORMATION OFFICER

TEL: 602-542-0844

DUTIES: Interacts with the public and the news media to explain the Securities Division's role on specific enforcement actions and responds to questions regarding the Securities Division's cases.

DIVISION SPEAKERS BUREAU

To promote awareness, the Securities Division conducts statewide investor informational programs and offers free materials to educate and protect investors against fraud and dishonest or illegal practices in the securities industry.

Besides the Investor Education Coordinator, Division staff are available, **without charge**, to speak with your group on a variety of topics, including the scope and function of the Commission and the role of the Securities Division, as well as:

- Top Threats to Arizona Investors
- Understanding Your Investments
- How to Select and Monitor an Investment Professional
- Basics of Saving and Investing

To schedule a presentation, contact the Investor Education Coordinator at **602-542-0428** or send an email to: info@azinvestor.gov.

HOW TO

Ask and Check Before You Invest



GET IT IN WRITING

Whatever an adviser or a securities salesperson tells you about himself or herself, about the investment he or she is offering to you, or about the company or people with whom you would be investing, get what you are told in writing.

Anyone offering you an investment opportunity should give you an offering memorandum—a complete description of the investment and the people and risks involved with the investment. **READ THE OFFERING MEMORANDUM!** If you do not understand it, get help from an accountant, lawyer, or another independent third party who understands how to read an offering memorandum.

ASK QUESTIONS ABOUT YOUR ADVISER OR SALESPERSON

Talk to your adviser or salesperson and insist that he or she answers your



questions to your satisfaction. Write down the answers you are given, the name of who gives you the answers, and the date. Be sure to ask:

- ✓ What commission or fee will you earn if I buy the investment?
- ✓ Who or what entity will be paying you?
- ✓ Will you be receiving any benefit other than your commission or fee if I buy the investment?
- ✓ Are you related to or involved with the investment in any way other than recommending that I buy it?
- ✓ Are you registered or licensed and, if so, with whom? If you are not registered or licensed with a regulatory agency, why not?
- ✓ Have you ever been sued, disciplined, or had any complaints filed relating to your work as a salesperson or adviser?

RESEARCH THE BACKGROUND OF YOUR FINANCIAL PROFESSIONAL

If you are dealing with an investment adviser, check the IAPD (Investment Adviser Public Disclosure) web site, www.adviserinfo.sec.gov to see if the investment adviser is licensed in Arizona, how long the adviser has been licensed, and whether the adviser has any disciplinary history.

If you do not have access to the IAPD, contact the Securities Division Duty Officer at **602-542-0662** or toll free at **1-866-VERIFY-9** (within Arizona).

Also, check out the investment adviser representative (the individual dealing with you, who works for the investment adviser) by contacting the Securities Division.

If you are dealing with a securities salesperson, check out the individual and the dealer for which the salesperson works on the Web CRD (central registration depository) at www.finra.org to see if the salesperson and dealer are registered in Arizona, for how long, and whether they have any disciplinary history.

Again, if you do not have access to the Web CRD, contact the Securities Division Duty Officer at **602-542-0662** or toll free (within Arizona) at **1-866-VERIFY-9**.

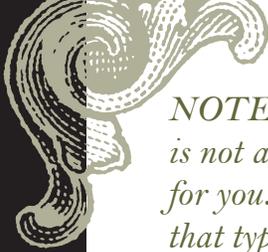
ASK QUESTIONS ABOUT THE INVESTMENT

Ask your salesperson, your adviser, and the officers or directors of the company in which you may make an investment all of the questions you have about the investment until you understand it and are comfortable. Write down the answers you are given, the name of the person who gives you the answers, and the date.

Pose this series of questions:

- Is the investment registered with the Securities and Exchange Commission or the Arizona Securities Division? If not, why not?
- If the investment is exempt from registration, what is the nature of the exemption?
- Is a notice regarding this exempt offering on file with the SEC or the Securities Division? If not, why not?

Understand the fundamental nature of the investment. Understand the tax implications of the nature of the investment. Understand your rights as a creditor or an owner if the entity in which you are investing goes bankrupt.



NOTE: The fact that a particular investment is properly registered, or exempt from registration, is not a guarantee as to how that investment will perform, or that it is an appropriate investment for you. If you need assistance understanding an investment and when it is suitable to invest in that type of investment, seek assistance from an accountant, attorney, or independent adviser.

Is it a debt offering? If you invest in a debt offering (notes, bonds, debentures), you will become a creditor.

If the offered security is a debt obligation, who will repay your investment to you? Will you get interest; how much? Is your investment, the debt obligation, secured or guaranteed? If so, by what or whom?

Is it an equity (stock) offering? If you obtain an equity interest in an entity, you become an owner. Will you own shares of stock in a corporation? Will you own a partnership interest or a limited liability company membership interest? Will you have any control over how the entity is run? Will you receive dividends?

Is the investment “liquid”? Can you sell the investment if and when you want to? Is there a market—are other buyers interested in the investment? Will you be able to get your entire investment back? Do you have to hold the investment for a specific period of time? Will you have to pay penalties if you sell the investment earlier?

NOTE: Most securities offerings do not contain a “buy-back” feature and if you need to get your money back, you will likely have to attempt to sell the investment on the “secondary market” if one exists. If you have to sell your investment in a secondary market, you may have to sell for a substantial discount from the original amount of your investment.

- What type of business are you investing in? Is it an established business with an operating history? If so, what is that history? If not, does the proposed business make sense? Is it likely to be successful?
 - Who is responsible for operating the business in which you are investing? Do those people have the necessary skill, experience, and training to operate the business?
 - What risks are you taking by making the investment? What factors may jeopardize the success of the business venture?
 - What factors may jeopardize your ability to recover your investment and make a return on that investment?
-

NOTE: Once you thoroughly understand the types of business risks and market risks involved with the investment, you need to assess your financial position and risk tolerance. Can you afford or are you willing to take those risks?



INDEPENDENTLY RESEARCH THE INVESTMENT

Check the public records of the superior court to see if any of the people or entities involved have been or are involved in a lawsuit.

www.superiorcourt.maricopa.gov
602-506-3360

Check the public records of the bankruptcy court to see if any of the people or entities involved have filed bankruptcy.

602-682-4000 (Phoenix)
928-783-2288 (Yuma)
520-202-7500 (Tucson)

Call the Better Business Bureau to see if the entities involved are members and if any complaints have been filed:

www.phoenix.bbb.org
602-264-1721 or 1-877-291-6222

Check Corporation Starpas or contact the Corporations Division of the Arizona Corporation Commission to see if the corporations involved have filed annual reports listing financial, officer, and director information.

Arizona corporations are required by statute to file annual reports with the Arizona Corporation Commission:

www.azcc.gov/divisions/corporations
602-542-3026 (Phoenix)
1-800-345-5819 (outside Phoenix)
520-628-6560 (Tucson)

Call the Office of the Arizona Attorney General to see if it has any information about the people or entities involved,
602-542-5763

Contact relevant departments to see if people are appropriately licensed and if they have disciplinary histories.

Department of Real Estate
602-771-7799

Department of Insurance
602-364-3100

Securities Division
Duty Officer
602-542-0662
Toll-free:
1-866-VERIFY-9 (837-4399)

See the back section of this booklet entitled “Important Phone Numbers” for a listing of telephone numbers of regulatory entities.

Review materials that discuss that type of investment. You can obtain many such materials from the following organizations. Review each organization’s web site for links to additional resources:

Securities and Exchange Commission
202-272-2800
www.sec.gov

Financial Industry Regulatory Authority
800-289-9999
www.finra.org

North American Association of Securities Administrators
202-737-0900
www.nasaa.org

Alliance for Investor Education
www.investoreducation.org

**Until Money Grows on Trees,
Ask and Check Before You Invest!**

WHEN handing over your money, ask the person/company who is offering services (legal, investment, insurance, financial, etc.) to complete this form and leave it with you.

Don't feel pressured to make an immediate decision!

What product(s) are you offering? : (Check all that apply)

- Insurance Type: Annuities Other: _____
- Investment Type: Securities Other: _____
- Legal Services Type: Living Trust Estate Planning Other: _____
- Financial Type: Accountant Other: _____
- Other: _____

Who regulates or licenses this product/service?

- Arizona Corporation Commission Arizona Department of Real Estate
- Arizona Department of Insurance Arizona Board of Accountancy
- Other (please identify/explain): The State Bar of Arizona
- _____
- _____

What license(s) authorizes you to sell this product/service?

LICENSE TYPE	LICENSE INFORMATION
Insurance License	License No:
Securities License	CRD No:
Investment Adviser	License No: <input type="checkbox"/> AZ Commission <input type="checkbox"/> SEC
State Bar License	State Bar No:
Accountant License	CPA No:
Real Estate License	DRE License No:
Other	Explain:

Once you have accumulated the above information, contact the appropriate agency to confirm that the person and company is licensed or registered in Arizona **BEFORE** handing over your money (see "Important Telephone Numbers" at the back of this booklet).







RISK and Suitability



Choosing an investment is complicated. Should you invest in stocks, bonds, mutual funds, CDs, commodities, options, futures contracts, mortgage-backed securities, or a myriad of other types of securities? And once you have chosen a type of investment, such as mutual funds, then you need to decide in which areas of the economy—such as technology or health care—you want to invest. Before you make any investment choices, however, you and your financial professional need to consider two factors that should influence all of your choices: your risk tolerance and what investments are suitable for you.

INVESTING IS RISKY BUSINESS

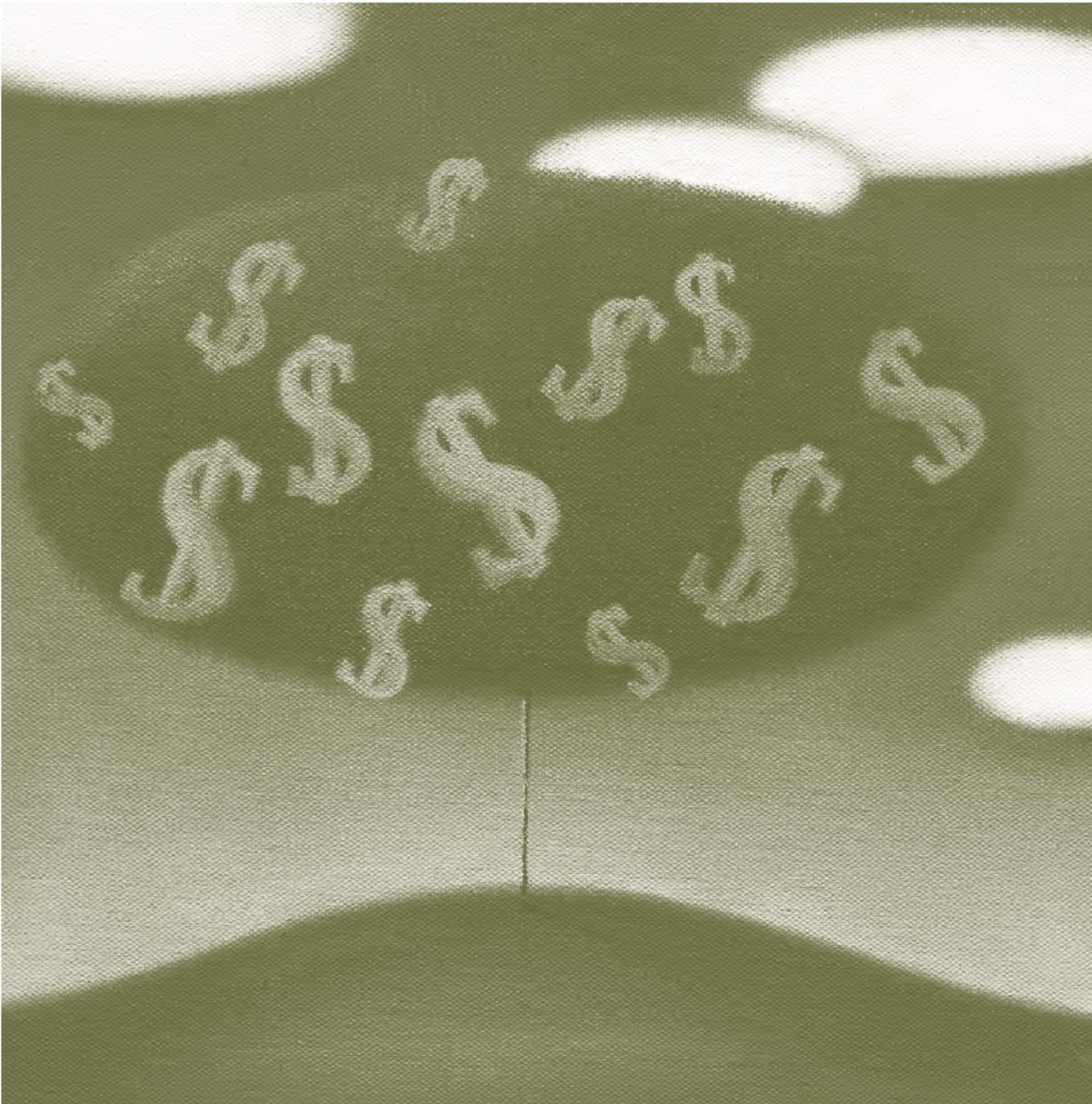
Risk can be simply defined as the possibility of suffering a loss. One very important principle to always remember about risk is that the higher the return on your investment, the greater the risk you are taking.

