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**THE TEXAS
STATE SECURITIES BOARD
AND
THE TEXAS INVESTOR**



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**THE TEXAS
STATE SECURITIES BOARD
AND
THE TEXAS INVESTOR**



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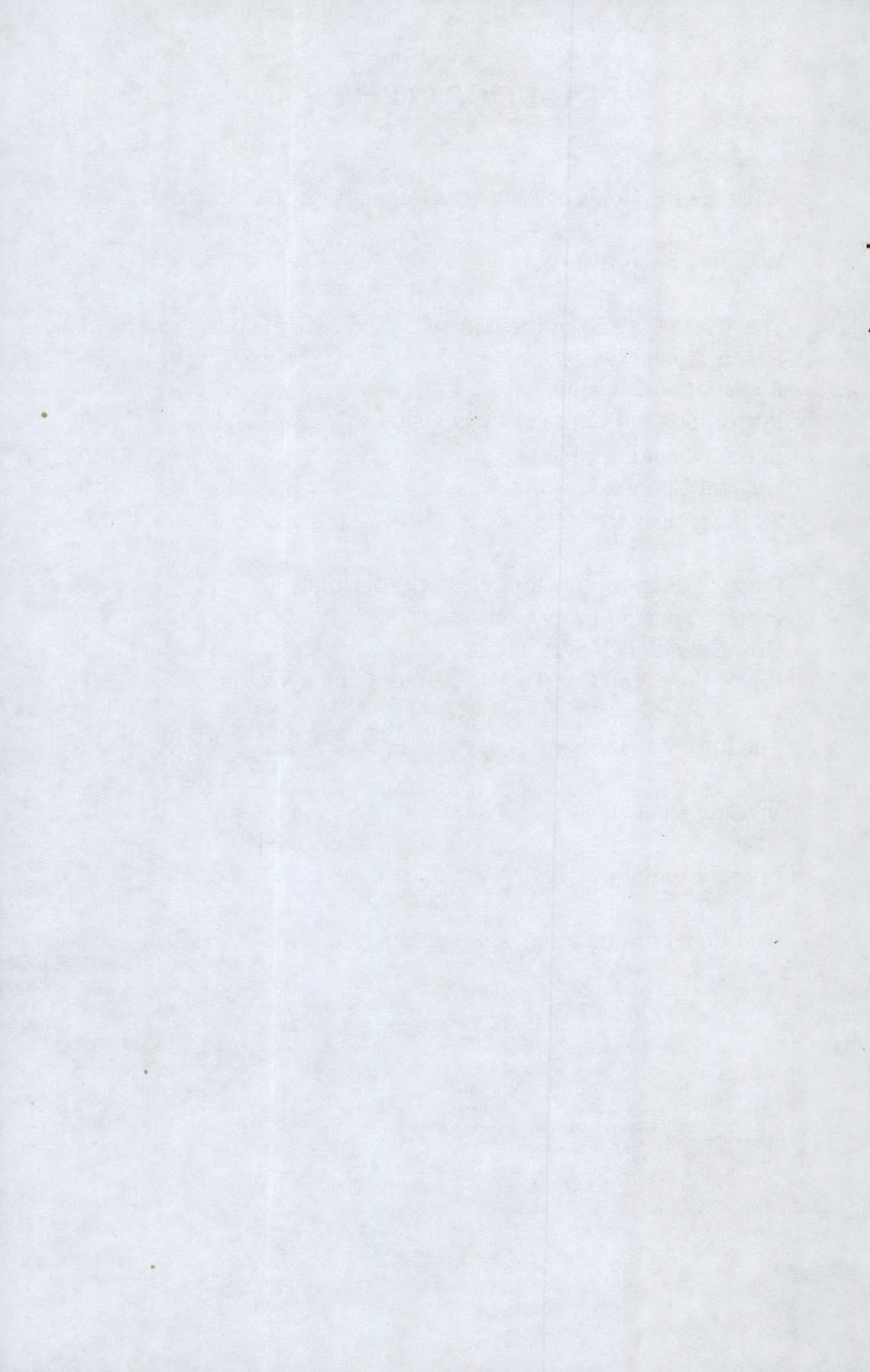
The primary mission of the Texas State Securities Board, as set forth in the Texas Securities Act, is to protect Texas investors. Consistent with that mission, the Texas State Securities Board works to ensure a free and competitive securities market in Texas, increase investor confidence, and thereby encourage the formation of capital and the creation of new jobs in Texas.

