

THE WEALTH MANAGEMENT

FINANCIAL Planner

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US BANKER
2009*

\$65 Billion Stolen - How Could It Happen?



The fraud perpetrated by Bernard Madoff remains in the headlines months after it first came to light. Many people following the Madoff saga still wonder how highly intelligent and even sophisticated investors found themselves caught in his net. The Financial Industry Regulatory Authority (FINRA), the regulator of securities firms doing business in the U.S., has been searching for answers too. It's especially important now, because fraud will be on the rise as scam artists look for any hook that they can find to exploit investors, especially those who are looking for ways to recover from their recent losses.

The Psychology Behind the Pitch

The old saying goes: "If it sounds too good to be true, it probably is." The problem is deciding when "good" becomes "too good." There's no bright line. Investment scammers make their living by making sure that the deals they tout appear both to be good, and true. If you're not a professional investor following a thorough and well thought out due-diligence and investment monitoring process, spotting these types of investments can be challenging.

FINRA's Consumer Fraud Research Group has examined hundreds of undercover audio tapes of investment fraud. The tapes reveal that pitches are tailored to match the psychological profiles of their targets. They ask seemingly benign questions—about health, family, political views, hobbies or prior employers. "Once they know which buttons to push, they'll bombard you with a flurry of influence tactics, which can leave even the savviest person in a haze," warns FINRA.

The Five Tactics that Ensnare Investors

The tactics that scam artists use may seem familiar to their targets because legitimate marketers use them too. That familiarity may lend credibility to the pitch and throw an investor off guard. An important part of resisting persuasion tactics, FINRA suggests, is to know them before encountering them.

- The *phantom riches tactic* dangles the prospect of wealth, luring an investor with something similar to Madoff's double-digit returns or R. Allen Stanford's high-interest rate CDs.
- The *source credibility tactic* cloaks the scam artist in legitimacy with claims that he or she is with a reputable firm or has special credentials or experience. "Believe me, as a senior vice president of XYZ Firm, I would never sell an investment that doesn't produce."
- The *social consensus tactic* leads investors to believe that other savvy investors are already on board. It often goes something like this: "This is how Jones got his start. I know it's a lot of money, but I'm in—and so is my mom and half her church—and it's worth every dime."
- The *reciprocity tactic* works by having the scam artist offer to do a small favor for an investor in exchange for a big favor. One common example is a promise to give the investor a reduction in a commission that would be charged.
- The *scarcity tactic* traps an investor by creating a false sense of urgency, encouraging the investor to act immediately. Often, there's a claim of limited supply, such as: "There are only two units left, so I'd sign today if I were you."

High on the List of Targets

FINRA research has identified several factors that make an investor more likely to succumb to the attentions of a scam artist.

Key among them is unquestioned reliance on friends, family and coworkers for advice. In a study of victimized investors, 70% of victims of fraud chose investments based primarily on advice from a relative or friend. Other factors included: owning high-risk investments; being open to unfamiliar investment information; and failing to check the background of the individual making the investment offer.

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The Seven Red Flags of Fraud

FINRA offers the following warning signs:

- 1. Guarantees:** An investor should suspect anyone who guarantees that an investment will perform in a certain way. Nothing is absolute in the world of investing.
- 2. Unregistered products and unlicensed “professionals”:** Many investment scams involve unlicensed individuals selling unregistered securities. Madoff wasn’t even a registered investment adviser until 2006 - His SEC filings show technical violations, which might have scared away some investors, if they had done their research.
- 3. Overly consistent returns:** Any investment touted as consistently going up month after month—or that provides remarkably steady returns regardless of market conditions—should be regarded with suspicion.
- 4. Complex strategies:** Anyone who credits a highly complex and secret investing technique for unusual success probably should be avoided. Legitimate professionals should be able to explain clearly and document what they are doing.
- 5. Missing documentation:** If someone tries to sell a security without all the paperwork (a prospectus for a stock or mutual fund; an offering circular in the case of a bond), he or she may be selling unregistered securities.
- 6. Account discrepancies:** Unauthorized trades, missing funds or other problems with account statements could be the result of a genuine error, or might indicate churning or fraud.
- 7. An overeager salesperson:** No reputable investment professional should push anyone to make an immediate decision about an investment, or tell the person that he or she has to “act now.”

Best Protection

The best protection for avoiding a scam comes from having an unbiased and independent organization following a thorough due-diligence process and asking these types of questions on behalf of its investors. At Security National Wealth Management, we’re confident in the steps we take to protect our clients’ assets and we’re proud our clients consider us the organization they can trust to make recommendations that are in their best interest.

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Security National Bank

Ranked in the top 9% of over 2000 chartered trust entities in the United States by Trust Performance Report for the Quarter ending March 31, 2008

Over 2100 account relationships in 43 states and 6 foreign countries

Over \$1.35 billion in assets under management and custody

For decades, Security National Bank’s Trust Division has received consistently positive reviews from internal and external auditors, SAS70’s and Federal regulatory authorities.

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Our team has an average of over 12 years with Security National Bank and over 800 years of combined banking and finance experience.

Investment Portfolio - SNB maintains a high quality investment securities portfolio and has avoided problem investments. (Fannie Mae, Freddie Mac, Lehman Brothers Stock, or AIG equity investments)

Our team is comprised of:

- Attorneys
- Certified Trust and Financial Advisors (CTFA)
- Certified Financial Planners (CFP®)
- Chartered Financial Analyst (CFA)
- Qualified Retirement Advisors (QKA)
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