State of Wisconsin

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Division of Securities
PO BOX 1768
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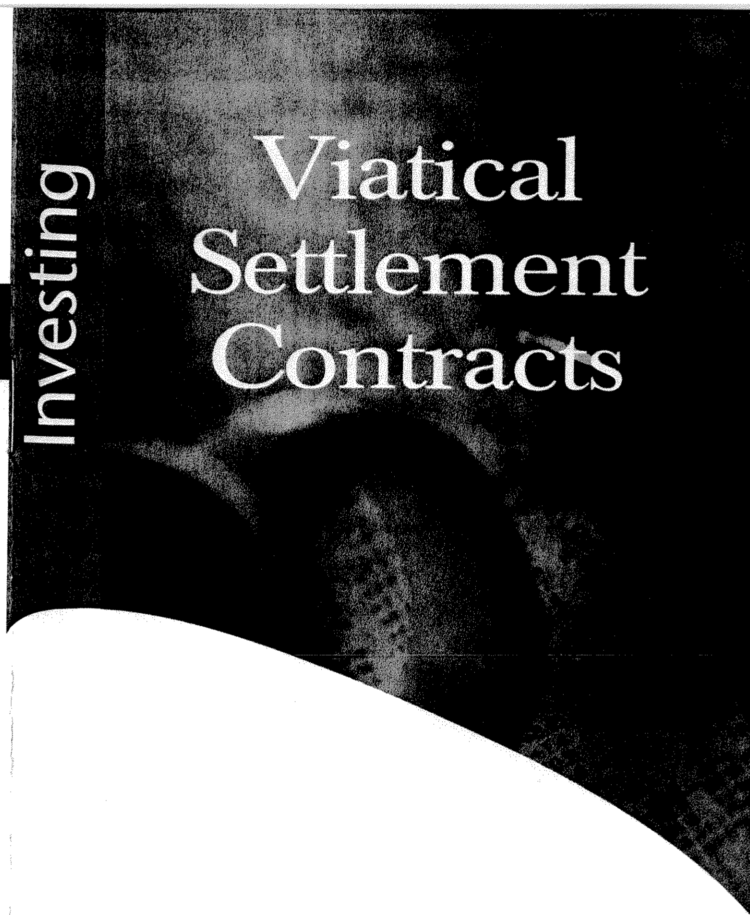
Investing



Viatical Settlement Contracts

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What is a Viatical Settlement?

The word "viatical" is derived from the Latin word "viaticus" which means "provisions for a long journey." A viatical settlement is the sale or transfer of a life-insurance death benefit by a terminally ill insured person ("viator") to another person or company prior to the death of the viator. Sometimes one of the few assets a terminally ill person has is a life insurance policy, and to help pay expenses, the terminally ill person will sell this life insurance policy to an individual or company in order to pay for medicines or other needed expenses.

Typically, the person or viatical settlement company acquiring the life insurance policy death benefit pays the viator a discounted amount of the actual death benefit, and becomes the irrevocable beneficiary of the life insurance policy, receiving the full amount of the death benefit upon the death of the viator. Increasingly, business firms are buying life insurance policies of the terminally ill and re-selling them at marked-up prices as investments.

Viatical Settlement Terminology

The following are viatical settlement contract terms you should be aware of:

Face Value/Death Benefit: The amount of money to be paid by the insurance company to the beneficiary upon the death of the insured.

Beneficiary: The person or company who will receive the proceeds of the insurance policy once the insured or viator has died.

Viator: A person whose life is insured by a life insurance contract or certificate who wishes to sell or has sold the beneficial interest in his or her life insurance contract for a lump sum.

Viatical Settlement Contract: An agreement between a viator and a viatical settlement provider or company [see below] to transfer the life insurance death benefit of the viator in exchange for money, typically for an amount of money less than the total death benefit of the policy.

Viatical Settlement Provider / Viatical Settlement Company: A person or company that buys death benefits of life insurance policies from individuals for less than the expected death benefits, for the purpose of reselling them or who arranges for such purchases. Viatical settlement providers then sell the death benefits, at marked-up prices, as investments to individuals who expect to receive profits upon the deaths of the viators.

