

Protecting Yourself From Financial Exploitation

Presented By:

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Office of the Montana State Auditor,
Commissioner of Securities and Insurance

The Role of the CSI



The Office of the Montana State Auditor, Commissioner of Securities and Insurance (CSI)

Our primary mission: to protect Montana's consumers through insurance and securities regulation.

We are committed to ensuring fairness, transparency, and access in the securities and insurance industries.

Common Securities Issues

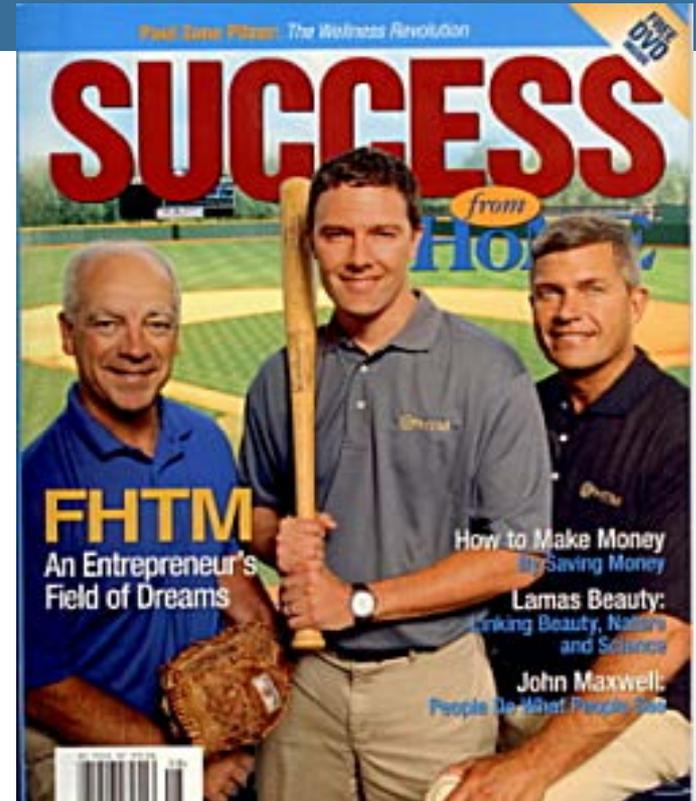
- Pyramid Schemes
- Ponzi Schemes
- Fake Investments:
 - Promissory Notes
 - Natural Resources
- Unsuitable Investments
 - Annuities
- Churning / Unauthorized Trading

Identifying A Pyramid Scheme

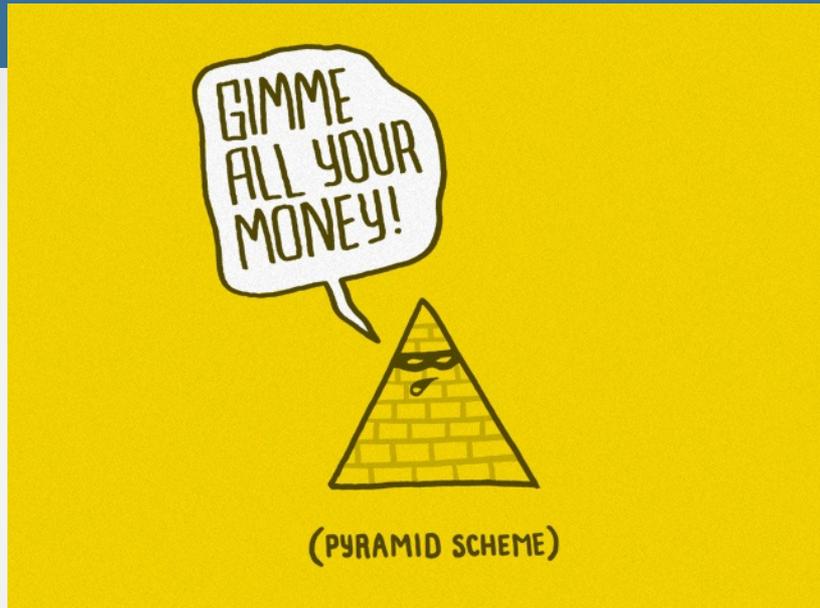
Is there a product?

Pyramid schemes usually don't have products or services.

A pyramid scheme consists of signing people up under you to create a pyramid like structure.



Pyramid Scheme vs Multilevel Marketing



Pyramid Scheme:

You only make money by recruiting people.



Multilevel Marketing:

You make money by selling a product or service.

Pyramid Schemes Protection

I thought they were my friends, until they asked me to join their pyramid scheme.