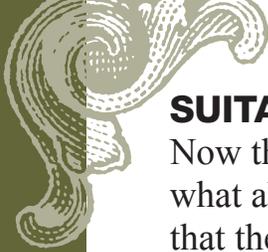
If the risk of loss is high, a higher interest rate is used to entice investment. This is why U.S. Treasury securities, often referred to as T-bills, T-notes, and T-bonds, have a lower rate of return as opposed to bonds issued by financially shaky companies that offer a higher rate of return.

Many people who invested solely in the “dot-com” emerging companies of the 1990s or the real estate boom in the

2000s learned a hard lesson about diversification. Likewise, those who invest in only a few companies or even a few areas of the economy are assuming significant risk and should consider diversifying.

You can minimize your investment risk through diversification, which may enable you to invest in a mixture of low-risk/high-risk investments. The old saying, “Don’t put all your eggs in one basket,” holds true with investing.





SUITABILITY DEFINED

Now that you have thought about risk, what about suitability? Suitability means that the investment is in line with your investment objectives and financial situation. Your financial professional (securities salesperson/stockbroker or investment adviser) should not recommend an investment that exposes you to risk beyond what you can afford to lose. So, is buying a bond in a financially shaky company suitable for you? If you cannot afford to risk the money you invest, then absolutely not! If you are capable of and willing to accept the risk of losing all or part of your investment, then buying a bond in a financial shaky company may be suitable for you.

To determine if an investment is suitable, you must also consider how soon you need to have access to the money you have invested. For example, let's say that you need the money to send your child to college next year. Even if you can afford to lose some or all of your investment, putting your money into a real estate limited partnership would not be suitable since it is not a liquid investment (one that cannot be easily converted to cash).

YOUR FINANCIAL OVERVIEW

If you work with a financial professional, he or she is required to have enough information about you to determine—before even recommending a security to you—whether a security matches your investment objectives and financial situation. The only way for financial professionals to determine if investments are suitable for you is for them to ask you questions to find out how “risk tolerant” you are, what your investment objectives are, and the status of your overall financial situation.

When you open a securities account, your financial professional should ask you questions about your income, net worth, liquid assets, tax bracket, prior investment experience, retirement goals, plans for major expenditures, and other similar relevant facts.

Your financial professional should also discuss with you what your investment objectives are—for example, income, aggressive income, capital appreciation, or speculation.

Your financial information and objectives typically are recorded on forms required to open a securities account. In many instances, the stockbroker or investment adviser completes these forms and has you sign them. **But never, ever sign a blank form.**

You must make sure that the information your financial professional has about you is accurate. Request a copy of any forms prepared by your financial professional to review for accuracy.

Your financial professional should periodically review this information with you to keep it up to date. This way, you and your financial professional can make sure he or she only recommends investments that are suitable for your specific situation.

ASK AND CHECK BEFORE YOU INVEST!

If you wish to verify the background of your financial professional or any of the types of investments this person recommends, contact the Duty Officer at the Arizona Corporation Commission's Securities Division by telephone at **602-542-0662** or toll free in Arizona, **1-866-VERIFY-9 (837-4399)**, or by email at **info@azinvestor.gov**.

AFFINITY

Fraud



In today's investment climate, a number of Americans are putting their money in the financial markets. While this is good for the economy and often lucrative for individuals, many pitfalls remain. Stories of fabulous short-term gains may have created an atmosphere of unrealistic expectations. No one wants to miss the golden opportunities of the stock market, but determining where to invest is often difficult. As a short cut, people may rely on friends and persons like themselves for investment advice. This is where affinity fraud comes into play.

THE ULTIMATE CONFIDENCE GAME

"Affinity fraud" involves con artists who target members of their own race, nationality or religious affiliation and exploit their status as members of the group to solicit investments in fraudulent schemes.



In one way or another, everyone is connected to a group or association. Our ethnicity, interests, backgrounds and other factors will naturally lead to such organizations or affiliations. Our heritage, religion and race can contribute to this gravitation to groups that we often come to trust—sometimes to our detriment. Because the average person does not take the time or resources to research investment opportunities, they are vulnerable to affinity fraud.

Since the swindler is a fellow group member, he appears a natural match for sharing information, resources and entrusting funds. The hook is the affiliation to the group members who are the potential investors. The scam artist plays up the association that he or she and the investor have in the hopes of lowering the investor's guard and exploiting a natural trust.

WHY AFFINITY FRAUD WORKS

Affinity fraud is such a successful tool for scam artists for several reasons. One of the most noticeable is how conflict is dealt with within a group. Once a victim realizes that he or she has been scammed, often the response is *not* to notify the authorities, but to try and solve the problem within the group. This intergroup loyalty is an aspect that swindlers play upon, especially among people of color and ethnic minority groups. A desire to find an amicable resolution “among ourselves” allows the swindler to continue his scam undetected by regulators, and if necessary, plan a discrete escape or cover his or her tracks.

New immigrants may be particularly vulnerable. Since new immigrants may be isolated from the larger community, their access to information is restricted. Swindlers

who claim to provide “safe” alternatives to banks or have “no-risk” investments can take the funds of their victims and disappear, dashing hopes and dreams of starting a new life in this country. The fact that these immigrants are not familiar with the laws and ways of American society and are reluctant to call authorities greatly increases the swindler's success.

Similarly, members of long-established ethnic groups that have amassed savings and achieved certain standards of living often have a desire to “give back” to their communities. Affinity fraud artists of the same ethnicity often try to appeal to such sentiments. Con artists also use this tactic in the increasing number of religious affinity fraud cases. Swindlers who prey upon their faithful counterpart come in all religious denominations.

PROTECTING YOURSELF

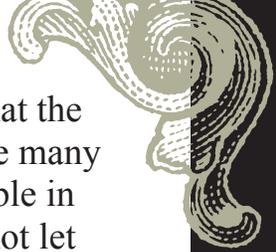
Avoiding affinity fraud, as with any other investment advice or product, involves taking certain precautionary steps. There are several steps a careful investor can take to significantly decrease the chance of being a victim.

1. Investors should be on guard when someone uses testimonials from group members in connection with soliciting investments.
2. Be wary of promises of high returns on your investment.
3. Early and high returns on the investment may be indicative of a “Ponzi” scheme, which involves the use of later investors' money to pay earlier investors. These early investors become unwitting, but enthusiastic, promoters of the scheme.

4. Always get an investment offering in writing. A legitimate promoter should always willingly provide detailed written materials describing the uses of your funds, the risks involved in the investment, financial statements, and any conflicts of interest that the promoter may have.
5. Once obtaining written disclosures, it is always a good idea to seek outside professional advice. An *independent* accountant, financial planner, or attorney can help you to evaluate the investment.
6. Do not rush into making an investment decision. If the promoter is requiring you to make

a hasty decision, it is likely that the investment is scam. There are many legitimate investments available in today's market. You should not let yourself be rushed into investing in a fraudulent one.

The Arizona Corporation Commission's Securities Division can help. Before you actually put money into the investment, call the Securities Division to learn whether or not you are dealing with a registered salesperson and firm. A simple inquiry into whether the person and firm touting the investment are licensed in Arizona can speak volumes. Don't just take the word of a salesperson—check the investment out for yourself. Ask and check before you invest!



BOILER ROOMS

Where Scams Are Always On Call



One of the most common types of securities fraud perpetrated against individual investors occurs far from plush corporate boardrooms and away from the big city trading centers. Rather, this type of investment scheme originates out of hundreds of largely invisible telemarketing offices located throughout the United States, Canada, and, more recently, as far away as Europe and Southeast Asia. These operations sell special “investment opportunities” over the telephone, offering remarkably high, yet practically risk-free, rates of return. What these telemarketers invariably fail to mention is that these investment opportunities only provide these tremendous risk-free returns to a limited population: *themselves*.

WHAT IS A BOILER ROOM?

The nerve center in most of these marketing schemes is the sales office,

otherwise known as the “boiler room.” The term “boiler room” originated during an earlier era of telemarketing fraud, where managers of these operations would seek out cheap office space, such as in the basement of buildings, where the conditions were typically hot, uncomfortable, and crowded. Today, the term boiler room is commonly understood to describe a commercial office setting involving a simple set-up of desks, computers, telephone lines, and salespeople employing a variety of high-pressure sales tactics to push their investment product to hundreds of potential investors across the country each day.

These offices can be established anywhere, but are often found in remote urban areas such as commercial parks, industrial parks, or other discrete locations. Beyond the low overhead and stealthy nature of these boiler rooms, the sparse set-up allows the operations to dissolve and resurface almost at will.

BOILER ROOM PRODUCTS

The types of boiler room investment scams are limited only by the promoter’s imagination, and these operations are continually reinventing and refining their bogus investment programs. Each operation ultimately relies on three basic elements to make the telemarketers and their telemarketing scams successful: 1) the appearance of a legitimate investment program, 2) investor leads, and 3) unwary investors.

Producers may design what appears to be an authentic investment opportunity in many ways. The “producers” who design these bogus investments

for the boiler rooms often start by identifying a recently successful business operation or industry, and then mimic the blueprint of these business operations to construct their imaginary investment programs. As an example, fraudulent 'dot-com' investments were the scam of choice in the late 1990s, while real estate scams were epidemic in the 2000s.

AN OPPORTUNITY FROM “OUT OF THE BLUE”

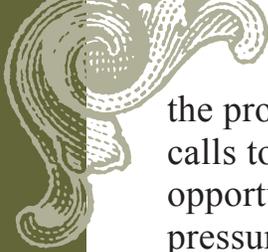
Once the fraudulent investment product is prepared and packaged, often as a “private placement” to investors, salespeople begin targeting potential investors on their “lead lists.” Lead lists are a listing of potential investors who are most likely to be interested in the fraudulent offering based on past investment patterns, internet-derived investor databases, or some other covert method of identifying potential investors. With the lead lists in hand, experienced salespeople then make “cold-calls,” otherwise known as unsolicited calls, up to more than 200 potential investors per day.

THE SALES PITCH

Boiler room salespeople may use any number of techniques to sell their fraudulent securities to unwary investors, their favorite quarry. A popular method is the “three-call” technique, where an initial caller will “warm up” the potential investor with descriptions of the company’s past successes and the exciting offerings coming ahead.

If the salesperson detects a level of interest, brochure materials are sent to





the prospect and second “set-up” man calls to tell the prospect of the amazing opportunity currently available. The pressure is then turned up by the experienced “closer,” who calls the prospect to say that the prospect must invest in the program now, using sales tactics and quick answers to any concerns the unwary prospect might have.

Once the investment is made, usually through wire transfer or other immediate means of payment (after all, the salesperson doesn’t want the investor to have any time to reflect on a rash decision), the investor’s name is often elevated to a highly valued “sucker list,” which will often be resold to other boiler rooms for additional securities offerings to be hatched in the future.

Boiler room salespeople are glib and resourceful, and have a number of other techniques to help you part with your money. If the particular investment is “guaranteed,” or if the salesperson will buy back the investment “after a certain time period,” a red flag should immediately go up.

Most, if not all, investments (perhaps other than certain low-yield government bonds and bank certificate of deposits), have at least some elements of risk. If a particular investment was not highly risky, the owners of the securities would not likely find it necessary to sell the investment through cold calls to unknown individuals!

HIGH-PRESSURE SALES TACTICS

A similar alarm should sound when the investment is offering an exorbitant

rate of return. As said many times, “if something sounds too good to be true, it probably is.” This mantra is the bane of all telemarketing scams; their success depends on the investor’s belief that an investment may exist that has little or no risk but offers an extremely high rate of return. There is no such animal, and even if one did exist, would a telemarketer have to call a stranger to sell it? The answer is a resounding “of course not!”

Similarly, when the salesperson is suggesting that he or she will buy back the investment at a later date, the salesperson is again implying that there is no risk associated with the investment; alarms should be sounding since this type of claim is not credible.

Still another red flag is the salesperson’s dire warning that the “window of opportunity” is closing on the investment opportunity, and the prospective investor “must act now.”

This routine ploy is usually nothing more than the salesperson’s attempt to prevent the investor from making sensible background checks, researching into the company further, checking with regulators, and/or reflecting on the rashness of the decision.

