New Haven Biz
https://www.newhavenbiz.com/article/fighting-fraud-making-sure-your-money-goes-toward-your-investments

Updated: July 1, 2022

Fighting Fraud: Making sure your money goes toward your investments

By Michelle Tuccitto Sullo

Investing in a company can be a worthwhile way to make your money grow, but that's only if your funds are actually being invested.

Recently, the region has had multiple high-profile cases in which people invested high dollar figures, only to discover later that individuals had diverted funds for personal gain. Area investors' money has disappeared as fraudsters have treated themselves to fancy vacations, high-end vehicles and gambling sprees.

In May, Greenwich resident Samuel Klein, 66, was sentenced in U.S. District Court to three years in prison and ordered to pay restitution for defrauding investors of nearly $1.5 million.

Assistant U.S. Attorney Jennifer Laraia portrayed Klein in court documents as a "predator" who caused "devastating" and "life-altering" harm to his victim investors, including one who is unable to enjoy retirement due to financial losses.

She said Klein prioritized his lavish lifestyle, including accommodations at a resort in Jackson, Wyoming, and “staggering” credit card expenditures. He portrayed himself as a wealthy and successful businessman, entertaining people at his Greenwich estate. Investors’ funds went toward Klein’s personal property taxes, credit cards, payments for a Ferrari and a pool company, according to the government.

Klein’s defense attorney, Stanley A. Twardy Jr. of Day Pitney, wrote in court documents that Klein “is ashamed of his actions,” and has agreed to make full restitution to investors.

According to Twardy, Klein also used some of the funds to support projects or ventures he hoped would generate substantial returns for his investors and himself.

In yet another case, in February, Brian Hughes, 57, of Madison, pleaded guilty in U.S. District Court in New Haven to offenses such as wire fraud and illegal monetary transactions. Hughes awaits sentencing and has agreed to pay nearly $3 million in restitution, money owed to investors and the Internal Revenue Service.

Hughes in 2015 founded the Branford-based Handcrafted Brands LLC, for the purpose of raising money to purchase Salute American Vodka. Dozens invested, and while Handcrafted Brands did purchase Salute in June 2016 for

$450,000, federal prosecutors say Hughes used investment money for his personal taxes and credit card expenses.

In December, the CEO of Hamden-based Vanessa Biotech, Norman Gray, 66, of Hamden, was charged with one count of wire fraud for allegedly stealing more than $1.4 million from an investor. Federal prosecutors claim Gray diverted money for general company operating expenses and for his own personal use, including to buy a $50,000 luxury SUV. Gray has entered a "not guilty" plea, and his case is pending in U.S. District Court in New York.

"History is littered with investment scams," said Joseph DeCusati, a partner with accounting firm Marcum LLP. "Many make the news, but a significant percentage do not. There is a lot of fraud in society today."

Frank Rudewicz, principal with accounting firm CliftonLarsonAllen LLP, says there is a link between the economy and these types of cases.

"Historically, when the economy turns [for the worse], there are spikes in all kinds of fraud, including investment fraud," Rudewicz said.

The U.S. Financial Industry Regulatory Authority (FINRA) reports it received 5,472 investor complaints in 2020, with 808 new disciplinary actions filed, and $57 million in fines issued.

Avoiding loss

How can investors protect themselves and make sure their money is actually going toward their investment?

First, be aware of red flags. The Federal Bureau of Investigation advises people on its website to be wary of warning signs, such as if an offer “sounds too good to be true.”

“There is no such thing as a guaranteed return,” DeCusati said.

Kathleen Titsworth, a spokesperson for the Connecticut Department of Banking, said general warning signs include promises of quick profits, claims that an investment is risk-free, refusal to send written information and high pressure tactics.

Fraudsters typically offer a “no-lose investment,” and caution that if a potential investor waits too long, the deal will be gone. Another common phrase for scammers is “Don’t you trust me?” she said.

Legitimate promoters will not be concerned about investors running a background check on them, according to Titsworth.

The FBI warns against unsolicited investment offers and high levels of pressure on you to invest.

In Klein’s case, for example, court documents show he allegedly used tactics such as making deals appear to be time-sensitive, and instructing people not to tell anyone about their investments.

“Take your time,” DeCusati said. “Many frauds depend on a sense of urgency. If you receive an unsolicited call or email and you’re being pushed to decide before you have time to make a reasoned decision, that’s a red flag.”

Do your homework

Experts agree doing research on an investment opportunity is key.

"Many frauds have a common element: the investor did not ask enough questions or request sufficient documentation prior to making their investment," DeCusati said. "Necessary steps should be taken to ensure that the person in whom you are trusting your investment funds is making a legitimate investment on your behalf."

Titsworth said investors should ask for written information that fully explains the investment, such as a prospectus or offering circular.

Read it carefully, and don't commit to an investment unless you fully understand it, Titsworth advises. If you do invest, keep copies of all written information and records of transactions, both in case of future problems and for tax purposes, she said.

Investors should research an investment's potential, and check with regulators to see if there have been any complaints against a company or individual. Review a company's annual report, and request written financial information, according to the FBI. The agency also recommends checking with a financial advisor, broker or attorney about an investment before proceeding.

Rudewicz said hiring a firm to do a background search is one option, but he noted that people can also research a company and people associated with it for free online.

“Research the company through the individual state they are located in to make sure it is a viable company and not a sham,” Rudewicz said.

Investors also should find out if there is a strong accounting team in place, as its absence should give anyone pause, he added.

DeCusati also recommends finding out who else has invested, and evaluating an investment target’s chances for success.

“Do they understand manufacturing and the channels of distribution? Do they have the equipment to succeed? If this is a new area of investment, who is helping provide expertise?” DeCusati said.

He urges investors to think critically about the company’s business model and if it makes sense.

“If they’re claiming a hot new product or an emerging market, what hard evidence is there for its success? Don’t get bamboozled by fancy looking websites or technobabble — a nice website is easy to make, and is not evidence of a rock solid business,” DeCusati said.

After investing, Rudewicz recommends investors scrutinize all statements for any transactions that seem out of the ordinary.

DeCusati also suggests familiarizing yourself with prior fraud cases — such as multibillion-dollar Ponzi schemer Bernard Madoff — because understanding how they transpired can help current investors avoid similar traps.

Another recommendation? Never invest more than you can afford to lose, says DeCusati.

If victimized, report it promptly, which could improve chances of reimbursement or restitution, and file a complaint with the SEC, state securities regulator, or law enforcement, according to the FBI.

FINRA regulatory actions

FINRA is responsible for regulating every broker and brokerage firm doing business with the U.S. public. Here's a breakdwon of regulatory actions the agency took in 2020.

Investor complaints received	5,472
New disciplinary actions filed	808
Fines (in millions)	$57.00
Restitution (in millions)	$25.20
Firms expelled	2
Firms suspended	2
Individuals barred	246
Individuals suspended	375

Source: FINRA