"I'm going to talk to you about securities fraud. There's a lot of it. Business is very good."

So began Edwin H. Nordlinger, deputy regional director for the U.S. Securities and Exchange Commission's Northeast Regional Office. He then launched into an eye-opening litany of the ways in which people are defrauded by banking on that most American of human failings: greed.

Nordlinger's keynote speech was the centerpiece of "The Prudent Investor," an investment education conference presented at the University Inn and Conference Center. The ambitious conference was sponsored by the Gerald and Sandra Lippes Endowment for Entrepreneurial Law and Strategy, and the Securities Clinic, a collaborative program of UB Law School and the UB School of Management. It was the first in a series of investment education conferences.

Attendees heard financial consultants, academics and regulators address a wide range of investment-related topics, from the nuts and bolts of saving for retirement and education, to such strategies as asset allocation and tax-advantaged investing, to the regulatory framework within which all these transactions take place. As the stock market approached all-time highs and public enthusiasm for investing continues to grow, it was a particularly timely subject for a conference.

Amid that enthusiasm, the SEC's Nordlinger sounded some cautionary notes. Securities fraud is a very real risk, he said, and investors should beware of a variety of scams.

"We are now concentrating on microcap penny stock fraud," he said. "These are small companies where the price of the stock is small, and in this rising market it seems like an easy way to make a lot of money. We have just arrested 46 people who will face criminal charges and we will be bringing 27 civil
When a client is suspicious about an adviser's activities, people typically call the person and ask, what about this? But a crook will give you a good explanation."

"They own the stock themselves, and when it reaches high levels they sell it. But you don't know it was rigged, so you hold onto it. The price falls to the bottom and you are stuck with a stock that is worth nothing.

"It's very hard to catch some of these people because they are very clever."

Another scam to be aware of is "cooking the books." "The company issues a financial document, but they don't tell it the way it is. In one case, the company said they had bought another company. They said it is a very good company, worth $14 million. The problem is, they overestimated by $10 million. Why do they do this? Because the more the company is worth, the more the stock is worth. Almost always, the people who are cooking the books sell the stock when it’s high and leave you holding it."

A scam that keeps popping up like dandelions, Nordlinger said, is the Ponzi scheme. Investors buy into a promise of incredible returns — 15 or 20 percent. The first investors do indeed get back their principal with interest. But it is not coming from any investment — it is coming from money put in by the next generation of investors.

"Obviously," he said, "just like a chain letter, eventually it will explode." He cited one Ponzi scheme in upstate New York that cost investors $700 million.

And beware of crooked investment advisers, Nordlinger warned. "The theory is that they are a trusted person who is smarter than you," he said. When a client is suspicious about an adviser's activities, "people typically call the person and ask, what about this? But a crook will give you a good explanation. You can write or call the firm instead. They make so much money, they don't have to cheat. They want to get rid of the bad apple. I am not talking about an investment that doesn't give you the return you wanted, I am talking about stealing or cheating."

Regulators are also on the lookout for insider trading: Nordlinger told of a psychiatrist in New York City whose patient was the wife of a very successful businessman. "She says, 'I love Sandy but I am not happy that he buys and sells companies, and we have to move to a different city.' So the psychiatrist asks, 'What company and what city?" He actually bought stocks on that information, Not only did the SEC bring charges, but the U.S. attorney also brought criminal charges against him.

Fraud can occur with municipal securities: Two officials in Syracuse, Nordlinger said, issued municipal bonds and overstated the city's finances by $24 million. The SEC brought charges. The officials protested, saying that the bonds were all paid off with interest — nobody was harmed. "But: when bonds are sold, they pay interest. It is based on risk. You are willing to risk more if you think you can get a much better return. You were cheated out of interest here because the bond was riskier than was represented."

So it goes in the life of the securities regulator. The agency, Nordlinger said, tries to settle cases rather than take them to court. Nationwide, he said, each year the SEC brings only about 450 to 500 cases. The preferred disposition is for the offender to pay back the money, with interest, and be assessed a one-time penalty.

"Buying stocks and bonds is like falling in love," he concluded. "You need love. It's tough to avoid stocks and bonds."