

# FREE DINNER FIASCO

## SEPTEMBER 2007

I am so popular. I get invited out to dinner to swanky French restaurants, the Ritz Carlton, and golf clubs by people I don't even know two to three times a week. It seems like every investment guru in the state of Florida wants to wine and dine me. The unfortunate reality is that I am not so popular; the invites have nothing to do with me, but rather my portfolio. I am not unique to these invites; I am just another number on the mass-mail list bought by some "advisor", my wife gets the same invitations, my family, and my neighbors.

Follow the free lunch/dinner seminar math formula....Send out X number of invites; get Y number of responses; buy Y number of steak dinners at cost of W; close Z number of attendees with a commission value of \$\$\$\$.

The SEC first took notice of this growing epidemic last year and has commissioned various studies and ideas in containing the problem. It is our belief and experience that despite this, the SEC is fighting an uphill battle of monumental proportions.

The Securities and Exchange Commission convened its second Senior Summit this past month. The highlight of this summit was the release of a joint report completed by the SEC and FINRA. These regulatory agencies examined 110 self-described *investment firms* offering "free lunch/free dinner" seminars. The report listed four main tactics that these firms use to bamboozle seniors.

**Champagne Wishes and Caviar Dreams.** Advisors hosting will dangle the prospect of great wealth or unbelievable returns if they buy their product. They get people excited about an investment that is "guaranteed" to produce and make them rich beyond their wildest dreams.

**False Credibility.** Promoters try to build up credibility with attendees by claiming to be with a reputable firm or to have special credentials or experience. These advisors often use *Cracker Jack* box designations such as "Certified Senior Advisor" or "Certified Retirement Specialist". Often the most basic check will reveal that the promoter isn't licensed.

**Peer Pressure.** Promoters will preach to attendees that other savvy or rich investors have invested in the product. The dialogue might go something like this: "***I know it's a lot of money, but I'm in it and so are my mom and half her church; and it's worth every dime.***"

**Get it Now Before it is Too Late.** One of the oldest marketing tricks in the book is to create the illusion of scarcity or exclusivity in the product being sold. The promoter creates a false sense of urgency by claiming that there is a limited supply, or that only certain investors will be allowed. Promoters will use this in an effort to **close** attendees quickly. Don't do it. Always take the time to think about and investigate any offer.

The SEC found that more than half (57%) used advertising and sales materials that were misleading or exaggerated or included unwarranted claims. Statements such as:

***"Immediately add \$100,000 to your net worth", "How to receive a 13.3% return," and "How 100K Can Pay 1 Million Dollars to Your Heirs." "If you're between the ages of 65-85 join me for the most fascinating hour of your LIFE and I will show you how to immediately earn as much as \$100,000, \$200,000, or \$300,000...or more with the stroke of a pen, and how to GUARANTEE your IRA will never run out, regardless of market fluctuations."***

This past month my blood pressure spiked when I heard a radio advertisement, "***Guaranteeing Stock Market Linked Returns of over 15%.***" One of my more recent free dinner invites that I received, courtesy of UBS Wealth Management, which surprisingly was

printed on cheap green card stock with a print quality worthy of the old fashioned ditto machines; asked me to attend a seminar entitled ***“Introduction to Hedge Fund Investing”***. The ad states, ***“In the current environment, an increasing number of institutional and affluent investors are adding hedge funds to their traditional portfolios. These investors are attempting to generate returns with lower volatility than the general equity markets.”*** If you happen to have an electron microscope in your home you will be able to read the Nano sized ***“disclaimer”*** at the bottom of the ad which happens to contradict its opening hook. ***“A hedge fund’s portfolio may be highly leveraged and the volatility of the price of its interest may be significant. No assurances can be given that a hedge fund manager will utilize hedging strategies, that these strategies will be successful or that the objective of reduced volatility will be met.”***

Another point that the SEC made in the report that we have addressed, but what many investors are not aware of, is most seminars are sponsored by an undisclosed company with a financial interest in product sales. Individuals who attend the seminars or who are considering attending are not always provided with the name of the firm sponsoring the event, and may not be aware that the product sponsors (mutual fund companies, insurance companies or SMA companies) may provide funding for the seminars with EXPECTATION that the host advisor will sell their wares.

The SEC stated that representations about the expertise or credentials of the registered representative were often deceptive or confusing and often involved testimonials that were also misleading. We have covered these ridiculous and misleading designations in our January 2006 article *Deception University* where we researched several designations and how they are obtained.

***The Wealth Management Expert (WME) was obtained from Kaplan University. In order to obtain such a prestigious designation our expert needed to have a high school diploma, pay tuition of \$595, take seven online lessons, and pass an open-book test online. According to Kaplan the entire “process” should take no longer than a month. Graduates then receive their diploma and their WME designation. I wonder if they get a free toaster with that as well.***

