



# Fighting Fraud 101

Smart Tips for Investors

**SaveAndInvest.org**

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 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.

# 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.

**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 by reporting suspicious sales pitches and actual scams.**

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.



## 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 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

## 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 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 the Financial Industry Regulatory Authority (FINRA), the Securities and Exchange Commission (SEC) 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:

- Are you and your firm registered with FINRA?
- Are you registered with the SEC?
- Are you registered with a state securities regulator? Which one(s)?
- Is this investment registered with the SEC or my state securities regulator?

### Check:

Verify the answers by checking the seller's background. Visit **SaveAndInvest.org** or call (888) 295-7422.

Or use these other helpful resources for more information about:

- **A broker or firm:**  
**FINRA BrokerCheck**  
*www.finra.org/brokercheck*  
(800) 289-9999
- **An investment adviser:**  
**SEC Investment Adviser  
Public Disclosure Database**  
*www.adviserinfo.sec.gov*
- **Any investment seller:**  
**North American Securities  
Administrators Association**  
*www.nasaa.org*
- **An insurance agent:**  
**State Insurance Commission**  
National Association of  
Insurance Commissioners  
*www.naic.org*

## **Check:** *(continued)*

Check out the investment and confirm what the salesperson tells you using the SEC's EDGAR database of company filings:

### **For investments:**

#### **SEC's EDGAR Database**

[www.sec.gov/edgar.shtml](http://www.sec.gov/edgar.shtml)

Also, call your state securities regulator to find out what they know about the company.

See the tear-off "Resources" panel for more information.

## **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 typically purchase or compile their own lists of potential customers.

The answer to “how did they get my name?” is fairly simple: local phone listings, public real estate records, tax assessments on personal property, 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.dmachoice.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.



## Who We Are

FINRA, the **Financial Industry Regulatory Authority**, is an independent regulatory organization empowered by the federal government to ensure that America's 90 million investors are protected. The mission of the **FINRA Investor Education Foundation** is to provide underserved Americans with the knowledge, skills and tools necessary for financial success throughout life. FINRA and the FINRA Investor Education Foundation do not sell investment products, promote products or firms or offer specific investment advice. The FINRA Foundation's Investor Protection Campaign, **SaveAndInvest.org**, is a targeted effort to reduce the incidence of investment fraud among investors by teaching the tactics most commonly used by fraudsters and the simple steps every investor can take to reduce their risk. Become a Fraud Fighter—visit **SaveAndInvest.org**.

*The U.S. Securities and Exchange Commission's Office of Investor Education and Advocacy has reviewed this publication. The SEC does not endorse any particular investment product, service, profession, professional or brokerage firm.*

# If a Problem Occurs

If you believe you have been defrauded or treated unfairly—or if you suspect that someone you know has been taken in by a scam—be sure to send a written complaint to a securities regulator.

Here's where you can turn for help:

## **FINRA Complaints and Tips**

9509 Key West Avenue

Rockville, MD 20850

Fax: (866) 397-3290

*[www.finra.org/complaint](http://www.finra.org/complaint)*

*[www.finra.org/fileatip](http://www.finra.org/fileatip)*

## **SEC Office of Investor Education and Advocacy**

100 F Street, NE

Washington, DC 20549-0213

Phone: (800) SEC-0330

Fax: (202) 772-9295

*[www.sec.gov/complaint.shtml](http://www.sec.gov/complaint.shtml)*

## **State Securities Regulator**

North American Securities

Administrators Association

Phone: (202) 737-0900

*[www.nasaa.org](http://www.nasaa.org)*

# Resources

Before you invest, ask and check. Visit or call:

**SaveAndInvest.org**  
(888) 295-7422

Or use these other helpful resources for more information about:

## **A Broker or Firm:**

### **FINRA BrokerCheck**

[www.finra.org/brokercheck](http://www.finra.org/brokercheck)  
(800) 289-9999

## **An Investment Adviser:**

### **SEC Investment Adviser**

Public Disclosure Database  
[www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

## **A Broker-Dealer, Investment Adviser or Investment:**

### **North American Securities Administrators Association**

[www.nasaa.org](http://www.nasaa.org)  
(202) 737-0900

## **An Insurance Agent:**

### **National Association of Insurance Commissioners**

[www.naic.org](http://www.naic.org)  
Phone: (866) 470-6242

## **An Investment:**

### **SEC's EDGAR Database**

[www.sec.gov/edgar.shtml](http://www.sec.gov/edgar.shtml)

# Protect Yourself from Investment Fraud

Always take the time to stop and think before making an investment decision. Here are three key strategies you can use to help distinguish good investment offers from bad ones:

- 1. End the conversation:** Simply tell the person, “I am sorry, I am not interested.” Or tell anyone who pressures you, “I never make investment decisions without first consulting my \_\_\_\_.” Fill in the blank with whomever you choose. And don’t worry about missing out—real deals will still be there tomorrow.
- 2. Turn the tables and ask questions:** Before you give out information about yourself, or sign on the dotted line, ask, “Are you a licensed broker? Is that investment registered?” Then check out the seller and the investment using the resources on the back of this card.
- 3. Talk to someone first:** 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.

## Learn more at [SaveAndInvest.org](https://www.saveandinvest.org):

SaveAndInvest.org is a free service from the financial authorities at the FINRA Investor Education Foundation—helping protect you from investment fraud and providing information to help you confidently handle your finances.

Keep this card somewhere handy!



**SaveAndInvest.org**  
1735 K Street, NW  
Washington, DC 20006-1506  
[www.SaveAndInvest.org](http://www.SaveAndInvest.org)  
(888) 295-7422