This brochure has been prepared by the staff of the Texas State Securities Board (the "Agency") to provide a brief introduction to the Agency and how it functions, and to give practical suggestions to investors about how to protect themselves from fraud.

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WHAT ARE THE GOALS OF SECURITIES REGULATION?

The securities markets provide a means for investors to achieve important financial objectives, such as providing a college education for their children and earning money for retirement. The securities markets also provide entrepreneurs with access to capital to build or expand businesses and create new jobs. Investment advisers, dealer firms, and their agents bring these two groups together in the marketplace to effect transactions for both groups' mutual benefit and to make our economic system work.

State and federal laws attempt to foster full and fair disclosure in the securities markets and thereby promote investor protection. On the state level, these regulatory laws are often referred to as "blue sky laws." This term reflects the desire of state legislatures to prohibit schemes so speculative as to represent nothing more than a square foot of blue sky. Texas' "blue sky law" is found in the Texas Securities Act (the "Act"). The rules and regulations of the Texas State Securities Board (the "Rules"), promulgated pursuant to the Act, interpret and expand on the protections afforded by the Act. The Act and Rules promote the goal of investor protection in the following ways:

1. They prohibit the use of fraud or misrepresentation in the offer for sale and sale of securities.
2. They require that securities be registered, meet the requirements for an exemption, or be the subject of a federal exception from state registration before they are offered or sold. The registration process involves the review of certain materials related to proposed offerings to determine whether

those offerings are fair, just, and equitable and whether all relevant facts have been disclosed.

3. They require that securities dealers, agents, investment advisers, and investment adviser representatives be registered with the Texas State Securities Board unless an exemption or federal exception is available.
4. Finally, the Act provides for certain remedies and sanctions for violations of its provisions.

The registration and informational requirements of the Act and Rules serve to heighten investor confidence and awareness. This, in turn, assures that businesses of all sizes have access to capital markets. While the Act and Rules provide for certain exemptions from the registration requirements, those exemptions reflect judgments that certain securities transactions and certain kinds of securities contain inherent safeguards that make registration unnecessary. Nonetheless, exempt transactions and exempt securities remain subject to the anti-fraud requirements of the Act.

WHAT IS A SECURITY?

The Act contains a broad definition of the term "security." Thus, the popular concept of what constitutes a security -- stocks and bonds -- is incomplete. The term also includes, among other things, limited partnership interests; notes; commercial paper; evidences of indebtedness; interests in or under an oil, gas or mining lease; and "investment contracts." Generally, an investment contract is an arrangement whereby an individual invests something of value in a common enterprise with an expectation of a return in the form of interest, dividends, increased capital, or other benefits to be derived from the significant managerial efforts of others. Any time a

security is offered or sold in Texas, the security must be registered and must be sold by a registered person unless an exemption is available under the Act or Rules or federal law provides an exception from state registration.

THE TEXAS STATE SECURITIES BOARD

The Texas State Securities Board is the state agency entrusted with the task of administering and enforcing the Act. The Agency is overseen by a board (the "Board") composed of five members appointed by the Governor, with the advice and consent of the Senate, for six-year overlapping terms. The Board adopts and periodically updates rules to ensure that investors are adequately protected and that unreasonable burdens on legitimate capital raising activities are avoided. The Board appoints a Securities Commissioner who serves at its pleasure. The Securities Commissioner serves as the Agency's chief administrative officer and supervises the day-to-day activities of the staff. The main office of the Texas State Securities Board is located in Austin. The Agency also maintains offices in Corpus Christi, Dallas, Houston, Lubbock, and San Antonio.

FUNCTIONS AND GOALS

The Agency is organized into five divisions. Although the divisions coordinate closely in accomplishing the Agency's mission, each fulfills a unique role within the Agency.

REGISTRATION DIVISION

The Registration Division is responsible for the registration of securities offered or sold in Texas and of firms and individuals who sell securities or render investment advice in the state.

