

Outsmarting Investment Fraud



Partners

- ▶ FINRA Investor Education Foundation
- ▶ AARP
- ▶ Washington Department of Financial Institutions
- ▶ Florida Office of Financial Regulation

Program Objective

Train fraud fighters nationwide to carry the prevention message into their communities and warn others about investment fraud.

Workshop Learning Objectives

- 1. Risk** - Know the risk factors for investment fraud
- 2. Persuasion** - Know the most common persuasion tactics used in investment fraud
- 3. Prevention** - Know the most powerful fraud prevention strategies

Introduction to Investment Fraud

How Big is the Problem?

Recent major U.S. Cases:

- ▶ Mutual Benefits – \$2 billion in losses – 35,000 victims
- ▶ Greater Ministries – \$500 million in losses – 18,000 victims
- ▶ DW Heath Associates – \$191 million in losses – 1700 victims
- ▶ RDI – \$100 million in losses – 5,000 victims
- ▶ Znetixs – \$100 million in losses – 7,000 victims
- ▶ Hundreds of cases with losses in the \$10-\$50 million range

Section One

Understanding Investment Fraud Risk Factors



Your Investing Knowledge

- ▶ 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

Who is Victimized?

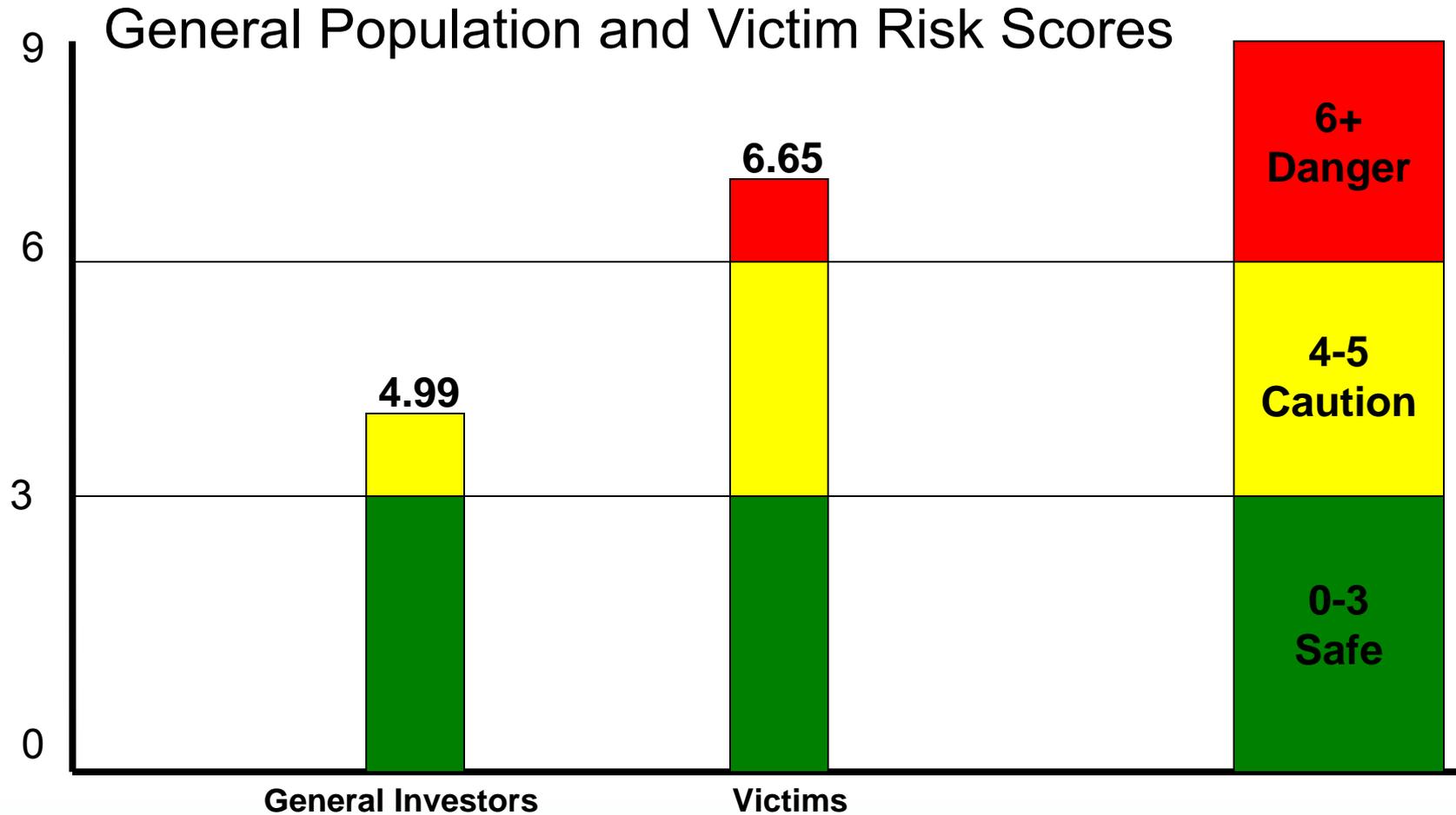
Anyone can be taken but research shows there are demographic trends among victims:

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

Key Points about Risk

1. Buying high-risk investments puts a target on your back.
2. Talk to friends and family about investments, but don't rely solely on their advice.
3. Not checking the registration of a broker or investment dramatically increases fraud risk.
4. The more open you are to new investments, the more your risk increases.
5. If you learn how investment con men use persuasion you can see it coming and resist it.

