

The Dark Side of Private Placements

"The freewheeling 'private placement' market is getting increasingly hazardous for ordinary investors."

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Private-placement securities are stocks or notes issued outside the public market. They are riskier because they do not require registration with the SEC. Some brokers and promoters minimize these risks; investor complaints to FINRA (Financial Industry Regulatory Authority) more than doubled last year. "It's a very high-priority area for us," according to FINRA's enforcement head, Susan L. Merrill.

A recent **Wall Street Journal** story described how a Securities America sales rep persuaded a former schoolteacher in Laguna Niguel, Calif., Adrienne Cross, to invest more than \$1 million of her recent divorce settlement in a private placement deal that failed, wiping her out. *"I felt gutted like a fish,"* Ms. Cross, 64 years old, was quoted as saying. *"He had pushed it as a safe alternative to stocks."* Securities America claims that Ms. Cross signed documents that established her as "an accredited investor who understood the risks."

Private placements are increasingly finding their way into the portfolios of ordinary investors under the guise of being "accredited investors." According to guidelines set in 1982, private placement offerings can be pitched to anyone whose net worth, including home, exceeds \$1 million (or who earns \$200,000 a year) because these are the benchmarks for "accredited investors." These benchmarks have not changed in over 30 years, creating opportunities for a legend of promoters to take advantage of unprepared investors.

Obama's proposed financial regulatory bill will require the SEC to review private-placement offerings or require state regulators to do it. Until that bill becomes law, private placements will continue without meaningful regulatory oversight.

To learn about the disciplinary record of FINRA-registered brokers or brokers, go to www.finra.org/brokercheck. To learn about recent actions brought by state regulators, visit www.enforcementreporter.com and download free copies of *Blue Sky Chronicle* and *Securities Enforcement Reporter*. To stay current in the private placement area, visit www.RegDLaw.com and www.privateplacementadvisors.com.

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