Division personnel review all applications for securities registration to ensure that investors have access to full and fair disclosure of all relevant investment information and that the offering terms are "fair, just and equitable" in accordance with criteria established by the Act and Rules. The review is designed to assure that the promoter and investor will share in the results of the venture (whether profits or losses), that conflicts of interest are minimized, and that promotional expenses are reasonable. Approval of a registration application does not constitute a recommendation of the securities being registered, nor does it in any way predict investment success. The purpose of the review is to assure that certain minimal financial and informational requirements are met.

The Division reviews all applications for registration of dealers, agents, investment advisers, and investment adviser representatives to ensure that individuals and firms dealing with investors meet certain minimum standards of conduct and financial solvency. All individuals or firms offering or selling securities or providing investment advice within the state must be registered unless they meet the criteria for an exemption. Registrants must submit to an extensive background investigation, pass examinations on general securities principles and state securities laws, and agree to meet certain record-keeping and disclosure requirements. The following are considered in determining whether to approve an application for registration: financial solvency; criminal history; evidence of past inequitable or fraudulent business practices; and performance on written examinations.

Division personnel also answer questions from the public concerning securities exemption and registration requirements; the status of securities registration applications; and the registration status, disciplinary history, and activities of dealers, agents, investment advisers, or investment adviser representatives.

INSPECTIONS AND COMPLIANCE DIVISION

Inspections and Compliance Division staff conduct periodic inspections of the books and records of registered dealers and registered investment advisers. Inspections are unannounced and focus on: (1) registered dealers who have their principal offices in Texas but are not members of the National Association of Securities Dealers and (2) registered investment advisers; however, all registrants are subject to such inspections. Staff also investigate complaints made about registered individuals and firms. Serious violations of the Act or Rules noted during an inspection may be addressed through administrative action or be referred to the Enforcement Division for appropriate civil or criminal action.

ENFORCEMENT DIVISION

The Enforcement Division works to prevent, detect, and redress violations of the Act and Rules. The Division is armed with certain statutory tools to protect investors. The Act provides for administrative sanctions to be imposed by the Securities Commissioner. These sanctions include: denial, revocation, or suspension of dealer, agent, investment adviser, or investment adviser representative registrations; cease and desist orders prohibiting or suspending the sale of securities or prohibiting fraudulent conduct; orders denying or revoking the registration of securities; orders revoking exemptions; and cease publication orders.

The Act provides criminal penalties for certain unlawful activities. After the Enforcement Division investigates suspected violations of the Act, it may recommend criminal prosecution of the suspected violator. Indictments and convictions are usually prosecuted by local district attorneys or United States attorneys, with the assistance of Enforcement staff. Finally, a matter may be referred to the Attorney General for an injunction or receivership action.

GENERAL COUNSEL DIVISION

The General Counsel Division provides internal legal advice to the Board, Securities Commissioner, and staff; responds to public inquiries concerning interpretation of the Act and Rules; and issues written interpretive opinions to assist persons in complying with the law.

STAFF SERVICES DIVISION

The Staff Services Division handles accounting, budgeting, data processing, personnel services, purchasing, and other essential administrative functions for the Agency.

PRACTICAL SUGGESTIONS FOR INVESTOR PROTECTION

No investment is risk free and certain risks cannot be avoided. However, investors often can protect themselves against unnecessary risks by learning about investments and investing, taking steps to avoid investment “scams” or “swindles,” determining their personal financial situation and needs, and setting realistic investment objectives.

Many investors need assistance in reading and understanding the disclosures relating to investments. If you are not sure you understand the materials, do not hesitate to ask for help from someone you trust who is knowledgeable about financial matters.