Viatical Investor: A person who purchases either directly from the viator or from a viatical settlement provider the death benefit of a life insurance policy, or a fractional interest in such a death benefit, or an interest in a pool of such death benefits or fractional interests. More recently, such investments have been sold in the form of interests in companies, such as "limited-liability companies," formed for the purpose of buying viaticals.

Fractional and Pool Interests: Some viatical settlement providers take a large life insurance policy and fractionalize its death benefits, selling the fractional pieces to multiple investors. They can also create a pool of viated policies and then sell fractional interests in the pool to investors.

CONTESTABILITY PERIOD: Conditions set by an insurance company in which the company can contest the payment of a death benefit or cancel the policy should the insured die within a certain time period or under certain conditions, or should the policy have been obtained fraudulently. Typically the time period in which an insurance company can contest an insurance policy is two years.

"WET INK" POLICY: A newly issued life insurance policy that is within the contestability period.

CLEAN SHEETING: A fraudulent practice that involves obtaining life insurance by submitting an application that hides from the insurance company an adverse fact–for example, the fact that the applicant has a terminal or life-threatening illness.

ESCROW COMPANY: A company sometimes affiliated with or owned by the viatical settlement provider, which is set up to receive investment money from individuals for the purchase of viatical settlement contracts and which is to hold insurance policies purchased from viators. Often escrow companies pay the premiums on such policies and pay the proceeds to the investors upon death of the viator. It is important for the potential investor to investigate fully the credentials of the escrow company and any links which may exist between the escrow company and the viatical settlement provider. Recent apparent fraud has involved disappearances of such escrow companies or their personnel and the investors' funds.

Investing in Viatical Settlement Contracts

Viatical Settlement Contracts are now being sold as securities, and although there is nothing inherently wrong with investing in viatical settlements, potential investors need to be aware of a few basic facts and the differences between viatical settlements and other types of securities.

The first thing to remember is that most often the investor in a viatical settlement contract is dependent upon the viatical settlement provider, or another party selected by the viatical settlement provider, to see to it that the viatical settlement contract and the underlying life insurance policy is maintained. This involves anything from determining the life expectancy of the viator to maintenance of the life insurance policy, (i.e. paying premiums and filing for the death benefit upon the death of the viator.)

Most states consider a viatical settlement contract which is sold or packaged as an investment, as a security and regulate these investments as such. As with most securities, there are risks involved. Too often those risks are not adequately disclosed to the investor. Unfortunately, recent experience has shown that there are many instances of fraud in the new viatical industry. This brochure is intended to help you learn what you need to know as you consider making such an investment.

As always, anyone considering investing money in any security should thoroughly research the product, the individual, and the company offering the security. Don't let a polished sales technique, high-pressure sales tactics and promises of huge returns keep you from researching the investment and the person or company offering it to you.

Example of a Viatical Transaction

Sam Jones has been diagnosed with a terminal illness and his doctors have given him less than two years to live. Sam holds a life insurance policy worth $100,000, which he has owned for more than 20 years so there are no contestability issues. Because of the cost of his medicines, which are not covered by other insurance, Sam is in need of additional cash to cover medical costs. Sam (the viator) decides to sell his insurance contract to Viatical Sales, Inc. (the viatical settlement provider). Because of the nature of his illness and his life expectancy, Viatical Sales Inc. gives Sam $70,000 and he makes Viatical Sales Inc. the irrevocable beneficiary of his policy. Viatical Sales Inc. will receive the full $100,000 upon Sam's death.

Viatical Sales, Inc., in turn, offers to sell shares of Sam's policy to individual investors. The investors purchase increments of the whole policy from Viatical Sales Inc. for a discounted price to cover what Viatical Sales Inc. paid, plus additional expenses to cover administration and premiums. Viatical Sales, Inc. will continue to pay the premiums for Sam's policy and will cover the administration expenses which include tracking Sam to determine when he has passed away. Upon Sam's death Viatical Sales Inc. will file the claim with the insurance company and pay the proceeds to the investors.

