



INVESTOR ALERT

For Immediate Release

April 26 , 2011

Beware of these Potential Investor Traps! **FINANCIAL LITERACY MONTH TIP OF THE WEEK**

Boise, Idaho The turmoil in the credit, securities and real estate markets has led some investors to seek higher returns in non-traditional, speculative investments – a proven feeding ground for unscrupulous promoters and salesmen. Gavin Gee, director of the Idaho Department of Finance, warns that investors who choose to navigate these products should keep in mind the following:

- **Leveraged and Inverse Exchange-Traded Funds (ETFs).** While ETFs resemble mutual funds in many respects, some, such as leveraged and inverse ETFs, may contain hidden traps and complexities, and may consist of highly leveraged bundles of exotic financial instruments, including options and other derivatives. Given their potential for volatility, leveraged ETFs may not be suitable for most retail investors. These types of ETFs are primarily designed for short-term trading (such as day-trading), and not for buy-and-hold strategies. Also be aware that some ETFs are thinly traded and may not always be liquid.
- **Foreign Exchange Trading Schemes.** Currency trading and foreign exchange (forex) trading schemes can be particularly harmful to unsuspecting investors. Trading in foreign currencies requires resources far beyond the capacity of most individual investors. Promoters profit by charging high commissions or selling investment strategies assuming that trades are actually made. In some instances, salesmen and promoters who claim to have complex algorithms or propriety software programs which allow them to beat the market are actually just running Ponzi schemes. Too often, state regulators have encountered situations where there are no trades; the money is simply stolen.
- **Gold and Precious Metals.** High gold prices have trapped some investors in gold bullion scams in which a seller offers to retain "purchased" gold in a "secure vault" and promises to sell the gold for the investor when it gains in value. In many instances the gold does not exist. Investors have also been harmed by promoters pitching investment pools in precious metal commodities and gold mines.
- **Green Schemes.** Investment opportunities tied to the development of new energy-efficient "green" technologies are increasingly popular with investors and scammers alike. Scammers also exploit headlines to cash in on unsuspecting investors, whether from investments related to the clean-up of the Gulf of Mexico oil spill or the rising national interest in environmental innovations tied to "clean" energy, such as wind energy, wave energy, carbon credits and other alternative energy financing.
- **Private or Special Deals.** Some investors encounter investment opportunities or deals couched as "private" or only for "special" clients. While securities laws do offer businesses the opportunity to raise capital by selling securities to a relatively small number of investors in a non-public offering, these securities are not subject to the same review as others. Many state securities regulators have seen continued or increased abuse of fraudulent private offerings made under federal exemptions or not regulated at all. Although properly used by many legitimate issuers, private offerings have become an attractive option for con artists looking to steal money from investors by promoting the special or private nature of these schemes and by making false and misleading representations.

* * * * *

Department of Finance press releases and a list of Financial Literacy Month free events can be found on the Internet at <http://finance.idaho.gov> and may be obtained by contacting the department at (208) 332-8004 or toll-free at (888) 346-3378.

800 Park Boulevard, Suite 200, Boise, ID 83712
Mail To: P.O. Box 83720, Boise ID 83720-0031
Phone: (208) 332-8010 Fax: (208) 332-8097
<http://finance.idaho.gov>