The Texas Family Guide to Personal Money Management provides considerable information that may be helpful to individual investors. This document can be obtained by contacting the Texas



TEXAS STATE SECURITIES BOARD
P. O. BOX 13167
AUSTIN, TEXAS 78711-3167

COMPLAINT FORM

RE: _____

The undersigned files the following information with the Texas State Securities Board:

1. Name: _____

Address: _____

Work Phone: _____ Home Phone: _____

Business or Occupation: _____

2. Have you complained to any other governmental agency? If so, which one?

3. Describe the securities that were sold to you.

4. Give the name and place of business of the person or company that offered the securities to you.

5. Were you solicited to purchase the securities by:

Advertisements
 Personal conversation

Mail
 Telephone

6. Did you know the person who contacted you?

7. Did you receive a prospectus, brochure, or other offering document prior to the time that you invested?

8. What representations were made to you that induced you to purchase these securities?

9. What representations were made to you concerning how the money you invested would be used by the person or company selling the securities?

10. Were any guarantees given to you? If so, please explain.

11. What disclosures were made to you about the risks of this investment?

12. Have you received any information indicating that the representations made to you were inaccurate or false? If so, please explain.

13. Have you received any information indicating that material information was not disclosed to you? If so, please explain.

14. Summarize the improper or illegal activity you believe has occurred.

15. State the amount you invested and the manner in which payment was made (i.e., cash, check, installments, wire transfers, etc.)

16. State the date or dates that the securities were sold to you.

17. State the city and county in which you were located at the time you purchased these securities.

18. What would you consider to be a reasonable resolution of your complaint?

Date: _____ Signed: _____

Please sign and return this statement to: Enforcement Division
Texas State Securities Board
P.O. Box 13167
Austin, Texas 78711-3167

Include copies of documents pertaining to your investment including: securities, prospectuses, brochures, confirmations, receipts, cancelled checks (front and back), correspondence, contracts, and agreements.

State Securities Board or by visiting the Agency's web site (www.ssb.state.tx.us).

There is perhaps no better way to protect yourself than by becoming informed about certain risks associated with investments. The Agency routinely provides such information to the public by disseminating, among other things, "Investor Alerts" sponsored by the North American Securities Administrators Association and/or the Better Business Bureau. Printed copies of these publications are available from the Agency at no charge, and many are available on the Agency's web site. Some of the materials are also available in Spanish.

PROTECT YOURSELF FROM CON ARTISTS

How Swindlers Find Victims

Although many legitimate investment opportunities are offered by reputable investment professionals, "con artists" or "investment swindlers," who often imitate the techniques of legitimate professionals, also are vying for your investment dollars. Many people believe that they can spot a con artist by his or her appearance; however, a successful con artist often looks like any other successful business person and can be smooth, cultured, and charming. Some swindlers rent luxurious offices with impressive addresses, distribute polished written materials, and wear expensive clothing to give the appearance of being reputable, successful business people.

Some of the ways that swindlers find their victims include:

- ***Unsolicited telephone calls.*** Although some investments promoted over the phone are legitimate, unsolicited phone

calls are the most common means swindlers use to contact would-be victims.

- **Mail.** The mail (either e-mail or regular mail) is often used for the initial contact, although swindlers may finalize the deal by phone or in person in an effort to avoid postal regulators. Indeed, some fraudulent operators may *insist* on closing the deal in person or via private courier.
- **Online investment schemes.** The Internet provides a valuable source of information for investors to use in educating themselves about financial matters. However, “cyberspace” also provides swindlers with uncharted territory in which to practice fraud and abuse.
- **Referrals.** One of the oldest investment scams is called a “Ponzi” scheme. A con artist will offer high rates of return on an investment, then use his or her own money or investors’ funds to provide initial investors with extraordinary returns. Friends and neighbors hear about the success of the venture, and, in turn, invest their own funds. However, there is no real venture. Instead, the con artist rakes in money based on word of mouth and then exits, leaving a very few investors wealthier than before but the vast majority disappointed and defrauded.
- **Advertisements.** Con artists often use newspapers, magazines, financial publications, direct mail, and other media to contact their prospective victims.

