



North Carolina  
**Department of the Secretary of State**  
*Hon. Elaine F. Marshall, Secretary* Securities Division



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**June/July 2014 NEWSLETTER** • Vol. 6, Nos. 6 & 7

**Jury Convicts Charlotte Man of Federal  
Racketeering and Related Charges**



Steven Jones

On June 26, 2014, the U.S. Attorney's Office for the Western District of North Carolina announced that a federal jury had delivered a guilty verdict against Steven Jones, of Charlotte, in connection with a \$75 million racketeering conspiracy. Jones, 46, was convicted of racketeering conspiracy, securities fraud, wire fraud scheme to defraud investors and money laundering conspiracy following a three-day trial.

This conviction is the latest in Operation Wax House, an investigation which began in 2007 and has netted 91 defendants to date, 86 of whom have pleaded guilty or been convicted following a trial.

The United States Attorney's Office was joined in making this announcement by John A. Strong, Special Agent in Charge of the Federal Bureau of Investigation (FBI), Charlotte Division, and Thomas J. Holloman III, Special Agent in Charge of the Internal Revenue Service, Criminal Investigation Division (IRS-CI) and North Carolina Secretary of State Elaine F. Marshall.

The federal criminal trial began on Monday, June 23, 2014, before Senior U.S. District Judge Graham C. Mullen. According to evidence introduced at trial, the criminal enterprise operated from about 2005 until 2012, and engaged in an extensive pattern of racketeering activities, which included investment or securities fraud, mortgage fraud in the form of wire fraud and bank fraud, and money laundering.

According to trial evidence, Jones was a promoter in the enterprise's investment fraud operations, bringing in multiple investors, including an attorney, who Jones and his co-conspirators defrauded out of \$3.7 million. Trial evidence established that throughout a seven year period the enterprise created a series of sham corporations to convince individuals to invest money. When investors would become aware of the problems with one corporation the enterprise would start a new corporation with new officers on paper to continue to defraud still further investors, court records show. Trial evidence also showed that Jones and others defrauded victims not of just money they had, but also caused the victims to take out expensive loans and to invest those loan proceeds based on false promises. According to evidence presented at trial, Jones and his co-conspirators used the investors' money for personal expenditures, including private jets, high profile offices, entertaining themselves and others, and supporting their

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luxurious lifestyles. In total, the enterprise's investment fraud operations took approximately \$48 million from investors.

Following the jury's conviction, Jones was released on home detention with electronic monitoring pending the scheduling of his sentencing hearing.

The racketeering conspiracy charge carries a maximum term of 20 years in prison and a \$250,000 fine or twice the gross profits or other proceeds. The securities fraud charge carries a maximum term of 20 years in prison and a \$250,000 fine. The wire fraud charge carries a maximum term of 20 years in prison and a \$250,000 fine. The money laundering conspiracy charge carries a maximum term of 20 years in prison and a \$500,000 fine or twice the amount of criminally derived proceeds. A sentencing date for the defendant has not been set yet.

Five defendants have charges pending in the case, two of which are international fugitives. Each remaining defendant and his or her status are listed below.

- **Ramin Amini**, 45, of Tehran, Iran, is charged with racketeering conspiracy, mortgage fraud and money laundering conspiracy. Role: Leader and promoter in the scheme. Status: International fugitive.
- **Kurosh Mehr**, 52, of Charlotte is charged with racketeering conspiracy, mortgage fraud and money laundering. Role: Promoter and buyer. Status: On bond; scheduled for trial September 2014.
- **Ann Tyson Mitchell**, 62, of Charlotte, is charged with racketeering conspiracy, mortgage fraud and money laundering. Role: Facilitator. Status: On bond; scheduled for trial September 2014.
- **John Wayne Perry, Jr.**, 32, of Charlotte, is charged with racketeering conspiracy and money laundering conspiracy. Role: Promoter. Status: On bond; scheduled for trial after September 2014.
- **Nazeere Saddig**, 41, formerly of Charlotte, is charged with racketeering conspiracy and mortgage fraud. Role: Promoter and buyer. Status: International Fugitive.

Operation Wax House in the Western District of North Carolina is being handled by the Charlotte Division of the FBI and the Criminal Division of the IRS for the Financial Fraud Enforcement Task Force, along with the Securities Division of the North Carolina Secretary of State. The case was tried by Assistant United States Attorney Maria K. Vento and Special Assistant United States Attorney Kevin Harrington, of the Securities Division of the North Carolina Secretary of State.

This announcement is part of an effort by President Obama's Financial Fraud Enforcement Task Force (FFETF), created in November 2009, to combat financial fraud crimes by waging aggressive, coordinated and proactive investigations and prosecutions. Since its formation, the task force has made great strides in facilitating increased investigation and prosecution of financial crimes; enhancing coordination and cooperation among federal, state and local authorities; addressing discrimination in the lending and financial markets; and conducting outreach to the public, victims, financial institutions and other organizations. Over the past three fiscal years, the Justice Department has filed more than 10,000 financial fraud cases against nearly 15,000 defendants including more than 2,700 mortgage fraud defendants. For more information on the task force, visit [www.stopfraud.gov](http://www.stopfraud.gov).

For the names and case numbers of other defendants charged to date in **Operation Wax House**, see the list on the next page.

