

Many falling victim to shady dealer

■ Experts say investors should exercise caution when sinking money into promissory notes

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Staff Writer

Anthony T. Newman thought he found a good investment for his clients.

It was a nine-month promissory note that would pay out about 10 percent in interest.

Newman, who owns Lifeguard Insurance Agency in Mentor, wanted to do his homework, so he read First Lenders Indemnity Corp.'s large disclosure document twice, he said.

Then, he had two local attorneys look over FLIC's plan and asked the advice of

two of his mentors.

Newman said they all said the investment looked legal and could work.

Everything seemed like a go and then everything fell apart as Newman, an experienced businessman, soon joined the growing ranks of victims of promissory note schemes.

Thousands of investors nationwide have fallen into such traps set by crooked companies.

The scam

Shady promissory note dealers coax investors by offering a high return in a short amount of time with no risk.

But Debbie Dye-Joyce, commissioner of securities for the Ohio Division of Securities, said the exact opposite usually is true.

Dye-Joyce said dealers often target eld-

erly people who are trying to supplement their income by investing their savings. The struggling economy adds to the problem as many seniors try to offset low interest rates.

Dealers target the elderly and people who receive large settlements because they aren't savvy investors, said Mentor attorney Joseph Klammer.

"Many of them don't know how to use the Internet or where to go at the library to research these things," said Klammer, who is representing a Painesville couple who claim they lost \$70,000 in a promissory note scam. "The fact is there is no promissory note that is an appropriate investment for someone that is in retirement."

Like investors, middlemen, like Newman, can be fooled, said Dye-Joyce. "Sometimes the people selling promissory notes don't realize what's going on

and don't realize that they are securities," she said. "If they don't ask all the questions, they could be duped just like an investor."

Ashley Baker, of the North American Securities Administrators Association, said investors shouldn't be fooled.

"Risk and return move together," he said. "You can't separate the two."

The losses

Regulators in at least 35 states have investigated complaints regarding promissory notes, according to a 1999 study by the North American Securities Administrators Association. More and more cases are making news in Northeast Ohio:

■ Newman pleaded no contest to two misdemeanor charges for selling about \$650,000 in false securities to 15 or 16 investors.

He was ordered to pay \$40,000 in tuition.

■ Gary Nelson Burg of Olmsburg is being sued by Klammer's client and Jeannine Rehberg.

The Ohio Department of Public Safety also issued a cease-and-desist order to stop selling promissory notes. ■ Akron attorney and finance Andrew P. Bodnar Jr. was sentenced to prison in August for more than \$41 million of investors' losses.

Dye-Joyce said the cases are prosecuted because the money track once investors turn it over to her. She said it could be placed in accounts or spent on luxury items.

"Even if you can track it down, a lot of the time you can't get your money back," Dye-Joyce said. "Why it's important to investing up front."