Questions You Should Ask

As an investor you need to be aware of several things prior to investing in a viatical settlement contract, in a pool of such contracts or in any venture investing in such contracts. You need to ask some very important questions such as:

- Have you thoroughly researched the viatical settlement provider or promoter offering the investment, and the agent offering to sell you the investment? Are they rated by any rating services and what is their financial condition? What are the backgrounds of the people who control the viatical settlement provider or company, including business history, and are there any complaints filed against them? If so, what are they?
- Is the viatical settlement provider and the agent licensed to do business in Wisconsin as a securities broker-dealer or securities agent? (You can call 800-47-Check, 800-472-4325, to find out.)
- Is this investment suitable for your portfolio? For example, can you afford the risks involved? (See below.)
- Does the viatical settlement provider permit early return of all or part of your investment in case of an emergency? If not, can you afford to have your money tied up longer in the event that the viator exceeds the projected life expectancy? Typically viatical settlement contracts are illiquid, meaning that you cannot get your money back until the viator dies. One of the major problems with many viatical investments is that increasingly terminally ill viators outlive their projected life expectancies, thus radically reducing the anticipated profits [rate of return] to the investors.
- What documentation have you received about the viator[s]?

- Does the viatical settlement provider have viated policies in hand or contracts to purchase insurance policies? One of the abuses in this new industry is the sale of viaticals and collection of investors' money when the viatical benefit provider or company has not purchased sufficient life-insurance death benefits to meet its obligations to the investors. In some cases investors' money has been found to be sitting in the promoters' bank accounts, earning no returns for the investors.
- Does the life-insurance policy have any exclusions or is it contestable by the insurance company? Another abuse in this new industry is the purchase of contestable policies followed by sales to investors with no disclosure of the risks involved. This includes the sale of "wet-ink" policies obtained by some viatical settlement providers paying people to acquire life insurance policies fraudulently.

If the insurance company detects such illegal activities, the company will cancel or refuse to pay off the policy. The same is true for the sale of viaticals in which the policies were "clean sheeted"–obtained from the insurance companies without full disclosure of the medical condition of the viators.

- What are the fees and commissions charged by the viatical settlement provider and agent? Sometimes these are very large, and too often they are hidden from the investors.
- How does the viatical settlement provider track and report to you the status of your investment? This involves tracking and reporting upon the condition of the viator[s]. Who is responsible for filing death certificates and claims with the insurance company?
- Who is responsible for paying the premiums of the life insurance policy or policies, and when are they due? If it is the viatical settlement provider or a trustee, what do you really know about the entity's background and business record? Failure to pay premiums could lapse the insurance policy and jeopardize your investment.
- Who issued the life-expectancy estimate? Is he or she a licensed medical doctor? Did he or she actually examine the viator, or merely review a report?
- Who becomes the beneficiary of the life insurance policy on the records of the insurance company, you or the viatical settle-

ment provider or a trustee? If it is the viatical settlement provider or a trustee, what do you really know about the entity's background and business record? Is the beneficiary designation in fact irrevocable?

- Who actually receives the death benefit from the insurance company upon death of the viator–you, the viatical settlement provider, or a trustee? How and when are death benefits to be paid to you? Are any further costs or expenses to be deducted prior to payment?
- Have you consulted with trusted legal and investment advisers, unaffiliated with the viatical settlement provider or the sales agent, regarding tax and other legal and practical implications of investing in a viatical settlement contract?

You should not invest in any viatical-related investment until you have this information, including all such information from the viatical settlement provider or company in writing.

