

Outsmarting Investment Fraud



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Learning Objectives

- 1. RECOGNIZE:** Know the **risk factors** for investment fraud and the most common **persuasion tactics** used in investment fraud
- 2. REFUSE:** Know the most powerful fraud prevention strategies
- 3. REPORT:** Know where to seek help and report investment fraud.

How Big is the Problem?

Recent Major U.S. Cases:

- ▶ Bernard Madoff – \$50 billion ponzi scheme
- ▶ Stanford Investments alleged \$8 billion ponzi scheme
- ▶ Tom Petters alleged \$3.5 billion ponzi scheme
- ▶ Greater Ministries – \$500 million in losses – 18,000 victims
- ▶ Hundreds of cases with losses in the \$10-\$50 million range

Our Research-Based Program Works:

Research – Based:

- ▶ **Off the Hook (2003)** USDOJ/AARP. A survey of 502 general population and 132 investment fraud victims.
- ▶ **Investor Fraud Study (2006)** FINRA/WISE Senior Services. A survey of 499 general population and 71 investment fraud victims.
- ▶ **Stolen Futures (2007)** AARP Washington. A survey of 258 general population and 125 investment fraud victims.
- ▶ **National Investor Risk Behavior Study (2007)** FINRA and AARP. A survey of 371 general population and 101 investment fraud victims.

Tried and Tested:

- ▶ **Curriculum Field-test** – 50% reduction in falling for scam after completing the Outsmarting Investment Fraud program.



Recognizing Investment Fraud Risk Factors



Who is Victimized?

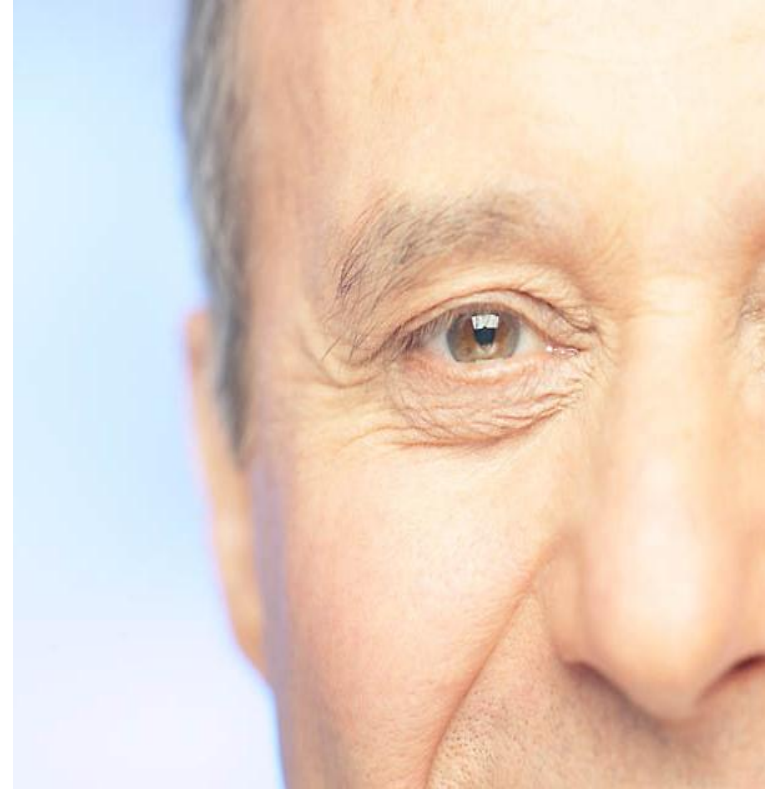
- ▶ Victims of investment fraud have which of these characteristics?
 - 1) Female
 - 2) No college education
 - 3) Below average financial literacy
 - 4) Live alone
 - 5) None of the above



Victim Demographics

2/3rds of Victims are:

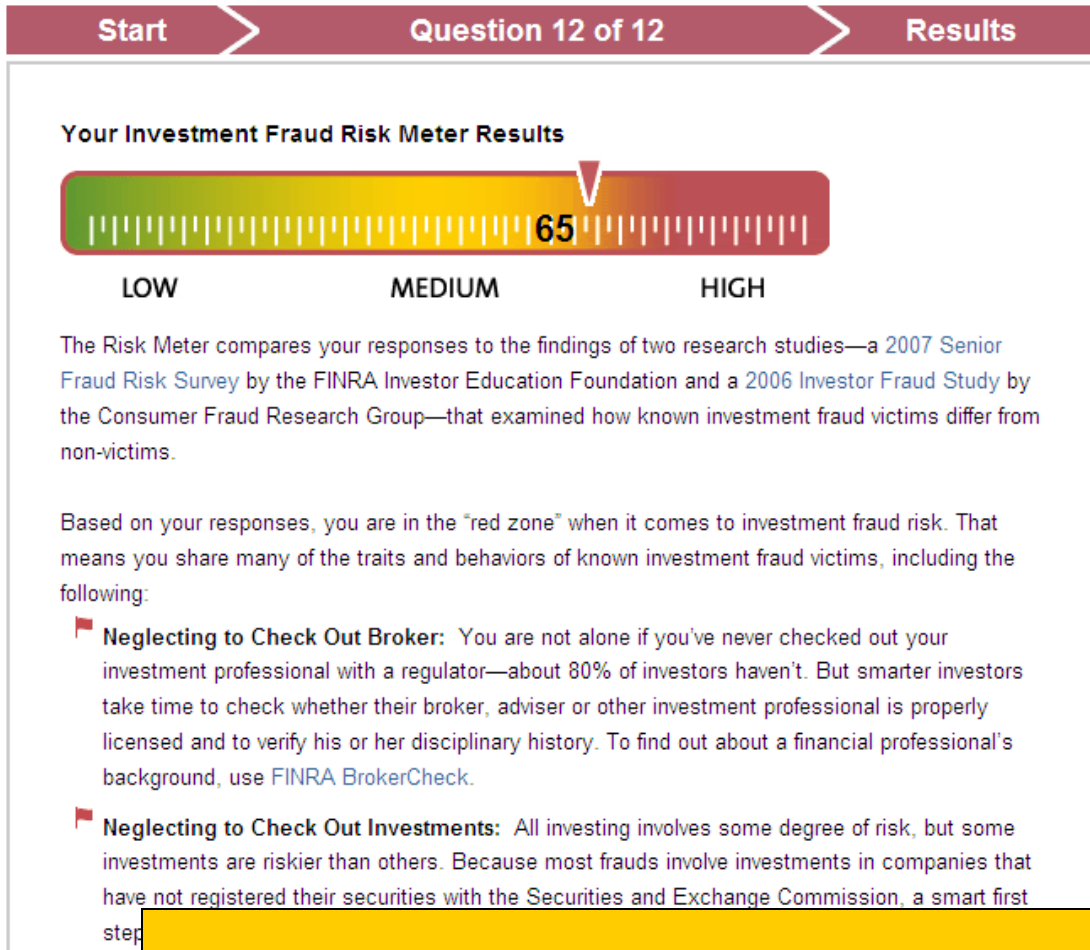
- ▶ Male
- ▶ 55-65 years old
- ▶ More financially literate
- ▶ College-educated
- ▶ Recent change in financial or health status
- ▶ Higher income
- ▶ Risk-takers



Key Risk Factors for ALL Victims

- ▶ Own high-risk investments
- ▶ Relying on friends, family, co-workers for advice
- ▶ Open to new investment information
- ▶ Failing to check background and registration of financial professional and product
- ▶ Inability to spot persuasion used by fraudsters

Investment Fraud Risk Meter



Are you a high-risk candidate for fraud?

- 12 Simple Questions
- Research-based
- Identifies Areas of Concern for You
- Provides Detailed Explanations and Resources