This now-or-never pitch can often be translated as it applies to the investor’s money: lose it to the salesperson in the boiler room—now or never. The salesperson will use any tactic in his or her repertoire, including formulated scripts and answers, levels of aggression, derision or flattery—anything it takes for the investor to swallow the bait and “act now.”

DON'T BE A TARGET — PROTECT YOURSELF

Individuals who become targets for one of these boiler rooms can take various steps to insulate themselves from this type of securities fraud. The most obvious and effective strategy is to immediately decline the opportunity to invest with the boiler room caller, but this can, at times, be more difficult than it sounds. These telemarketers are experienced sellers who have heard practically every excuse, enabling them to develop what seems to be a rational answer to almost any question, concern, or reservation.

This being the case, if you begin to feel pressured to invest in a particular investment “opportunity,” simply terminate the call. Before hanging up the phone, ask the caller to have your number placed on the “do not call” list. Telemarketers will typically move on to the next lead.

Other policies should also be considered when dealing with a potentially fraudulent investment telemarketer. First, never be pressured into giving an immediate decision on investing. If that is the only alternative the salesperson is offering you, then it's time for you to go.

Next, make sure you receive everything in writing before making any investment decisions, particularly over the phone. You may be surprised to find that the verbal representations made by the salesmen are at odds with the documentation offered by the company. Alternatively, the written disclosures about this company may, in fact, be woefully inadequate and/or suspect.

With over-the-phone securities solicitations, another important point to remember is to always consult with the state and federal

regulatory bodies charged with overseeing this activity. These agencies can often determine whether the securities being offered to you have been properly filed or registered, as well as determining whether the principals of the company have had any prior disciplinary problems within the industry. Often a fraudulent telemarketer may scold or threaten you for requesting to do such a check, a classic indication that something is amiss.

Finally, be aware and have a healthy level of cynicism about any investment offer made over the phone. If an offering is very low risk and offers a high return, if you can't lose, or if the investment is sure to go public and double, triple, or quadruple, recognize that if that truly was the case, the boiler room on the other end of the line wouldn't have called you in the first place.





MINING

Investments



The problem of fraud in the precious metals mining industry continues to plague Arizona investors. The Arizona Corporation Commission's Securities Division has prepared this bulletin as a guide for the type of questions individuals should ask before investing in any mining program. All investments have risk, and no particular investment is guaranteed not to fail, no matter how diligently an investor has studied the program prior to investing.

One of the first questions you should ask before investing in a mining program is...

WHERE IS THE MINE LOCATED?

The exact location of the mine site is often not disclosed in many mining investment scams, yet surprisingly, people continue to invest in these programs without knowing where the actual mining is to take place. Press the people who are offering



the investment to you for the exact legal descriptions of the site—do not accept a lay description such as “the proposed mine site is located approximately twenty-five miles northwest of Flagstaff, Arizona.” That type of description tells you nothing at all about the true location of the site. If the offerors cannot or will not provide you with the exact location of the mine, **DO NOT INVEST!!**

Once you know the exact location of the mine site, your next question should be ...

HAVE ANY ASSAYS BEEN PERFORMED ON THE ORE?

Usually, offering materials do provide what the offerors claim to be assays, but beware. Assays are only meaningful if they are based upon a systematic and scientific program of ore sampling. An assay based upon one or two ore samples is essentially

meaningless—it takes literally hundreds or thousands of separate ore samplings to properly evaluate the true potential of a mine site. Also, be aware that even an accurate assay only tells you the amount of certain precious metals in a specific ore sample, not the amount of precious metals that can be economically extracted from that mine site or even that sample. No mining or refining technique can economically extract all of the precious metals present in an ore body. In reading assay reports, certain “red flags” signal that perhaps you are not receiving accurate information:

- Reports indicating the presence of a half ounce or more of gold per ton of ore. A mine site with ore values consistently this high would represent one of the richest finds of the century!



- Reports of precious metals not normally found together in the same ore. For example, while gold and silver are commonly found together, gold and platinum group metals are not.
- Reports that traditional “fire assay” methods will not give an accurate reading of the precious metals content of the ore, while the offerors’ “secret” or “revolutionary” methods will. A fire assay performed in a correct manner will give an accurate reading of the precious metals content of any ore sample.
- Assayers who meet certain qualifications are registered with the Arizona Board of Technical Registration; call the Board (602-364-4930) to see if the assayer is registered, and if there is any information available concerning public actions against the assayer.

If mining is currently going on at the site, be sure to get copies of all production reports.

Once you are satisfied that the ore at the mine site has commercial value, you are ready to ask the next question:

WHAT IS THE PRIOR MINING OR REFINING EXPERIENCE OF THOSE WHO WILL BE IN CHARGE OF THE MINING OPERATION?

Do not trust your money with people who have no prior experience in the mining industry. Mining is a highly skilled and technical profession, a field that cannot be profitably pursued by amateurs. If possible, check out ALL of the mining and business references provided by the offerors. If they have

not provided you with any references, require them. If they have no references they can give you, or if their references are so vague that you cannot check on them, then the operators may not have any mining or refining experience.

You should next ask ...

WHAT IS THE FINANCIAL CONDITION OF THE PEOPLE WHO WANT MY MONEY?

Are the people to whom you will be giving your money financially solvent? Are they a newly created company with little or no assets? Do they personally have any financial stake in the venture, or are they merely a group of people who want to enter a high-risk venture using other people’s money? You don’t know the answer to these questions until you see balance sheets, profit and loss statements, and other audited financial documents. Once again, if these types of financial statements are not provided to you, require them. Remember that the most meaningful financial statements are those which have been prepared by an independent, certified public accountant.

Your next question is ...

HAVE ANY OF THE PEOPLE ASSOCIATED WITH THE OFFERING BEEN THE SUBJECT OF PAST ACTION TAKEN BY A GOVERNMENTAL AGENCY OR PRIVATE PARTY?

Obviously, you want to know whether the people to whom you will be giving your hard-earned money have a history of law violations, civil lawsuits, or bankruptcies. Just as obviously, if the people who want your money do have



such histories, they will naturally be reluctant to reveal their prior legal problems to you.

Contact the Securities Division for information about federal or state securities law actions. Also, contact the mining department, any other appropriate state agencies, and the Better Business Bureau. If the mine site is located on public land, contact the state's land department, or federal agencies such as the Bureau of Land Management or the Forest Service. Review civil and bankruptcy court records.

Having satisfied yourself that the people to whom you may be giving your money do not have a history of law violations, you should next ask ...

WHAT ARE THE COSTS AND OBLIGATIONS INVOLVED IN INVESTING IN THE PROGRAM?

How much is the investment going to cost you? What are you to receive for your money? A certain tonnage of ore? A certain number of ounces of precious metals? Stock? A pure cash return on your investment?

How is your investment to be made? In a lump sum, or in the form of periodic payments? Could you be required to provide additional money at some time in the future?

Under the terms of the offering, must you meet any obligations or perform any duties other than making the investment? Once you understand the costs and obligations involved in investing in the program ask ...

WHAT ARE THE RISKS ASSOCIATED WITH THE INVESTMENT PROGRAM?

All investments have some amount of risk involved in them, and the general rule is this: The greater the potential profit, the greater the potential risk.

1. What assurance do you have that the offerors will not simply take your money and run? Is your investment secured by real property or equipment? (NOTE: It is a "red flag" if the promoters are guaranteeing that you will not lose money, whether they are offering your money back on demand or guaranteeing that a certain amount of gold is available).
2. If the price of gold drops suddenly, would it still be feasible to mine? Does the mining program depend upon a continuous stream of investment capital in order to operate the mine? If it does, what if the stream of money decreases or is cut off? It can take millions to begin a viable mining operation.
3. Do the mine operators have any conflicts of interest that could cause them to devote less than their best efforts to the mining project?
4. Mining is inherently dangerous. If a worker gets injured at the mine site, could you be held financially responsible? If an injured worker sues the mine, is there enough liability insurance to cover the worker's claims?

If you are satisfied that you completely understand the risks involved in investing in the program, your next question is ...





EXACTLY HOW ARE THE OFFERORS GOING TO USE INVESTOR PROCEEDS?

You need to know just where your money will be going. Would some of your investment funds be used to pay sales commissions to the offerors or others? Will your investment funds go towards salaries, legal fees, or other administrative expenses? How much of your investment money is actually going directly into the mining or refining of ore? What types of fees are going to be paid to the offerors? For what services? Arizona securities law requires that full disclosure be made to investors of the exact uses of proceeds in the venture. Finally, before you reach for your checkbook, you need to ask one more question...

CAN I AFFORD TO MAKE THIS INVESTMENT?

Be guided by your head, not your heart. Do not let “gold fever” lead you down an empty mine shaft. The basic warning to keep in mind when considering any investment, including mining investments, is this:

IF YOU CAN NOT AFFORD TO LOSE ALL OF YOUR INVESTMENT, YOU CAN NOT AFFORD TO INVEST!

TO LEARN MORE...

For additional information on how to investigate any offering before you invest, view “How Do I Ask and Check Before I Invest?,” available on the Securities Division’s investor information web site, www.azinvestor.gov.



ONLINE Investing

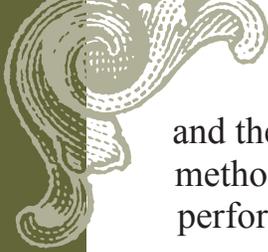


Are you an online investor? If so, you probably have discovered that the Internet has become a round-the-clock source of financial information.

Online investing, or electronic trading, has also grown in popularity. Due to the creation of online brokerage services and widespread public access to the Internet, individuals are now able to buy, sell, and manage their investments online.

Some investors use the Internet to trade frequently with the hope of profiting from a rapidly changing market. This strategy is risky. Market volatility, inaccurate information about anticipated changes in prices, and delays in the execution of online trades may lead to financial losses.

Investors can also use the Internet to select and manage investments that meet long-term financial goals. Some investors conduct their own research and purchase all of their investments online without any professional guidance. Other investors consult with a broker or an investment adviser for guidance in developing a plan and selecting suitable investments

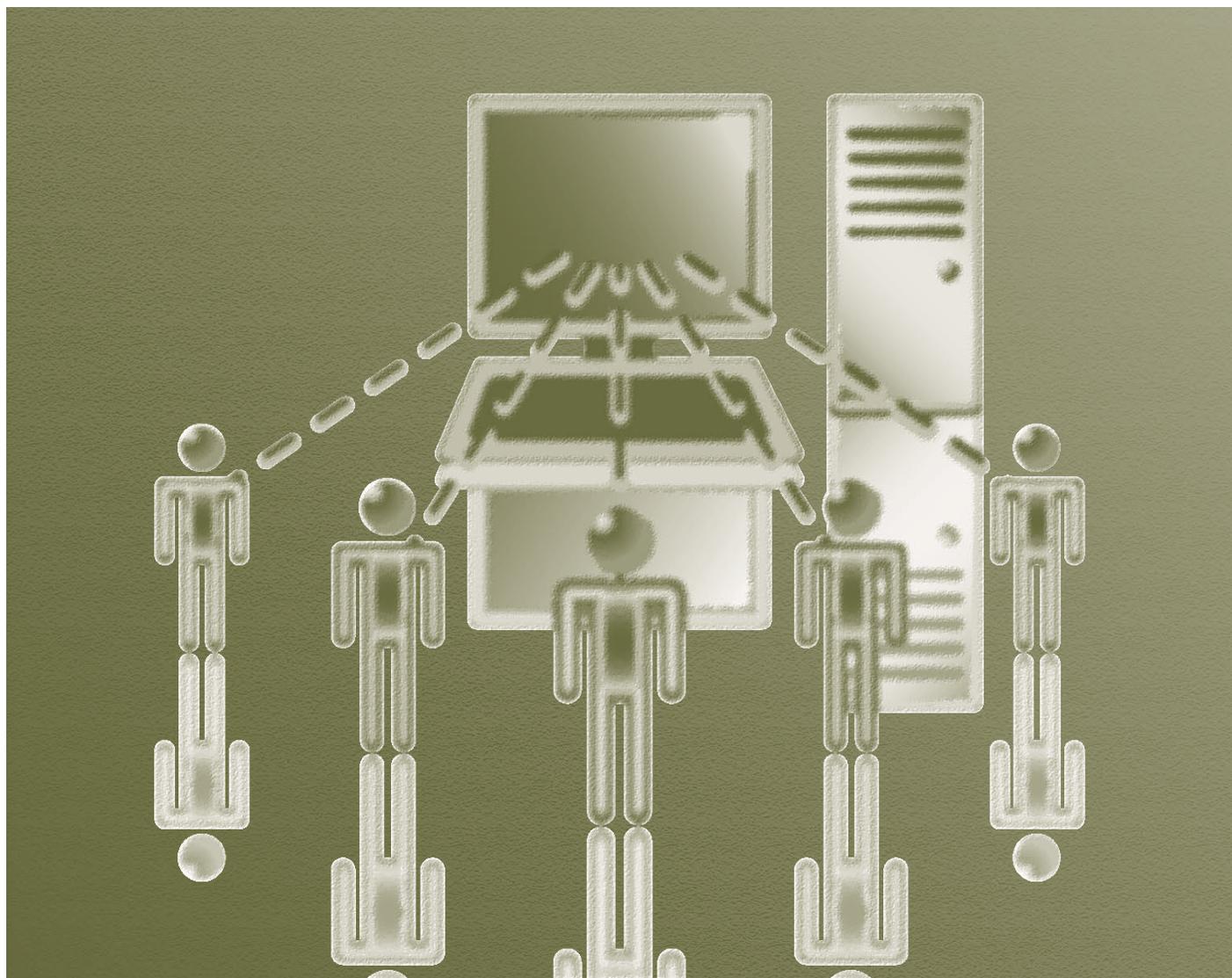


and then use the Internet as an alternative method of placing orders and tracking the performance of their investments.