Tips to Remember

- Viatical settlement contracts are a relatively new investment vehicle, and as such they are not yet as well regulated as other investments.
- Be wary of "guarantees," and "high return on investment" promises.
- Don't be pressured into acting, and do not invest until you are comfortable that a viatical settlement investment is right for you.
- Please feel free to contact the Wisconsin Department of Financial Institutions Division of Securities at (608) 266-3434 or 800-47-Check (800-472-4325) to find out more on this subject. Or you may write to:

Dept. of Financial Institution
Division of Securities
PO Box 1768
Madison, WI 53701-1768

Sources

Some additional sources of information on investments and investment scams:

Wisconsin Department of Financial Institutions:

www.wdfi.org

North American Securities Administrators Association:

www.nasaa.org

U.S. Securities & Exchange Commission:

www.sec.gov

National Fraud & Information Center:

www.fraud.org

Better Business Bureau:

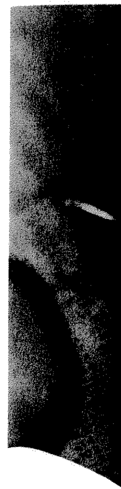
www.bbb.org

National Association of Securities Dealers:

www.nasdr.com

United States Postal Inspection Service:

www.usps.gov/fyi/welcome.htm



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- Website access to a wide range of business and financial information from DFI, and the *Your Money Matters* event calendar.
- Informational brochures on Investing, Credit, Financing and Entrepreneurship.
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- Speakers for meetings and seminars, conventions, professional and civic groups, high school and college classes, and other audiences of 30 or more.
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Office of Credit Unions - supervision of state-chartered credit unions.

Division of Savings Institutions - supervision of savings and loans, and savings banks.

Division of Securities - regulates offerings of securities including mutual funds; franchise offerings; broker–dealers and securities agents; investment advisers and investment adviser representatives.

Wisconsin Consumer Act - Counsels consumers and merchants regarding their rights and responsibilities under the Act, which governs consumer credit transactions and the collection of consumer debt.

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Governor's Central City Initiative
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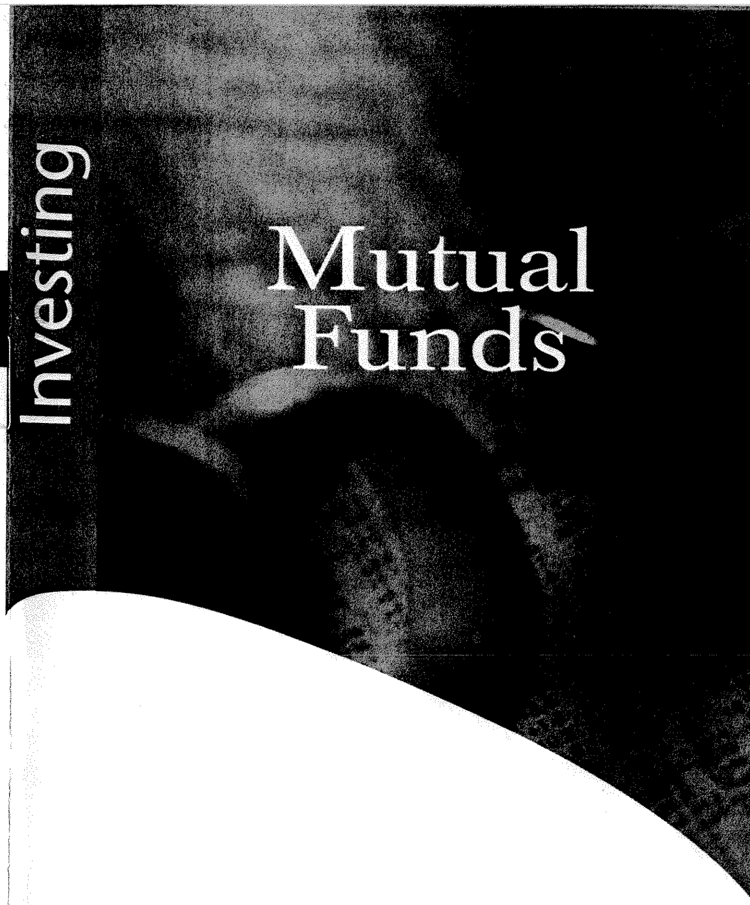
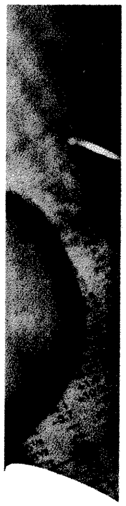


