Fighting Fraud 101

Smart Tips for Older Investors

SaveAndInvest.org

The Face of Investment Fraud

Recent research has shattered the stereotype of investment fraud victims as isolated, frail and gullible. Do you know anyone who meets the following description?

- Self-reliant when it comes to making decisions
- Optimistic
- Above average financial knowledge
- Above average income
- College-educated
- Experienced a recent health or financial setback
- Open to listening to new ideas or sales pitches

If so, you know someone who fits the profile of an investment fraudster's prime target.

Even if you have never been subjected to an investment fraudster's sales pitch, you probably know someone who has. Following the legendary Willie Sutton principle, fraudsters tend to go "where the money is"—and that means targeting older Americans who are nearing or already in retirement. Fraudsters also have in their sights the millions of Baby Boomers who have been accumulating sizeable retirement nest eggs through company 401(k) plans and personal accounts.

The Psychology of a Scam

We've all heard the timeless admonition, "If it sounds too good to be true, it probably is"—great advice, but the trick is figuring out when "good" becomes "too good." There's no bright line. Investment fraudsters make their living by making sure the deals they tout appear both good and true.

They're masters of persuasion, tailoring their pitches to match the psychological profiles of their targets. They look for your Achilles' heel by asking seemingly benign questions—about your health, family, political views, hobbies or prior employers. Once they know which buttons to push, they'll bombard you with a flurry of influence tactics, which can leave even the savviest person in a haze. Some of the most common tactics include:

- **The "Phantom Riches" Tactic –** dangling the prospect of wealth, enticing you with something you want but can't have. "These gas wells are guaranteed to produce $6,800 a month in income."
- **The "Source Credibility" Tactic –** trying to build credibility by claiming to be with a reputable firm, or to have a special credential or experience. "Believe me, as a senior vice president of XYZ Firm, I would never sell an investment that doesn't produce."
- **The "Social Consensus" Tactic –** leading you to believe that other savvy investors have already invested. "This is how ___ got his start. I know it's a lot of money, but I'm in—and so is my mom and half of her church—and it's worth every dime."
- **The "Reciprocity" Tactic –** offering to do a small favor for you in return for a big favor. "I'll give you a break on my commission if you buy now—half off."
- **The "Scarcity" Tactic –** creating a false sense of urgency by claiming limited supply. "There are only two units left, so I'd sign today if I were you."

Investment Fraud

The truth is, we're all at risk. Anyone with any money is bound to hear from a fraudster at some point. But you can help protect your family and friends by recognizing how investment fraudsters operate and reporting suspicious sales pitches and actual scams.

Reverse Psychology – Protect Yourself

If these tactics look familiar, it's because legitimate marketers use them, too. But one key difference is that real deals will still be there tomorrow. So always take the time to stop and think before making a decision.

Here are three key strategies you—or anyone you know who fits the profile of a potential fraud target—can use to help distinguish good offers from bad ones:

1. **End the conversation:** Practice saying "No." Simply tell the person, "I am sorry, I am not interested. Thank you." Or tell anyone who pressures you, "I never make investing decisions without first consulting with my _____. I will contact you if I am still interested." Fill in the blank with whomever you choose—your spouse, child, investment professional, attorney or accountant. Knowing your exit strategy in advance makes it easier to leave the conversation, even if the pressure starts rising.

2. **Turn the tables and ask questions:** A legitimate investment professional must be properly licensed, and his or her firm must be registered with FINRA, the Securities and Exchange Commission or a state securities regulator—depending on the type of business the firm conducts. In addition, with very few exceptions, companies must register their securities with the SEC before they can sell shares to the public.

   So, before you give out information about yourself, ask a few questions first.

   To check out the seller, ask: Are you and your firm registered with FINRA? The SEC? A state securities regulator? If so, which one(s)?

   And then: Verify the answers by checking the seller's background.

   FINRA BrokerCheck
   www.finra.org/brokercheck
   (800) 289-9999

   SEC Investment Adviser Public Disclosure Database
   www.adviserinfo.sec.gov

   Also, be sure to call your state securities regulator. You can find that number in the government section of your local phone book or by contacting the North American Securities Administrators Association at *www.nasaa.org* or (202) 737-0900.

   To check out the investment, ask: Is this investment registered with the SEC or with my state securities regulator?

   And then: Use the SEC's EDGAR database of company filings at *www.sec.gov/edgar.shtml* to confirm what the salesperson tells you. Also call your state securities regulator to find out what they know about the company.

3. **Talk to someone first:** Be extremely skeptical if the person promoting the deal says, "Don't tell anyone else about this special deal!" A legitimate investment professional won't ask you to keep secrets. Even if the seller and the investment are registered, it's always a good idea to discuss these sorts of decisions with family or a trusted financial professional.

Take Your Name Off Solicitation Lists

One easy step you can take to reduce the number of sales pitches you receive is to take your name off of telemarketing and junk mail lists. Businesses that advertise or market their products and services directly to consumers—through mail, telephone, email and online advertising— typically purchase or compile on their own lists of potential customers. The answer to "how did they get my name?" is actually fairly simple: local phone listings, public real estate records, tax assessments on personal property such as cars or boats, donations to political or charitable organizations, club rosters, alumni listings and a host of other sources. Online advertisers use "cookies," which are small data files that track information about you, such as your Web browsing patterns and items you've put into online shopping carts. Here's how to cut the clutter:

- **Telemarketing Calls** — *www.donotcall.gov*
  or call toll-free — (888) 382-1222
- **Direct Mail and Email Offers** — *www.dmaconsumers.org*
- **Credit Card Offers** — *www.optoutprescreen.com*
  or call toll-free — (888) 567-8688
- **Online Cookie Collecting** — *www.networkadvertising.org*

Most legitimate businesses—including securities firms—will honor your request. So, if you receive a solicitation after taking the steps above, you should be all the more skeptical of the offer.

If a Problem Occurs

If you believe you have been defrauded or treated unfairly by a securities professional or firm, please send us a written complaint. If you suspect that someone you know has been taken in by a scam, be sure to give us that tip. Here's how:

Online: File a Complaint (for you): *www.finra.org/complaint*
Send a Tip (for others): *www.finra.org/fileatip*

Mail: FINRA Complaints and Tips
9509 Key West Avenue
Rockville, MD 20850-3329

Fax: (866) 397-3290

Who We Are

FINRA, the Financial Industry Regulatory Authority, is the largest non-governmental regulator for all securities firms doing business with the U.S. public. The FINRA Investor Education Foundation is the largest foundation in the U.S. dedicated to investor education. The Foundation's mission is to provide investors with high-quality, easily accessible information and tools to better understand the markets and the basic principles of saving and investing.

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