<p>The names and case numbers of the defendants charged to date in <i>Operation Wax House</i> are listed below, organized by their alleged role in the scheme.</p>	
<p><b>Attorneys and Paralegals</b></p>	<p>Crawford/Mallard, Michelle 3:11cr374 Gates, Christine 3:09cr100 Norwood, Kelli, 3:09cr162</p> <p>Rainer, Demetrius 3:08cr239/241 Smith, Troy, 3:08cr264</p>
<p><b>Bank Insiders</b></p>	<p>Brown, Jamilia, 3:10cr124 Eason, Danyelle, 3:10cr116 Henson, Vic. F., 3:10cr124</p> <p>Jackson, Mitzi, 3:11cr374 Ramey, Bonnie Sue, 3:10cr124</p>
<p><b>Builders and Sellers</b></p>	<p>Fink, James, 3:11cr374 Jackson, Jennifer, 3:09cr241 Smith, Kelvis, 3:12cr238</p> <p>Viegas, Jeffrey, 3:12cr298 Wittig, Mark, 3:12cr335 Wood, Gary, 3:09cr208</p>
<p><b>Facilitators and Financiers</b></p>	<p>Hickey, Denis, 3:09cr103 McClain, Landrick, 3:10cr124 Mitchell, Ann Tyson, 3:12cr239</p> <p>Panayoton, Sherrill, 3:11cr176 Taylor, Alicia Renee, 3:10cr124 Wilson, Willard, 3:09cr161</p>
<p><b>Mortgage Brokers</b></p>	<p>Bradley, Bonnette, 3:12cr299 Clarke, Linda, 3:10cr120 Flood, Ericka, 3:10cr124 Goodson-Hudson, Crystal, 3:12cr339 Mahaney, Robert, 3:12cr340 Scagliarini, Coley, 3:11cr374</p> <p>Staton, Walter, 3:10cr113 Vaughn, Danielle, 3:12cr329 Williams, Marcia, 3:12cr334 Williams, Sean, 3:12cr336 Woods, Joseph, 3:09cr178</p>
<p><b>Real Estate Agents</b></p>	<p>Belin, Chris, 3:11cr374 Clark, Christina, 3:09cr44 Lee, Shannon, 3:12cr338</p> <p>Pasut, Holly Hardy, 3:12cr331 Wolf, Nathan Shane, 3:12cr239 Wood, Gary, 3:09cr208</p>
<p><b>Promoters</b></p>	<p>Amini, Ramin, 3:12cr239 Barnes, Vonetta Tyson, 3:12cr239 Brown, William, 3:12cr239 Bumpers, Travis, 3:12cr239 Carr, Stephen, 3:10cr124</p> <p>Clarke, Reuben, 3:10cr120 Coleman, Gregory, 3:10cr118 Desimone, Frank, 3:12cr239 Dooley, Lori, 3:12cr239</p>



## Notice of Request for Comment Regarding a Proposed Model Rule for the Electronic Filing of Form D & Other Securities Registration or Notice Filing Documents

The Electronic Filing Depository Committee of the North American Securities Administrators Association, Inc. (NASAA) is seeking comment on a proposed model rule to require the electronic filing of Form D and other state securities registration/notice filing materials.

**Download:** [EFD Model Rule Cover Memo and Rule Posted for Public Comment](#)

To facilitate consideration of comments, please send comments to Joey Brady ([jb@nasaa.org](mailto:jb@nasaa.org)) at the NASAA Legal Department and to the members of the Committee:

- William Beatty (WA), Chair ([bbeatty@dfi.wa.gov](mailto:bbeatty@dfi.wa.gov))
- Faith Anderson (WA) ([faith.anderson@dfi.wa.gov](mailto:faith.anderson@dfi.wa.gov))
- Wallace Wong (CA) ([wallace.wong@dbo.ca.gov](mailto:wallace.wong@dbo.ca.gov))
- Susan Largman (NJ) ([largmans@lps.state.nj.us](mailto:largmans@lps.state.nj.us))
- Melanie Senter Lubin (MD) ([mlubin@oag.state.md.us](mailto:mlubin@oag.state.md.us))
- Sheri Palma (TX) ([spalma@ssb.state.tx.us](mailto:spalma@ssb.state.tx.us))
- Diane Ridley Gatewood ([diane.gatewood@ag.ny.gov](mailto:diane.gatewood@ag.ny.gov))

We encourage, but do not require, comments to be submitted by e-mail. **Comments are due on or before July 30, 2014.** Hard copy comments can be submitted using the address below.

NASAA Legal Department  
Joey Brady, General Counsel  
NASAA  
750 First Street, NE, Suite 1140  
Washington, DC 20002

**Background on the Proposal:** Since March 16, 2009, the U.S. Securities and Exchange Commission ("SEC") has required the electronic filing of Form D through EDGAR.

**[Editor's Note: Form D is a form used to file a notice of an exempt offering of securities with the SEC. Commission rules require the notice to be filed by companies and funds that have sold securities without registration under the Securities Act of 1933 in an offering based on a claim of exemption under Rule 504, 505 or 506 of [Regulation D](#) or [Section 4\(5\)](#) of that statute. For more information, see [Filing and Amending a Form D Notice](#).]**

NASAA is developing an electronic filing system ("EFD") that will facilitate the electronic filing of Form D for Rule 506 offerings with its U.S. member jurisdictions. EFD, a system that will interface with the SEC's EDGAR system to, inter alia, receive Form D notice filings and collect fees on behalf of the states. The current scheduled deployment date for the EFD system is November 2014.

The EFD system will initially be limited to Form D filings for Regulation D, Rule 506 offerings. The Committee expects that the EFD system will be expanded to include additional state securities registration and notice filing materials.

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This model rule is intended to assist state Administrators in implementing electronic filing of Form D notice filings in their respective jurisdictions.

### **Explanation of Proposed Model Rule for the Electronic Filing of Form D and Other Securities**

**Registration/Notice Filing Documents:** The proposal includes two alternatives. Alternative 1 is limited to Form D filings. Alternative 2 is broader in scope and would cover all potential state registrations and notice filings made through EFD. Both alternatives are designed to function in the same manner as explained below.

Paragraph (a) designates NASAA's EFD system to receive and store filings and collect related fees on behalf of the jurisdiction. Alternative 1 limits application to Form D filings while alternative 2 contemplates use of the EFD system for "securities registration, exemption, notice filings and amendments."

Paragraph (b) contains the requisite language mandating electronic filing.

Paragraph (c) provides that electronic filing is not required until 1) EFD is capable of accepting such filings and 2) appropriate notice has been provided to issuers by the Administrator. The rule contemplates a 30-day notice period, though jurisdictions would have discretion in setting the notice period. Paragraph (c) also explains that any documents or fees required to be filed with the regulator that are not permitted to be filed with, or cannot be accepted by, EFD shall be filed directly with the regulator.