National Average Risk Scores



Section Two

Learning to Spot Persuasion

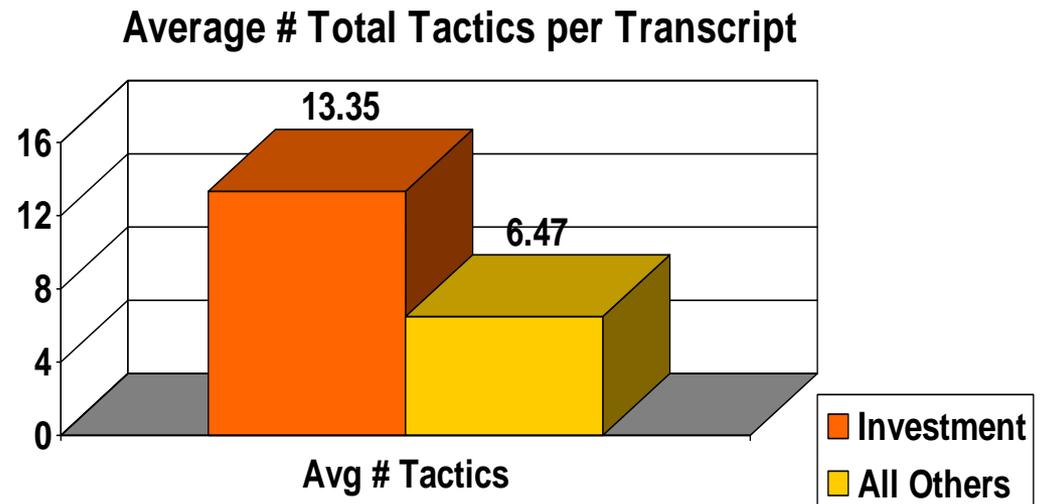


Investment Fraud Victims and Persuasion

Analysis of over 300 undercover fraud tapes by AARP and the FINRA Investor Education Foundation in 2006.

Most frequently used 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.

“Most of our investors are making \$8-9,000 a month off this deal.”

Persuasion Tactics

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

“I am a senior vice president here with an MBA and certified to deal with seniors, and I believe this is exactly the right product for you .”

Persuasion Tactics

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

“With gas prices soaring, everyone is demanding alternative sources of energy.”

Persuasion Tactics

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

“I’ll give you a break on my commission if you buy what I am recommending for you – half off.”

Persuasion Tactics

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

“We have had a run on this stock like you can’t believe – we only have 2,500 shares left out of an initial supply of 300,000.”

Group Exercises: Practice Spotting Persuasion

How many persuasion tactics you can spot?

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

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

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Review of Key Points about Persuasion

1. The most common persuasion tactics used in investment fraud are:
 - ▶ Phantom Riches
 - ▶ Source Credibility
 - ▶ Social Consensus
 - ▶ Reciprocity
 - ▶ Scarcity
2. The quicker you can spot a persuasion attempt, the less likely it is affect your emotions and cause you harm.

Section Three How to Prevent Investment Fraud



Preventing Investment Fraud

1. Reduce your exposure to sales pitches from con men.
 - a. Sign up for the National Do Not Call Registry
 - b. Use care with free lunch or dinner seminars
 - c. Avoid high-risk investments
 - d. Develop a “refusal script”

Preventing Investment Fraud

2. Look for persuasion red flags.

- a. Phantom Riches
- b. Source Credibility
- c. Social Consensus
- d. Reciprocity
- e. Scarcity

Preventing Investment Fraud

3. Ask and check the registration status of the broker 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 800-289-9999



Check Background

The screenshot shows the SaveAndInvest.org website. The header includes the logo, a search bar, and navigation links like 'Site Map', 'Contact Us', and 'Subscribe'. A sidebar on the left lists categories such as 'Home', 'Ask and Check', 'Manage Your Money', 'Avoid Investment Fraud', 'Report a Problem', 'Press Room', 'Events', 'Research and Resources', and 'About Us'. The main content area features a large orange banner for 'Ask and Check' and a white callout box with the following text:

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.](#)

Additional visible text on the page includes: 'A project of the FINRA Investor Education Foundation', 'News and Events', 'Investor Forums', 'Subscribe', 'Keep Informed with SaveAndInvest.org News', 'Tools', 'Risk Meter', and 'Scam Meter'. The FINRA logo is in the bottom right corner.

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BRIAN J. SMITH

CRD# 4977892

Currently employed by and registered with the following FINRA Firms:

XYZ & SONS, INC.

805 SOUTHWEST INDUSTRIAL WAY

SUITE 101

BEND, OR 97702

CRD# 4

Registered with this firm since: 8/10/2005



[VIEW FULL PDF REPORT](#)

Report Summary for this Broker

The report summary provides an overview of the broker's professional background and conduct. The individual broker, a FINRA-registered firm(s), and/or securities regulator(s) have provided the information contained in this report as part of the securities industry registration and licensing process. Examples of such disclosure events include formal investigations and disciplinary actions initiated by regulators, customer disputes, certain criminal charges and/or convictions, as well as financial disclosures, such as bankruptcies and unpaid judgments or liens.

800-289-9999

Is this broker currently suspended or inactive with any regulator? **No**

This broker has passed:

- 0 Principal/Supervisory Exams
- 1 General Industry/Product Exam
- 1 State Securities Law Exam

Registration and Employment History

This broker was previously registered with the following FINRA firms:

Examples of such disclosure events include formal investigations and disciplinary actions initiated by regulators, customer disputes, certain criminal charges and/or convictions, as well as financial disclosures, such as bankruptcies and unpaid judgments or liens.

Are there events disclosed about this broker? **No**

Preventing Investment Fraud

Now that you are a trained fraud fighter,
we need your help to warn others.

Call to Action:

Share this information with at least two others.

Before You Invest, Ask and Check

SaveAndInvest.org 800-289-9999