***The Certified Senior Advisor (CSA) designation is currently one of the most widely abused marketing tools today. This past November, Massachusetts securities regulators filed a 52 page civil suit complaint against Investors Capital Corp., alleging that some of the firms representatives were touting themselves as CSA’s holding themselves out to be real financial planners only to induce unsophisticated individuals into buying ultra-high commission equity indexed annuities. The CSA designation is obtained by forking over \$1,200, attending a three day workshop and completing a 150 question exam. You may also skip the workshops and look at the information online. This program is so grueling that they put “gold stars” on all who pass. Once again the CSA gets a shiny, happy diploma. In an interview with the Dow Jones News Service in December 2005, Massachusetts Secretary of the Commonwealth William Galvin states, “When Language is used to imply a special interest or designation, and it’s just another marketing tool, it is a problem, it is a fuzzy feel-good term, but what does it all mean?” The North American Securities Administrators Association, an organization that represents state securities regulators issued a notice in December urging older Americans “to carefully check the credentials of individuals holding themselves out as senior specialists.” In a press release NASAA President Patricia Struck states that individuals use the designation “to create a false level of comfort among seniors by implying a certain level of training on issues important to the elderly, but the training they receive is nothing more than marketing and selling techniques targeting the elderly,” and “the alphabet soup of letters after their names” can be confusing and deceptive.***

***Last but certainly not least is the CLTC designation. Step right up, anyone out there who wants to sell long-term-care insurance. For \$1,000 you can attend a two-day master***

***class or take an online course, pass a written exam and you are now a CLTC! Once again a shiny happy diploma is included in the deal.***

File this bit of information in the **Scary Statistics** file...

The SEC reported that as a result of their 110 examinations, most of the firms reviewed, received deficiency letters or letters of caution; 86 out of the 110 firms to be exact. The SEC report was a study of 110 seminars held between April 2006 and June 2007 in various locales nationwide. I conservatively receive about two invites a week amounting to over 100 a year. If we were to extrapolate these numbers nationwide, I would conclude that we have an epidemic on our hands. We have tried very hard to warn investors for years on this topic; but the reality is we are unable to keep up. This past month Susan Antilla, of *Bloomberg*, wrote about the conduct of a firm located in my own backyard. This same outfit I warned listeners about, and addressed on our radio show. Susan Antilla writes,

***“Remember the schoolyard bully? Well he grew up, got an insurance license and today advertises himself as owner of the #1 Retirement Income Planning firm in the nation.”***

Phillip R. Wasserman is the chief executive of Phillip Roy Financial Services whose firm draws more than 40,000 retirees and seniors a year to seminars. Mr. Wasserman has no license to sell stocks, no regulatory obligation to supervise stockbrokers and no registration as an investment advisor. In fact, Wasserman was a former lawyer who resigned from the Florida Bar in 1997 after being suspended. Wasserman threatens litigation against anyone who opposes him, from clients to even Bloomberg news.

***Bloomberg would be dead wrong to think he would limit his actions to a libel suit., he wrote in an e-mail on July 24. To the lawyer he opposed, Wasserman wrote in February e-mail that court sanctions would be just the beginning. After the Florida Office of Financial Regulation opened an investigation earlier this year, Wasserman filed papers to start an investigation of alleged bad behavior by the regulators.***

William Kelleway and his wife attended a seminar held by Wasserman in Sarasota, FL. After the seminar they visited Wasserman's offices and were directed to broker Daniel Madigan. The broker's advice was that the Kelleway's invest in just two securities, Annaly Mortgage Management Inc. and Impac Mortgage Holdings Inc. According to a complaint filed with FINRA,. Annaly fell 29% and Impac fell 45%. When Susan Antilla contacted Madigan, his response was scary, *“I just don't want any reprisals from Mr. Wasserman.”* He didn't fear the regulators he feared his former boss. After Susan Antilla contacted Wasserman about the Kelleway complaint, he threatened the couple with a libel suit. The Kelleways became so frightened that they revised the complaint with FINRA. Wasserman wrote to Antilla in a June 14 e-mail that the couple and their lawyer had been advised that if the complaint wasn't revised immediately, “legal action would be filed against them”. According to a Fort Lauderdale lawyer who is representing another couple who filed a complaint against Wasserman stated that Wasserman called the couple and “had some very acrimonious conversations with them,” after the *St. Petersburg Times* inquired about their case.

WISE Senior Services, using a grant from NASD Investor Education Foundation, analyzed hundreds of transcripts of undercover tapes from these investment seminars. The nonprofit organization found that there were more than 1,100 separate instances where influence tactics were used on consumers. I can give countless examples of the fraud and the aftermath of the fraud from the stories that stream into my inbox weekly. The SEC is doing all it can to educate the public in regards to this epidemic; but the reality is that despite their best efforts they cannot stop it.

If I had magic powers to predict the future, and was to tell you that if you went swimming in the ocean today that you had a 78% chance of getting eaten by a shark, I think you might skip the trip to the beach, the pool, or even the bathtub that day. The SEC had problems with 78% of the seminars reviewed. Investors put themselves at risk and make themselves

vulnerable by attending these “free lunch/dinner” seminars; and despite how impervious you think you are to sales pitches, these salespeople are armed with all the rebuttals to your objections.

**Bottom Line: Use Your Head and Don’t Swim In Shark Infested Waters!**

Source Material:

Singletary Michelle [You Know What They Say About a Free Lunch](#) *The Washington Post* September 6, 2007

Antilla Susan [Investor Beware When Schoolyard Bully Grows Up](#) *Bloomberg* September 11, 2007

The SEC [Protecting Senior Investors: Report of Examinations of Securities Firms Providing Free Lunch Sales Seminars](#) September 2007