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State awareness initiative targeting investment fraud

Program touts knowledge to prevent financial scams

Tracy Donhardt tdonhardt@ibj.com

Conservative estimates put the amount of money Hoosiers are bilked by investment fraud scammers at \$100 million a year. The high-end estimate for victims of pyramid scams, bogus gas and oil ventures and unscrupulous mortgage practices is closer to \$800 million. Those involved in catching and prosecuting the scammers say proactively educating people about investments in general and scams in particular would go a long way toward helping the problem.

"Our financial literacy is high," said **Mark Maddox**, managing partner with local securities law firm **Maddox Hargett and Caruso PC**. "Therefore, we're ripe targets to be taken advantage of."

So the state agency responsible for overseeing registered securities activities, mortgage brokers and collection agencies, among other groups, earlier this year launched the Indiana Investment Watch, a program intended to increase Hoosiers' knowledge about investing.

"The choices for investors have never been greater than they are now," said Secretary of State **Todd Rokita**. "So that can lead to even more confusion than before. We need to educate people before they're taken."

Three years ago, one high-profile scam out of Anderson revealed that about 2,500 investors, mostly elderly, were defrauded out of a collective \$80 million by two men.

The former executives of the Church Extension of the Church of God Inc. told investors most of their money would be loaned out to build and renovate churches. Instead, the money went to fund high-risk real estate deals, many of which failed.

"Hoosiers are a very trusting breed," said **Maddox**, who served as the securities commissioner for the state from 1989 to 1991. "They typically give others the benefit of the doubt. But boy, people need to get their guard up a little bit more."

So the state's education initiative, funded through penalties and fines received from settled securities fraud cases is being advertised via radio, television and billboards.

The ads alert Hoosiers to the dangers of fraud, who to call if they think they've been cheated and where to go for information on investing. Free classes held several times a year around the state are also offered.

And while the program is for everyone, state officials say the elderly need to be especially educated because they're most often the victim.

"The elderly are the most targeted," said **O. Wayne Davis**, the current securities commissioner. "Some people can afford to lose a lot of money and not be hurt, but the elderly are beyond the time they would need to recoup."

They're also the slowest to report when they've been swindled, **Davis** said. "And those who engage in this activity know that and count on it."

So they employ ponzi scams, commonly referred to as pyramid schemes, which depend on new investors' money to repay previous investors. Inevitably, the pool of new investors cannot support the previous ones and the pyramid crumbles.

Or they sell unregistered securities with the promise of high returns on investments they can't guarantee.

And they count on affinity fraud working in their favor. These schemes use commonalities and feelings of trust to take advantage of other members of a group.

Those working within the program say it's a huge chore to measure its progress due to the sheer amount of fraudulent activity out there.

"But feedback's been great," **Rokita** said. "Calls to the office have gone up and they've resulted in a lot of good leads that put people out of business."

For example, a tip from an investor resulted in a case being brought against a South Bend individual who was offering investments via promissory notes. He was then loaning the investors' money to small business owners, according to **Rick Neff**, senior investigator with

the securities division.

The investors were promised high rates of return because these small businesses were willing to pay high rates of interest to forego the usual lending channels. The ponzi scheme continued for several years until discovered and shut down earlier this year.

The South Bend individual, who had collected \$4.5 million from about 65 individuals, was sentenced to eight years in prison.

"But we're drinking from a fire hose when it comes to dealing with the bad guy," said Rokita, who admitted to losing a lot of money years ago because he didn't know enough about investing.

And while hits to the Investment Watch Web site have increased from 10,000 in March to 13,145 last month-one way the agency measures its success-not everyone is sure it'll make a dent in the problem.

"I don't think this effort will really bear much fruit," said Frank Martin, a decadeslong Hoosier investor whose firm, Elkhartbased Martin Capital Management, is the largest shareholder of Emmis Communications Corp. stock.

Concerned the effort might be more of a boondoggle, Martin said it "sounds like amateur night at the local opera house" because it relies solely on inside staff, utilizing no outside investors for advice or other help.

"If they're efficient in using their money-but they won't be-they might make a small dent in the cause," said Martin, who said he offered his help without charge to the state but never received a response.

Other than other securities division staff, the education initiative employs one fulltime position, a director of education and outreach, who is responsible for the statewide workshops.

Educating people is the right idea, Martin said. "But the agency has got to get people in there who will tell a story that people will believe and learn from."

Billboards, such as this one at 38th Street and Industrial Boulevard on the city's northwest side, are part of Indiana Investment Watch's campaign.

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