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KANSAS BLUE SKY LAW SAVES CITIZENS OF THE STATE MILLIONS OF DOLLARS

The Greatest difficulty encountered in protecting people from salesmen of worthless securities, says Hart Workman, Supervisor of the Department, is that they usually invest first and investigate later—asking state about investment schemes would save much more money.

THE State of Kansas is saving the people of the state 3 million dollars a year and would save them another 3 million dollars if the people would let them. That is the record of the securities division of the Kansas corporation commission, more widely known as the Blue Sky department, because when the effort first was made in 1911 to establish the bureau the chief argument made in support of the bill was that it would stop promoters "capitalizing the blue sky."

Almost every day there are noted in the newspapers reports of persons being lured at all or part of their life savings through the purchase of worthless stocks, bonds or other securities. But in Kansas there is no reason to make anyone to fall for the alluring appeal of the promotion sharks. The Kansas Blue Sky law was enacted to save the gullible from those who live by their wits. It was designed to protect the unwary from those who fleece the public by promotion schemes that will not bear the test of time.

Only a short time ago a mother and her daughter, both school teachers, were persuaded by an oily-tongued stranger to trade their building and loan stock, representing an investment and interest accumulation of \$28,000, for some stocks which have a little value of hope of return that the securities are termed "not worth the paper they are printed on." If that mother and her daughter had taken only a few minutes to go to the telephone and call Hart Workman, supervisor of the Blue Sky department, they could have saved the money and would not now be facing poverty and want in their declining years.

MANY SENT TO PRISON.

There are a dozen men now in the Kansas penitentiary for operating just such schemes as that used in swindling the two women. There are half a dozen others who have been convicted of fraud in connection with the sale or trading of securities and who have appealed from the verdicts of the juries which held they must go to prison for illegal sales of more or less worthless securities.

"Sending these chaps to prison is something like locking the barn door after the horse is stolen," said Workman. "In only a few cases are we able to force restitution to the victims. In one or two instances we have consented to paroles by the judge upon condition that complete restitution be made and that the prisoners never again engage in the promotion of shady stocks, bonds or other securities.

"Generally, we hear about these cases after the sharpers have gotten the money and gone. We bring them back and send them to prison and make an effort to cancel the contracts or get back the securities. The point we wish to make, however, is that, if the people would ask us first and then buy instead of buying and then asking us about what they have bought,



HART WORKMAN, SUPERVISOR OF THE SECURITIES DIVISION OF THE KANSAS CORPORATION COMMISSION.

We would be able to save them the other 3 million dollars a year.

"We are able to prevent the sales of more than 3 million dollars worth of questionable securities every year. We could do as much more if the people themselves would let us, simply by submitting the proposition as it is submitted to them and let us investigate it. That is what the state is paying us to do and we are

more than willing to keep on the job every minute of the day to help people to protect themselves."

ORIGINATED BY GOVERNOR STUBBS

The late Governor W. R. Stubbs is the man to whom credit should be given for the Kansas Blue Sky law, the first one of the kind ever enacted in the country. J. N. Dolley was then, bank commissioner. He went into the governor's office one day and laid on the desk of Governor Stubbs a lot of letters from old men and women who had invested their life savings in some stocks and bonds from which they had been promised large returns and great enhancement of values in a few years. Stubbs was for putting those promoters in prison right then and there and was shocked to learn that only the statute of frauds provided a method of punishment and the promoters could answer that they thought they had a good scheme, because something happened to make it fall was not their fault and therefore they were not guilty of fraud.

Stubbs called in some lawyer friends, and with Dolley they went over the record of the tremendous losses which people suffered every year as the result of investments in fake enterprises. They got the records from the post-office department which had investigated many cases and issued many fraud orders against the use of the mails by the schemers.

That group came to the conclusion the only way to reach the promoters was to compel them to register their proposals and make it a penitentiary offense for anyone to sell securities until they had a permit from the state. Thus the first Blue Sky law was drawn and enacted into a law by the legislature.

It required every person proposing to sell securities of any kind to the public in Kansas to submit his prospectus to the state banking department, which would check the books of the company and its property and thus determine whether or not a permit should be issued for the sale of its securities.

The first law was passed in 1911. It has been amended and rewritten several times in the last twenty-five years. It has been both adequately and poorly administered in that period. There have been efficient men directing its operations and there have been a few who did not know what it was all about. While there have been a few instances where faulty promotion schemes which appeared sound were approved there have been a hundred fake schemes turned down to every faulty one that slipped by the examiners.

