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Boomers Wearing Bull's-Eyes

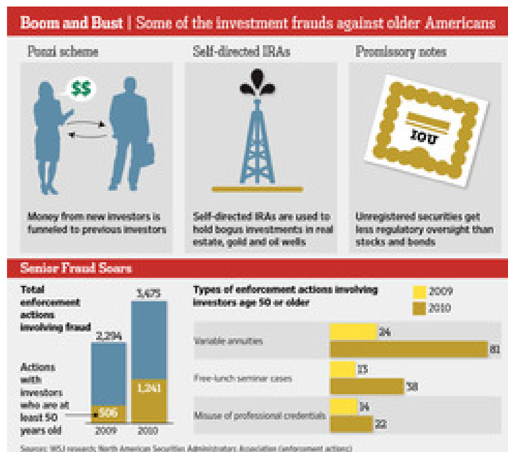
Postcrisis, Those Over 50 Targeted in Investment Scams; Problem is 'Rampant'

By KELLY GREENE

Securities regulators and prosecutors are battling what they say is a nationwide surge in investment fraud against baby boomers.

In many cases, the victims pursued risky bets to overcome losses suffered during the financial crisis—a trend that regulators say is worsening.

State securities officials say they expect the number of enforcement actions involving investors age 50 or older to hit a record this year.



Last year, there were 1,241 criminal complaints, cease-and-desist orders and other regulatory actions launched at the state level involving investors age 50 or older, according to the North American Securities Administrators Association, a group of state regulators. That was more than double the 506 cases in 2009.

The problem is "rampant" throughout the country, says Matt Kitzi, Missouri's securities commissioner and chairman of the association's enforcement committee.

The Securities and Exchange Commission, which regulates investment-adviser firms with at least $25 million in assets under management, doesn't track alleged frauds by the age of the victim. But officials have grown worried enough about the vulnerability of older investors that the agency plans soon to issue "additional guidance about potential investment scams that older Americans should be looking out for," SEC Chairman Mary Schapiro said in a statement to The Wall Street Journal.

Keith Grimes, 56, of Mulberry, Fla., sunk $500,000—"every penny that I made," he says—into an investment fund marketed to older investors that promised returns of 14% to 24%. Billed as having a manager with a successful track record trading stocks and other investments, it turned out to be a Ponzi scheme, in which money from new investors is used to pay returns to other investors.

"Sometimes we think, 'Maybe we were just being too greedy,'" says Mr. Grimes. "But you try to get the best return you can when you've saved through your career to be able to retire."

After losing almost all of his savings, Mr. Grimes is living in a borrowed mobile home and running an industrial-fiberglass business.

The fund's manager, James D. Risher, of Sanibel, Fla., on Dec. 6 was sentenced to more than 19 years in federal prison after pleading guilty in U.S. District Court in Tampa, Fla., in September to mail fraud and money-laundering charges. The SEC on Aug. 29 filed a civil suit in connection with the case.

Mr. Risher's lawyer said Mr. Risher wasn't available for comment. He hasn't responded to the SEC's lawsuit.

According to the SEC complaint, while Mr. Risher raised $22 million from more than 100 investors, he placed only $2.5 million in brokerage accounts and lost about $890,000 through his trading.

More than $8 million went to "management and performance fees," while Mr. Risher spent $4.5 million on jewelry, gifts, property and personal expenses, according to the SEC complaint. And $3.6 million was paid in distributions to investors, the complaint says.

There are about 77 million baby boomers in the U.S., or 25% of the nation's population, and the oldest began turning 65 this year. Many of their retirement portfolios were ravaged by the financial crisis, erasing billions of dollars in assets.

Despite a steep rebound since March 2009, the Dow Jones Industrial Average is down 15% from its peak in October 2007, causing many baby boomers on the cusp of retirement to stretch for higher returns. That makes those investors especially vulnerable to fraud, securities regulators and prosecutors contend.

The typical person's ability to make effective financial decisions peaks at age 53.3 and goes downhill after that, according to a Boston College Center for Retirement Research study last year.

Exotic unregistered securities such as promissory notes, private placements and investment contracts have emerged as the main vehicles for fraud involving older investors. Of the enforcements in 2010 involving investors age 50 or older, cases involving unregistered securities outnumbered those related to ordinary stocks and bonds by a ratio of five to one, according to the securities administrators' association.

Older investors often buy such securities through self-directed individual retirement accounts, which allow people to plow their money into investments beyond traditional stocks, bonds and mutual funds, such as real estate, gold and oil wells.

The Securities and Exchange Commission in September warned investors of pervasive fraud in pitches aimed at holders of self-directed IRAs.

Associated Press

Lillian Wells, 60, faces foreclosure on her Covington, Ga. home after putting money into a company run by Ephren Taylor.

Since October, investors have filed lawsuits in Georgia and North Carolina alleging that entrepreneur Ephren Taylor Jr. solicited investments, mainly from older members of churches, in promissory notes held in self-directed IRAs.

When the notes were supposed to mature, with interest, the investors weren't repaid, according to the claims.

The Georgia Secretary of State's office is conducting an investigation into Mr. Taylor "involving violations of the Georgia Securities Act," says Matt Carrothers, a spokesman for the Georgia Secretary of State.

Mr. Taylor didn't respond to emails seeking comment. A man who answered a phone number Mr. Taylor has used declined to identify himself but said that Mr. Taylor "doesn't do comments."

The number of Ponzi schemes also has surged, regulators and prosecutors say, as has real-estate fraud and the number of cases in which investments are pitched at "free-lunch" seminars run by investment promoters.

The increase comes amid widespread efforts to deter wrongdoing. Since 2007, at least 19 states have

toughened their laws, usually by increasing the penalties for financial crimes or securities violations against people who are at least 60 years old.

The number of enforcement actions at the state level vastly underestimates the extent of the fraud, regulators say.

About 14,000 investigations were undertaken by state regulators in 2009 and 2010, according to the securities association, many of which could take years to complete.

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