



# Red Flags of a Fraudulent Investment

- 1. A company that lacks a verifiable business history.** Avoid companies lacking a verifiable business history. Just because the company is registered with the Corporation Commission does not automatically mean it can offer and sell investments. Contact the Securities Division's Investigator on Duty to verify the securities license status and potential disciplinary history of the salesperson and company *before* you invest.
- 2. Downplaying the risk of financial loss.** Be leery of personal guarantees since every investment has a certain degree of risk. Know that the higher the return, the higher risk of financial loss. Only invest what you can afford to lose.
- 3. Ambiguous explanation about how the investment makes money.** If the salesperson cannot clearly explain how the investment works and you don't understand the investment, don't invest.
- 4. False financial condition of the company.** Take the time to get an objective, third party to review the financial information. Avoid companies without audited financials.
- 5. Non-compliance with applicable exemptions.** Inquire with a licensed securities lawyer about exemptions claimed by the investment promoter.
- 6. Claim that investment opportunity is not a security.** Consult with a licensed securities lawyer who can interpret the facts in conjunction with Arizona securities laws. Note that the Securities Division staff cannot make the determination for you.
- 7. Unrealistic financial projections compared to those of long-standing companies.** Question investment returns too consistent over a long period of time in comparison to other market competitors. Also, beware of the sneaky greed factor. Remember: if the investment opportunity sounds too good to be true, it probably is a scam.
- 8. Emphasis on insider information and secrecy.** Securities laws require certain disclosures to enable investors to make informed decisions. The promoter should not discourage you from consulting with a knowledgeable, objective third party whom you trust.
- 9. Scarcity of time and limited quantity of the investment product.** Stay clear of anyone who is making repeated telephone calls to break down your sales resistance or is putting high pressure on you to make an investment decision. Take your time consider similar investment options before you make a final decision. Legitimate deals will be there tomorrow.
- 10. Offers to pick up your check by courier.** Legitimate companies typically require you to either send a personal check or electronically transfer the investment funds through a bank. Con artists want to make it extra convenient for you to gain immediate access to your money.