DRAWN ON OIL SHARES PLANS

Some years ago oil royalty and various types of oil promotion schemes were in extensive operation. Now there is not an oil royalty plan authorized to sell a dime's worth of stock or shares or whatever they may be called, in Kansas. Oil and gas operations and mining schemes have been the most prolific source of fraudulent operations. Last month the Oil & Gas Journal made this statement:

"Big new oil fields afford a rich opportunity for fleecing the unwary. Prospective victims of get-rich-quick promises read alluring advertisements about expected gusher wells, and rush to buy shares in companies formed for the express purpose of selling worthless securities to persons residing far from the field. No company owning a promising oil lease has to peddle stock."

The Securities Act, or Blue Sky law, was re-

written three years ago at the request of Governor Landon, who had had some personal experiences with the fly-by-night oil and gas operations and promoters of royalty plans. This work was done by as competent lawyers and trained accountants as it was possible for the governor to obtain and numerous of the loopholes which the smart schemers had found in the law were plugged up. When the new law was passed and the enforcement put under the jurisdiction of the corporation commission, every permit for the sale of securities was cancelled and the promoters were told to come in and make a showing as to the operations of plans. If they appeared to be honestly managed and conducted in a reasonably efficient and careful manner the permit was renewed.

There are less than 100 companies of all types with permits granting authority to sell their securities in Kansas at the present time. These are all the companies seeking to sell securities of any kind in the state which have been examined and found to be efficiently and honestly managed and in which the investing public may have reasonable hope a return for their investment. The state of course does not guarantee any investment in these companies. It does make a searching investigation and a complete examination of the records of the company and of the men managing or promoting it. Then it says to the prospective investor that "the record of the promoters or managers is good, they have been successful, the company is efficiently managed and carefully controlled and a speculative investment in its securities has a reasonable chance of bringing returns."

AGENTS ALSO REGULATED

Every agent who attempts to sell securities in Kansas must also obtain permits, and there are only 200 registered agents. The commission has canceled numerous permits in recent years because of shady transactions of brokers. "There is no way on earth to save the money of those who will not consult someone about what they propose to buy," said Mr. Workman. "Most bankers will give their customers good advice. But the promoters of these schemes

keep away from the bankers and generally seek to prevent their prospective victims from consulting anyone. They high pressure their victims and close the deal in a hurry, then get out of the state before the victim has a chance to seek advice.

"But if people would only step to the telephone and call us, tell us the name of the company and the men who are seeking to sell them the securities we can tell them instantly whether the outfit has a permit in Kansas or whether the agent is licensed to sell securities. We have numerous instances where this has been done and we know of some cases where the agents went out the door just as soon as they heard their prospective victim ask the long distance telephone operator to get the Kansas blue sky department on the line."

TWO DIFFICULT FACTORS.

There are two elements which work against the state finding out about many of the fake stock transactions until it is too late to do anything. One is the natural reluctance of the ordinary citizen to let his neighbors know that he had been the victim of a fraud; many would rather take their losses and maintain their supposed reputation for good business judgment. The other is the fact that the salesmen of worthless stocks know the law very well and when they complete a shady deal they take pains to see that the customer remains pleased for some time, often as long as the state statute of limitations is supposed to run. For instance two men swindled a widow and her children of a farm by trading some worthless stocks. But they paid the dividends on the stocks regularly for more than a year and the widow never suspected she had been robbed until the dividend checks quit coming. When she wrote the company her letter was returned by the postoffice; it could not be delivered. An investigation disclosed that the company never had been in existence and the dividend checks were simply drafts purchased by the swindlers to keep the woman happy until they thought the statute of limitations had run against the transaction.

At the present time the schemers are working a trading proposition in Kansas in which they seek to trade some worthless stocks or bonds for some securities that are perfectly good but in which the prospective victim feels he is not getting an adequate return. They frequently offer a large bonus for the stocks they seek, offering to pay much more than the market quotations and selling their own stocks at a low price. Not long ago a woman in a Northern Kansas county traded a farm mortgage for a batch of stocks. The agent at once sold the farm mortgage to a banker for about 80 cents on the dollar and disappeared, leaving the widow with some stocks that are beautiful examples of the lithographer's work but not worth a penny on the market.

OSCAR HOWES