Last, paragraph (d) requires that a duly authorized person of the issuer shall affix his or her electronic signature to the filing by typing his or her name in the appropriate fields and submitting the filing to EDGAR. Submission of a filing in this manner shall constitute irrefutable evidence of legal signature by any individual whose name is typed on the filing.

**Request for Comment:** The Committee is requesting comment on the proposal as drafted. The Committee also requests comment regarding whether states will have to incrementally designate by rule the types of filings that can be made through EFD (as contemplated in Alternative 1) or if states have the flexibility to promulgate a single rule covering all filings and issue notices as each filing type becomes available on EFD (as contemplated in Alternative 2).

## NASAA Releases 2013-14 Annual Report

The North American Securities Administrators Association (NASAA), of which North Carolina is a member, has released its 2013-14 annual report entitled, ***"In Pursuit of Smart Regulation & Investor Protection."***

The report details the activities NASAA and its member jurisdictions have undertaken over the past year to protect investors while promoting innovative ways to foster small business capital formation. North Carolina's activities are highlighted on page 12 of the report.

Organized in 1919, NASAA is the oldest international organization devoted to investor protection. NASAA is a voluntary association with a membership consisting of securities administrators in the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Canada, and Mexico.



To view the report, click the icon above or visit:

[http://www.nasaa.org/wp-content/uploads/nasaa-annual-report/2013\\_2014%20NASAA%20report.html#p=1](http://www.nasaa.org/wp-content/uploads/nasaa-annual-report/2013_2014%20NASAA%20report.html#p=1)

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The SEC's Office of Investor Education and Advocacy is issuing this [Investor Bulletin](#) to educate investors about transferring an investment account from one investment firm to another and to provide tips on how to avoid problems and delays.



# Investor.gov

U.S. Securities and Exchange Commission

## INVESTOR BULLETIN: TRANSFERRING YOUR INVESTMENT ACCOUNT

Investors transfer their investment accounts for many reasons. Their broker or investment adviser may have retired and the investor wants to switch to a new broker or investment adviser. Or perhaps their current broker or investment adviser is switching firms and the investor is also transitioning to the new firm. While the account transfer process is not complicated, investors should keep in mind that it is a decision they should fully understand.

### How the Account Transfer Process Works

Most account transfers between firms are made using the Automated Customer Account Transfer Service (ACATS). The National Securities Clearing Corporation (NSCC) operates ACATS, and both the New York Stock Exchange (NYSE) and the [Financial Industry Regulatory Authority \(FINRA\)](#) require their member firms to use ACATS. Transfers involving cash, equities, corporate and municipal bonds, government securities, mutual funds, and listed options are readily transferable through ACATS. If a transfer is made through ACATS, and there are no problems, the transfer should take approximately three to five business days to complete from the time the new firm enters the transfer form into ACATS.



All transfers start and end with your new firm. Customers initiate the transfer process by completing a Transfer Instruction Form (TIF) and sending it to the new firm. Most account transfer delays occur because the TIF is either incorrect or incomplete. It is critical that you use the correct form and fill it out very carefully. Be sure to provide the requested information exactly as it appears on your old account. Once the new firm receives the TIF, it begins the transfer validation process by sending the TIF to the old firm via ACATS, with a list of assets to be transferred.

The old firm has one business day to validate or reject the transfer request. If the assets in an account can be transferred through ACATS, the old firm can reject a transfer request only if the form has been completed incorrectly or there is a question about the ownership of the account or the number of shares.

Once the transfer request is validated by the old firm, the account is frozen for transfer to the new firm. The old firm will send a list of the assets to be transferred to the new firm, which can reject the transfer only if the account is not in compliance with the new firm's credit policies or minimum asset requirements.

The old and new firms must act to complete the transfer so it is important to stay in touch with both of them. If there is a problem, ask for an explanation of how to correct it. If the old firm takes no action on the request or a problem is not resolved within two business days, the transfer request is purged (or deleted) from ACATS. If that happens, FINRA is notified and the new firm must start over by inputting the transfer request into ACATS. Once the transfer is complete and you receive your first statement from your new firm, it is a good idea to take the time to compare it with your last statement from your old firm to verify that all assets have been correctly transferred.

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## Questions You Should Consider Asking Before You Initiate Your Account Transfer

Discussing the transfer process with your new firm is the best way to become familiar with the account transfer process. If the answers to your questions are not clear, **ask the new firm for a written response**. You should ask questions, such as:

- 1) Can you explain the transfer process to me?
- 2) Can you tell me what fees I should expect to pay (including transfer fees and any other fees associated with the account (e.g. annual fees, brokerage commissions)?
- 3) What documents or information do I need to transfer my account to your firm?
- 4) What do I need to do to start the transfer process and what should I expect after that?
- 5) What is the anticipated length of the transfer process given the specific type of account (such as cash, margin, IRA, custodial) and the assets held (such as stocks, bonds, options, limited partnership interests)?
- 6) Can you identify any issues that may cause a delay during the account transfer process?
- 7) How and when will you inform me that the transfer process is complete?
- 8) Does your firm have any specific policies or constraints that might impact the account transfer? For example, if you have a margin account, ask if the new firm will accept a margin account and, if so, what its minimum requirements are. In short, make sure the new firm is a good fit for you as a customer before you attempt to transfer your account.
- 9) Are there any restrictions on transactions I can execute during the transfer process? For example, buying and selling securities during the account transfer process can complicate and delay the transfer.
- 10) Can you identify any securities or assets in my account that may not transfer and how they will be handled?



Before initiating the transfer process, ask your new firm which assets in your account may not transfer. These securities may include:

- securities sold exclusively by your old firm;
- mutual funds or money market funds not available at the new firm, typically because the new firm does not maintain a relationship or arrangement with the fund necessary to hold the asset;
- limited partnerships that are private placements, typically because the asset is held at the issuer, not the broker or investment adviser who sold it to the customer;
- fractional shares of securities; and
- bankrupt securities.

You will need to make an informed decision regarding these non-transferable assets.

