



"Free Lunch" Investment Seminar Examinations Uncover Widespread Problems, Perils for Older Investors

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Washington, D.C., Sept. 10, 2007 - During a Seniors Summit held today at the Securities and Exchange Commission, securities regulators released a [joint report](#) summarizing the results of their examinations of "free lunch" investment seminars.

The year-long examination was conducted by the SEC, the Financial Industry Regulatory Authority (FINRA) and state securities regulators (members of NASAA, the North American Securities Administrators Association). The regulators scrutinized 110 securities firms and branch offices that sponsor sales seminars and offer a free lunch to entice attendees.

The report's key findings include:

- 100% of the "seminars" were instead sales presentations.

While many sales seminars were advertised as "educational," "workshops," and "nothing will be sold," they were intended to result in the attendees' opening new accounts and, ultimately, in the sales of investment products, if not at the seminar itself, then in follow-up contacts with the attendees.

- 59% reflected weak supervisory practices by firms.

While some exams found effective supervisory practices, many examinations found indications that firms had poorly supervised these sales seminars, including failure to review seminar presentations or materials as required.

- 50% featured exaggerated or misleading advertising claims.

Examples included "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."

- 23% involved possibly unsuitable recommendations.

In 25 of the 110 examinations, examiners found indications that unsuitable recommendations were made, for example, a risky investment recommended to an investor with a "conservative" investment objective, or an illiquid investment recommended to an investor with a short-term need for cash.

- 13% appeared to be fraudulent and have been referred to the most appropriate regulator for possible enforcement or disciplinary action.

Examiners found indications of possible fraudulent practices in 14 examinations that involved apparent serious misrepresentations of risk and return, possible liquidation of accounts without the customer's knowledge or consent, and possible sales of fictitious investments.

SEC Chairman Christopher Cox said, "These findings are a wake-up call for securities regulators, the financial services industry and especially older investors. Not only were virtually all of the 'free lunch' seminars sales jobs in disguise, but half made misleading or exaggerated claims, and more than a third had unsuitable recommendations or outright fraud. The SEC and our fellow regulators intend to put a stop to this. We will step in whenever false claims are being made. We will sanction crooks who try to feast on the life savings of older investors. And we will work with every honest securities firm to help them do more to ensure that their interactions with older investors fully comply with the securities laws. I applaud the securities examiners whose collective work has clearly shown that there's no such thing as a free lunch."

NASAA President Joseph Borg said, "Our examinations prove the point — there's no such thing as a free lunch. Seniors seeking investor education and advice at a seminar should not be subject to misrepresentations, high-pressure sales tactics and outright fraud. The entire community of state securities regulators will continue our active pursuit of criminals who cheat seniors out of their hard-earned retirement savings."

Free lunch sales seminars are routinely targeted at senior citizens and are commonly held at upscale hotels, restaurants, retirement communities and golf courses. FINRA Investor Education Foundation research has found that 78 percent of seniors received a free lunch seminar invitation and 60 percent received six or more invitations in the past three years.

FINRA CEO Mary Schapiro said, "With almost 8 out of 10 seniors being targeted with these tactics, the findings underscore a true need for increased educational and enforcement efforts. I'm concerned that as the population grows older, these strong-arm tactics will only grow more sophisticated. We need to send a clear message right now that high pressure sales activity is simply unacceptable. No one has the right to prey on susceptible investors."

Free lunch seminars often have names like "Seniors Financial Survival Seminar" or "Senior Financial Safety Workshop," and offer "free" advice by "experts" on how to attain a secure retirement, or offer financial planning or inheritance advice. The advertisements often imply that there is an urgency to attend: "limited seating available" or "call now to reserve a seat."

The examinations were conducted between April 2006 and June 2007 in areas of the country that have large populations of retirees: Florida, California, Texas, Arizona, North Carolina, Alabama and South Carolina.

The report's recommendations include:

- The report recommends that financial services firms review their supervisory practices and take steps to supervise sales seminars more closely, and redouble their efforts to ensure that the investment

recommendations they make to seniors are suitable in light of the particular customer's investment objectives. The report also includes a list of supervisory practices that appeared to be effective.

- The report also recommends that ongoing investor education efforts for seniors should provide education with respect to "free lunch" sales seminars. Specifically, senior investors should understand that these are sales seminars that result in the sales of financial products, and they may be sponsored by an undisclosed company with a financial interest in product sales.

The examination report and other materials related to the SEC's Seniors Summit are available at:

www.sec.gov/spotlight/seniors/sec2007seniorsmediakit.htm.

Additional materials:

Video of Chairman's Opening Remarks at Seniors Summit:

➤ [Windows Media Player](#)

Video of Chairman Cox Interview With Reporters About "Senior Specialist" Designations Used By Financial Advisors:

➤ [Windows Media Player](#)

➤ [RealMedia](#)

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