Updated Investor Alert: Be on the Lookout for Advance Fee Fraud

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The SEC's Office of Investor Education and Advocacy is issuing this Investor Alert to help educate investors about advance fee fraud.

Every year, the SEC receives thousands of complaints describing a scam called an "advance fee fraud." Advance fee fraud gets its name from the fact that an investor is asked to pay a fee up front – in advance of receiving any proceeds, money, stock, or warrants – in order for the deal to go through. The bogus fee may be described as a deposit, underwriting fee, processing fee, administrative fee, commission, regulatory fee or tax, or even an incidental expense that fraudsters may guarantee to repay later. Sometimes, advance fee frauds brazenly target investors who have already lost money in investment schemes. Fraudsters also often direct investors to wire advance fees to escrow agents or lawyers to give investors comfort and to lend an air of legitimacy to their schemes.

The variety of advance fee fraud schemes is limited only by the imagination of the fraudsters who offer them. They may involve the sale of products or services, the offering of investments, lottery winnings, found money, or many other opportunities. Frequently, fraudsters will offer common financial instruments such as bank guarantees, old government or corporate bonds, medium or long term notes, stand-by letters of credit, blocked funds programs, "fresh cut" or "seasoned" paper, and proofs of funds. Clever con artists will offer to find financing arrangements for their clients who pay a "finder's fee" in advance. They require their clients to sign contracts in which they agree to pay the fee when they are introduced to the financing source. Victims often learn that they are ineligible for financing only after they have paid the "finder" according to the contract.

SEC Advance Fee Fraud Case

The SEC won a judgment against Brett A. Cooper and his companies, who conned investors out of more than $2 million through various frauds, including prime bank schemes guaranteeing astronomical returns to investors in purported prime bank transactions and overseas debt instruments. The defendants were found to have lured investors into fictitious "Prime Bank" or "High-Yield" investment contracts with the promise of extraordinary returns on their investments in a matter of weeks, with little or no risk. The purported investments involved the purchase of bank instruments, including "standby letters of credit" and "bank guarantees" from major international banks, however none of the investors received any returns on the money they invested and none of it was used to acquire any bank instruments. In addition, Cooper and one of his companies participated in an advance "finder's fee" scheme, in which an investor was charged a "fee" purportedly to get a bank or brokerage firm to accept a "Brazilian bond" for listing and eventual sale. That service was fictitious, and the defendants pocketed the advance fees and created falsified communications from a purported broker justifying the fees.

Sometimes, fraudsters posing as legitimate U.S. brokers or firms offer to help investors recover their stock market losses by exchanging worthless stock, typically a microcap stock (the low-priced and thinly traded stocks issued by the smallest companies), for an established blue chip stock or by purchasing the stock outright. But investors must first pay an upfront "security deposit" or post an "insurance" or "performance bond." Never do business with a broker without checking them out first using the search engine on Investor.gov.

Advance fee fraud schemes may try to fool investors with official-sounding websites and e-mail addresses. These addresses may contain ".gov" and end in ".us" or ".org." U.S. government agency websites or e-mail addresses end in ".gov," ".mil," or "fed.us." Be wary of a website or correspondence claiming to be from a U.S. government agency if the website or e-mail address does not end in ".gov," ".mil," or "fed.us." Even if the sender's email address appears to end in ".gov," ".mil," or "fed.us," an impersonator may have sent the email message. Other schemes may involve direct mail solicitations.

U.S. Department of Justice (DOJ) Mass Mailing Cases

The Department of Justice also prosecutes advance fee and similar frauds, and has recently focused its efforts on international mass mailing fraud schemes. Victims receive a steady stream of mailings in which they are promised lottery winnings, gifts, and/or unique items with important mystical characteristics, in return for a relatively small fee. The mailers appear to be personalized to the victim, but, in reality, are received by hundreds of thousands of other individuals. DOJ recently shut down an international "psychic" mail fraud scheme in which two purported psychics allegedly defrauded more than one million Americans out of more than $180 million by sending mass mailings claiming that the psychics had specific, personalized visions or psychic readings revealing the opportunity for the recipient to receive great wealth, including claims of winning lottery millions. The mailings urged victims to purchase products and services in order to ensure that the foreseen good fortune would come to pass. In reality, the solicitations were identical, mass produced form letters sent to tens of thousands of recipients monthly.

In another mass mailing advance fee fraud, DOJ filed an action against an individual and two Dutch companies that allegedly engaged in multiple mail fraud schemes targeting elderly and vulnerable U.S. victims. The defendants allegedly sent direct mail solicitations that falsely claimed that the recipients had won, or would soon win, cash or valuable prizes or otherwise come into great fortune. Recipients responded to the solicitations by completing a form and submitting a payment from $15 to $55 via mail. DOJ estimates the scheme raised more than $18 million annually in the U.S.

For more information on DOJ's efforts on advance fee fraud, see www.justice.gov/.

Be Skeptical and Ask Questions

One of the best ways to avoid investment fraud is to ask questions. Be skeptical if you are approached by somebody touting an investment opportunity. Ask that person whether he or she is licensed and whether the offering they are promoting is registered with the SEC or with a state. Check out their answers with an unbiased source, such as the SEC or your state securities regulator. You should also search the Internet for complaints about the investment or the people offering the investment.

Investors are encouraged to review the SEC publication "Ask Questions" and other SEC publications located at Investor.gov before making any investment. Some questions investors may consider asking include:

- Does it sound too good to be true? If it sounds too good to be true, it (probably) is.
- Is the investment offering registered with the SEC and my state securities agency? Where can I get more information about this investment? Can I get the latest reports filed by the company with the SEC: a prospectus or offering circular, or the latest annual report and financial statements? Check the SEC's EDGAR database to find out.
- Is the person making the offer registered with our state securities regulator? Have they ever been disciplined by the SEC, a state regulator, or other organization (FINRA or one of the stock exchanges)? Research the background of the individuals and firms offering and selling you these investments, including their registration/license status and disciplinary history using Investor.gov or your state securities regulator.
- Do I understand what I am agreeing to? Make sure you fully understand any investment or business agreement that you enter into, or have the terms reviewed by a competent attorney.
- Can I locate the business or person with whom I am dealing? Be wary of businesses that operate out of post office boxes or mail drops and do not have a street address. Also, be suspicious when dealing with persons who do not have a direct telephone line and who are never in when you call, but always return your call later.

If you are thinking about investing and have any questions, do not hesitate to call the SEC's Office of Investor Education and Advocacy at 1-800-732-0330 or ask a question using this online form.

Other Resources

- Investor.gov: the SEC's educational website for retail investors.
- MyMoney.gov: the U.S. government's website dedicated to teaching the basics about managing your money.
- The Department of Justice Consumer Protection Branch website.
- Protect Your Money: Check Out Brokers and Investment Advisers
- **Saving and Investing Basics:** For general information about saving and investing, please see Saving and Investing: a Roadmap to Your Financial Security through Saving and Investing. This publication is also available in Spanish.
- **Ask Questions:** For a list of questions you should ask when considering an investment, see Ask Questions: Questions You Should Ask about Your Investments. This publication is also available in Spanish.
- DOJ Consumer Protection Branch "Prevent Mass Mailing Fraud" Flyer: https://www.justice.gov/opa/file/895271/download
- FTC "Mail Fraud Scams" Flyer: https://www.justice.gov/opa/file/895266/download
- DOJ website: "Mass Mailing Fraud Prevention Initiative": https://www.justice.gov/civil/consumer-protection-branch/mass-mailing-fraud

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