SEC

Office of Investor Education and Advocacy

Before You Invest, **Investor.gov**

A GUIDE FOR SENIORS

Protect yourself against investment fraud

How to Avoid Fraud

Seniors are often the target of fraud. However, with some basic understanding of how scam artists work, you can avoid fraud and protect your hard-earned money. Learning how to invest safely can make a huge difference in your retirement years.

Seniors are particularly vulnerable to scam artists who are "nice" or attempt to develop a false bond of friendship. Scam artists prey on seniors who are polite and have difficulty saying "no" or feel indebted to someone who has provided unsolicited investment advice.

What Can I Do to Avoid Being Scammed?

- **Ask questions and check out the answers.**

Fraudsters rely on the fact that many people simply don't bother to investigate before they invest. It's not enough to ask a promoter for more information or for references—fraudsters have no incentive to set you straight. Savvy investors take the time to do their own independent research and talk to friends and family first before investing. Make sure you understand the investment, the risk attached, and the company's history. And remember, if the investment sounds too good to be true, it is!

- **Research the company before you invest.**

You'll want to fully understand the company's business and its products or services before investing. Before buying any stock, check out the company's financial statements by using the SEC's EDGAR database (www.sec.gov/edgar.shtml), or contact your state securities regulator. Remember that unsolicited emails, message board postings, and company news releases should never be used as the sole basis for your investment decisions.

- **Know the investment professional.**

Spend some time checking out the person touting the investment before you invest—even if you already know the person socially. Always find out whether the person who contacts you is licensed to sell securities in your state and whether he or she or their firms have had any trouble with regulators or other investors. You can check out the disciplinary history of an investment professional quickly—and for free—at Investor.gov.

- **Never judge a person's integrity by how he or she sounds.**

Successful con artists know how to sound professional. They can make even the flimsiest deal sound like a "sure thing." Con artists know that the appearance of professionalism combined with polite manners or overtures of friendship may lead many older investors to accept their advice.

■ Watch out for investment professionals who prey on your fears.

Con artists know that many seniors worry about the adequacy of their retirement savings, especially if they are faced with costly medical expenses. As a result, fraudsters often pitch schemes offering unrealistically high rates of return.

■ Take your time—don't be rushed into investment decisions.

Just because someone you know made money, or claims to have made money, doesn't mean you will too. Be especially skeptical of investments that are pitched as "once-in-a-lifetime" opportunities, particularly when the promoter bases the recommendation on "inside" or confidential information. Remember that a fraudster does not want you to think too much about the investment because you might figure out the scam.

- **Be wary of unsolicited offers.**

Be especially careful if you receive an unsolicited phone call or email about a company—or see it praised on an Internet bulletin board—but can find no current financial information about the company from other independent sources. Many fraudsters use email and Internet postings to tout thinly traded stocks, in the hopes of creating a buying frenzy that will push the share price up so that they can sell their shares. Once they dump their stock and quit promoting the company, the share price quickly falls. And be extra wary if someone you don't know recommends foreign or "off-shore" investments. When you send your money abroad, and something goes wrong, it's more difficult to find out what happened and to locate your money.

- **Don't lose sight of your investments.**

Don't rely on an investment professional who says "leave everything to me." Always monitor the activity on your account and request regular statements. You should never feel uncomfortable about questioning any trading activity that you don't understand. Remember—it's your money.

- **Question why you cannot retrieve your principal or cash out your profits.**

If your investment professional stalls when you request your principal or profits, this may be because that person has already pocketed your money. Don't be fooled by explanations as to why your money is inaccessible or by suggestions that you roll over your "profits" into other investments.

- **Never be afraid to complain.**

If you suspect fraud or a questionable practice and the explanations that you receive are not satisfactory, do not let embarrassment or concern that you will be judged incapable of handling your own affairs prevent you from filing a complaint with the SEC, FINRA, or your state securities regulator.

Where to Call for Help

SEC: (800) 732-0330
To Find Your State Regulator: (202) 737-0900
FINRA Securities Helpline for Seniors: (844) 574-3577

Here Are Some Red Flag Warnings of Fraud:

- **If it sounds too good to be true, it is.** Compare promised yields with current returns on well-known stock indexes. Any investment opportunity that claims you'll get substantially more could be highly risky. And that means you might lose money.

- **"Guaranteed returns" aren't.** Every investment carries some degree of risk, and the level of risk typically correlates with the return you can expect to receive. Low risk generally means low yields, and high yields typically involve high risk. If your money is perfectly safe, you'll most likely get a low return. High returns represent potential rewards for folks who are willing and financially able to take big risks. Most fraudsters spend a lot of time trying to convince investors that extremely high returns are "guaranteed" or "can't miss." Don't believe it.

- **Beauty isn't everything.** Don't be fooled by a pretty website—they are remarkably easy to create.

- **Pressure to send money RIGHT NOW.** Scam artists often tell their victims that this is a once-in-a-lifetime offer, and it will be gone tomorrow. But resist the pressure to invest quickly, and take the time you need

to investigate before sending money. If it is that good an opportunity, it will wait.

Con artists are experts at gaining your confidence. So be certain to treat all unsolicited investment opportunities with extreme caution. Whether you hear about the “opportunity” through an email, phone call, or the mail, be certain to check out both the person and firm making the offer and the investment they are pushing.

Types of Fraud

"Ponzi" and Pyramid Schemes

These investment scams are essentially "robbing one person to pay another." Initial investors are paid off with money taken from new investors. As long as a steady flow of new investors keeps coming in, there will be money to pay off the old investors. This early return on investment is misleading, however, because when the new investors stop coming in, the scheme collapses, investors lose their money, and the fraudsters walk away rich.