ONLINE TRADING vs ONLINE INVESTING

Online investing can provide a “hands-on” learning experience for investors, but is not appropriate for everyone. It is important to remember that while online trading takes only a moment, online investing takes time.

A sound knowledge of personal finance and an understanding of the potential risks are essential, especially when investors are looking for investment opportunities on the Internet.



Important Guidelines

for Online Investors

The following guidelines were developed by the North American Securities Administrators Association (NASAA) to help investors think carefully about online investing. Before beginning an online investment program, be sure to:

1. Receive full disclosure about the alternatives for buying and selling securities and obtaining account information if you cannot access the firm's website.
2. Understand that, in most cases, you are not linked directly to the market through your home computer; that the click of your mouse does not instantaneously execute trades or cancels orders.
3. Receive information from the firm to substantiate any advertised claims concerning the ease and speed of online trading.
4. Receive information from the firm about significant website outages, delays, and other interruptions that may affect your ability to execute trades.
5. Obtain information about entering and cancelling orders (market, limit, and stop loss), and the details and risk of margin accounts (borrowing to buy securities).
6. Determine if the stock quotes and account updates you receive are real-time or delayed.
7. Review the firm's privacy and security policies. Determine if your name will be used for mailing lists or other promotional activities by the firm or any other party.
8. Receive clear information about sales commissions, transaction fees, and conditions that apply to any advertised discount on commissions.
9. Know how to contact a customer service representative if problems occur. Request prompt attention and fair consideration. Be sure to keep good records to substantiate any problems that you may experience.
10. Contact the Investigator on Duty at the Arizona Corporation Commission's Securities Division to verify registration status and potential disciplinary history of an investment professional or company by telephone, **602-542-0662** or **1-866-VERIFY-9** (toll free in Arizona), or by email at **info@azinvestor.gov**.



As technology continues to evolve, so does fraudulent activity. Nearly any investment scam perpetuated through a newspaper ad, over the telephone or by mail can be mirrored online. Whether they use an Internet ad on a popular website, a chat room, an online bulletin board or social media channels, fraudsters have a perceived anonymity and ease of access to potential victims. Indeed, all of these Internet tools cost very little money and are at the fingertips of con artists who are

trying to reach as many potential targets as they possibly can.

When it comes to the types of investment fraud an investor might encounter online, the list is only limited by the fraudster's imagination. Perhaps the most important thing to keep in mind is that there will never be enough policing by regulators to keep the online world totally free from fraud and abuse.

HOW A TYPICAL CYBER-SCHEME WORKS

“Is there anyone out there following Company X?”

“I heard that Company X is about to make a major announcement. E-mail me or call this toll-free number to get an information package...”

“I spoke to Company X’s CEO, who confirmed details of next month’s big news. I’ve bought 10,000 shares. Look for share price to double in the next month. Get it now!”

“Big news remains just around the corner. We hear from a friend who has visited Company X that this is going to be even bigger than we thought. There’s still time to get in.”

“Short sellers are in the market! Keep the faith...this will bounce back. The smart money will use the price drop as an opportunity to buy more and dollar average.”

PROMISSORY NOTES

Promises or Problems?



For the average investor, promissory notes may be viewed as a safe way to invest short-term with reliable companies, particularly in light of a volatile stock market. Although promissory notes can be legitimate investments, many bogus and high-risk notes are often sold to unwary investors. Before investing in promissory notes you should ask questions and demand answers, making certain that you understand how they work and what risks they pose.

THE PRODUCT

A promissory note is a form of debt that a company may use to raise capital in much the same way as a loan. Typically, an investor agrees to loan money to the company for a set period of time. In exchange, the company promises to return the investor's funds with interest. The investment sounds easy and safe, and therefore, is attractive to investors.



THE PROMOTER

The Commission has seen a number of insurance agents, and others unlicensed to sell securities, promoting investments in promissory notes. While touting high interest rates, they usually fail to inform you that promissory notes are high-risk investments with the potential for fraud.

The hefty commissions offered to sales agents may blind them to the problems involved in selling these investments. Some sales agents may know very little or nothing about the issuers of the investments. These agents may not realize that they must be registered with the Securities Division to sell promissory notes. Having an insurance license does not mean an agent is automatically qualified to sell securities like promissory notes.

THE SCAM

A typical promissory note scam operates like this: Initially, the con artist, who may or may not be affiliated with the company issuing the promissory notes, persuades a sales agent with a rolodex of trusting clients to sell the notes. The con artist promises to pay the sales agent much higher commissions than he or she could receive from companies selling legitimate investments—sometimes as much as thirty or forty percent.

THE PRODUCER

Your licensed insurance agent, who may have already sold you a life insurance or annuity policy, now approaches you with an interesting “investment opportunity.” The agent tells you that a “well-established” company is looking to expand its business and needs to raise

capital. Instead of borrowing the money from a traditional lender, such as a bank, the note issuer is offering investors an opportunity to purchase its promissory notes. Usually, these notes mature in nine months and pay above-market rates.

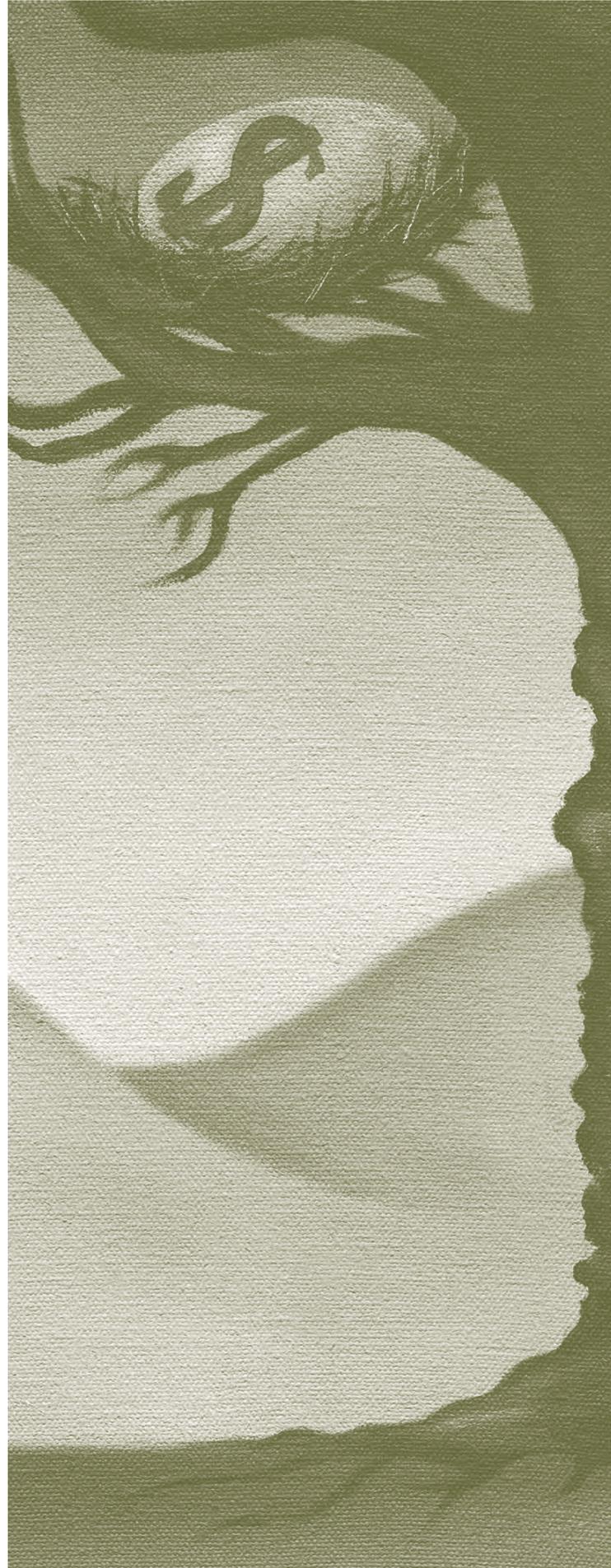
The agent might encourage you to cash in a life insurance or an annuity policy and roll the proceeds into the promissory notes. Sometimes insurance agents even invest their own money because they, too, are convinced it’s such a great investment opportunity!

Too often, however, the promissory notes and the company behind them are either financially shaky or totally fraudulent. And too frequently, the Commission’s Securities Division sees con artists who use investor funds to line their own pockets and disappear when the notes mature.

THE DECEPTION

In addition, these investors may receive authentic-looking promissory note certificates complete with official, legal-sounding language and gold-embossed seals. Such documents give a false sense of security. In addition to the official appearance of the promissory note, the involvement of insurance agents may also give comfort to investors. Unlike telephone solicitors, insurance agents have a prior relationship with their clients, which gives them instant credibility and makes the investment in promissory notes appear to be legitimate and sometimes the appearance of being “secured.”

Also, find out if the promissory notes are being sold from a brokerage firm. If not, don’t invest.



THE PREVENTION

You should also be aware of any investment “guaranteed” by a bond from an offshore bonding company. Check with the Arizona Department of Insurance (see the directory of Important Phone Numbers at the back of this booklet) to verify whether or not a bonding company is licensed to do business in Arizona.

Beware of any investment that offers guaranteed above-market returns with a maturity of less than a year. Legitimate and low-risk short-term investments do not offer double-digit returns. Be leery of any opportunity that offers a “safe” nine-month note from an obscure company promising double-digit returns.

ASK AND CHECK BEFORE YOU INVEST!

The Securities Division has investigated and taken enforcement action in a number of cases involving fraudulent promissory notes promoted by unscrupulous, uninformed and unregistered individuals. Visit www.azinvestor.gov and click on “News Releases” or call the Duty Officer at **602-542-0662**.

Before investing in promissory notes, investors should always check with the Securities Division of the Arizona Corporation Commission to confirm that the notes are either registered or exempt from registration. If you cannot verify that the notes are registered or likely to be exempt from registration, hold onto your money.

REAL ESTATE

Investments as Securities



Your interest in a real estate investment opportunity may begin with a trusted family member, friend, neighbor or business associate who approaches you to talk about some impressive financial gains. An advertisement in a popular newspaper or online service catches your eye with a promise of guaranteed returns secured by an interest in a piece of real estate.

What you may not realize is that some of these investment opportunities may be unregistered securities or worse yet – scams. Whether a real estate investment is a security or not is not always easy to determine and depends upon the unique facts and circumstances of the transaction and not on what a promoter calls the investment product.

HOW DO I KNOW IF WHAT I AM BUYING IS A SECURITY?

A general rule of thumb with which to

start is that if you as the investor are not in control of the real estate transaction and are expecting a return on your money, the transaction probably involves a security. Because the investment may involve a chunk of your life savings, consider consulting with an attorney knowledgeable in securities law to provide a legal interpretation for you and evaluate any exemptions claimed by the promoter. By law, the Commission's Securities Division cannot provide legal advice to the public.

UNDERSTAND THE INVESTMENT

The lure of large financial gains from a real estate investment opportunity may be enticing, but take your time, ask the right questions and verify before you buy. Most importantly, understand the investment and what it entails. If you don't understand, don't invest. Here are some important questions to consider before signing on the dotted line:

Are you buying an interest in real estate or in an entity that is buying or financing real estate? A promoter may form a corporation, a limited liability company or a limited partnership that will purchase real estate or make loans to other purchasers of real estate. The promoter raises money for the entity to purchase or finance the real estate by selling equity interests in the entity. What the promoter is selling are ownership interests in the entity. Those equity interests are securities. A promoter may also borrow money from investors to raise capital for the entity. In that case, the promoter is selling promissory notes, which are securities.