Precautions You Can Take to Avoid Being a Victim

You are most vulnerable when you fail to gather all the facts about an investment opportunity. **Always investigate before you invest!** You can help protect yourself from unscrupulous persons by taking the following precautions:

- **Be extremely cautious when strangers contact you** by telephone or in person. Never give a stranger your social security number or driver's license number.
- **Always refuse demands** for an immediate decision. Some swindlers use **high pressure** sales techniques that require immediate money commitments because "tomorrow will be too late," or this is "just one of two remaining openings."
- If you are solicited over the phone, do not make an immediate decision. As discussed below, ask for written information about the firm, the salesperson, and the investment. If you are hounded by high-pressure tactics -- hang up! **Never send money in response to telephone solicitations!**
- **Be wary of advertisements that give little or no information** other than "800" numbers or e-mail or web site addresses to contact salespersons.
- **Scrutinize** investments sold on the basis of **rumors, tips, or "inside information."** Look out for **buzz words** like "sure thing" or "secret technology."
- **Be skeptical about claims** that an investment will yield extraordinary returns on your money in a short period of time. Always remember: **If the opportunity sounds too good to be true, it probably is!**
- **Ask for written information** (such as a prospectus, offering circular, and financial statements) when you are considering

an investment. Read the materials carefully and make sure you understand them before signing a purchase order to pay for the investment. Most legitimate investment opportunities will be accompanied by written materials clearly disclosing the potential for loss, short- and long-term tax implications, and any fees, among other things. If the seller has little or no written information about the company or its past performance, avoid investing in the company.

- **Be inquisitive.** Ask every question about the seller and the investment that occurs to you. No question is dumb or silly when you are deciding how to invest your hard-earned money. Understand the risks and benefits of every prospective investment before making a decision.
- **Do not accept promotional items** or gifts in exchange for special investment offers or discounts. Remember: **Everything has its price.**
- **Never sign a blank form.**
- **Seek advice** from disinterested third parties, such as your lawyer or accountant.
- **Contact the Texas State Securities Board** to find out if the company issuing the securities and the persons selling them are properly registered and free of any history of violating the law. If the person or company has failed to properly register or has a history of trouble with authorities, you should proceed only with extreme caution, if at all.
- **Contact your Better Business Bureau** to obtain information on complaints about the company, salesperson or investment.
- **If in doubt -- wait!**

THE INFORMED INVESTOR

Taking steps to prevent fraud will help you **avoid bad investments**. Your best guide to **choosing an investment** is a careful assessment of your personal financial situation and investment goals. Your library has various books and other publications that can assist you in developing your investment strategy, and many schools, community centers, financial institutions, and community colleges offer courses or seminars on the basics of personal investing. Remember: **All investments require research and deliberation!**

No investment is risk free; generally, the greater the potential return, the greater the risk. Nevertheless, if you ask the following questions, among others, before you invest, you may be able to avoid some common investment pitfalls.

- How long has the company been in business? What is its track record for financial stability and investment returns?
- Who makes up the company's management? How experienced are they? How much compensation will they receive? How much of their time are they going to put into running the company?
- How will the offering proceeds be used?
- How much money will go to commissions and management and other fees?
- What statements or other documents regarding the investment will be distributed? How often will they be updated?
- What are the specific risks of the investment?

- How can the investment be sold or liquidated?
- Is the security registered with the Texas State Securities Board?
- Is the person offering or selling the security registered with the Texas State Securities Board? What is the person's disciplinary history?

INVESTOR REMEDIES

In addition to the administrative and criminal sanctions discussed above in the description of the Enforcement Division, the Act provides for private civil remedies for violations of its provisions. If you suspect that you have been defrauded, you may wish to contact an attorney to determine what course you should take to establish your rights. In addition, you may wish to contact the Agency and inquire about a suspected violation.

INVESTOR INQUIRIES

Investors should realize that the Agency cannot protect them from possible financial loss or the risks inherent in any investment. However, the Agency welcomes information and inquiries concerning suspected violations of the Act.

Investors with such concerns should complete the form inserted in this brochure or send the Agency a letter describing the nature of the concern, together with copies of any relevant documents. As an alternative, investors may telephone the Agency's Enforcement Division. Staff responding to such calls may provide investors with brief questionnaires to fill out and return. Complaints can also be submitted via e-mail to: complaints@ssb.state.tx.us. The Agency

acknowledges receipt of all inquiries. Anonymous inquiries, both written and oral, are also accepted.

Depending on the circumstances, the Agency may begin an investigation. If an investigation uncovers facts that indicate a violation of the Act, the Agency may pursue administrative sanctions, injunctive relief through the Attorney General, or indictment and criminal conviction through the appropriate prosecuting authority.