www.SaveAndInvest.org/meters/risk

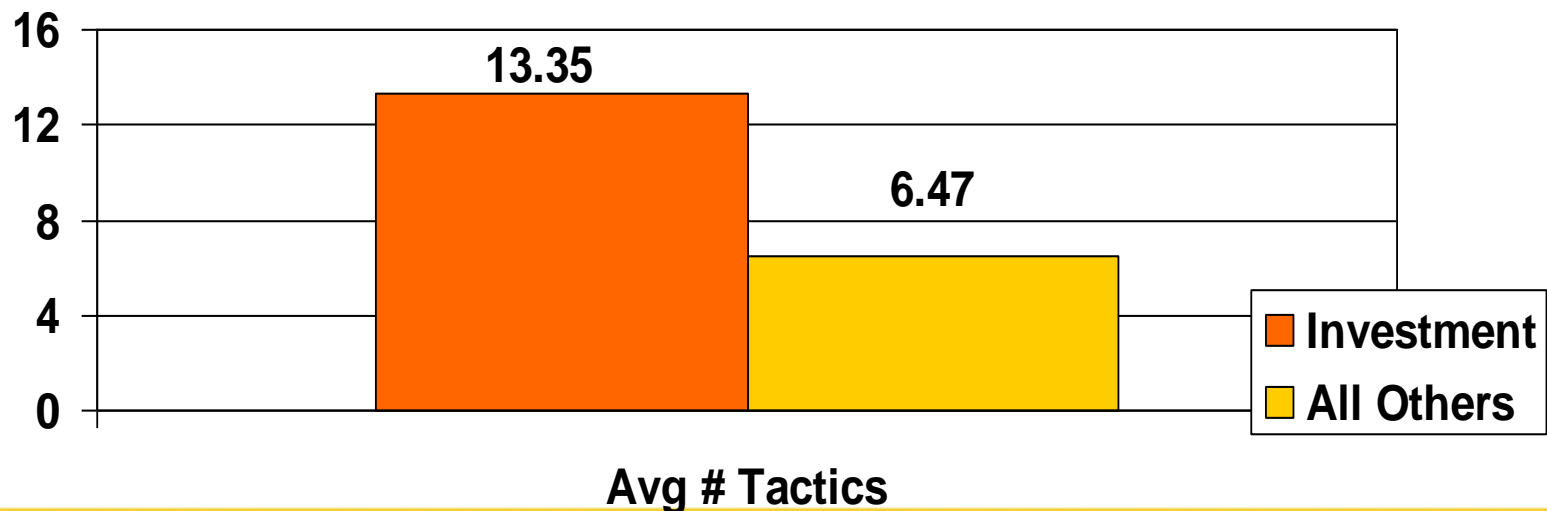
Recognizing Persuasion Tactics



Persuasion & Investment Fraud

Analysis of over 300 undercover fraud tapes revealed that fraudsters use twice as many persuasion tactics to sell investments than any other type of sales pitch.

Average # Total Tactics per Transcript



Persuasion Tactics

Analysis of over 300 undercover fraud tapes also revealed the five most common types of persuasion tactics:

- Phantom Riches**
- Source Credibility**
- Social Consensus**
- Reciprocity**
- Scarcity**

Persuasion Tactics

Phantom Riches – Dangling the prospect of wealth; something you want but can't have.



Assess the pitch.

Is the salesperson dangling incredible returns or guarantees?

Persuasion Tactics

Source Credibility – It is better to deal with credible people or individuals in positions of authority.



Credibility can be faked.

Can the claims be independently verified?



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Understanding Professional Designations

-- Please Select a Record --

CWSS – Certified Wealth Smart Strategist
FAD or CMA – Financial Analyst Designate
FRM – Financial Risk Manager
FSS – Financial Services Specialist
MCEP – Master Certified Estate Planner
MFP – Master Financial Professional
PFS – Personal Financial Specialist
PPC – Professional Plan Consultant
PRP – PLANSPONSOR Retirement Professional
PRPS – Personal Retirement Planning Specialist
QFP – Qualified Financial Planner
QPFC – Qualified Plan Financial Consultant
RFA – Registered Financial Associate
RFC – Registered Financial Consultant
RFP – Registered Financial Planner
RFS – Registered Financial Specialist
RIS – Retirement Income Specialist
RPA – Retirement Plans Associate
SRFP – Senior Registered Financial Planner
WMS – Wealth Management Specialist

Senior Specialists'

of senior-oriented designations
its Industry Practices to Serve these Customers

from referencing nonexistent or self-conferred degrees or designations or referencing legitimate

stant, Financial Planner, Investment Consultant or Wealth Manager are generic terms or job
signation.

Before you engage an investment professional, make sure you know more about an investment professional than just their name and professional designation. Here are some steps you can take to find an investment professional that can meet your financial needs:

Think about your financial objectives and know what type of financial services you need. There is a wide variation in the range of products and services that investment professionals offer. Some professionals can provide financial statement preparation and analysis, investment planning, tax planning, estate planning, retirement planning, education planning, and risk management services. Other professionals may only be able to recommend a limited number of investment products. Knowing what you need will not only help you find the professional that's right for you, but prevent you from paying for services you don't want.

Get names of professionals from friends, neighbors, family or business colleagues. If you receive a name of an investment professional from an individual or group that you don't know, be certain to ask for several references.

Talk with several professionals. Meet them face-to-face in their offices, if possible. Ask each of them about their:

- Areas of specialization
- Professional designations

Persuasion Tactics

Social Consensus – If everybody wants it, it must be good.




Are YOU really interested in the investment? Does the pitch focus on how many others are interested?



Persuasion Tactics

Reciprocity – Doing a small favor in return for a big favor.

