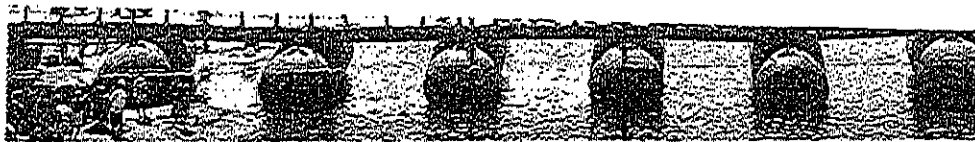


jected any suggestion that his official actions have been driven by an effort to favor Dr. Melgen, a wealthy Florida ophthalmologist who has repeatedly flown the senator on his private plane and has donated hundreds of thousands of dollars to support Democrats in the Senate as well as Mr. Menendez's re-election campaign.

Continued on Page A17



JITENDRA PRAKASH/REUTERS

## Deaths Mar a Religious Festival in India

Hindu pilgrims crossed the Ganges on pontoon bridges after bathing in the waters at Allahabad, India, where as many as 30 people were killed in a stampede at a train station Sunday. Page A4.

2/11/13

# Complex Investments Prove Risky as Savers Chase Bigger Payoff

By NATHANIEL POPPER

Regulators across the country are confronting a wave of investment fraud that is saddling retirement savers with steep losses on complex products that until a few years ago were pitched only to the most sophisticated investors.

The victims are among the millions of Americans whose mutual funds and stock portfolios plummeted in the wake of the financial

crisis, and who started searching for ways to make better returns than those being offered by bank deposits and government bonds with minuscule interest rates.

Tens of thousands of them put money into speculative bets promoted by aggressive financial advisers. The investments include private loans to young companies like television production firms and shares in bundles of commercial real estate properties.

Those alternative investments

have now had time to go sour in big numbers, state and federal securities regulators say, and are making up a majority of complaints and prosecutions.

"Since the crisis, we've seen more and more people reaching out into different types of exotic investments that are a big concern to us," said William F. Galvin, the Massachusetts secretary of the commonwealth.

Last Wednesday, Mr. Galvin's office ordered one of the nation's

largest brokerage firms, LPL Financial, to pay \$2.5 million for improperly selling the real estate bundles, known as nontraded REITs, or real estate investment trusts, to hundreds of state residents from 2006 to 2009, in some cases overloading clients' accounts with them.

LPL said it agreed, as part of the settlement, to reform its process for selling such alternative

Continued on Page A3

to a different-minded generation of young voters animated by the recession and social issues.

Sam Thompson, a 22-year-old environmental studies major at the University of Montana here, considers himself "fiscally conservative" but opposes cuts to Medicare; he expects to need health coverage when he grows old. Aaron Curtis, 27, a graduate student, admired Jon Huntsman, a moderate Republican, but could not stomach Mitt Romney's opposition to same-sex marriage.

Billie Loewen and Heather Jurva, editors at the student newspaper, speak of a Depression-era mentality that is pushing their generation to back Democrats. Saddled with student debt, they worry about health care and are terrified that they will not find good jobs. "You might be just one accident away from losing everything," said Ms. Jurva, who has worked 40 hours a week waiting on tables to put herself through school.

It is no secret that young vot-

## Bon Voyage

Alexander Was last collection. Cathy Horyn, F



JOSH HALL

### INTERNATIONAL A4-8

#### Taking Control in Afghanistan

In a handoff ceremony in Kabul, Gen. Joseph F. Dunford Jr. took command of the American and the international military missions in the nation. PAGE A5

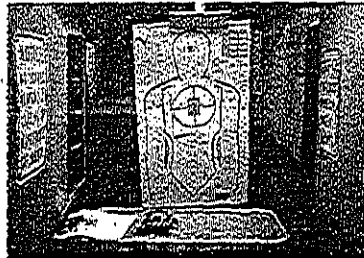
#### Officials' Pay Rankles Brazil

Some public employees in Brazil are earning what have been called "super salaries," feeding resentment. PAGE A4

### NATIONAL A9-12

#### Amid Dragnet, Eyes on Police

As a manhunt continues, a new inquiry is intended to ease concerns about police misdeeds in Los Angeles. PAGE A9



### NATIONAL

#### A Rising Voice for Guns

In the debate on gun regulations, a growing number of women say that mastering a weapon is not only a means of protection, but also a statement of power and identity. PAGE A9

### BUSINESS DAY B1-10

#### A Challenge to Apple's Cool

Samsung's Galaxy S III is the first smartphone to run neck and neck with the iPhone in sales, and the company is now Apple's chief competitor. PAGE B1

#### Airline Merger Seems Close

After months of talks, American Airlines and US Airways appear likely to announce a merger this week. PAGE B1

### SPORTSMONDAY D1-7

#### Dog Judge Defends Himself

An authority on German shepherds dismisses his critics as he prepares for the Westminster show. PAGE D1

### ARTS C1-9

#### Tops at the Grammys

Goyte, below with Kimbra, won three Grammy Awards, including record of the year for "Somebody That I Used to Know." Mumford & Sons won album of the year for "Babel." PAGE C1



### OBITUARIES D8

#### Richard Artschw

A painter and sculptor using surreal effects: materials like Formica, he died at age 89, less than a year after the closing of a career retrospective at the Whitney Museum of Art.

### EDITORIAL, OP-ED

#### Bill Keller



# Investments Prove Risky as Savers Chase Bigger Payoff

From Page A1

investments.