Investing

Mutual Funds

Your Money Matters

DFI Financial Education℠



Mutual Funds

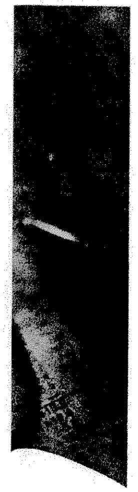
A mutual fund is an investment company that makes investments on behalf of investors sharing common financial goals. Traditionally, the term "mutual fund" has referred to "open-end" investment companies. In this brochure, however, the term will be used to refer to both "open-end" and "closed-end" investment companies because it is now commonly used to include both. "Open-end" and "closed-end" funds are defined elsewhere in this brochure.

A mutual fund pools the money of many people having similar investment objectives. Professional money managers employed by the fund use the pool of money to buy a wide range of stocks, bonds or money-market instruments which, in the managers' judgment, will help the investors to achieve their objectives. These securities form the underlying "portfolio"of the fund. The fund earns money on the securities and distributes the earnings to the investors as dividends or, if the securities are sold for a profit, as capital gains. Alternatively, investors may elect to have their dividends and capital gains automatically reinvested in additional fund shares.

An investor in a mutual fund is actually buying shares of the fund. Each share represents undivided, proportional ownership in all of the fund's underlying securities. Dividends and capital gains produced by these securities are paid out in proportion to the number of fund shares the investor owns. Thus, shareholders who invest a few hundred dollars get the same investment return per dollar as do those who invest hundreds of thousands of dollars. For tax purposes, dividends and capital gains are treated substantially as if the investors had bought and sold the underlying securities themselves.

In today's complex financial marketplace, mutual funds offer investors a simpler, more convenient, and less time-consuming method of investing in a portfolio of securities than if investors were to trade them individually. Through mutual funds, investors delegate investment decisions to the funds' managers–decisions such as which securities to buy, when to buy them, and when to sell them. Also, investors in mutual funds participate in a broader diversity of securities than average investors could by investing on their own. This diversity can reduce their risk.

Mutual fund investors should select a fund which has an investment objective that closely matches their own. For example, they may want to maximize their current income, maximize the long-term growth of their capital, or achieve some combination of growth and income.



The Fundamentals of Mutual Funds

Liquidity

Investors in "open-end" mutual funds can cash in all, or some, of their shares at any time and receive the current value of their investments, which may be more or less than their original cost. Investors in such funds do not need to find buyers: the funds are always ready to buy back (redeem) their shares. Current per-share values are calculated daily, based on the market value of the fund's underlying securities. These values change as the values of the underlying securities move up or down, and as the funds change their portfolios by buying new securities or selling others. Investors can find the per-share calculations (known as "net asset values") published each day in the financial sections of most major newspapers.

Investors in "closed-end" mutual funds, on the other hand, can cash in their shares only by finding buyers in the "open market." The term "open market" refers to stock exchanges and the over-the-counter stock market.

Diversification

By purchasing many different securities with the pool of shareholders' dollars, a mutual fund "diversifies" its holdings. A diversified portfolio reduces risk should some investments turn "sour," and increases the chance of choosing potential "winners." The average investor would find it difficult to amass a portfolio as diversified as those of most mutual funds.

Choice

A mutual fund investor has more options than ever before–stock, bond, and money-market funds–to fit investment strategies from the most conservative to the most speculative. In addition, specialized funds are available. For instance, those that invest only in certain geographic regions or in certain industries (such as health care, high-technology, or energy). There are also funds that have adopted certain social objectives or that follow specific investment philosophies. However, such specialization may offset some of the advantages of diversification found in other mutual fund portfolios.

Professional Management

The money accumulated in a mutual fund is managed by professionals who decide where and when to invest it. These money managers make decisions based on research into the financial performance of individual companies and specific securities issues, taking into account general economic and market trends. After analyzing such data, the managers try to choose investments that best match the fund's objectives. As economic conditions change, the fund's managers may adjust the mix of investments to adopt either a more aggressive or a more defensive posture corresponding to the investment objectives of the fund.