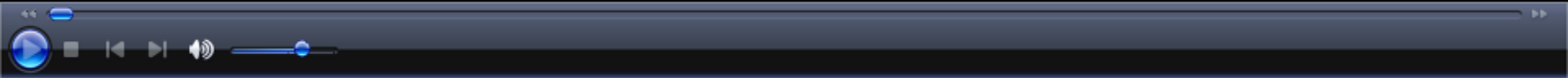
 **Was the pitch preceded by a free meal, book or video? Do you feel obliged to do the salesman a favor?**

Persuasion Tactics

Scarcity – If something is rare or scarce, it must be more valuable.



Is the offer good for only a limited time or in limited quantity?



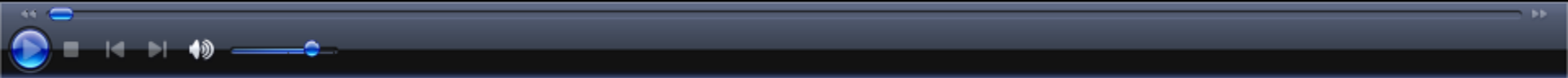
Practice Spotting Persuasion

Look for persuasion red flags.

- Phantom Riches
- Source Credibility
- Social Consensus
- Reciprocity
- Scarcity

The advertisement features a blue border and a background image of a bed with a gold blanket. Text elements include:

- Product ID: S-123456
- Product Name: "Miracle Shim"
- Retail Value: \$20,000 (with a red 'X' over the '00')
- SSN Price: \$49.90
- Payment Plan: 5 easy payments of \$9.98
- Orders Today: 19,921
- Inventory Status: Cedar, Pine, Oak, Hickory (all with red 'X' marks and "Sold Out" text below)
- SSN logo
- Contact: 1-800-123-1234, www.ssn.com
- Timer: :29



S-123456

"Miracle Shim"

Retail Value

~~\$204.00~~

SSN Price

\$49.90

5 easy payments

\$9.98



Orders Today

19,921

~~Ce~~lar, Pine, ~~O~~k, ~~Hi~~ckory
Sold Out! Sold Out! Sold Out!



1-800-123-1234
www.ssn.com

:29

Refusing Investment Fraud



Preventing Investment Fraud

1. Look for persuasion red flags.
 - a. Phantom Riches
 - b. Source Credibility
 - c. Social Consensus
 - d. Reciprocity
 - e. Scarcity

Preventing Investment Fraud

2. Reduce your exposure to sales pitches from con men.
 - a. Use care with free lunch or dinner seminars
 - b. Avoid high-risk investments

Colorado: www.coloradonotcall.com 800-309-7041

National: www.donotcall.gov 888-382-1222

Registry

Preventing Investment Fraud

3. Ask and check the registration status of the professional and investment.
 - ▶ ASK if they are licensed to sell the investment and if the product is registered
 - ▶ CHECK that they are licensed and the product is registered – SaveAndInvest.org or **(888) 295-7422**

Check the Person: FINRA & DORA

SaveAndInvest.org

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Before You Invest, Ask and Check

There are smart investors. And smarter investors. The difference? Just a few questions—and a little homework.

Before you work with a broker or other financial salesperson:

Step One

Ask. Who are you licensed with to sell me this? Are you a licensed broker? Is that investment registered?

Step Two

Check. If they say they are licensed, [check them out](#).

Before you buy an investment product:

Step One

Ask. Is this investment registered with the SEC?

Step Two

Check. If you are told it is, [verify that the investment is indeed registered with the SEC](#).

News and Events

Investor Forums

- ▶ Sept. 9—Jacksonville, FL
- ▶ Sept. 21—Raleigh, NC
- ▶ 2009 Vermont Campaign

News Release

- ▶ FINRA Launches Enhanced Investor Protection and Education Programs

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Reporting Investment Fraud



Where to Report Investment Scams

- SEC's Denver Regional Office
(303) 844-1000
- AARP ElderWatch Hotline
(800) 222-4444
- Colorado Securities Division
(303) 894-2320

Become a Fraud Fighter

Now that you are a trained fraud fighter, we need your help to warn others. Share this information with at least two other people.

- ▶ Send “Trick\$ of the Trade” documentary to at least two others— www.SaveAndInvest.org/TricksoftheTrade
- ▶ Become a Create the Good Fraud Fighter— www.CreateTheGood.org/fightfraud
- ▶ Sign up for SaveAndInvest.org Investor Newsletter

Before You Invest, Ask and Check

SaveAndInvest.org