Are you buying real estate that you can control? A promoter may “package”

real property or loans on real property with service agreements – property management, rent or debt collection, foreclosure services – that the promoter will provide you. The promoter, not the investor, will make decisions regarding the management of the real estate or the real estate loan. If you are buying a “package” and you will not have active control over or management of the real property or the loan, then you are probably buying an “investment contract,” which is a security.

Are you investing in a deed of trust?

Although commonly called the deed of trust investment, the product that the promoter is selling is a promissory note secured by a deed of trust on real estate. The law exempts from registration requirements the sale of a note secured by a mortgage or deed of trust on real estate, but if the note and deed of trust are “packaged” with other services the promoter will provide to you, then the “package” you are buying is likely an investment contract. The investment contract would not be exempt from registration.

WATCH FOR RED FLAGS OF FRAUD

A real estate investment opportunity may only be as good as the person and the company who are standing behind it. Here are some warning signs that the investment opportunity may not be legitimate:

1. **A salesperson without a securities registration or valid exemption from registration.** Having a real estate or insurance license does not qualify an individual to sell securities. Contact the Commission's Securities Division





to determine the licensure status of the promoter and product and if there is a disciplinary history – even if it is with someone you know and trust.

2. **A company without verifiable or audited financial information.**

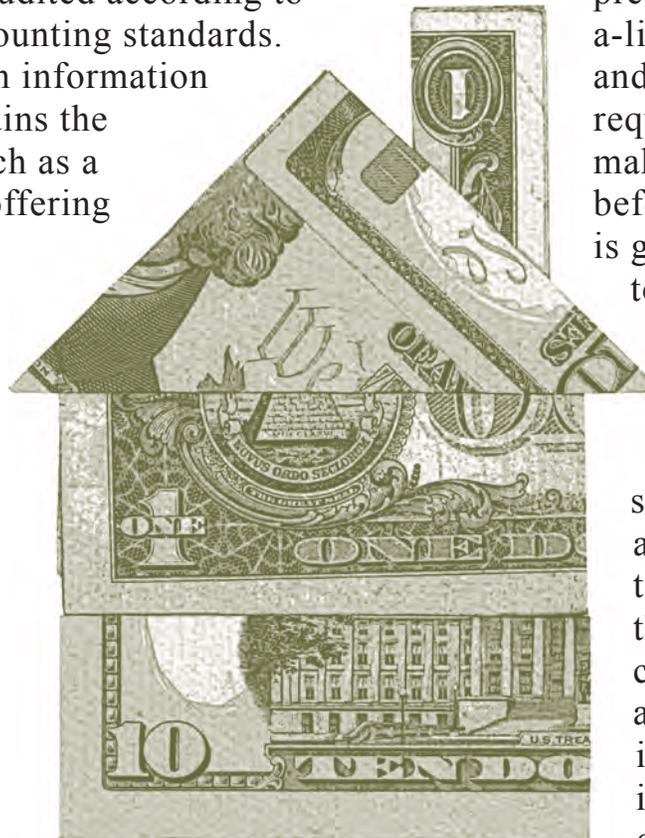
Beware if the company’s representatives emphasize their luxurious lifestyle and not objective financial information that has been audited according to acceptable accounting standards. Request written information that fully explains the investment, such as a prospectus or offering circular. The documentation should contain enough clear and accurate information to allow you or your financial adviser to evaluate the company’s financial health and the particulars of the investment.

3. **A deal with guaranteed returns and little to no risk.** Promoters may claim the investment has little risk since it is secured by a deed of trust, but such investments are rarely without risk. For example, the promoters may fail to record the deed of trust for the investors’ collateral

or the total amount of funds secured by the deeds of trust may far exceed the value of the property. Remember, all investments involve some form of risk – the higher the rate of return, the higher the risk of financial loss. Only invest what you can afford to lose.

4. **A limited time period to make a decision.** Scams are often

presented as a once-in-a-lifetime opportunity and promoters usually require an investor to make a quick decision before the opportunity is gone. When it comes to your investment dollars, this high-pressure sales tactic is a warning sign of a possible scam. Having the appropriate amount of time is crucial for a thorough background check on the promoter and product. This investigation process is known as “due diligence.”



5. **An opportunity that sounds too good to be true.** The lure of wealth sometimes blinds potential investors with greed. Vet the investment opportunity with an objective third party such as an accountant, financial professional or attorney, someone not associated with the transaction and without a hefty commission at stake.

VARIABLE Annuities



WHAT IS A VARIABLE ANNUITY?

A **variable annuity** is a contract between you and an insurance company, under which the insurer agrees to make periodic payments to you, beginning either immediately or at some future date. You purchase a variable annuity contract by making a single payment or a series of payments.

A variable annuity typically offers a range of investment options. The value of your investment will vary depending on the performance of the investment options you choose. Investment options for a variable annuity typically are mutual funds that invest in stocks, bonds, money market instruments, or some combination of the three.

NOT SIMILAR TO A MUTUAL FUND

Although variable annuities typically invest in mutual funds, they differ from mutual funds in several important ways:



First, variable annuities let you receive **periodic payments**. These payments can be for the rest of your life (or the life of your spouse or some other person you designate). This feature offers protection against the possibility that you will outlive your assets.

Second, variable annuities have a **death benefit**. If you die before the insurer has started making payments to you, your beneficiary is guaranteed to receive a specific amount—typically at least the amount you paid to purchase the annuity. Your beneficiary will get a benefit from this feature if, at the time of your death, your account value is less than the death benefit amount.

Third, variable annuities are **tax-deferred**. That means you don't pay taxes on the income and investment gains from the annuity until you withdraw the money. You can also transfer money from one investment option to another without paying taxes at the time of the transfer. When you withdraw your money, however, your annuity income will be taxed at **ordinary income rates**, rather than (usually lower) **capital gains rates**. In general, the benefits of tax deferral will outweigh the costs of a variable annuity only if you hold it as a long-term investment to meet retirement and other long-range goals.

NOTE: Other investment vehicles, such as IRA, 401(k), and Keogh accounts, may provide similar tax-deferred income benefits, without some of the drawbacks of annuities.

BE AWARE OF THE RISKS...

Surrender charges

If you withdraw money from a variable annuity during a certain period after a purchase payment (typically 6-8 years, but in some cases 10 years or longer), the insurance company usually will assess a “surrender” charge (typically some percentage of your account value or of the amount withdrawn).

Other charges

The insurer may deduct charges for mortality and expense risk (typically up to 2% a year), for administrative fees, for underlying fund fees, and for other fees and expenses. You need to be aware of the amount of these fees, as they may adversely affect the value of your annuity investment account.

Bonus Credits

Some companies will try to sell annuities

with “bonus credits” they claim will more rapidly increase the value of your account. The problem is that these annuities typically also include larger surrender charges and other charges, as well as limitations on certain features, such as the death benefit, based on the time you may hold the annuity before your death.

Exchanges

The Internal Revenue Code permits certain tax-free exchanges with respect to variable annuities. However, the annuity you receive in exchange frequently has limitations that may affect its value, particularly if you are not able to hold the annuity for a long time.

QUESTIONS TO CONSIDER BEFORE INVESTING IN A VARIABLE ANNUITY

- Will you use the variable annuity primarily to save for retirement or a



long-term goal?

- Are you investing in the variable annuity through a retirement plan or IRA (which would mean you are not receiving any additional tax-deferral benefit from the variable annuity over some other investment)?
- Are you willing to take the risk that your account value may decrease if the underlying mutual fund investment options perform badly?
- Do you understand all the features of the variable annuity?
- Do you understand all the fees and expenses the variable annuity charges and how they may affect your investment return?
- Do you intend to remain in the variable annuity long enough to avoid paying any surrender charges if you have to withdraw money?
- If a variable annuity offers a bonus credit, will that bonus outweigh any higher fees and charges the product may charge?
- Does the variable annuity have features, such as long-term care insurance, that you could purchase separately for less money?
- Have you consulted with a tax advisor and considered all the tax consequences of purchasing the variable annuity, including the effect of annuity payments on your tax status in retirement?
- If you are exchanging one annuity for another, do the benefits of the exchange outweigh the costs?

Generally, the exchange or replacement of insurance or annuity contracts is not a good idea, for a variety of reasons:

- “Bonus” or “premium” payments the insurance company makes to you are usually offset by other charges you pay the insurance company out of

the investment funds.

- Other contract provisions, like surrender charges, eventually expire with an existing contract. However, new charges may be imposed with a new contract or may increase the period of time for which the surrender charge applies.
- You may also have to pay higher charges, such as annual fees for the new contract.
- You may not need the costly new features of the new contract.
- In many instances your broker is getting paid a higher commission for a variable annuity than he or she would for the sale of another securities product, such as a stock, bond or mutual fund.

You should specifically ask the person recommending that you exchange your variable annuity the following:

- What is the total cost to me of this exchange?
- What does the change in the surrender period or other terms mean for me?
- What are the new features being offered? Why do I need or want those features?
- Are those features worth the increased cost?
- Will you be paid a commission for the exchange, and if so, how much is it?
- Is there a “free-look” period when I can cancel the transaction and receive a refund?

Avoid signing any exchange form or agreeing to exchange or purchase an annuity until you study all of the options carefully, have all of your questions answered and are satisfied that the exchange is better than keeping your current contract.

VIATICAL OR LIFE

Settlements as Investments



WHAT IS A VIATICAL OR LIFE SETTLEMENT?

Viatical settlements involve the purchase of an interest in a life insurance policy of a terminally-ill person. Life settlements involve the purchase of an interest in a life insurance of a person whose life expectancy may be compromised by serious health issues.

Individuals who sell their life insurance policies in connection with viatical settlements are called “viators.”

Individuals who sell their life insurance policies in connection with life settlements are called “insureds.”

Selling one’s insurance policy may be a desirable option, particularly when a policy does not have cash value and loan provisions. Usually, private companies and insurance companies buy the future rights to the policy at a discount

and often fractionalize that interest to investors who receive a return on their investment when the viator/insured dies and the death benefit is paid.

Viatical and life settlements can be legitimate investments and are often promoted as a way for people to do a “good deed” for humanity, providing much-needed financial resources to a family drained from caring for an elderly or terminally-ill person.

Know the Risks

Investing in viatical and life settlements, however, is not like buying certificates of deposit. Viatical or life settlements are high-risk investments. Before you buy, consider the following:

Viatical or Life Settlements are not liquid investments. You receive a return only when the insured dies and the death benefit is paid. You may have to wait several years to realize a return on your investment.

The rate of return is not guaranteed.

The return depends on when the viator/insured dies, which is very unpredictable. Medical advances can further complicate the estimation of the viator/insured’s life expectancy.

The death benefit may not be paid. The insurer may not pay the death benefit if the policy was obtained fraudulently and the contestability period has not expired. The policy may lapse if the premiums are not maintained. If the premiums are prepaid in escrow for a certain period, know who will pay the premiums if the viator/insured lives beyond his or her life expectancy. To prevent a policy from lapsing, you as the investor may have to pay premiums.

Your investment may have tax consequences. Funds invested in viatical and life settlements may not be eligible for an IRA, 401(k) or Keogh plan. Consult with your licensed financial, tax and/or legal professional before investing.

The life expectancy estimate may be inaccurate. Know who is estimating the life expectancy of the viator/insured, and whether that person has the knowledge and experience to make a realistic estimate. It could be in-house staff, independent physicians or a specialty firm that analyzes medical and actuary data.

ANNUAL VERSUS FIXED RATE OF RETURN

Viatical and life settlement promoters may advertise a return on investment that seems enticing, but this percentage rate can be misleading. With viatical and life settlements, an “annual” return cannot be calculated until the policy matures. This means that your return depends on when the viator/insured dies, which promoters cannot precisely predict in advance. Thus, the advertised return is typically a “fixed” rate of return, which disregards an investment’s holding period.

CASE STUDY

An investor purchases an interest in a viatical settlement contract for \$7,500 on a policy with a death benefit of \$10,000. The XYZ Viatical Company advertises a return of up to 33% on a viatical contract expected to mature in 12 months. The fine print indicates that if the viator lives past the estimated maturity date, the investor is NOT responsible for premiums. (NOTE: calculations are based on simple interest, rounded).