There are few good statistics on the extent of the problem nationally. But cases are mounting in the offices of regulators like A. Heath Abshire, the securities commissioner in Arkansas, where a majority of the 66 open securities cases involve complex investments sold to less sophisticated investors looking for a steady return.

J. Bradley Bennett, chief of enforcement at the Financial Industry Regulatory Authority, or Finra, Wall Street's self-regulatory group, said that for the last two years, 10 staff members have looked at the "proliferation of these products, to understand how they are being sold."

"It's got our attention," he said. "We recognize the trends."

Brokers promoting bad investments to unsophisticated investors is nothing new. But while the easy prey used to be people looking to get rich quick, the pool has

widened to include savers looking for ways to earn the kind of income once reliably available from traditional investments.

Regulators are warning investors that the dangers are unlikely to recede, given the Federal Reserve's pledge to keep interest rates near zero and the push among financial firms to earn more revenue from so-called alternative investments marketed to retail investors. Brokers are eager to sell these investments because they often bring in higher commissions than standard mutual funds and stocks.

The money that retail investors have in alternative investments in the United States, ranging from baskets of commodities to mutual funds that employ sophisticated trading, more than doubled from 2008 to 2012, to \$712 billion from \$312 billion, according to McKinsey & Company. Many of the products hold out the promise of higher returns while ostensibly being immune to the volatility of stock markets.

The phenomenon of investors' actively moving money in pursuit of higher interest rates, known as chasing yield, is reverberating through the economy. Jeremy C. Stein, a Federal Reserve governor, said in a speech on Thursday that he worried that investors desperate for yield could be creating a bubble in widely available investments like junk bonds.

Mary Beck, a furniture business consultant in Pasadena, Calif., said that in 2008, as the stock investments in her husband's I.R.A. began to fall quickly, the couple moved \$470,000 to a new product recommended by their broker.

While the offering was unfamiliar — part ownership in a fleet of luxury cars — Ms. Beck bought the pitch because her broker had been around for years, and the product offered what seemed to be a modest annual interest rate of 7 percent.

"We knew that 12 percent wasn't realistic, but 7 percent seemed realistic," Ms. Beck said. "To us, it was a very conservative way to ensure that we'd increase our savings."

Soon after they stopped receiving interest payments, the Becks

lost their money when the venture went bankrupt in 2012. Ms. Beck and her husband have been reconfiguring their retirement and are planning to work longer.

Her lawyer, Andrew Stoltmann, is representing 10 of the broker's customers, who have filed claims with the financial industry group, saying that the broker used their money on his own "exotic, opulent" lifestyle.

There is no agreed-upon list of the financial products that have caused problems for yield-chasing investors, but regulators say certain ones come up particularly

"The banks weren't giving interest, and I was getting turned off by stocks," said Mr. Spiegel, who says he ended up losing \$318,000. He settled a legal dispute with his broker this month, just before an arbitration hearing.

Mr. Spiegel's lawyer, Stuart D. Meissner, said that before the financial crisis, he never saw a client with a private placement case, but that they are now commonplace.

REITs have been one of the most heavily sold products because there are few rules about who can buy them. Popular for years, they used to come primarily in funds that could be traded on public exchanges. The hot new version — the type that got LPL Financial in trouble in Massachusetts — can be bought and sold only in private transactions.

The outstanding amount of such nontraded REITs grew to \$65 billion last year, from \$43 billion in 2009, according to Direct Investments Spectrum. The private nature of these investments has been advertised as a good thing, because it means they are less likely to move up and down with the stock market. But it has also made it hard for investors to value their holdings or to get out when they need the money.

In addition to the Massachusetts case, the Financial Industry Regulatory Authority issued a \$14 million fine in October against a big purveyor of nontraded REITs in the New York area, David Lerner Associates.

The group warned in January about one of the newest products being sold to retail investors: so-called business development companies, which hold the debt of small companies. Money in such investments grew to \$4.5 billion last year from \$8 million in 2008, according to MTS Research Advisors.

John Morgan, the securities commissioner in Texas, said that based on the complaints coming into his office, the appeal of alternative products appeared to be undimmed. "The people that we talk to are just trying to find a stable source of income," he said. "The promoters have found a sweet spot here."



MICHAEL CZERWONKA FOR THE NEW YORK TIMES  
Mary Beck and her husband invested in a risky venture.

often. Private placements, investments in largely unproven private companies, have been on the list of top enforcement concerns published by the national organization of state securities regulators every year since 2007.

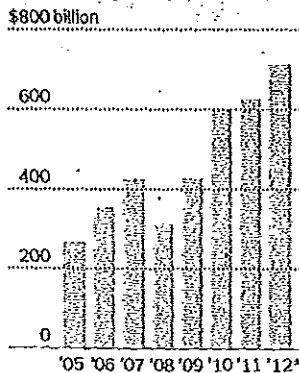
Private placements are supposed to be available only to wealthy, sophisticated investors, but several loopholes, including relaxed procedures for verifying wealth, have allowed them to end up in the portfolios of less sophisticated retirement savers.

Gary Spiegel, 54, a woodworker in upstate New York, was persuaded to buy into three private placements after he grew tired of the volatile stock market and withdrew all of his money in March 2010. Much of that money, \$100,000, went into a company that was supposed to produce a bilingual television show, "Hacienda Heights," while paying a reliable 10 percent interest rate.

## Not Stocks, Not Bonds

Ordinary investors, put off by the volatility of the stock market and the low interest paid by bonds and bank deposits, have piled into real estate and commodities over the last few years.

Retail investments in alternative products  
Assets under management



\*Through November 30.

Source: McKinsey THE NEW YORK TIMES

DAVID YURMAN

be mine