



COMMISSION NEWS

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ARIZONA JOINS 27 OTHER STATES TO TURN HEAT ON INVESTMENT BOILER ROOMS

The Arizona Corporation Commission has turned up the heat on investment boiler rooms.

The Commission's Securities Division has taken action against boiler room operators, who are prospering in the shadows of Wall Street's bull market. They are defrauding investors with high-pressure sales of everything from micro-cap stocks, foreign exchange investments, profits from infomercials – even investments in ostrich farms.

In a typical boiler room, sales people sit shoulder to shoulder at phone banks all day. They "cold call" potential investors using sophisticated sales scripts and high-pressure sales techniques. "Too many Arizona citizens have been burned by boiler rooms," said Commissioner-Chairman Jim Irvin. "The bull market has led to an explosion of boiler rooms," said Irvin. "As Securities and Exchange Commission Chairman Arthur Levitt has said, 'Boiler rooms belong in power plants, not in professional brokerage houses.'"

One of the new scams is foreign exchange investments. The con artists typically follow the headlines, in many cases offering investors the supposed chance to profit from currency crises. In California, in late June, regulators brought actions against 18 firms selling illegal "forex" investments to members of southern California's Asian communities. They were solicited to invest \$5,000 to \$200,000 to buy foreign exchange instruments supposedly traded in Hong Kong and other markets. The Arizona

Securities Division has a case pending against a firm based in Macau and nearby Hong Kong. “Micro-cap fraud” said Michael G. Burton, Sr., Securities Division Director, “is now on every regulators’ radar screen, so the bad guys, always following the headlines and trying to stay ahead of the regulators, are moving into new products such as foreign exchange.”

Investments cover the waterfront – from interests in gourmet coffee shops and internet service providers to ostrich farms. In Nevada, regulators brought criminal indictments against individuals involved with the Sterling Group, which sold supposed interests in the profits from infomercials for products such as water-filled barbells and talking dog tags.

“The original focus of this sweep was micro-cap stock fraud – following on the successful actions we took last year,” said Burton. “But as we got into it, we realized that micro-cap fraud, while serious, is in fact just a part of a larger problem – boiler room sales of investments.”

Often firms try to cash in on seemingly respectable names. For example, South Dakota took an action against a foreign exchange operation called Trump Financial.

“Ironically, the bull market on Wall Street has made it easier for boiler room crooks to operate,” said Burton. “When the big mutual funds are showing annual returns of 30-40 percent or more, the idea that you can double your money in a short time, as these con artists promise, doesn’t sound so ridiculous. Instead of hanging up, investors are listening – and getting taken.”

More than ever before, investors need to be on guard against boiler room sales people, who prey on professionals, business people as well as retirees, using telephone lists of potential “hot prospects.”

The Arizona Corporation Commission offers these tips to investors:

- never buy anything over the telephone from a stranger
- ask questions and request materials in writing
- avoid investments you don’t understand

- most importantly, thoroughly check out the investment and the person and firm selling it.

Don't succumb to pressure to "buy now." "If it's really a good investment, it will be a good investment next week or next month – after you've done your home work," said Commissioner Renz Jennings.

Investors can check out the investment, the sales person and their firm by contacting the Arizona Corporation Commission Securities Division, at (602) 542-4242, by fax at (602) 594-7470 or by e-mail at accsec@ccsd.cc.state.az.us. Also, see the Commission's web-site at www.ccsd.cc.state.az.us. Other state's addresses and phone numbers are available at the North American Securities Administrators Association web site at www.nasas.org or by calling (202) 737-0900.

If investors suspect they have been ripped off by a boiler room operator, they should contact the Securities Division. "It's embarrassing to admit you've been conned and lost money," said Commissioner Carl Kunasek, "but we need people to come forward so we can prevent other people from being victimized."

Finally, investors have rights when it comes to dealing with cold callers selling stocks. Under industry rules they can't be called before 8 a.m. or after 9 p.m. and they can demand that their name be put on a brokerage firm's "do not call" list.

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