Before investing, calculate the **fixed** rate of return:

$$\frac{\text{Death Benefit} - \text{Purchase Price}}{\text{Purchase Price}} = \frac{\$10,000 - \$7,500}{\$7,500} = 33\%$$

SCENARIO 1

The viator/insured expires exactly one year later.

$$\frac{(\text{Death Benefit} - \text{Purchase Price}) \div \text{Purchase Price}}{\text{Holding Period}} = \frac{.33}{1 \text{ year}} = 33\%$$

SCENARIO 2

The viator/insured expires exactly two years later.

$$\frac{(\text{Death Benefit} - \text{Purchase Price}) \div \text{Purchase Price}}{\text{Holding Period}} = \frac{.33}{2 \text{ years}} = 17\%$$

SCENARIO 3

The viator/insured expires exactly three years later.

$$\frac{(\text{Death Benefit} - \text{Purchase Price}) \div \text{Purchase Price}}{\text{Holding Period}} = \frac{.33}{3 \text{ years}} = 11\%$$

In the first scenario, the fixed and annual returns are identical. The investor realizes a 33% annual return, but only because the policy matured in the first year. In the second and third scenarios, the annual returns (17% and 11%) are each lower than the advertised fixed return.

When comparing all three examples, note how the rate of return decreases as the investment holding period increases. This means that the longer you have to wait for the investment to “mature,” the lower your rate of return will be. Keep in mind that if you as the investor are responsible for paying insurance premiums, the overall return will be diminished further.

VIATICALS AND FRAUD

The Commission’s Securities Division has investigated and taken enforcement action against a number of individuals and companies for promoting unregistered viatical settlement contracts in Arizona. In several cases, the Division alleged fraud

by viatical promoters. Investigations revealed salespeople telling investors that their money was “safe and guaranteed” as they glossed over or failed to disclose investment risks.

Additionally, some insurance policies may be “clean sheeted,” meaning the insured misrepresented his or her health status or medical history during the application process. Life expectancies become grossly and recklessly underestimated, thereby inflating the potential return on investment. Moreover, some policies are manufactured out of thin air, resulting in investors purchasing viatical and life settlement contracts that did not even exist!

Many of the salespeople in these cases were insurance agents seduced by high commissions and lulled into believing that viatical and life settlements were not securities. In Arizona, viatical and life settlements are securities and sales are governed by the Arizona Securities

Act. Any salesperson offering and selling more than three viatical contracts per year in Arizona must be registered with the Commission's Securities Division.

KNOW YOUR RIGHTS

Arizona law further specifies that a viatical company should disclose:

- Your right to cancel the investment and receive a refund,
- Contact information for the insurance company that issued the policy,
- The policy number, issue date, and type,
- The policy premiums and terms of policy payments,
- The total value of the policy and your percentage of ownership,
- Whether or not the policy is contestable; if so, the risk that the insurance company may cancel the policy or refuse to pay claims made during the contestable period,
- The contact information for the party responsible converting a group policy to an individual one, including the terms and costs for the

- The contact information for the party responsible for renewing a term policy, if necessary,
- The amount of your investment that will be set aside to pay premiums,
- The contact information for the party who will be the policy owner and the person who will be responsible for paying premiums,
- The date when you may have to pay premiums, if necessary, and
- The separate amounts of your investment that will be used pay the seller's commission, buy the policy and pay administrative expenses along with other transaction costs.

ASK AND CHECK BEFORE YOU INVEST!

The Arizona Corporation Commission's Securities Division warns investors to fully verify all of the above information with the viatical company **BEFORE** they invest. The next important step is to contact the Division's Duty Officer at **602-542-0662** or toll free, **1-866-VERIFY-9**, to verify registration status of the viatical contract, the company and the salesperson.





SMALL BUSINESS

Investments



Small businesses may raise start-up and growth financing by selling stock or debt to the public. This type of financing often is considered public venture capital. In fact, many investors view such financing as an opportunity to get in on the ground floor of emerging businesses and to realize huge profits as the small businesses grow into large ones. BEWARE! Small business investments are associated with high risk. Purchasing the stock or the debt instruments of a small company is a highly speculative investment. Statistically, most new businesses fail within the first few years of operation.

REGISTRATION OF SMALL BUSINESS SECURITIES

Arizona offers Uniform Limited Offering Registration (ULOR) to small businesses. ULOR is a simplified registration procedure to reduce the costs of a public offering. Lower costs make it financially feasible



for small businesses to sell their securities to the public. Corporate officials describe their business and their business proposals on a Form U-7. The U-7 follows a question and answer format to elicit information very similar to that found in a standard business plan. Once the securities are registered for sale by the Arizona Corporation Commission, the Form U-7 becomes the offering document for investors.

Small businesses may also offer their securities without registration if the businesses follow the terms of specific exemptions from registration. The businesses should still give an offering document that describes the company and the offering to potential investors.

Whether offered under an exemption from registration or as a registered public offering, securities of small businesses include investment risks you need to consider thoroughly before investing. Read the following discussion closely to determine if an offering is within your risk “comfort zone” and satisfies your investment objective.

WHAT ARE YOUR INVESTMENT RISKS?

The overriding principle that should control any decision to invest in a small business is: **Never make a venture investment that you cannot afford to lose entirely.**

KNOW THE RISKS

The ability of a small, vulnerable enterprise to survive in a competitive business climate is not known. Given this uncertainty, never use funds for a venture investment that might be needed for necessary expenses, such as your children’s education or your own retirement. Instead, use discretionary

dollars that would otherwise be spent on a consumer purchase, such as an extra vacation or a down payment on a boat or recreational vehicle.

The ability of a new or small company to provide a return on its debt offering or appreciation on its stock offering also is uncertain. Never let a securities salesperson (who is paid by commission) convince you that the investment is without risk or that the Arizona Corporation Commission endorses an investment because it has been registered for sale. Any such assurances are false, and you should report the salesperson to the Commission’s Securities Division. Also, never let a securities salesperson rush you to make an investment decision. Always take the time to read and understand the offering material.

Another uncertainty in venture investments is that they are almost always highly illiquid. The securities technically may be freely transferable, but the resale market may be “thin” or nonexistent. Thus, not only is your potential for profit not guaranteed, but you may be unable to sell your securities.

KNOW YOUR INVESTMENT STRATEGY

Typically, professional venture capitalists do not invest large portions of their funds in a single company. Instead, they spread their risk by investing in a large number of companies and hoping that a few, highly successful investments will more than offset the many unsuccessful ones. If you plan to invest large amounts of money in small businesses, you should carefully consider your strategy. Even when using this strategy, do not invest funds you cannot afford to lose entirely.



HOW TO ANALYZE YOUR VENTURE INVESTMENT

Assuming that you have discretionary dollars to spend on a venture investment, what factors should you consider when making an investment decision? Although there is no set formula for making successful investment decisions, certain factors are often considered particularly important by professional venture investors. Some of these factors are discussed below. Carefully consider the factors below while reviewing the offering documents. If you have any questions, require management to answer all questions to your satisfaction before you invest.

MANAGEMENT

Most professional venture investors single out management quality as the most significant factor in the success of a small business. Inexperienced investors often give too much weight to a glamorous product and too little weight to management experience, skill and integrity. Critical questions are:

- How much experience does management have in the industry, in a small business and in financial and marketing functions?
- How successful were the managers in previous businesses?
- Has management prepared contingency plans for an unexpected death or resignation of a key executive or product developer?
- What is management's reputation in the local business community?
- What is management's salary and benefits package? Is it appropriate given the company's financial condition?
- What position if any, is management retaining in the company's ownership, i.e., what percentage of stock will be held by management?

INDUSTRY

Make sure that all of your questions and concerns are addressed. In fact, you may want to meet the management team about to have the use of your money. Remember to focus on their prior business history and not on their rehearsed sales presentation.

Always consider the company's industry. A growth industry is desirable, but you must pay careful attention to the ease of entry into that industry or market and other competitive factors. The offering document to investors often lacks much detailed information on the company's primary or related industry. You may wish to conduct your own industry investigation. Study research reports by securities analysts and statistics in trade journals to learn about growth trends and the financial health of competitors. Articles in the business press also are helpful, but reflect only the subjective views of companies in the industry.

Finally, when analyzing a new industry, do not confuse a "need" with a "market." Much advertising and other expensive and time-consuming selling efforts may be required before customers actually purchase products that meet their particular "needs."

MARKETING

Do not overlook the cost of marketing and the time it takes to enter a market. A classic analytical trap is to estimate the total size of a market and then to assume that the company somehow will obtain a percentage of that market without actually analyzing what is involved to achieve that level of penetration. This type of analysis is simplistic and misleading. Consider it to be a warning sign if encountered.

An accurate marketing plan makes a step-by-step analysis of the sales strategies, the



efforts, and the time required to penetrate a particular market niche. Evaluate this plan in terms of the company's management and financial resources to be expended on marketing and the resources available to the company's competitors. This analysis will provide a realistic assessment of the company's ability to capture market share.

FINANCIAL CONDITION

Examine the financial statements (including the footnotes). Look to the cash and debt positions, among others, to indicate performance potential and a solid financial base.

If the corporation is new, it will have no track record. Instead, you must base your investment decision on assumptions of future sales and expenses. Inquire about the following:

- Are the assumptions realistic?
- Are the cost components and profit expectations within normal industry ranges?
- What corrective actions will management take if projected results are not obtained?

A good business library should be able to give you the information to confirm or reject the financial conclusions made in the offering document. Also, study again the industry trade journals. Notice whether the financial statements are reviewed or audited. A review is substantially less comprehensive than an audit.

While a review may bring to the accountant's attention significant matters affecting the statements, there is no assurance that there are not significant adjustments that must be made in order to fairly present the issuer's financial position. Read the accountant's report carefully.



Finally, consideration of financial projections will help to put a value on the price of the issuer's securities. Do not overvalue the potential for profits and thus pay too much for securities in a company that lacks a history of operations. No matter how successful the company may become, the investment is not good if the price of the securities is too high.

USE OF PROCEEDS

How will your investment be used by the issuer? Purchases of equipment, facilities or distribution routes are examples of investment in a company's growth. Expenditures on management salaries and other "overhead" or administrative items may not contribute to the company's profit. The "Use of Proceeds" is discussed in the offering document. If you are concerned or do not understand the disclosure material, ask management for an additional explanation.

EXIT STRATEGY

Before you purchase any stock or debt instrument of a small business, consider how you will eventually sell your investment. The two standard methods are selling your investment in the public securities markets or receiving cash or some other form of compensation resulting from a merger or an acquisition of the company.

If the company is not likely to develop a secondary market in its securities or is not likely to be sold within a reasonable time, it may not be a good investment regardless of its prospects for success. Your dollars and your percentage of the profits they helped to generate will be "trapped" in the company. Being a minority security holder in a small company is generally not a happy prospect. Management may receive a good return indefinitely through generous salaries and bonuses, if the company is successful but remains illiquid. In this regard, be wary of family businesses. Review the various types of companies whose securities are publicly traded. This should give you insight as to whether the particular type of company under consideration will offer investors an exit strategy.

USE YOUR BEST JUDGMENT

The sale of small business debt and stock offerings enhances the state's economy and provides additional jobs. A larger capital base allows Arizona businesses the opportunity to grow. Likewise, opportunities to invest in small businesses give Arizona residents new opportunities for investment success. However, investors must balance the potential for success against the inherently risky nature of small business investments. They should consider discussing any investment opportunities with their attorneys, accountants or other business advisors.

Remember, if you are cautious and prudent in making investment decisions, your chances of obtaining a good return will be improved significantly.

PREVENTING & RESOLVING PROBLEMS

with Licensed Financial Professionals



Most brokerage firms and their salespeople deal honestly and fairly with their customers. Sometimes, however, difficulties and disputes can arise and, in some instances, fraud and theft may occur. The best defense against problems is to be in contact with your salesperson and make certain your investment objectives and risk tolerance are clear and then read your trade confirmations and monthly statements to check for problems.

Because investing in securities always involves an element of risk and can be quite complex, selecting the right person to give you investing advice or manage your money is essential to achieving your investment goals. Consider the following steps before you select a financial professional and hand over your hard-earned money.

STEP 1: RESEARCH YOUR BROKER CHOICE

The first step is to generate a candidate list of financial professionals from people or professional associations you trust. Next, get the background facts about the individual and firm that will handle your investments. This is one of the most important ways that the Securities Division can help you. Contact the offices and ask these questions:

- Is the individual (broker or salesperson) registered to sell securities in Arizona?
- Is the firm (brokerage or dealer) registered to sell securities in Arizona?
- Does the broker or brokerage firm have a history of regulatory violations, disciplinary actions or investor complaints?

You may ask: Does having a securities license guarantee that person is honest? The answer is “no,” but in verifying that your financial professional is licensed and without a disciplinary history, you have decreased your chances of falling victim to a con artist whose main objective is to steal your money and run from the law.

After narrowing down a candidate list, schedule a face-to-face or telephone interview with each person to discuss how your investment account should be managed.

STEP 2: MATCH YOUR RISK TOLERANCE & INVESTMENT STRATEGY

Before meeting a financial professional, think about your financial goals and objectives. Are you interested in primarily income, capital appreciation or quick profits? Also, carefully evaluate how much money you can afford or are willing to lose.