If you have information about a suspected violation, or wish to inquire about the activities of persons issuing or selling securities or giving investment advice, please contact:

Texas State Securities Board
P. O. Box 13167
Austin, Texas 78711-3167
(512) 305-8300
(512) 305-8310 (Fax)
(888) 663-0009 (Complaints)
www.ssb.state.tx.us

Se habla Español

The following entities also may assist you. (Additionally, many of the web sites listed below have valuable informational resources for investors.)

American Stock Exchange
86 Trinity Place
New York, New York 10006
(212) 306-1000
www.amex.com

The Better Business Bureau, Inc.
2101 S. IH 35 - Suite 302
Austin, Texas 78741-3854
(512) 445-2911
(Or your local Better Business Bureau)
www.bbb.org

Commodity Futures Trading Commission
1155 21st Street, N.W.
Washington, D.C. 20581
(202) 418-5000
(866) 366-2382 (Complaint line)
(800) 621-3570 (Registration status)
www.cftc.gov

Federal Trade Commission
1999 Bryan Street - Suite 2150
Dallas, Texas 75201-6808
(877) 382-4357 (Consumer complaints)
www.ftc.gov

The NASDAQ Stock Market, Inc.
One Liberty Plaza, 165 Broadway
New York, New York 10006
(212) 401-8700
www.nasdaq.com

National Association of Securities Dealers (NASD)
12801 North Central Expressway - Suite 1050
Dallas, Texas 75243
(972) 701-8554
(800) 289-9999 (Disciplinary history)
www.nasd.com
www.nasdr.com

National Futures Association
200 W. Madison Street - Suite 1600
Chicago, Illinois 60606-3447
(800) 621-3570
www.nfa.futures.org

New York Stock Exchange, Inc.
11 Wall Street
New York, New York 10005
(212) 656-3000
www.nyse.com

North American Securities Administrators
Association, Inc.
750 First Street, N.E. - Suite 1140
Washington, D.C. 20002
(202) 737-0900
www.nasaa.org

Office of the Texas Attorney General
P. O. Box 12548
Austin, Texas 78711-2548
(512) 463-2100
(800) 252-8011 (Public information and assistance)
(512) 475-4413 (in Austin)
www.oag.state.tx.us

U.S. Securities and Exchange Commission
801 Cherry Street - 19th Floor
Fort Worth, Texas 76102
(817) 978-3821
1-800-732-0330 (Investor Information Service)
www.sec.gov

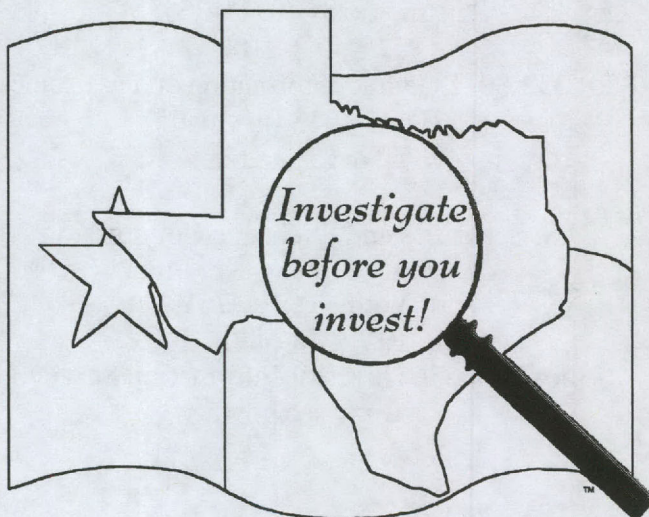
ADDITIONAL INFORMATION

If you have any questions about whether a security or a firm or person selling securities or providing investment advice is registered, contact:

Registration Division
Texas State Securities Board
P. O. Box 13167
Austin, Texas 78711-3167
(512) 305-8300
(512) 305-8310 (Fax)

secreginfo@ssb.state.tx.us
(Securities registration information)

records@ssb.state.tx.us
(Dealer and investment adviser registration inquiries)



Pursuant to the requirements of
Section 2.L of the Texas Securities Act

Revised June 2005