Flexibility

While some investors pick a single mutual fund and stick with it, others choose a "family" of funds–several different funds which are available "under one roof." In a family of

mutual funds, investors can transfer portions of their investment from one fund to another as their own needs or financial circumstances change. In some fund families, investors can do so without additional sales charges.

Growth

The first U.S. mutual funds were organized during the 1920s. By the early 1990s, mutual funds were managing more than 54 million shareholder accounts valued at more than $900 billion. Individual fund performance varies, but on average, and over the long run, the growth of stock funds has paralleled the growth of the U.S. economy. Similarly, the performances of other types of funds reflect the long-term movements of more specialized markets. For instance, money-market funds reflect activity in the short-term money market; bond funds, the bond market; tax-exempt funds, the municipal bond market, etc.

Regulation & Disclosure

Mutual funds are regulated under four federal laws, as well as the Wisconsin Uniform Securities Law, all of which are designed to protect investors who, nevertheless, assume the risks inherent in investing in securities. The Investment Company Act of 1940 requires all funds to register with the U.S. Securities and Exchange Commission and to meet certain operating standards; the Securities Act of 1933 mandates specific disclosures; the Securities and Exchange Act of 1934 sets out anti-fraud rules covering the purchase and sale of fund shares; and the Investment Advisors Act of 1940 regulates advisors to the funds. The Wisconsin law regulates the offer and sale of mutual fund shares to persons in Wisconsin.

These laws require all funds to provide a "prospectus" to every potential investor. This document, which should be read before making such an investment, describes in detail the fund, its shares, and its investment objectives. It also outlines all fees.

Investors may also request from a mutual fund a copy of its Statement of Additional Information, which discusses in even more detail the investment policy and the securities that make up the fund's portfolio.

All mutual funds are also required to provide their shareholders with periodic reports on what the fund is doing and what is happening to its investments. In addition, investors must be sent a yearly statement detailing the federal tax status of their earnings from the fund.

Accessibility

Mutual fund shares are easy to buy. For those who prefer to make investment decisions themselves, mutual funds are as close as the telephone. Those who would like help in choosing a fund can draw upon a wide variety of sources. For instance, many funds sell their shares through stock brokerage firms and their registered representatives, and through those financial planners or insurance agents who are also licensed as securities agents. These representatives can help investors to analyze their financial needs and objectives, and they can recommend appropriate funds. Other funds maintain their own sales forces. They can be reached through toll-free telephone numbers. Investors can write or call these funds and a sales agent will contact them.

Sales Charges & Fees

Investors may encounter three kinds of charges and fees when investing in mutual funds.

Many funds charge a sales commission, or "load," usually expressed as a percent of the total purchase price of the fund shares. Sometimes the load charged by open-end funds is deferred until the investor redeems (or "cashes in") his or her shares; this is referred to as a "back-end" or "rear-end" load or a "deferred sales charge."

Some funds, known as "no-loads," sell their shares directly to the public. No-loads advertise in magazines and newspapers, and potential investors can write or call for additional information. Because no sales agents are involved, these funds do not charge sales commissions.

Investors will also pay fees for the operation of the fund. For example, most funds contract with an investment adviser for investment advice and other management services. The company providing these services receives a fee based upon, and paid from, the fund's total assets.

In addition, some funds charge what are known as 12b-1 fees, named after a section of

the rules under the Investment Company Act of 1940. These fees, which range from 3/4 of a percent to 1% or more of the total of net assets of the fund, cover promotional and distribution expenses. Such fees, as well as administrative expenses, brokerage commissions, and taxes, add to the expenses deducted from fund income before dividends are distributed to shareholders. Prospective investors should read all fee and expense information in a prospectus and compare it to that of similar funds.

Whether investing in load or no-load funds, it is up to individuals to do the "homework" necessary to determine what fees are being charged, as well as to select the best mutual fund for their needs.

