

A Pernicious and Pervasive Culture of Corruption

Eric Butler, a former broker with Credit Suisse, was sentenced in a New York federal court this week. He was found guilty of misleading his clients into believing they were buying low-risk securities backed by student loans with federal guarantees. Instead, the securities were backed with home mortgages, not guaranteed, with significant defaults.

U.S. District Court Judge Jack Weinstein sentenced him to five years in prison and fined him \$5 million. What is most interesting is that the Judge seemed to not want to lay all the blame on Butler, referring to the state of the financial industry as a whole. Judge Weinstein said, "What becomes evident in a trial like the present one, and in recent mortgage fraud cases, is how pernicious and pervasive is the culture of corruption," in the securities industry.

Indeed, the securities industry is fraught with corruption. Have you followed the Congressional hearings before the House Committee on Oversight and Government Reform? Referring to the AIG bailout, one lawmaker said that the \$180 billion bailout of AIG may be "the largest theft in history."

Stories about the unscrupulous sales of high-commission annuities sold to the elderly and otherwise unsuitable customers are abundant.

The near collapse of our whole economy due to the sub-prime mortgage crisis is a recent nightmare.

Whom can you trust, when the entire financial services industry is plagued with a "pernicious and pervasive culture of corruption?" Many people turn to their friends, co-religionists, and other groups where they feel comfortable. Beware.

Here in Lancaster County, the first page headline of last week's *Lancaster Sunday News* was "Misplaced Faith?" The article described an investment scam that looks like the local version of the Madoff debacle.

Speaking of Bernard Madoff, he was charged with securities fraud totaling over \$20 billion. While reputed to be one of the leaders in the financial services industry, Madoff was actually running a giant Ponzi scheme.

A few years ago, The Foundation for New Era Philanthropy was revealed as a giant Ponzi scheme, and went bankrupt taking the investments of many Pennsylvania and Lancaster County charities with it.

"New Era" was an 'affinity' scheme, in which the founder defrauded people of common interest: in this case, local non-profit organizations and faith-based charities. Similarly, the recent fraud committed on the region's plain communities, as well as Madoff's fraud on Jewish investors, are "affinity frauds." Affinity fraud refers to investment scams that prey upon members of identifiable groups, such as religious or ethnic communities, the elderly, or professional groups.

The fraudsters, who are members of the group, enlist respected community or religious leaders from within the group to spread the word about the scheme. These scams exploit the trust and friendship that exists in groups of people who have something in common.

Here are some tips to help you avoid affinity fraud:

- ! Watch out for investments or advisors who exploit a religious connection. Hold religious financial planners to the same standards as you would anyone else.
- ! Watch out for investments that seem closely tied to a particular religious belief. It does not make sense that an investment opportunity would be available only to members of a specific church or faith.
- ! Never judge a person's integrity by what they tell you about themselves. Check them out. Remember, even financial planners can be duped. Do your homework.
- ! Beware of any new member of your group who begins talking about wealth-building investments. The truism, "if it sounds too good to be true, it is," applies even when dealing with those you naturally trust.
- ! Don't trust any claim that religion-based investments are not regulated. Most investments are regulated by securities laws and must be registered for sale.
- ! Get a prospectus or other written information — scam artists don't like paper. A legitimate salesperson must provide detailed written materials outlining the nature of the investment, the risks involved, financial statements and any restrictions on getting your money out.
- ! Watch out for non-traceable investments where money is taken with no documentation and no investment results.
- ! Don't be rushed into making a decision. If someone is pressuring you to make a decision, be suspicious.
- ! Be skeptical of anyone who discourages you or other investors from seeking professional advice from neutral, outside experts, such as a lawyer, accountant, investment counsellor, banker, or financial planner.
- ! Be extremely leery of any investment that is said to have no risks. Very few investments are risk-free. The greater the potential return from an investment, the greater your risk of losing money. Promises of fast and high profits, with little or no risk, are classic warning signs of fraud.