Unlike con artists who utilize high-pressure sales tactics, legitimate financial professionals should take the time to ask a series of questions about your income and assets, your career and retirement plans and the level of risk you are willing and able to take in investing. This information is your **financial profile**.

STEP 3: KEEP ACCURATE AND CURRENT RECORDS

Your financial profile should be accurately reflected on your **new account form**. Check the form and get a copy for your records. If your investment strategy changes over the years, be sure that your records accurately portray your revised objectives.

This form prepared by your salesperson contains your financial and investment objective information and is the basis for your salesperson’s securities recommendations.

Some important points to follow:

1. Fill out forms accurately and thoroughly. Do not sign documents to be filled out later by the financial professional.
2. Know the terms of any agreement you sign. If you do not understand the terms, do not sign on the dotted line.
3. Never make checks payable to the financial professional.
4. Require written documentation of all agreements and transactions.
5. Take notes on all telephone conversations and file with your records.

STEP 4: TAKE AN ACTIVE ROLE IN MANAGING YOUR ACCOUNT

Keep on top of the activity and performance of your account and question

anything that does not seem right to you. If you do not get a satisfactory answer from your salesperson, contact the compliance department of the brokerage firm or the securities regulators. No one cares as much about your money as you do – be ready to assume the responsibility of watching over it.

Do so even if you have a discretionary account where the financial professional buys and sells without your prior approval. Since almost all transactions must have your approval prior to any orders being entered, any trades or other activity entries that you have not authorized should be questioned with your salesperson. Brokerage firms send trade confirmations listing the quantity, description, and price of every buy and sell transaction. Likewise, monthly account statements recap all activity—trades and other accounting entries—that have taken place in your account.

When you receive any mail from your brokerage firm, you should immediately review it. A delay in notifying the brokerage firm of trade problems may result in a change in market value that will discourage a voluntary correction or adjustment by the firm.

If there is an error, insist that it be corrected and get a copy of a corrected trade confirmation or other written acknowledgement of the correction. Take written notes of telephone conversations in case you need them later.

STEP 6: VERIFY BEFORE YOU BUY

Ask for written “disclosure” information. Review it carefully and make sure that you understand all of the risks involved in the investment. If you have questions, ask

and keep asking until you get an answer you understand. If not, obtain a second opinion from an objective third party you know, someone who is not earning a commission on the investment.

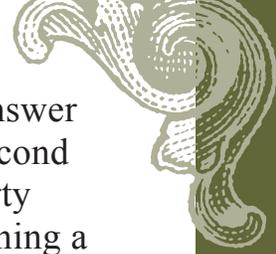
If you’re pressured by a financial professional to make a hasty decision, just say “no.” After all, it’s your money and no one cares more about it than you do. Keep in mind that in most situations, legitimate investment opportunities should still be available tomorrow.

STEP 7: KEEP THOROUGH TRANSACTION RECORDS

You should save all of your transaction records and copies of correspondence in case they are needed to support your version of facts in a dispute. Never send the originals of your documents to your salesperson or brokerage firm. Retain the originals and send copies as requested.

If the salesperson is unable or unwilling to resolve your concerns, send a written complaint to the manager of the branch where your account is located or to the compliance department of the brokerage firm. The letter should include details of your concerns and copies of any documents that help illustrate the problem or error.

Saying your account is losing money because of the recommendations made by your salesperson does not give the firm or a regulator any clue as to the nature of the problem you are seeking to resolve. Referring to your notes, be as specific as possible by giving a chronology of conversations and other events, identifying specific transactions that are in questions and describing your concerns with the salesperson’s



statements or actions related to the transaction.

You may also want to send a copy of that letter, along with a complaint, to the Financial Industry Regulatory Authority. While state and federal regulators cannot represent you in an attempt to get your money back, they can review the activity and practices of salespeople and brokerage firms to determine if violations of state or federal securities laws have occurred.

These agencies can take various actions that affect the license or registration of the individual or the firm to conduct

business in securities. State securities regulators can also work with other law enforcement agencies in bringing criminal charges. However, neither state nor federal securities regulators can represent or advise you in seeking monetary settlement.

LIMITS OF INSURANCE

Don't be misled by account insurance provided by brokerage firms. Nearly all brokerage firms are required to contribute to an insurance fund administered by the Security Investors Protection Corporation (SIPC), which covers customer account assets should the brokerage firm go out of business.



SIPC insurance does not protect an investor from loss of market value or bad advice (see page 59 of this booklet). No one can predict exactly how a security will perform at a given time in the future. Losing money is not, in itself, a violation of securities laws. Actual recovery of lost funds must be pursued directly by the customer through one of four ways:

1. File a complaint with the brokerage firm and attempt to reach a voluntary settlement.
2. State securities laws provide for civil remedies for certain types of violations such as unlicensed securities activity, misrepresentation or fraud. State laws allow you to take your claim to court if it is made within a prescribed period of time defined in the law. You should consult with an attorney about your ability to bring an action in state or federal court for securities law violations.
3. Many brokerage firms require customers to sign what is known as a Predispute Arbitration Agreement that may be part of a more all-encompassing customer or margin agreement. These arbitration agreements bind the parties to resolve most disputes relating to the customer's account via the arbitration process. Some agreements even specify in which forum the arbitration claim must be filed.

Arbitration differs from court action in that the parties present their case to a panel made up of industry and public members who will hear the testimony and then jointly make a decision. You are not required to have an attorney to pursue arbitration but most brokerage firms do utilize the services of in-

house or private counsel in defending arbitration claims.

Arbitration procedures are designed to streamline the process and be less costly to the parties. The parties also agree that the arbitration decision is binding and not subject to appeal (except on limited procedural grounds).

4. Another option available through FINRA is mediation. Similar to arbitration, and often suggested after an arbitration claim has been filed, mediation brings the parties together with a professional mediator who will not render any decision but who will act as a go-between to help the parties reach a mutually acceptable settlement.

This process is designed to be even less costly than either arbitration or court action. It does not necessarily require an attorney, and it involves the shortest time from claim to resolution. If mediation fails to resolve the dispute, arbitration can still proceed.

Remember, your first attempt to resolve any problems or concerns with your account should be with the salesperson and the brokerage firm. However, do not wait for a matter to correct itself! If a resolution is not forthcoming, do not hesitate to contact a regulatory authority or seek legal advice.

STEP 8: WATCH FOR FRAUD AND ABUSE

Although the vast majority of financial professionals are honest, there are brokers and advisers who engage in misconduct. Here are some major types of problems:

1. **Unsuitable investments.** Brokers must follow what's called the



“know your customer” rule. The rule requires them to make certain that the investments they recommend to you “match” your financial goals and the amount of risk appropriate for you.

2. **Unauthorized Trading.**

Your broker is required by law to get your permission prior to trading in your account. Trades carried out without your permission are “unauthorized,” unless you give him or her discretion over your account. Unauthorized trading is illegal and should not be tolerated.

3. **Misrepresentation/omissions of material facts.**

Let’s say your broker tells you that investing in a new issue of stock is as “safe as a CD.” This is an example of what regulators refer to as a “misrepresentation.” Your broker is obligated to be truthful—and complete—in presenting an investment opportunity to you. Omission of material facts is also a serious violation of securities laws.

4. **Churning/excessive trading.**

Most investment professionals earn commissions when they buy and sell investments on behalf of their clients. If your broker trades excessively in your account, you could have a valid claim against that broker for “churning.”

5. **Theft of Funds.**

One of the most devastating situations a small investor can encounter is actual theft by a broker or financial professional. This type of illegal behavior sometime occurs even if the financial professional works at brokerage firm with oversight by a compliance officer.

Remember, avoid responding to solicitations over the telephone or the Internet without thorough investigation.

IF A SERIOUS PROBLEM ARISES

What if you suspect that there may be a serious problem with the way your financial professional has handled your money?

Immediately contact the financial professional’s manager and explain your view of the problem. Spell out what resolution you expect within a specific period of time. If the communication is in person or over the telephone, follow up in writing. Keep copies of all correspondence for your records.

If the situation has not been corrected in the specified time, contact the contact the compliance division of the brokerage. Send a copy of this letter (and any subsequent letters) to the Securities Division.

If you do not receive a satisfactory resolution at this stage, you can hire a private securities attorney to represent you as well as file a written complaint with the Securities Division (see page 61) for specific instructions on how to file a complaint).

It is crucial that you don’t wait to act! State laws limit the amount of time you have to take action against a financial professional. Time could run out, making it impossible for you to take steps to recover your losses.

ARBITRATION and You



Virtually all brokerage houses require their customers to agree to arbitration instead of going to court. This requirement is usually contained in the agreement you sign when opening a new account.

Where do you get started in the arbitration process? First, consult your account form to identify the arbitration forum designated by the brokerage firm. Then, contact the appropriate forum and request a “demand for arbitration” packet.

The packet will explain how to file an arbitration claim. If you have any questions about the information contained in the packet, contact the organization sponsoring the forum.

FILING AN ARBITRATION

Among the documents you will be asked to complete is a “statement of claim,” which sets forth the nature of the dispute, the amount of the claim involved, and the



damages that you are seeking.

Your statement of claim should be focused and 100 percent accurate. Exaggerated claims or inaccuracies can destroy your credibility and any chance of recovery. The damages you seek should be reasonable and based on the actual losses attributable to the broker's misconduct.

SHOULD YOU GET REPRESENTATION?

Investors are not required to be represented by legal counsel in arbitration. Those who are unfamiliar with securities laws and the process of arbitration, however, often choose to hire an attorney to represent them.

If you intend to seek legal representation, finding an attorney familiar with securities laws and how investor arbitration works is important. Be sure to do your homework by thoroughly checking out attorneys who are unknown to you. Determine the potential cost of legal help and the fee options available to you.

FINDING A LAWYER

The Arizona State Bar Association or your county bar association may be able to assist you in finding a qualified lawyer. One national organization, the Public Investors Arbitration Bar Association, can identify lawyers in Arizona with the appropriate background. For telephone numbers, see page 69 of this booklet.

THE ARBITRATION PROCESS

When you agree to the arbitration process, you agree to accept the outcome of the arbitration. For this reason, it is important that you fully understand how the arbitration process works.

The methods of selecting arbitrators vary among organizations, but most

investor arbitration panels consist of three members: a chairperson, one panelist from outside the securities industry, and one panelist from within the industry.

Prior to your hearing, you will be given an opportunity to object to potential arbitrators if you have a legitimate reason for doing so.

Once you have filed the necessary documents and fees, you (the claimant) will be notified of any requests by the respondent (the broker/brokerage firm) for additional information. You must respond in a timely manner to these requests.

You will be informed of the proposed date, place and time of the hearing. Arbitration hearings are not conducted in courtrooms, but in conference rooms or hotel meeting facilities.

The hearing, while more informal than a courtroom proceeding, will follow guidelines for the presentation of evidence and testimony, rebuttal, opening statements and closing arguments. The arbitrators will make a decision based on the testimony and supporting evidence you and the respondent submit.

At the end of the hearing, all parties to the claim will be excused while arbitrators discuss their findings. You will be notified by mail of the decision of the arbitration panel, normally within 30 days.

If the decision is in your favor, the notice you receive will specify the amount awarded and the terms of payment. The respondent will be required to pay your claim within a specific period of time, in most cases within 30 days of the award. Awards not paid within the specified time frame will bear interest charges.

This article is based in part on Information provided by:
National Association of Securities Administrators (NASAA) www.nasaa.org or call 202-737-0900
Investor Protection Trust (IPT) www.investorprotection.org or call 202-775-2113

SIPC

Securities Investor Protection Corporation



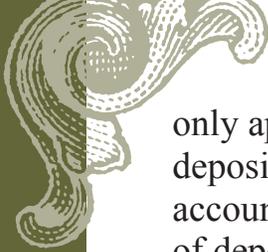
WHAT IS SIPC?

The Securities Investor Protection Corporation (SIPC) is a nonprofit, membership corporation, funded by its member securities dealers. Although it is not a governmental agency or regulatory agency, SIPC has the ability to return funds and securities to investor if the securities dealer become insolvent.

Most all securities dealers registered with the U.S. Securities and Exchange Commission (SEC) are members of SIPC, and are thereby required to display an official sign to notify investors of their membership. If a securities dealer is not a member of SIPC, the firm must disclose this fact to investors. To verify if a firm is an official member, call the SIPC Membership Department at (202) 371-8300 or send an email to askspic@sipc.org.

SIPC COVERAGE

The coverage provided by SIPC is sometimes confused with that provided by the Federal Depositary Insurance Corporation (FDIC) since both provide insurance coverage to protect investors. The FDIC guarantee



only applies, within certain limits, to deposited funds in saving/checking accounts, money markets and certificates of deposits held in its member bank and thrift institutions. Investments such as mutual funds, individual stocks and bonds that you may have purchased at an institution are not covered by the FDIC.