- You may be able to simply sell the non-transferable asset and transfer the cash proceeds, but you should consult your tax adviser first because selling the asset may affect your taxes. Also, before selling a mutual fund and buying a similar fund at your new firm, find out the fees that will be charged for the transactions by the old and new firms.
- If you choose to leave the non-transferable assets at the old firm in an inactive account, ask whether a fee will be charged.
- You may be able to take physical delivery of assets directly from your old firm. However, this may not be a wise choice. Taking possession of a physical security poses risks, such as the security

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being lost or stolen. Lost or stolen securities require significant time and money to replace. Also, it usually takes longer to sell a physical security than one your broker or investment adviser already holds electronically.

If you own some of these non-transferable securities, it may take longer to complete a transfer while you decide how to handle them. Your old firm is required to transfer whatever securities or assets it can through ACATS and ask you what you would like to do with the others.

## Other Issues

### Fees Matter



Make sure you understand the fees you will pay in transferring your account. You should ask your old and new firms about their fees. Sometimes, transfer fees can be substantial. These fees are typically spelled out in your account agreements with the firms. (If you no longer have your account agreement handy, ask your broker to provide you with a copy of its fee schedule.) Your old firm may charge you a fee to cover the administrative expenses associated with the transfer, and the new firm may also charge a fee. If you are transferring a retirement account, you should be aware that some firms will charge a “transfer out” as well as a prorated retirement account custodial fee. Before you initiate your account transfer, you may want to approach your new firm and ask them to waive or reimburse you for any transfer fees. In addition to transfer fees, make sure you also understand the various fees and expenses associated with your

account at the new firm. For additional information on account fees and expenses in general, please read our investor bulletin “How Fees and Expenses Affect Your Investment Portfolio,” at [http://www.sec.gov/oiea/investor-alerts-bulletins/ib\\_fees\\_expenses.pdf](http://www.sec.gov/oiea/investor-alerts-bulletins/ib_fees_expenses.pdf).

### Considerations If Your Financial Professional Moves to a New Firm

If your broker or investment adviser moves to a new firm, he or she may ask you to transfer your account to the new firm. In addition to the general questions about transfers discussed above, you should also consider asking your broker or investment adviser the following:



1. Why are you moving to the new firm?
2. What benefits or advantages will I receive from transferring my account to the new firm?
3. Has the new firm offered you any incentives or compensation to get me to transfer my account to the firm?

### Not All Customer Account Transfers Use ACATS

Banks, mutual funds, credit unions, insurance companies, and limited partnerships are not required to participate in ACATS. However, many banks voluntarily use NSCC’s “ACATS for Banks” program. If a bank participates in the program, then a transfer from a participating bank to a broker or investment adviser or vice versa should occur in the standard ACATS time frame of approximately three to five business days from the old firm’s receipt of a correct TIF from the new firm. If you are transferring your account to or from a bank, you should ask whether the bank participates in the “ACATS for Banks” program.

If ACATS is not used, the old firm and the new firm exchange forms between themselves and the customer. It is not uncommon for the account transfer process outside of ACATS to take up to thirty (30) days.

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### Dividends, Interest, or Other Assets Received After the Transfer Is Complete

If possible, time your transfer so that events such as dividends, interest, and proceeds from sales of securities will not arrive in your account after the transfer is due to be completed. If this does happen, however, your old firm is required to promptly transfer them to you at your new firm.



### Transferring an Annuity

Chances are that if your annuity is appearing on your investment statement, you bought it from the broker or investment adviser who has a selling arrangement with the insurance company that issued the annuity. The annuity itself is held by the insurance company and your broker or investment adviser keeps a record of it and services the annuity (acts as a “go between”) for you. In this case, your old firm will use the ACATS system to change the “broker of record” to your new firm. This process should not be confused with transferring an annuity from one insurance company to another, which typically involves a sale of the annuity.

### What If My Account Is Not Transferred and I Think It Should Have?

If you feel your account has not been transferred in a timely fashion, ask to speak to the compliance director at your old and new firm. If you are not satisfied, please contact the SEC, FINRA, or your state securities regulator to report the issue and get assistance.

U.S. Securities and Exchange Commission  
Office of Investor Education and Advocacy  
100 F Street, NE  
Washington, D.C. 20549-0213  
(800) 732-0330  
<http://www.sec.gov>  
<http://www.investor.gov>

[Financial Industry Regulatory Authority \(FINRA\)](#)  
FINRA Complaints and Tips  
9509 Key West Avenue  
Rockville, Maryland 20850  
(301) 590-6500  
<http://www.finra.org/Investors/>

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Finally, you should never hesitate to [Ask Questions](http://www.sec.gov/investor/pubs/askquestions.htm) (<http://www.sec.gov/investor/pubs/askquestions.htm>). A simple error could significantly delay the transfer. Be certain your old and new firms have the information they need to make the transfer happen in a timely fashion.

The SEC's Office of Investor Education and Advocacy is issuing this [Investor Alert](#) to help investors identify and be aware of financial professionals that may have a history of misconduct.



# Investor.gov

U.S. Securities and Exchange Commission

## Investor Alert: Check out Your Financial Professional

### Potential Red Flags for Financial Professionals

The SEC oversees key participants in the securities industry, including broker-dealers and investment advisers. The SEC and other regulators may bring enforcement actions against financial professionals for misconduct in connection with their securities related activities. Some financial professionals may also have a history of customer complaints or other indications of possible bad behavior.

Investors should be cautious of financial professionals with a history of misconduct. Red flags may include:

- Disciplinary actions by a government regulator, such as the SEC or a state securities regulator, or by a self-regulatory organization, such as FINRA;
- A history of customer complaints;
- Lawsuits or arbitration claims brought by customers;
- Employment with one or more firms that have been expelled from the securities industry.

### Check the Financial Professional's Background

Even if a close friend or family member recommends a financial professional, you should still check out that person for signs of potential problems. Before becoming a customer, take the time to look at the registration status and background of any firm or financial professional you are considering.

Anyone registered to sell securities or provide investment advice generally must disclose certain customer complaints, lawsuits and arbitrations, regulatory actions, employment terminations, bankruptcy filings, and certain other criminal or civil legal proceedings. You should also be able to find out whether the individual is currently registered or licensed, or has been suspended, as well as the individual's qualifications and employment history. These records are available through the SEC, FINRA, and/or state securities regulators.

