

TRILOGY OF INVESTMENT TERROR

MAY 2007

I hate dolls.

This is not some sort of macho rant, I am genuinely frightened of them. They give me the creeps, especially those new *American Girl* dolls; they look possessed. Anyway, I was trying to decipher the origin of my irrational fear and I think it might have something to do with a movie I saw back when I was a kid. I loved scary movies as a kid, and none of them really ever bothered me except the *Exorcist* and this other more obscure film called *The Trilogy of Terror*. In the *Trilogy* there was a particular story about a doll that comes to life and well... bad things happen. This film is not like the Chucky movies, it is actually really frightening. Anyway, in honor of the film that keeps me away from dolls, I am going to try to scare and alert everyone; but in this case, especially senior citizens, to some horrifying practices that are victimizing individuals all over the country.

Here is the *Markowski Investments Trilogy of Investment Terror*...

THE POISON PITCH

“Assume you are selling to: A 12 year-old who is blind yet smart” is how Brokers Choice of America, a so-called insurance marketing company, instructs its advisors in dealing with senior citizens attending its seminars according to the Massachusetts Securities Division.¹ The **“One Call One Close”** manual instructs advisors to **“probe and disturb”** attendees by asking them questions that will sooner or later lead them to reveal their financial fears which will help close the sale. **“Probe, then disturb, then enhance the problem! Remember they’ll change when you hit their fear, anger and greed buttons.”** states the manual according to Massachusetts regulators.¹

In an *Investment News* column, Charles Paikert writes that according to the Massachusetts regulators, Brokers Choice advisors are **“taught to intentionally terrify”** seminar attendees. They instruct advisors to relay stories of the Great Depression and ask seniors if they can recall what happened to individuals who had funds in banks, without mentioning that the FDIC protects bank deposits today. While most of the advice given would induce nausea, what was most disgusting, revolting, frightening had to be...

“While we are waiting for the monies in your CD to be transferred to the insurance company ...I would ask that you not mention a word of this to your kids.”¹

Charles Paikert in a subsequent *Investment News* column exposes another financial marketing company called *Piece of Pie Strategic Coaching*. At the company’s website, the founder Michael Kaselnak touts his prowess in selling financial products to senior citizens. The tactic the company promises allows advisors **“to begin a relationship that in a short time makes the prospect feel uncomfortable discussing any financial matters with their current advisor.”** After getting a senior citizen to attend a workshop that is **“scripted to a word,”** the objective is to terrify the prospective victim. According to the website, after the second meeting in the three meeting process, **“the client is usually mortified 100% of the time.”** Potential (and valid) objections of prospects such as **“liquidity, safety and surrender charges”** will not be problematic after using the *Piece of Pie* system.¹

Michael DelMonico used the system to dupe senior citizens in to believing that he was acting in their best interests, and this past March regulators caught up with him and accused him of engaging in a **“Wide range of dishonest and unethical practices. Michael used sophisticated**

marketing tools geared towards senior citizens to hold himself out as an objective, knowledgeable and unbiased advisor to seniors, with an undisclosed agenda of convincing them to sell their assets in order to buy unsuitable, high-commission annuities". DelMonico also presented himself as an investment advisor but was not registered as such according to the Telegram & Gazette.³

Apparently, The Institute of Elder Planning Studies offers its salesman with ghostwritten books that serve to deceive and position salespeople fallaciously as authors and experts in financial planning for the senior demographic. **"When these people stand up in front of senior groups and hold up a book with their picture on it and say that they wrote it, they are deliberately trying to mislead people into believing they are an expert and wrote a book"** stated Jim Nelson, assistant secretary of state for business regulations and enforcement in Mississippi. For a fee of \$2,500 the "Institute" would supply salespeople with a ghostwritten book on senior financial planning. **"Alligator Proofing Your Estate: Protect Your Life Savings From Probate, Nursing Homes and Taxes,"** lists the salesperson as the author, and even features his or her picture! For an extra couple of bucks, the Institute will bestow upon the salesperson the fake designation **Certified Elder Planning Specialist**. At the time of this article the Institute has disappeared. Such operations are **"like cockroaches"** stated Mr. Nelson in an Investment News article, **"When you shine some light on these things, they run away...they shut down as that one and open up a week later as another one."**²

John Christopher Huck was charged with **"dishonest and unethical sales practices and abuses against the elderly"** by regulators.³ Huck used a newsletter provided to him by a company called Javelin Marketing called *SeniorFinances*. It had his picture on it as well and gave the false impression that he wrote it. Not only does Javelin offer newsletters for sale, but several books that salespeople can use to dupe senior citizens as well. **"The booklets can be used at seminars, given to clients and used to get speaking engagements, get interviewed in the newspaper and get a radio or TV show."**²

THE LIST OF DEATH

"Ever wonder how and why you get those annoying phone calls from banks and insurance salesman around the dinner hour?"

The New York Times ran a piece this past month by Charles Duhigg that exposes the ins and outs of the lead list business. Some of the lists being sold to con-artists around the country by a company called InfoUSA have titles such as **"Elderly Opportunity Seekers,"** 3.3 million older people **"looking for ways to make money,"** and **"Suffering Seniors,"** 4.7 million people with **"cancer or Alzheimer's disease, the perfect list for mailers targeting the ailing elderly who will be most responsive"**. Another one, **"Oldies but Goodies"** contained 500,000 gamblers over 55 years old, **"These people are gullible. They want to believe that their luck can change and it's just a matter of catching a bit of star dust."** Last but not least, **"Opportunity Buyers"** these people are **"incredibly gullible, these buyers respond to a number of different offers that promised them big riches from following some simple money making plan."**⁴

