



COMMISSION NEWS

ARIZONA CORPORATION COMMISSION, 1200 W. WASHINGTON, PHOENIX, AZ 85007

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CONTACT: Securities Division
(602) 542-4242

INVESTING BASED ON INTERNET TIPS CAN BE HAZARDOUS TO YOUR FINANCIAL HEALTH, SAYS THE ARIZONA CORPORATION COMMISSION'S SECURITIES DIVISION

Making investment decisions based on tips you find in your e-mail box or on the Internet can lead to a bear of a stock portfolio and be hazardous to your financial health, according to the Securities Division of the Arizona Corporation Commission. Arizona joined 29 other states to "surf" the Internet on November 12 looking for suspicious or fraudulent investment opportunities. Also taking part in the "surf day" were regulators from the Federal Trade Commission (FTC), the Commodity Futures Trading Commission (CFTC), and the National Association of Securities Dealers (NASD). The North American Securities Administrators Association (NASAA), which represents state securities regulators in the U.S. and Canada, analyzed 1,000 unsolicited e-mail messages forwarded by investors to the regulatory group's new e-mail address, cyberfraud@nasaa.org.

For stock fraudsters, the Internet has become a convenient alternative distribution channel, regulators say. The number of Internet users age 16 and older in North America has reached 79 million. Internet investing is also on the rise, with more than 3 million online trading accounts currently. Reaching potential victims via e-mail is more efficient and much cheaper than contacting

them the old fashioned way, through telephone boiler rooms, where high-pressure sales people sit shoulder-to-shoulder reading from elaborate, prepared scripts.

State and national regulators surfed over 400 web sites and Usenet group messages. They found that investors were being sought for both traditional and exotic investment opportunities, including viatical settlement, foreign currency, film and restaurant, Internet-related, and "offshore" investments. Often, the online solicitation asks the would-be investors to reply for more information via e-mail or a toll-free telephone number. "Investors should be very skeptical of investment claims on the Internet," warns Victor Rodarte, Acting Director of the Arizona Securities Division. "They should first check out the opportunities with the Securities Division and other investment professionals."

Consumers should also use caution before submitting any personal information in response to an investment sales pitch. Simply requesting additional information by e-mail may result in a consumer receiving unsolicited or unwanted commercial e-mail, known as "spam."

NASAA found that roughly 40 percent of the e-mail messages it has received were securities-related; a similar percentage involved business opportunities; and the rest included credit and loan pitches, gambling/casino web sites, and herbal and other treatments and "cures."

The vast majority of the securities-related e-mails, received from October 5 to November 12, promoted eight over-the-counter stocks. In one case, investors were urged to buy shares in a company that supposedly had developed a solution to "Y2K problems 100% of the time."

The e-mails NASAA received invariably contained bullish, if not far-fetched, predictions such as a restaurant chain whose revenues were projected to grow 300% for the 97-98 fiscal year. In another case, a web site promoting low-priced over-the-counter stocks claimed that "with 1.2 million visitors per day starting within the next few days, there's NO CHANCE the stocks can't rise!"

Investors who put their trust into these promotions would have ended up with a bear portfolio, NASAA found. In an analysis of the eight stocks, none had reached the price projections claimed in the “spam.” In fact, six of the eight securities were trading below their recommended purchase prices. Projections were so bullish that stock prices would have had to quadruple on average to meet their targeted prices. The eight stocks were also highly volatile, gyrating up and down by more than 20% in a single day.

Investors logging on for stock tips should be very wary about what they find, NASAA cautions. “Investors should treat junk e-mail with at least as much –if not even more – skepticism as regular junk mail or a cold call from a stock broker,” warns Arizona’s Rodarte.

For more information, investors can contact the Arizona Securities Division at (602) 542-4242 or visit the Division’s web site at www.ccsd.cc.state.az.us, which contains information on various scams and includes links to other regulating agencies. The Division’s investor education program provides free written and video information and also has a speakers bureau for presentations on securities regulation and investment fraud.