Top 5 Investor Traps for 2011 Financial Planning.com OnWallStreet.com 10/27/2011

Advisors and their investor clients should be on the lookout for these popular scams. According to the North American Securities Administrators Association, here are five of the most common scams that advisors and their clients either managed to avoid or fell victim to this year.

Distressed Real Estate Schemes

How the scam works: An investment pool is created that contains properties that are bank-owned, foreclosures or pending short sales. For instance, investors are told that an entity will buy distressed properties on their behalf, rehabilitate these properties, find renters for the properties and remit a guaranteed profit of up to 30% on a monthly basis. Instead, the investors' money actually is used for the entity's operations, to pay the personal expenses of executives and to buy properties for earlier investors.

Energy Investments

How the scam works: Con artists offer an investment in allegedly untapped oil or gas reserves.

Gold and Precious Metals

How the scam works: A promoter says he is raising capital for extraction equipment to reopen an allegedly dormant mines or he says he has special coins or nuggets that can be stored or traded for investors in special markets.

Promissory Notes

How the scam works: These are unregistered or fraudulent notes that promise and/or guarantee a fixed interest rate and safety of principal. Unregistered notes might be a cover for a Ponzi scheme.

Securitized Life Settlement Contracts

How the scam works: These are investments in death benefits of insurance policies of unrelated third parties. These contracts combine life settlements with traditional securities, such as bonds. But often the investors are left with worthless paper issued by a bonding company that either doesn’t exist or has insufficient assets or is one that operates in an unregulated overseas market.