### FINRA's BrokerCheck Program

For an individual broker or a brokerage firm, background information is available through FINRA's BrokerCheck report. BrokerCheck reports are free and investment professionals or firms are not made aware of any search conducted.

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A FINRA BrokerCheck report for an individual includes a listing of the broker's registrations or licenses, industry exams that the broker has passed, and information on a broker's previous employment, customer disputes, and regulatory or disciplinary events. A FINRA BrokerCheck report for a firm includes, among other things, the firm's history (including any mergers, acquisitions or name changes), a listing of the firm's active licenses and registrations, arbitration awards against the firm, and regulatory or disciplinary events.

As noted above, a potential red flag for financial professional misconduct is previous employment at one or more firms that have been expelled from the securities industry. To determine whether this red flag applies to an individual broker, review the BrokerCheck report for the individual broker and review the firms listed under the "Registration History" section. Then, run a separate BrokerCheck report for each of those firms listed.

A BrokerCheck report may be obtained from FINRA in any of the following ways:

- Visiting BrokerCheck at [www.finra.org/brokercheck](http://www.finra.org/brokercheck);
- Calling FINRA's BrokerCheck toll-free Hotline at (800) 289-9999;
- Submitting a request to FINRA via U.S. mail or fax. The BrokerCheck mailing address and fax number are:

FINRA BrokerCheck  
P.O. Box 9495  
Gaithersburg, MD 20898-9495  
Fax: (240) 386-4750

### ***Investment Adviser Public Disclosure (IAPD) Website***

Certain firms or financial professionals, such as money managers, investment consultants, and financial planners may be required to register with the SEC or your state's securities regulator as investment advisers.

- For SEC-registered investment advisers or their representatives, background information such as a description of the adviser's business practices, fees, conflicts of interest, and disciplinary history, is generally available at the SEC's IAPD website: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).
- For state-registered investment advisers or their representatives, background information such as a description of the adviser's business practices, fees, conflicts of interest, and disciplinary history, is generally available from the North Carolina Department of the Secretary of State Securities Division. You may contact the Securities Division at (919) 733-3924 or toll-free at (800) 688-4507.

### ***Professional Titles***

Some financial professionals also may have professional titles, such as Certified Financial Planner (CFP®) or Chartered Financial Analyst (CFA®). The requirements for obtaining and using professional titles vary widely. To use certain titles, a financial professional may need to pass exams, meet ethical standards, have relevant work experience, and undertake continuing education. Other titles, however, may be obtained with little time, effort, and experience. Keep in mind that a professional title is not the same as a license or registration granted by federal or state regulatory authorities.

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You can obtain additional information on professional titles used by financial professionals, by reading the SEC's Office of Investor Education and Advocacy's and NASAA's investor bulletin "Making Sense of Financial Professional Titles" which is available on the SEC website at [http://www.sec.gov/investor/alerts/ib\\_making\\_sense.pdf](http://www.sec.gov/investor/alerts/ib_making_sense.pdf).

**[Editor's Note: This and many other investor education brochures are also available on the NC Securities Division's website at <http://www.secretary.state.nc.us/sec/brochures.aspx#>.]**

For a list of financial industry titles (including the name of the issuing organization and any education or experience required to attain the credential), you can visit FINRA's website on Understanding Investment Professional Designations, at <http://www.finra.org/Investors/ToolsCalculators/ProfessionalDesignations/DesignationsLookup/>

#### **Additional Resources:**

- SEC Investor Bulletin: "Top Tips for Selecting a Financial Professional" at: [www.sec.gov/investor/alerts/ib\\_top\\_tips.pdf](http://www.sec.gov/investor/alerts/ib_top_tips.pdf)
- SEC Publication: "Investment Advisers: What You Need to Know Before Choosing One" at <http://www.sec.gov/investor/pubs/invadvisers.htm>
- SEC Publication: "Protect Your Money: Check out Brokers and Investment Advisers" at <http://www.sec.gov/investor/brokers.htm>
- SEC Publication: "Checking Out a Brokerage Firm, Individual Broker, Investment Adviser Firm, or Individual Investment Adviser" at <http://www.sec.gov/answers/crd.htm>
- FINRA Publication: "Selecting Investment Professionals" at <http://www.finra.org/Investors/SmartInvesting/GettingStarted/SelectingInvestmentProfessional/>

NASAA Alert: "[Informed Investor Advisory: Financial Service Providers](http://www.nasaa.org/22870/informed-investor-advisory-financial-service-providers/)" at <http://www.nasaa.org/22870/informed-investor-advisory-financial-service-providers/>

**Neither the SEC nor the NC Securities Division endorses any financial professional titles, and you are strongly encouraged to look beyond a financial professional's title when determining whether he or she can provide the type of financial services or products you need.**



## Nutraceutical Stock Scams—Don't Supplement Your Portfolio with These Companies

Want to lose weight, get an energy boost, improve potency, live longer or fight the common cold? Many of the products that claim to achieve these objectives are called "nutraceuticals," a term used to describe dietary supplements and food and drink products that contain additives purporting to provide health benefits. The financial reality, however, is that some of the companies associated with these products are likely to make your portfolio very unhealthy.

FINRA is issuing this alert to warn investors about potential scams related to everything from fortified foods and energy drinks to "natural" medicines. While some of the companies producing these products are legitimate, others could be bogus operations with the potential to harm unsuspecting investors.

### Spotting Potential Stock Scams

Like many investment scams, those associated with nutraceutical products may arrive in a variety of ways—from phone, fax, email or text messages to webinars, infomercials, tweets, blogs or message board posts. Regardless of how you first hear about them, these plays typically contain classic red flags of fraud.

In particular, fraudsters may try to lure you with very aggressive, optimistic and potentially false and misleading statements or press releases that create unwarranted demand for shares of some small, thinly-traded company that often has little or no history of financial success. The con artists behind the scam can then sell off their shares, leaving investors with worthless stock. This is what's known as a "pump and dump" fraud. For example, one company claimed to have acquired rights to "all-natural" medicines that treat maladies ranging from the common cold to kidney disease. While stating in a press release that the company "has the potential to capture 3% of the US market within a 3 year period" and "potentially generate \$100,000,000 in revenues," the company's unaudited financials reveal a firm with almost no cash on hand or track record of sales.