Reading Price Quotations

The price of most mutual fund shares can be found in many newspapers, including *The Wall Street Journal.* The listings for closed-end funds are contained in the stock quotation section. The listings for open-end funds are separate, and are organized by the name of the fund family as illustrated in the accompanying chart of fictitious companies.

An explanation of how to read the chart follows:

1 The first column is the abbreviated name of the fund. Several funds listed under a single heading indicate a family of funds.

2 The second column is the Net Asset Value (NAV) per share as of the close of the preceding business day. In some newspapers, the NAV is identified as the "bid price"—the amount (per share) you would receive if you had redeemed your shares that day (less any deferred sales charges). Each mutual fund determines its net asset value every business day by dividing the market value of its total assets, less liabilities, buy the number of shares owned by the investors. On any given day, you can determine the value of your holdings by multiplying the NAV by the number of shares you own.

3 The third column is the offering price or, in some papers, the "ask price"—the price you would have paid if you had purchased shares that day. The offering price is the NAV plus any sales charges. If there are no sales charges, and "NL" for "no-load" appears in this column, and the offering price is the same as the NAV. To figure the sales charge percentage, divide the difference between the NAV and the offering price by the offering price. Here, for instance, the sales charge is 7.2% ($14.52-$13.47=$1.05 divided by $14.52=0.072 or 7.2%).

MUTUAL FUND QUOTATIONS

	NAV	Offer Price	NAV Chg.
Bucky Funds:			
Alum Cap	9.95	10.73	...
High Yd Inc	10.37	11.33	–.01
Agric Grwth	7.38	8.07	+.09
Stdy Inc	3.16	3.45	+.01
Capital Dome Grp:			
GEF - 1	11.86	12.79	+.01
GEF - 2	13.47	14.52	–.04
GEF - 3	10.01	10.79	+.02
Dairyland Stable Tr	15.45	16.52	+.06
Lloyd World Fd:			
Canoe	9.80	10.45	–.11
Environ	10.90	11.12	–.04
Ozone	9.85	9.95	...
Mendota Govt Fd	8.89	9.72	+.10
Monona Soc Invst	4.94	5.40	+.04
Potosi Fund Grp:			
Adj Rt Pfd	47.99	49.22	+.06
Adj Rt Yld	10.18	N.L.	+.03
Grwth Stk	17.07	18.60	+.08
Muni A	10.72	11.72	+.01
Takeover	15.45	16.22	–.04
Wis Cap Mkt:			
Hi Yld Muni	15.64	16.46	–.03
Money Tree	8.73	N.L.	+.02

4 The fourth column shows the change, if any, in net asset value from the preceding quotation—in other words, the change over the most recent one-day trading period. This fund, for example, declined four cents per share.

Other abbreviations in these columns indicate important information about specific funds. The abbreviations are usually explained in a "key" at the beginning or end of the columns.

About the State of Wisconsin Department of Financial Institutions

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- Website access to a wide range of business and financial information from DFI, and the *Your Money Matters* event calendar.
- Informational brochures on Investing, Credit, Financing and Entrepreneurship.
- Seminars for the public on current financial topics.
- Speakers for meetings and seminars, conventions, professional and civic groups, high school and college classes, and other audiences of 30 or more.
- E-News automated e-mail notification system that informs subscribers of activities or developments relating to specified areas of interest.

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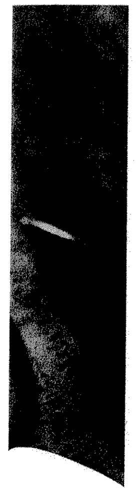

For More Information

Contact the Department of Financial Institutions by calling 1-800-47CHECK, or by writing to:

P. O. Box 1768,
Madison, WI
53701-1768.

For a directory of more than 2,900 funds, their addresses, phone numbers, investment objectives, and other information, write to:

Investment Company Institute,
a mutual fund industry
trade association
1600 M Street
NW Washington, DC 20036

For a directory of no-load funds, write to:

100% No-Load Council
Suite 312, 1501 Broadway
New York, NY 10036

The Wisconsin Department of Financial Institutions thanks the Investment Company Institute for information helpful in the preparation of this brochure.