

# Help Protect Your Clients from Securities Fraud

## *Know the Warning Signs*

Over the next several months, many New Hampshire's citizens will file their taxes or have their businesses financial statements audited or reviewed. In many instances, they will rely on a trusted tax or audit professional for assistance. Tax preparation and financial audits and reviews present an important opportunity to stop fraud and abuse in its tracks – especially scams that target senior citizens.

The North American Securities Administrators Association (NASAA) reported that one in six enforcement actions initiated by state securities regulators involved senior victims. Unregistered securities, in the form of promissory notes, private securities offerings or investment contracts, were the most common product involved in senior financial abuse cases, accounting for more than half of all reported senior-related enforcement actions. Variable annuities and free lunch investment seminars also are continuing problems for senior investors.

## **What to watch For:**

In preparing tax returns or performing financial audits, keep alert for signs that your clients, in particular elderly or vulnerable clients may be exposed to financial abuse or fraud. While everything on this list of red flags is legal, if fraud or theft is discovered, one or more of these indicators are almost always present.

**Lack of Documentation:** Missing documents that an investor should receive in preparation for tax season can mean someone is trying to hide fraudulent activity.

**Unusual Gains or Losses:** If your client's current return differs a great deal from past returns and shows unusual gains or losses, they could possibly be a victim of fraud.

**Being Paid in Stock:** A stock is worth what you can sell it for and values change. At a minimum, a client should make sure the stock is registered.

**Distribution from a Qualified Plan that was not Rolled Over:** A lump-sum distribution from a retirement, college savings or other tax-deferred plan that is not rolled over into another plan could indicate theft or fraud.

**Missing Interest or Dividends When Previously Reported:** If your client's interest or dividends reported in previous years have significantly diminished, the client may have been lured away from safe, income-producing investments to risky investments.

**Exotic Investments:** Complex, exotic investments can confuse investors and are often used by con artists to hide their theft.

**Handwritten Tax Documents:** Handwritten documents are legal, but they are unprofessional and can be an indication of fraud.

**Large Number of Trades:** If you see excessive or unauthorized trading in an investment account, it could be a sign the brokerage firm or broker is not working in their client's best interest.

**1035 Exchanges:** A 1035 exchange may indicate you client has been pitched to move from one reasonable investment into a similar replacement for the purpose of generating a commission to the broker.

**1031 Exchanges:** All 1031 exchanges should be scrutinized. Decreasing active participation in an investment increases the potential for fraud.



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