



*In August 2007, the FINRA Investor Education Foundation contracted Applied Research & Consulting LLC for an investment fraud risk survey of investors ages 55-64. The survey was intended to benchmark the behavioral norms of the target audience with regard to risk and openness to investment pitches.*

As detailed in this report, the Senior Fraud Risk Survey found that many older investors engage in behaviors that put them at risk of becoming fraud victims:

- About 80% of all respondents didn't check their broker for previous law violations, and 70% didn't check their registration
- Approximately 65% of all respondents didn't check to see if their investment was registered
- About 40% of the national sample – but almost 60% of the victim sample – chose a broker based on the recommendation of a relative, friend, neighbor or co-worker.
- A third of the national sample – but 70% of the victims – made an investment based on the advice of a relative, friend, neighbor or co-worker.
- Three times (21%) as many victims in the 55-64 age category went to a free lunch seminar than did the national sample respondents (7%)
- 46% of respondents who have heard an investment professional state that they hold a specific accreditation to advise on senior financial issues indicated that the accreditation made them more likely to listen to the professional's advice.

## **FINRA Foundation Senior Fraud Risk Survey Topline Findings**

Following are topline findings from the FINRA Foundation Senior Fraud Risk Survey. Statistical differences between the 371 respondents from the National Sample (this number excludes the 29 self-identified fraud victims in the National Sample) and the Victim Sample (101 respondents) are noted.

Interviews were conducted by telephone between August 9 and August 27, 2007.

- **National Sample Criteria**  
Americans age 55-64 with at least \$2,000 in securities investments were interviewed. Total data from the national sample has been weighted to reflect equal gender distribution.
- **Victim Sample**  
101 interviews were conducted from a national list, obtained from law enforcement, of individuals who are known victims of specific investment frauds. Their ages ranged from 25 to 85 and they had net household investments ranging from less than \$2,000 to more than \$750,000.

### **National Sample Findings (N=371)**

#### **Investor History**

- Most investors surveyed have been investing for a long time, 81% for 10 or more years, and 53% for 20 or more.
- Only a slight majority of those surveyed (57%) use a **professional advisor** (70% used this professional for 6 or more years) indicating many investors navigate their investments on their own.

#### **Investment Interest/Ownership**

Respondents were asked to rate their level of interest in a range of investment vehicles (from mutual funds and CDs to private investments and hedge funds).

- The more traditional (mutual funds, stocks, CDs, bonds and fixed annuities) – and generally **less risky** – investments garnered the **most interest**.
- 58% of the national sample respondents showed significant **interest** (rating 5 to 7 on a 7-point scale) in at least one **risky investment**.
- 52% of the national sample respondents actually currently **own** or have owned one of the **risky investments**, with victim significantly more likely (73%) to own or have owned one.
- Victims are significantly more likely than National Sample respondents to **show interest in the riskier investments** of commercial real estate, promissory notes secured by real estate, sale and leaseback contracts.
- Victims are significantly more likely to have **owned penny stocks (31%), commodities, futures/options (23%), promissory notes secured by real estate (26%), private investments in foreign currency or foreign banks (24%)** and are significantly less likely to have owned **bonds (58%)**.

## Sales Tactics Affinity

Respondents were asked to rate their interest in investments based on a series of persuasive statements that might be made by a salesperson, such as “This stock has outperformed the Dow Jones each year for the last 5 years,” and “There is no way to lose on this investment – it is fully guaranteed.”

- **“I am licensed broker through NASD”** garnered only slightly greater interest (2.97) than the red flag statement, **“The lowest return you can get is 50% annually”** (2.90).
- One in five investors in the national sample **can’t spot persuasion used by con men.**

## Broker/Investment Background Checking

- A **strong majority of respondents did not check** their broker's or investment product's registration.
- Most respondents (65%) have **not checked the registration status of a broker.**
- Most respondents (78%) **have not checked the background of a broker** to see if that broker had not broken any laws.
- Most (68%) **have not checked the registration of an investment product.**

## Broker/Investment Recommendations

- 41% have **hired a broker** recommended by a friend, relative, co-worker or neighbor. Significantly more victims (58%) have done so.
- 33% have **bought investments** recommended by a friend, relative, co-worker or neighbor. Significantly more (70%) fraud victims bought investments so recommended.
- 23% of the National Sample stated **they rely on tips** from family members, friends, business associates or church members
- **Before a major investment**, about as many respondents consult with a financial planner or an accountant (43%) as went online to find out about it (44%).
- Three times (21%) as many victims in the 55-64 age category went to a **free lunch seminar** than did the national sample respondents (7%).

## Securities Risk Awareness

- 40% of the national sample **inaccurately believes that the FDIC insures** consumers against losses in the stock market. Many believed that the SEC (33%) and the Securities Investment Protection Corp (20%) offer the same insurance.
- Only 32% knew that no organization **insures consumers against stock market losses.**

## Fraud Risk

- 58% of respondents felt that they had a **below average chance of being taken in an investment fraud**, and 75% believe they have an **above average ability** to resist high-pressure sales tactics.
- Only 13% of national sample respondents said they **prefer riskier investments** with higher than average returns to safe investments with average returns. Twice the amount (25%) of the victims preferred riskier investments.

## Senior Designations

- 75% of respondents say that they **have not had any investment professional tell them that they are specifically accredited** to advise on senior financial issues.
- Of those who have heard a person state an accreditation, 46% say it **made them more likely to listen to their advice**.
- Interestingly, the **fabricated** “Certified Senior Advisor for Senior Investing” ranked in the middle of the **bottom tier**, but **higher than** the very rigorous – and highly respected by regulators – **Chartered Financial Analyst**.

Percentage of national sample and known victim respondents stating that various professional accreditations would make them more likely to take the advice of someone who had the accreditation.

Accreditation Title	% Likely to take Advice	
	National Sample	Victims
CPA or Certified Public Accountant	71%	78%
CFP or Certified Financial Planner	64%	73%
Registered broker	63%	66%
Registered investment adviser	39%	51%*
CLU or Certified Life Underwriter	24%	18%
Certified Senior Advisor	20%	17%
Certified Senior Consultant	19%	22%
<b>Certified Advisor for Senior Investing **</b>	17%	15%
CFA or Chartered Financial Analyst	17%	18%
Chartered Retirement Planning Counselor	17%	16%
Elder Care Asset Protection Specialist	14%	9%
Certified Elder Planning Specialist	13%*	7%
Chartered Advisor for Senior Living	7%	9%

\* Indicates that the reported percentage is significantly greater than the opposing sample.

\*\* Fabricated designation.

### **Additional Findings from the Known Victim Sample (N=101)**

- Even though all of the known victims were victimized, **only 88% admit** to having lost money in an investment.
- Only **50% state they lost money** due to being misled or defrauded.
- Of victims who admit to being defrauded, **only 56% reported** the broker or company to anyone.
- Of victims who admit to being defrauded, **82% were introduced** to the broker or firm through a friend or family member. Of those, 52% were introduced in-person.
- One in four (27%) victims were contacted by the seller who defrauded them **by telephone**.