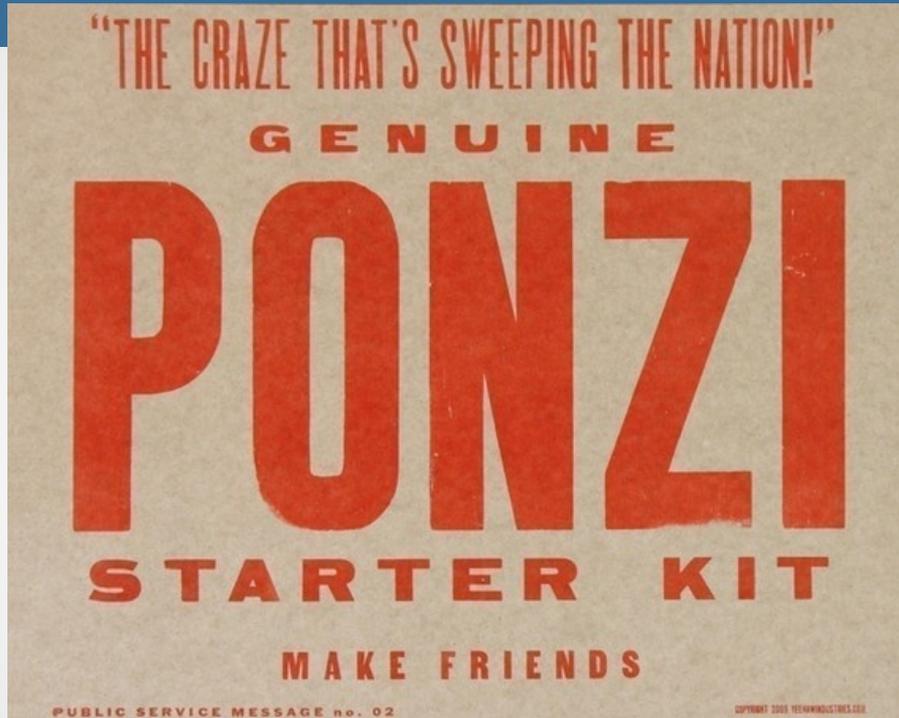


someecards
user card

Before investing in any sales plan or operation that offers the opportunity to make money from the recruitment of new participants, call the CSI to see if the company has made the required filing.

Toll-free (800) 332-6148

Ponzi Scheme



Charles Ponzi

Recent Schemes Affecting Montanans



Bernard Madoff



Richard Reynolds

Ponzi Protection



Before investing or getting involved in any program, call the CSI to see if the person proposing the investment is licensed.

Call (800) 332-6148

What's A Promissory Note?

I, Jane Doe, residing at 111 Maple Dr., Los Angeles, CA 90435, hereby promise to pay back, in full, the borrowed amount of \$1800 plus interest to John Smith at 5432 Applewood St., Los Angeles, CA 90456.

- Promissory notes are a written promise to pay a specified amount to a specific entity at a specific time or upon demand, with or without interest.
- Promissory notes are a security so individuals issuing the notes must ensure the transaction complies with securities laws.

Promissory Note Protection

Oh, i'm sorry.
I thought you
meant what
you promised.
Silly Me.

PinQuotes App

- Promissory notes are illiquid and are often unsecured without any collateral backing the investment.
- The promissory note and the person offering the promissory note must be registered or exempt from registration.
- Call the CSI to make sure the investment complies with the law.

Natural Resource Scams



Natural Resource Protection



- Like traditional investments, natural resource investments can only be offered by a registered person.
- Investigate the investment opportunity and call the CSI.

Unsuitable Investment



The law requires stockbrokers and financial planners to only recommend to clients investments that are appropriate based on a client's:

- Age,
- level of sophistication,
- liquidity needs,
- risk tolerance,
- investment objectives, and
- other factors known to the broker.

Unsuitable Investment Protection

One size
does NOT fit all



- Clearly articulate your investment objectives
- Ask for and read materials about the investments
- Call the CSI if you have questions

Annuities



- Annuities guarantee a fixed or variable payment to the investor at some future time, usually at retirement.
- Annuities are intended to be long term investments that have an accumulation phase before any distribution is to take place and they often have high set-up costs and high early withdrawal penalties.

Annuity Fraud Prevention

FREE
LUNCH
ANY ONE?

- Understand the time commitment, set-up costs and early withdrawal fees.
- Annuities are often sold at publicly advertised “free lunch seminars” and are sold for estate planning or tax avoidance.
- Annuities are rarely appropriate for an older investor due to their time commitment.
- Be wary of any recommendation to sell early or transfer; this may be an effort to get commissions for the broker.

Churning and Unauthorized Trading



- **Churning** is excessive trading by a broker in a client's account that provides little to no benefit to the client while generating commissions for the broker.
- **Unauthorized trading** is trading in a client's account without first obtaining the client's approval for the trade.



MONICA J. LINDEEN
COMMISSIONER of SECURITIES & INSURANCE
OFFICE of THE MONTANA STATE AUDITOR



Churning & Unauthorized Trading Protection



- Your broker must call you before any trade can occur in your account.
- Open all mail from your broker and make sure you approved all trades on your statement.
- Ask your accountant if the activity in your brokerage account is benefiting you.

Office of the Montana State Auditor, Commissioner of Securities and Insurance

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