How do you spot potential scams and distinguish frauds from legitimate investment opportunities? Scam signals include:

- **Price targets or predications of swift and exponential growth.** One promotional mailer from a thinly-traded nutraceutical manufacturing company stated in bold typeface the company could produce "813% Short Term Gains."
- **Unsolicited communications promoting the opportunity.** These can include phone calls, faxes, emails, text messages, tweets and strategically placed "opinions" in blogs and message boards, usually related to a very low-priced stock. One health supplement company was the subject of over 50 email investor "alerts" put out by promotional entities in a 12-day period.
- **References to well-known companies to justify growth projections.** Promoters of one nutraceutical company claim the company's brand can "compete with the likes of Gatorade and grab mega talent like NIKE!" Another company compared investing in its stock to investing "in Pfizer in its beginning phases..."

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To steer clear of potential scams, follow these tips:

**Consider the source.** Never rely solely on information you receive in an unsolicited phone call, fax, email, text message or tweet—or in a blog post or online thread. It's easy for companies or their promoters to make glorified, unsubstantiated claims about new products, lucrative contracts, or the company's revenue, profits or future stock price.



**Always ask: "Why me?"** Another tip-off that you're potentially being scammed is that the message is unsolicited, which raises the obvious question: Why would a total stranger tell you about a really great investment opportunity? The answer is that there is no such opportunity. In many scams, those who promote the stock are corporate insiders, paid promoters or substantial shareholders who profit handsomely if the company's stock price goes up.

**Exercise some skepticism.** Scammers are very adept at making their pitches appear real, including the use of slick videos and websites. Be extremely wary of any pitch that suggests immediate pay-offs, especially if the investment involves a start-up company or a product or service that is still in development. Even technologies that show promise might be years or decades away from coming to market—let alone turning a profit.

**Find out where the stock trades.** Most unsolicited spam recommendations involve stocks that do not trade on The NASDAQ Stock Market (NASDAQ OMX), the New York Stock Exchange (NYSE Euronext) or other registered national securities exchanges. Instead, these stocks may be quoted on an over-the-counter (OTC) quote platform like the FINRA-operated Over-the-Counter Bulletin Board (OTCBB) and the platform operated by OTC Markets Group, Inc., formerly known as the Pink Sheets.

Generally, there are no minimum quantitative standards that a company must meet to have its securities quoted in the OTC market.

Many of the securities quoted in the OTC market do not have a liquid market. They are infrequently traded and can move up or down in price quickly. This may make it difficult to sell your security at a later date.



**Read a company's SEC filings, if available.** Most public companies file reports with the Securities and Exchange Commission (SEC). Check the [SEC's EDGAR database](#) to find out whether the company files with the SEC. Read the reports and verify any information you have heard about the company. But remember that just because a company has registered its securities or has filed reports with the SEC does not mean that it will be a good investment. Also be aware that not all financial information filed with the SEC, or published elsewhere, is independently audited. Unaudited financials are just that—not reviewed by an independent third party.

**Be wary of changes to a company's name or business focus.** Stock promoters often change a company's name, trading symbol and even line of business in an attempt to align it more closely with a current event or issue—a trick you will be able to identify by looking at the SEC reports described above.

One corporation that purports to focus on "nutraceutical, physical performance enhancement and wellness products" was originally incorporated to "provide mailing & shipping services."

Another company claiming to distribute "specialty drugs and over-the-counter branded multivitamins" only a few months earlier stated in SEC filings that it was "a natural resource exploration and production company engaged in the exploration, acquisition, and development of oil and gas properties in the United States."

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**Check out the person promoting the stock or investment.** A legitimate investment salesperson must be properly licensed, and his or her firm must be registered with the Financial Industry Regulatory Authority (FINRA), the SEC and a state securities regulator—depending on the type of business the firm conducts. To check the background of a broker and his or her firm, use FINRA's [BrokerCheck](#). For an investment adviser, use the [Investment Adviser Public Disclosure website](#).

**[Editor's Note: The North Carolina Department of the Secretary of State Securities Division always recommends that investors call and speak with one of its registration representatives at (919) 733-3924 or toll-free at (800) 688-4507. We can help interpret and explain the information found on the BrokerCheck or Investment Adviser Public Disclosure websites.]**

### If a Problem Occurs

If you believe you have been defrauded or treated unfairly by a securities professional or firm, please send us a written complaint. And if you suspect that someone you know has been taken in by a scam, be sure to give us that tip. Here's how:

#### Online:

- [File a Complaint with FINRA](#) (for you)
- [Send a Tip to FINRA](#) (for others)
- [File a Complaint with the NC Securities Division](#)
- [File a Complaint or Submit a Tip to the Securities and Exchange Commission \(SEC\)](#)

#### Mail or Fax:

FINRA Complaints and Tips  
9509 Key West Avenue  
Rockville, MD 20850  
Fax: (866) 397-3290

NC Department of the Secretary of State  
Securities Division  
PO Box 29622  
Raleigh, NC 27626-0622  
Fax: (919) 807-2183

#### Additional Resources

- FINRA Investor Alert: ["Gold" Stocks—Some Investments Mine Your Pocketbook](#)
- FINRA Investor Alert: [Avoiding Investment Scams](#)
- FINRA Investor Alert: [Save Your Money and Energy—Don't Fall for Energy Stock Scams](#)
- Federal Trade Commission Consumer Alert, [Free Trials Aren't Always Free](#)
- [Investor Brochures, NC Securities Division](#)

## Calendar of Upcoming Events



A representative from the Securities Division will be giving an anti-fraud presentation on the following dates and locations. Dates and times are subject to cancellation (although cancellations are rare), so please call the contact number listed to confirm the event is still on before leaving for it. All presentations are free and open to the public unless otherwise indicated. If you would like to schedule a speaker for your church, business, group or organization, please contact [John Maron](#) or [Barbara Bennett](#) at (800) 688-4507. For a complete list of all upcoming events, please see our **Calendar** at <http://www.secretary.state.nc.us/sec/Calendar.aspx>.

