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
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

General Population and Victim Risk Scores

- General Investors: 4.99
- Victims: 6.65

Risk Levels:
- 0-3: Safe
- 4-5: Caution
- 6+: Danger

Sources:
- SaveAndInvest.org
- AARP
- FINRA
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

![Bar chart showing average # total tactics per transcript for Investment and All Others. The Investment Tactics have an average of 13.35 tactics, while All Others have an average of 6.47 tactics.]
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.”
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.”
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
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

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.
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Brokers are able to manage their BrokerCheck search results
from the Broker Home page. For more information, see the Brokerhelp
Guides.

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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

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.

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:

800-289-9999
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