Oil and Gas Scams

If you think you've found the right oil or gas investment to "strike it rich," consider this: it may be a scam. While some oil and gas investment opportunities are legitimate, many oil and gas ventures are frauds. Many of these schemes start in so-called "boiler rooms," where skilled telemarketers use high pressure sales tactics to convince you to hand over your hard-earned money. The oil and gas industry is often in the news, and this publicity can be used to lure potential investors and make "opportunities" sound legitimate.

Promissory Notes

A promissory note is a form of debt—similar to a loan or an IOU—that a company may issue to raise money. Typically, an investor agrees to loan money to the company for a set period of time. In exchange, the company promises to pay the investor a fixed return on the investment.

While promissory notes can be legitimate investments, those that are marketed broadly to individual investors often turn out to be scams. Investors should be careful to determine their legitimacy and should seek the advice of an objective third party when in doubt.

Prime Bank Fraud

In a prime bank scheme, fraudsters often claim investors' funds will be used to purchase and trade "prime bank" financial instruments or other "high yield investment programs" ("HYIPs") on offshore markets in order to generate huge returns in which the investor will share. However, neither these instruments, nor the markets on which they allegedly trade, exist. To give the scheme an air of legitimacy, the promoters distribute documents that appear complex, sophisticated and official. The sellers frequently tell potential investors that they have special access to programs that otherwise would be reserved for top financiers on Wall Street, or in London, Geneva or other world financial centers.

High Return or "Risk Free" Investments

Some unscrupulous investment professionals make unsuitable recommendations to purchase investment products that don't meet the investment objectives or means of an investor. Unsuitable recommendations might occur when a broker sells speculative investments such as options, futures or penny stocks to a 95-year-old widow living on a fixed income with a low risk tolerance. Investors should be careful to review the risk profile of each investment recommendation and seek the advice of an objective third party when in doubt.

Internet Fraud

Internet investment frauds mirror the frauds perpetrated over the phone or through the mail. Remember that fraudsters can use a variety of Internet tools to spread false information, including bulletin boards, online newsletters, spam, or chat rooms. They can also build a glitzy, sophisticated web page. All of these tools cost very little money and can be found at the fingertips of fraudsters.

"Senior" Specialists and Advisors

What You Should Know about Professional Designations

Some investment professionals use designations such as "senior specialist" or "retirement advisor" to imply that they are experts at helping seniors with financial issues. However, this may not always be the case.

The education, experience, and other requirements to obtain and maintain a "senior" designation vary greatly. In some cases, an investment professional may need to study and pass several rigorous exams—after working in a designated field for several years—to receive a particular designation. In other cases, it may be relatively easy in terms of time and effort to receive a “senior” designation, even for an individual with no relevant experience.

If you want to find out more about a particular professional designation, check out the “Understanding Investment Professional Designations” page on FINRA’s website (**http://www.finra.org/investors**). The page provides the education and experience requirements for many professional designations. In addition, you can find out whether the granting organization for a particular designation requires continuing education, offers a public disciplinary or investor complaint process, or provides a way to check the status of an investment professional. Keep in mind that neither FINRA nor the SEC endorses any professional designation.

Even after doing some research, it may not be clear to you whether a professional designation represents legitimate expertise, a marketing tool, or something in between. That’s one reason you should always look beyond an investment professional’s designation and determine whether he or she can provide the type of financial services or product you need.

We encourage you to thoroughly evaluate the background of anyone with whom you intend to do business—before you hand over your hard-earned cash. You also should ask questions—that’s the best advice we can give you about how to invest wisely. We see too many investors who might have avoided trouble and losses if they had asked basic questions from the start.

Where to Go for Help

SEC Office of Investor Education and Advocacy

If you encounter a problem with an investment or have a question, you can contact the SEC's Office of Investor Education and Advocacy at:

U.S. Securities and Exchange Commission
Office of Investor Education and Advocacy
100 F Street, NE
Washington, DC 20549-0213
Telephone: (800) 732-0330
Fax: (202) 772-9295

You also can send us an online complaint form (www.sec.gov/complaint.shtml) or email us at help@sec.gov.

Investor.gov

Investor.gov—the SEC's website designed for individual investors—includes a section specifically for seniors (Investor.gov/seniors). There you will find resources to help you understand some of the investment products often marketed to seniors and how to avoid investment fraud.

You can order copies of the publications and brochures listed below on Investor.gov. The publications are available in both English and Spanish and are available for download.

- Ask Questions: Questions You Should Ask About Your Investments
- Saving and Investing: A Roadmap to Your Financial Security Through Saving and Investing
- Mutual Funds and Exchange-Traded Funds: A Guide for Investors
- Stopping Affinity Fraud in Your Community

Additional SEC Resources

Our online search tool at Investor.gov allows you to check the registration status and background of investment professionals.

If you have been a victim of a scam, you can check the SEC's website (www.sec.gov/litigation.shtml) for information about SEC actions and investor claims funds.

State Regulators

While the SEC regulates and enforces the federal securities laws, each state has its own securities regulator who enforces what are known as "blue sky laws." These laws cover many of the same activities the SEC regulates, such as the sale of securities and those who sell them, but are confined to securities sold or persons who sell them within each state.

In addition, your state securities regulator can tell you whether the investment is registered and whether the investment professional and his or her firm are licensed to do business in your state. Your state regulator also can check their disciplinary history.

You can find out the name of your state securities regulator by visiting the website of the North American Securities Administrators Association, Inc. (NASAA) at nasaa.org or by calling (202) 737-0900. In addition, NASAA's website includes investor information devoted to seniors at ServeOurSeniors.org.

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