Date	City	Details
07/24/14	Beulaville	Investment fraud presentation at the <a href="#">Beulaville Nutrition Site</a> , Beulaville Presbyterian Church, 205 East Main Street. Time: 11:30 AM – Noon. For more information, contact Edward Tyndall at (910) 296-2140.
07/30/14	Wentworth	"Business Essentials" presentation at Rockingham Community College, Small Business Center, Bishopric Lifelong Learning Center, 215 Wrenn Memorial Road. Time: 10:00 AM -- 12:00 PM. Free, but <a href="#">registration</a> requested.
07/31/14	Charlotte	"Business Essentials" presentation at Central Piedmont Community College, Hall Building (2nd Floor), Room 215, 1112 Charlottetown Avenue. Time 6:00 PM – 8:00 PM. Free, but <a href="#">registration</a> is requested.
08/04/14	Swan Quarter	Investment fraud presentation at <a href="#">Mattamussett Senior Center</a> , 160 Juniper Bay Road. Time: 10:30 AM -- 11:30 AM. For more information, contact Darlene Berry at (252) 926-1956.
08/05/14	Manteo	Investment fraud presentation at <a href="#">Dare County Senior Center</a> , 950 Marshall Collins Drive. Time: Noon -- 1:00 PM. For more information, contact Sandy Scarborough at (252) 475-5625.
08/06/14	Charlotte	<a href="#">Financial Literacy Summit V</a> , Federal Reserve Bank of Richmond, Charlotte Branch, 530 East Trade Street, Charlotte, NC 28202-2939. Time: 9:00 AM -- 4:00 PM. For more information, contact Sandy Wheat at 866-606-2233
08/07/14	Charlotte	<a href="#">Financial Literacy Summit V</a> , Federal Reserve Bank of Richmond, Charlotte Branch, 530 East Trade Street, Charlotte, NC 28202-2939. Time: 9:00 AM -- 12:00 PM. For more information, contact Sandy Wheat at 866-606-2233
08/12/14	Leland	"Business Essentials" presentation at <a href="#">Brunswick Community College, Leland Center</a> , 2050 Enterprise Boulevard. Time: 1:00 PM – 3:00 PM. Free, but <a href="#">registration</a> is requested.
08/13/14	Sanford	Veterans' Job Fair. Location still to be determined. Time: 9:00 AM -- 1:00 PM. For more information, contact Bryan Fox, office of <a href="#">U.S. Rep. Renee Ellmers</a> , at (910) 230-1910.
08/18/14	Raleigh	Fraud seminar, <a href="#">Central Carolina Chapter of the Association of Certified Fraud Examiners</a> . N. Raleigh Hilton, 3415 Wake Forest Road. Time: 10:00 AM -- 3:00 PM. Open to Association members only. For more information, contact Richard Reedman at <a href="mailto:reedman@accountingtaxplan.com">reedman@accountingtaxplan.com</a> .
08/21/14	Roxboro	"Elder Investment Fraud & Financial Exploitation Prevention" presentation, <a href="#">Aging with Gusto Conference</a> , 304 South Morgan Street. Time: 9:00 AM -- 3:00 PM. For more information, contact Jennifer Grable at (336) 599-1195.
08/26/14	Morganton	Investment fraud presentation at <a href="#">Morganton-Burke Senior Center</a> , 501 N. Green Street. Time: 9:00 AM – Noon. For more information, contact Jason May at (828) 430-4147.
08/27/14	Spindale	Investment fraud presentation at <a href="#">Rutherford Senior Center</a> , 193 Callahan-Kook Road. Time: 10:00 AM -- 11:15 AM. For more information, contact Barbara Hill at (828) 287-6409.

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Date	City	Details
08/28/14	Hickory	Investment fraud presentation at <a href="#">Abingdon Glen Village</a> , 501 26th Ave NE. Time: 3:30 PM -- 4:30 PM. Open to Abingdon Glen Village residents and their guests. For more information, contact Judy Trainum at (828) 328-3231.
09/04/14	Clayton	"Business Essentials" presentation at Johnston County Community College, Workforce Development Center, 135 Best Wood Drive. Time: 1:00 PM – 3:00 PM. Free, but <a href="#">registration</a> is requested.
09/08/14	Yanceyville	"Elder Investment Fraud & Financial Exploitation Prevention" presentation at the <a href="#">Caswell County Senior Center</a> , 649 Firetower Road. Time: 10:15 AM -- 11:15 AM. For more information, contact Jeannine Everidge at (336) 694-7447.
09/10/14	Winston-Salem	"Business Essentials" presentation at Forsyth Community College, Small Business Center, 4255 Patterson Avenue. Time: 2:00 PM -- 4:30 PM. Free, but <a href="#">registration</a> is requested.
09/13/14	Charlotte	"Guarding Your Assets in a Scary World" presentation at the <a href="#">Charlotte Chapter of American Association of Individual Investors</a> , Myers Park Methodist Church, 1501 Queens Road. Time: 10:00 – Noon. Open to AAIL members and their guests only. For more information, please click the link above.
09/15/14	Tarboro	"Elder Investment Fraud & Financial Exploitation Prevention" presentation at <a href="#">E. L. Roberson Senior Recreation Center</a> , 305 W. Baker Street. Time: 10:30 AM – 11:30 AM. Free. For more information, contact Morgan Whitehurst at (252) 641-4263.
09/16/14	Kill Devil Hills	"Women In Transition" presentation at <a href="#">Thomas A. Baum Senior Center</a> , 300 Mustian Street. Time: 10:00 AM -- 11:00 AM. For more information, contact Emily Karr at (252) 475-5635.
09/16/14	Kill Devil Hills	General investment fraud presentation at <a href="#">Thomas A. Baum Senior Center</a> , 300 Mustian Street. Time: 1:00 PM -- 2:00 PM. For more information, contact Emily Karr at (252) 475-5635.
09/16/14	Wilson	"Business Essentials" presentation at Wilson Community College, Small Business Center, Building G, Room G-240, 902 Herring Avenue East. Time 6:00 PM – 8:00 PM. Free, but <a href="#">registration</a> is requested.
09/29/14	Charlotte	"Guarding Your Assets in a Scary World" presentation, <a href="#">Tyvola Senior Center</a> , 2225 Tyvola Road. Time: 10:00 AM -- 11:00 AM. For more information, contact April McDonald at (704) 817-5462.
10/01/14	Chapel Hill	"Money Smart for Older Adults" presentation at the <a href="#">Robert &amp; Pearl Seymour Center</a> , 2551 Homestead Road. Time: 1:00 PM – 3:00 PM. For more information, contact Beverly Shuford at (919) 245-4274.
10/02/14	Mocksville	"Business Essentials" presentation at Davie County Community College, Administration Building, Room 110, 1205 Salisbury Road. Time: 4:00 PM -- 6:00 PM. Free, but <a href="#">registration</a> is requested.
10/07/14	Raleigh	<a href="#">Wake Tech Community College Plus 50 Expo Day</a> , 6600 Louisburg Road. Time: 1:00 PM – 2:00 PM. Free. For more information, contact Toinette Young at (919) 532-5851.
10/08/14	Hillsborough	"Money Smart for Older Adults" presentation at <a href="#">Central Orange Senior Center</a> , 103 Meadowland Drive. Time: 1:00 PM – 3:00 PM. For more information, contact Beverly Shuford at (919) 245-4274.
10/09/14	New Bern	"Business Essentials" presentation at <a href="#">Craven Community College</a> , 800 College Court, Bosch & Siemens Advanced Manufacturing Center, Room 102. Time: 6:00 PM – 9:00 PM. For more information, contact Rebecca Moorser at (252) 638-1191.