Though SIPC protection ends 180 days after the securities dealer loses its SEC registration, it can be extended in some instances. If, for example, a member broker becomes financially insolvent, SIPC can request that the federal courts appoint a trustee to liquidate the firm and return funds to investors. When the case involves a small securities dealer, SIPC may take direct control over the firm and handle the

liquidation and reimbursements process for investors. SIPC coverage also includes protection against unauthorized trading in your securities account at the brokerage firm. This protection can also apply to firms that are still financially solvent.

SIPC EXCLUSIONS

It's important to note that SIPC coverage does NOT include the following:

- Financial losses due to decreases in your investment's market value,
- Unsuitable recommendations made by your broker,
- Cash on deposit not designated to purchase securities, and
- Many limited partnerships and interests in precious metal commodities.



INVESTOR Complaints



The Securities Division of the Arizona Corporation Commission is responsible for regulating the securities industry in the state of Arizona. And one of its main functions is to oversee the firms and individuals that engage in the offer and sale of securities to the public.

WHAT THE SECURITIES DIVISION CAN DO FOR YOU:

- We will assign your complaint to an employee of the Securities Division for evaluation.
- We may make inquiries and/or conduct an investigation to determine if a violation of the securities or investment management acts we regulate has occurred.

WHAT THE SECURITIES DIVISION CANNOT DO FOR YOU:

- The Securities Division cannot give you specific legal advice or



refer you to a particular attorney or investment firm.

- The Securities Division cannot directly recover money for you. You may wish to employ an attorney to assist you in the recovery of your investment.

HOW TO FILE A COMPLAINT

The first step in the complaint process is the completion of a complaint form. You can find the form online by visiting www.azinvestor.gov and clicking on Investor Complaints or simply request one be sent to you by dialing **602-542-0662** or toll free, **1-866-VERIFY9 (837-4399)**.

Remember, you are always entitled to file a complaint with the Commission's Securities Division even if you go to arbitration through the Financial Industry Regulatory Authority (FINRA). For more information, contact FINRA at (800) 289-9999 or the exchange with which your securities dealer is a member.

You can file a complaint with the Securities Division by U.S. mail, facsimile and email.

By Mail: Send the completed complaint form, together with copies of supporting documents relating to your investment, to:
**Securities Division—Complaints
Arizona Corporation Commission
1300 W. Washington Street, 3rd Floor
Phoenix, AZ 85007**

By Fax: You may also fax your completed complaint form and copies of supporting documents to the Securities Division at **602-388-1335**.

By Email: Email your completed form and supporting documents to:
securitiesdiv@azcc.gov.

Keep originals in your files. The copies of the documents you should submit with your completed complaint form include:

- All envelopes in which you received information relating to your investment;
- Letters;
- Confirmations;
- E-mail correspondence;
- Pamphlets;
- Offering circulars;
- Prospectuses or written offering memoranda;
- Purchase agreements;
- Stock certificates;
- Advertisements;
- Money order receipts or canceled checks (copies of front and back) by which you made payments; and
- Other written material that may support your complaint.

WHAT SHOULD I SAY IN MY COMPLAINT?

The more information you provide, the more likely we will be able to promptly decide if any securities laws have been violated. The following information is critical to investigate the subject of your complaint:

- **Names, addresses, telephone numbers** and other identifying information for any person or entity you mention in your complaint.
- **Details of any transaction** or activity you think violates the Arizona Securities or Investment Management Acts. Present the events in the order in which they happened, using dates whenever possible.
- **Copies of documents**, listed above, relating to the transaction that is the subject of your complaint.
- **Signed declaration** as to truth and accuracy of your complaint.

WHAT DOES THE SECURITIES DIVISION DO WITH MY COMPLAINT?

Upon receipt of your complaint, the Division will consider making an inquiry into the matter. You should be aware that evaluation of your complaint might take several weeks. It is the Division's policy to conduct inquiries on a confidential basis. This is done to protect the integrity of the investigation and to protect the personal privacy of persons with respect to whom unfounded charges may be made.

Remember, the Division does not have authority to provide legal or financial advice to investors, or to represent them in connection with their personal rights. Any actions instituted by the Division with respect to alleged or purported violations are limited to remedial and enforcement actions seeking to prevent further violations.

Thus, any action by the Division would not necessarily result in any monetary benefit to you. If you have suffered monetary loss, you should consider contacting a private attorney to discuss your legal rights and remedies under the Arizona Securities Act or other statutes.

If you do not have a private attorney, and need help finding one, the Maricopa County Bar Association's Lawyer Referral Service may be consulted at 602-257-4434 or you may wish to contact the local Legal Aid Society for assistance.

STEPS TO TAKE IF YOUR COMPLAINT INVOLVES A DEALER OR INVESTMENT ADVISER

Many disputes with securities dealers can be directly resolved by you doing the steps noted below.

NOTE: In some cases, these recommendations may be effective in resolving disputes with an investment adviser. Unless an investment adviser is a member of FINRA, the arbitration procedures discussed below may not be available. Additionally, smaller investment advisers do not have the same kind of management structure as dealers, including office managers or compliance officers.

If you are unsatisfied with the response of an investment adviser representative, contact the investment adviser firm's management, but if there is none, contact the Commission's Securities Division.

NOTIFY YOUR DEALER AND YOUR DEALER'S MANAGER:

1. Talk to your salesperson about the problem.
2. Negotiate directly with your salesperson to resolve the matter. Frequently, minor issues can be settled informally at this point.
3. If you feel the salesperson has answered your questions unsatisfactorily or is unwilling to review your complaint, contact his or her supervisor, as well as the office manager.
4. Write to the firm's chief compliance officer. This individual is located at the firm's home office address. Request a response in writing from the compliance officer. (You can get the name of the compliance officer and the firm's home address from the salesperson's office.)



OIL AND GAS

Investments and Fraud



WHAT ARE OIL AND GAS INVESTMENTS?

Oil and gas investments take many forms, including limited partnership interests, ownership of fractional undivided interests in leases, and general partnerships. Tax consequences and investor liability vary according to the type of program.

In a drilling limited partnership, an oil or gas company sells partnership units to investors and uses the money it raises to lease property and drill wells. In return for managing the project, the sponsor company usually takes an upfront fee of one's investment (commonly referred to as tangible and intangible drilling costs) and also shares in a percentage of any revenue generated. Moreover, the promoter often offers the investor the prospect of a substantial first year tax write-off and quarterly cash distributions from the sale of any oil and gas the partnership finds until the wells run dry.

Drilling partnerships have always been a gamble. This type of investment is very speculative and is a highly illiquid investment with a long holding period.

FRAUDULENT SALES TECHNIQUES

Fraudulent oil and gas deals are frequently structured with the limited partnership (or other legal entity) in one state, the operation and physical presence of the field in a second state, and the offerings made to prospective investors in states other than the initial two states. Thus, there is less chance of an investor dropping by a well site or a nonexistent company headquarters. Such a structure also makes it difficult for law enforcement officials and victims to identify and expose the fraud.

BOILER ROOMS & INTERNET PITCHES

One of the primary ways that unscrupulous promoters attract potential investors is by using the Internet and “boiler room” offices with banks of phones operated by salespeople with little or no background in energy exploration, but plenty of experience in high-pressure sales.

Their techniques include repeated unsolicited phone calls to members of the public, hyping the profitability of the deal. Some swindlers use professionally designed brochures. Beware of unsolicited oil and gas promotions on the Internet and through e-mail.

Watch out for these claims:

- *You will have an interest in a well that cannot miss;*
- *The risks are minimal;*
- *A geologist has given the salesperson a tip;*
- *The salesperson has personally*

invested in the venture;

- *The promoter has “hit” on every well drilled so far;*
- *There has been a tremendous “discovery” in an adjacent field;*
- *A large, reputable oil company is operating or planning to operate in the area;*
- *Only a few interests remain to be sold. Send in your money now to reserve your interest;*
- *This is a special private deal open only to a lucky, chosen few investors—like you!*

INVESTOR CHECKLIST: HOW TO AVOID BEING SWINDLED

Investors wanting to make oil and gas investments should consider oil exploration and producing companies that are well-established and listed on a major stock exchange.

You can minimize the risk of being swindled if you resist pressures to make hurried, uninformed investment decisions. Here are five critical steps to take before parting with your money.

1. The Registration

Ask if the offering is filed with the Commission’s Securities Division or the state in which the promoters are located. If so, contact the Division for any information it may be able to provide. If the promoter is claiming an exemption from registration, hire an attorney who can determine if the exemption is valid.

2. The Salesperson

Ask the name of the salesperson and





for whom he or she works. Ask about the person's background, particularly in other oil or gas ventures. Inquire about sales commissions and/or other compensation the salesperson will receive. Contact the Securities Division to determine if the salesperson is registered or has been sanctioned.

3. The Company

Ask for the names of the principals or the general partners offering the security, their backgrounds and experience in the oil and gas industry, and how long they have been associated with the company. Find out the history of the company, its capitalization, assets and retained earnings. If you do not understand accounting, hire a certified public accountant to evaluate the overall financial health of the company.

Find out the company's or general partners' history in drilling operations, including its years in business, the number of wells drilled, the number of wells completed as producing wells, and whether the company retained its interests in the wells it drilled. All the above information should be contained in a prospectus or "offering documents" that the promoter must furnish potential investors before they commit their funds.

4. The Investment

Make sure investor funds are kept in a separate escrow account until used and that they won't be commingled with other funds. Also, be certain the funds will not be used for purposes other than those specified. Ask how much money is to be raised and the cost per

fractional interest. Ask how much of the money will pay for advertising, salaries, sales commissions and any estimated profit to the company. Ask what type of conveyance document will be provided after any investment is made.

If the well is completed, ask what the completion costs will be for each investor, including additional commissions to be paid (the purpose and amount), and whether investors may be obligated to pay in more money in the future. Ask what tax incentive might be available if a dry-hole is encountered and for intangible drilling costs. Finally, evaluate the risk involved in making the investment. Is the well to be drilled a wildcat (drilled in territory not known to be productive) or is the drilling to be done in an area of proven oil reserves?

5. The Lease

Secure a legal description of the property on which the program is to be drilled. Ask for a description of surrounding property, including local well completions and a geologist's report on the area. You will want to know if the lease is already in default and whether there is any overriding royalty or landowner's royalty or other leasehold burden being paid.

Ask for a disclosure of the person(s) selling the lease, the cost of the lease and any relationship between the lessor and the operator. Secure a statement of the depth of the well to be drilled and an indication of when drilling is to begin. Insist on seeing a copy of the operator's contract with the promoter.

DIRECTORY OF IMPORTANT TELEPHONE NUMBERS



American Bar Association	(800) 285-2221
Arizona Attorney General	
Consumer Information	(602) 542-5763
Investigations	(602) 542-4853
Arizona Corporation Commission	(602) 542-3076
Records-Corporate Status	(602) 542-3026
Bankruptcy Court	(602) 682-4000
Better Business Bureau-Phoenix	(602) 264-1721
Better Business Bureau-Tucson	(520) 888-5353
Certified Financial Planner Board of Standards	(800) 487-1497
Commodity Futures Trading Commission	(202) 418-5000
Department of Economic Security	(602) 542-4791
Department of Financial Institutions	(602) 255-4421
Department of Insurance	
General Information	(602) 364-3100
Licensing	(602) 364-4457
Department of Mines & Mineral Resources	(602) 771-1600
Department of Real Estate	(602) 771-7799
Department of Revenue-Problem Resolution	(602) 716-6025



DIRECTORY OF IMPORTANT TELEPHONE NUMBERS

Federal Bureau of Investigation-Phoenix	(623) 466-1999
Federal Trade Commission	(877) 382-4357
Financial Industry Regulatory Authority (FINRA)	(800) 289-9999
Financial Planning Association	(800) 282-7526
Land Department	(602) 542-4631
Maricopa County Attorney	
General information	(602) 506-3011
Investigations	(602) 506-3844
Maricopa County Sheriff.....	(602) 876-1000
Mine Inspector	(602) 542-5971
National Futures Association	(800) 676-4632
Registrar of Contractors.....	(602) 542-1525
Secretary of State	(602) 542-4285
State Bar of Arizona	(602) 252-4804
U.S. Customs & Border Protection	(520) 407-2300
U.S. Postal Inspection Service	(877) 876-2455
U.S. Securities & Exchange Commission	
Office of Investor Advocacy	(202) 942-8090



Chairman Bob Stump
Commissioner Gary Pierce
Commissioner Brenda Burns
Commissioner Bob Burns
Commissioner Susan Bitter Smith

Arizona Corporation Commission

