

Military Ties Can Be Used To Commit Fraud

(NAPSA)—For many military personnel, when it comes to financial fraud, the enemy is not always obvious.

One Marine's Story

Consider the case of James Gonedes. He served two combat tours in Iraq as a Marine. While there, he formed many enduring bonds and friendships, including with fellow Marine Clayton Cohn. So when Cohn started working as an investment adviser in Chicago after their discharge, Gonedes gladly invested in his hedge fund business. He eventually gave Cohn almost \$400,000—money Gonedes had inherited from his late father.

Cohn also reached out to his friends, family members and other fellow veterans as potential investors. And he controlled a so-called charity—the Veterans Financial Education Network—that purported to teach veterans how to understand and manage their money.

Cohn repeatedly told Gonedes that his investments were doing great. According to the U.S. Securities and Exchange Commission, however, that was a lie. In its complaint, the SEC alleged that Cohn used less than half the funds he collected from his family, friends and fellow veterans on the trading strategy described in his pitch to investors. He lost every penny as a result of unsuccessful trading and bad investment choices. He used the rest of the investor funds to finance an extravagant lifestyle and to pay redemptions to early investors. It was a classic Ponzi scheme. The SEC eventually shut down Cohn's firm, claiming it was a fraud. Many investors, however, including Gonedes, lost all their money.

Other Incidences

Unfortunately, Gonedes' story is far from unique. Military veterans are targets of investment scams across the country. In some cases, the frauds are perpetrated by fellow veterans. For instance, in San Diego, ex-Navy SEAL Jason Mullaney was recently sentenced to more than six years in prison for stealing more than a million dollars from fellow SEALs in an investment scam. And in Hawaii, Army reservist Jason Pascua



Always ask if a person or product is registered with the proper regulatory bodies—and verify before you invest—even if you're dealing with an old military pal.

cheated 29 people, many fellow reservists, out of \$1.6 million.

Experts say these cases are classic affinity fraud. You trust someone because he or she is in a group you identify with and you don't bother to check out the investment. After all, whom would you trust more than someone you served with?

Sound Advice

“Just because you served with someone doesn't mean you don't need to verify that the investment is aboveboard,” says Bud Schneeweis, director of the FINRA Investor Education Foundation's Military Financial Readiness Program. He recommends getting answers to some important questions. “What did your battle buddy do in the time since you served to develop the financial wherewithal to offer you investments? Did he go to school? Is he registered with FINRA to sell you the kind of investment he's offering? Is the investment registered with the SEC?”

Regardless of your trust or ties, do your homework. Fortunately, state and federal regulators have tools that can help you avoid fraud and make informed investing decisions. For example, FINRA BrokerCheck lets you check to see if someone is licensed to sell securities as a broker or investment adviser. The Securities and Exchange Commission's EDGAR database lets you research whether an investment product is registered.

Learn More

For information about how to protect your money and to access FINRA BrokerCheck, visit the FINRA Foundation at www.SaveAndInvest.org/LearnMore.