## On The Docket

The following cases are ones in which the Securities Division has had some involvement, either as the lead investigative agency or in a supporting role.

**Walter Ray Reinhardt**, of Durham, NC, was served with 62 felony arrest warrants for securities violations on November 17, 2010. He is alleged to have defrauded 16 victims in Durham County out of more than \$1 million. Reinhardt had his first appearance in Durham County District Court on November 18, 2010 on 38 felony counts of securities fraud, 12 felony counts of common law forgery, and 12 felony counts of common law uttering. He is currently being held in the Durham County Jail under a \$4 million bond. A trial date has been calendared for August 11, 2014, in Durham County Superior Court.

**Darren Joseph Capote**, of Patterson, NY, was indicted on July 11, 2011, in Ashe County Superior Court on three Class C felony counts of securities fraud. He is alleged to have defrauded an elderly victim in Ashe County. He was released from custody on a \$100,000 secured bond. His next court appearance in Ashe County has not been scheduled.

**Michael Anthony Jenkins**, of Raleigh, NC, was served on August 17, 2012, with three felony arrest warrants for securities fraud. Investigators with the Secretary of State Securities Division allege that Jenkins told investors he would use their funds to trade commodities futures or "E-mini futures" through his company, Harbor Light Asset Management, LLC. Investigators allege Jenkins instead converted funds to his personal use and used money from later investors to pay earlier investors in what is commonly referred to as a Ponzi scheme. Jenkins is in the Wake County Jail under \$500,000 secured bond. During his first hearing on August 20, 2012, the prosecutor told the court that there are 377 known victims of Jenkins' approximately \$1.79 million Ponzi scheme. The Securities Division's investigation is continuing. Anyone who has made investments with Harbor Light Asset Management, LLC is asked to contact the Securities Division at (800) 688-4507 or (919) 733-3924.

## Recent Enforcement Actions

(For prior administrative and criminal actions, click on the badge to the right.)



On **May 21, 2014**, the Securities Division of the North Carolina Department of the Secretary of State, with the consent of Respondents, issued a **Final Consent Order** against Respondents **Empowered Investor Incorporated, James Daryl Upham, and Thomas Cowart Goolsby**, based on findings of violations of the North Carolina Investment Advisers Act by the Respondents in soliciting advisory clients and in the management of their advisory clients' accounts. The Final Order revokes the investment adviser registration of **Empowered Investor Incorporated**, and the registrations as investment adviser representatives of **Upham and Goolsby**. The Respondents are ordered to cease and desist from engaging in the securities or financial services business and from transacting any business as an investment adviser, investment adviser representative, or securities dealer or salesman. In addition, the Order prohibits Respondents for ten years from seeking registration as an investment adviser or investment adviser representative pursuant to N.C.G.S. Chapter 78C or as a dealer or salesman pursuant to N.C.G.S. Chapter 78A. Click [here](#) to view the Final Order.

## News from the Regulators

*(The following are selected public notices issued by one or more securities regulator. Click the links to view the full notices. These are offered for informational purposes only.)*

### [FINRA Announces Arbitration Task Force](#)

July 17, 2014 -- The Financial Industry Regulatory Authority (FINRA) has announced the formation of a 13-member Arbitration Task Force to consider possible enhancements to its arbitration forum to improve the transparency, impartiality and efficiency of FINRA's securities arbitration forum for all participants. For more information about the

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task force and its membership, click the link above. At the conclusion of its review next year, the task force will make recommendations to the National Arbitration and Mediation Committee (NAMC), FINRA's Standing Board Advisory Committee.

All investors are strongly encouraged to contact the Securities Division at (919) 733-3924 or toll-free at (800) 688-4507 to check that their investment professional is properly registered ***before*** transferring any assets to that person's control. One five-minute telephone call to the Securities Division could protect your entire life's savings from being stolen from you. For a wealth of investor education information, please visit our Web site, [www.sosnc.com](http://www.sosnc.com). Click on the yellow box entitled "Investment Securities".

This newsletter is produced by the Investor Education Program of the Securities Division of the North Carolina Department of the Secretary of State. If you have questions or comments about this publication, or would like to schedule an investor education presentation with your group or organization, please email [John Maron](mailto:John.Maron@sosnc.com), Director of the Investor Education Program, or call (919) 807-2106.

**Please help us publicize the educational information in this mailing by forwarding it to your contacts around the state.** If you no longer wish to receive mailings from the Securities Division, please send an email to: [jmaron@sosnc.com](mailto:jmaron@sosnc.com) with "Remove from mailing list" in the subject line.

Remember that if an investment sounds too good to be true, it ***probably*** is!