In the New York Times piece Mr. Duhigg reports that telemarketing fraud has become a global criminal enterprise preying upon millions of elderly and other Americans every year. (Gee...Where have I heard that before?) Vast databases of names and personal information are sold to thieves by large publicly traded companies. **"Major banks such as Wachovia have made it possible for crooks to steal from the victims' bank accounts"**.⁴

"Only one kind of customer wants to buy lists of seniors interested in lotteries and sweepstakes: criminals," stated Sgt. Yves Leblanc of the Royal Canadian Mounted Police. **"If someone advertises a list by saying it contains gullible or elderly people, it's like putting out a sign saying 'Thieves Welcome Here'".** Senior citizens are perfect marks for telemarketing fraud; they are often at home, rely on delivery services, and often seek companionship. The *Times* states that

30% of all telemarketing sales are the elderly. According to James Davis, a federal Trade Commission lawyer, "Most people have no idea how widespread and sophisticated telemarketing fraud has become, it shocks even us."⁴

ANNUITIES FROM HELL

Stanley and Elinor Weisman ate a free Ritz-Carlton meal at a financial seminar with other retirees, and also swallowed the sales pitch. It went like this: Their money would be safe. They could withdraw part of it every year if they need and the \$600 monthly income would help pay living expenses for the fixed income seniors. But when the monthly checks didn't come and Stanley Weisman was hospitalized, the couple discovered it would be years before they could touch their \$100,000 investment without substantial penalty.

SARASOTA HERALD TRIBUNE 3/11/07

A Minnesota attorney general's lawsuit this past January focused on the plight of an 85 year old woman who was sold an EIA. She gave the insurance company \$55,000 which was half of her life savings. The devil in the details was that she couldn't touch it for 12 years. Mathematics is not my strong suit, but I think that means that this victim could not touch her funds until she was 97 years young. Other cases we have discussed on the radio show, were when the California attorney general and insurance commissioner sued a group of insurance companies in California and Iowa for tricking retirees into investing their retirement money in unsuitable annuities. Another case was when the state of Massachusetts also pressured Bank of America into giving victims 78 years or older the opportunity to get out of their annuities without penalty.⁵

In a new nefarious scam, as reported by Robert Manor of the *Chicago Tribune*, deals with a company called *Senior Benefit Services of Kansas*. *Senior Benefit* mailed postcards to senior citizens offering free information on topics of interest to seniors. One of the versions of the direct mail pitch is headlined "Change in Your Medicare Benefits." It promised to give the recipient free information on ways to save money if they just mail an attached reply card and give their signature, birth-date and telephone number. Afterwards, the potential victim would receive a call from a telemarketer to determine if the person is between 55 and 85 and has assets of at least \$100,000. *Senior Benefit* would then schedule an appointment where the victim was under the belief that they were going to receive information from a "senior-citizen advocate," the reality was they were scheduling an annuity sales pitch.⁶

The Equity Indexed Annuity (EIA) scams roll on. Despite the warnings and cautionary statements by the NASD and SEC, tales like the ones above continue to proliferate. EIA's are sold on the free lunch/dinner circuit with tales of no-risk investments that will reap the rewards of stock market gains, but earn a minimum when it falls. What these salespeople fail to address over dessert and coffee is the fine print, which is complicated and masks the details of the hidden costs, large commissions and large surrender fees.

There is a regulatory black hole when it comes to EIA's. They are sold as insurance products without any regulation under securities laws. Clever salesman get a much higher commission the longer the annuities are deferred, therefore giving them incentive to sell long-term products. Why would people in their 80's need high commission, high fee long term products? In the case of the Weisman's, according to the *Sarasota Herald Tribune* they accepted an invitation to a free dinner seminar where the salesperson wrote down "key aspects" of EIA's on a blackboard: "Never goes down, Income and bonuses." They also were told that the annuities would provide immediate monthly income; the reality was that no income would be paid for the first 5 years.

What happens with EIA's is that people often do not realize what they have bought until its too late. Certain states have rescission laws that give victims a window of time to get out of a contract; however, the time period is not that lengthy. The ugly realization occurs after the victim calls the insurance company to get funds and is denied. If you have any questions at all about EIA's and whether or not they are suitable for you, your family, or anyone you care about, we are here to help you.

First, we recommend sending a letter to the insurance company stating the grievance. We can help you do this! Be very specific about the situation and state your financial status and age. Add the question, **"I don't know how you could do this to someone who is __ years old"?** Let them know that you feel lied to and deceived, be specific to state your losses or how much you stand to lose. Relay the fact that all you want back is your money. It might be a good idea to have this sent on your attorney's letterhead. We will also be happy to do this for you on ours. Ask for a response in writing.

This concludes our Trilogy. I hope we frightened everyone enough that they will not fall victim to con-artists and investment abuse. However, I would like to reiterate once again, if you feel like you may have fallen victim, don't be embarrassed, you are not unique. Thousands are conned every year, yet most financial crimes go unreported because the victim is humiliated. We are here to help. Take advantage, we don't bite, yet I'm not so sure about my daughter's dolls, they might...

1. [Probe and Disturb Viewed as Key to One Firm's Tactics](#) *Investment News* Charles Paikert 3/26/07
2. [Marketing Firms Targeting Elderly Draw Attention From Regulators](#) *Investment News* Charles Paikert 3/26/07
3. [2 Area Men Charged in Investment Scam Unauthorized Advice to Seniors Cited by State](#) *Telegram & Gazette* Martin Luttrell
4. [Bilking the Elderly, With a Corporate Assist](#) *The New York Times* Charles Duhigg 5/20/07
5. [Annuities Complaint Sends Up a Red Flag](#) *Herald Tribune* Todd Ruger 3/11/07
6. [Scammers take Aim at Seniors](#) *Chicago Tribune* Robert Manor 3/19/07