Fighting Fraud 101

Smart Tips for Investors

BUREAU OF SECURITIES
NEW JERSEY OFFICE OF THE ATTORNEY GENERAL

SaveAndInvest.org

Even if you have never been subjected to an investment fraudster's sales pitch, you probably know someone who has. Following the legendary Willie Sutton principle, **fraudsters tend to go "where the money is"**—and that means targeting Americans who are nearing or already in retirement. Fraudsters also have in their sights the millions of Baby Boomers who have been accumulating sizeable retirement nest eggs through company 401(k) plans and personal accounts.

The Face of Investment Fraud

Recent research has shattered the stereotype of investment fraud victims as isolated, frail and gullible. Do you know anyone who meets the following description?

- Self-reliant when it comes to making decisions
- Optimistic
- Above-average financial knowledge
- Above-average income
- College-educated
- Experienced a recent health or financial setback
- Open to listening to new ideas or sales pitches

If so, you know someone who fits the profile of an investment fraudster's prime target.

The Psychology of a Scam

We've all heard the timeless admonition, "If it sounds too good to be true, it probably is"—great advice, but the trick is figuring out when "good" becomes "too good." There's no bright line. Investment fraudsters make their living by making sure the deals they tout appear both good and true.

The truth is, we're all at risk. Anyone with any money is bound to hear from a fraudster at some point. But you can help protect your family and friends by recognizing how investment fraudsters operate and by reporting suspicious sales pitches and actual scams.

They're masters of persuasion, tailoring their pitches to match the psychological profiles of their targets. They look for your Achilles' heel by asking seemingly benign questions—about your health, family, political views, hobbies or prior employers. Once they know which buttons to push, they'll bombard you with a flurry of influence tactics, which can leave even the savviest person in a haze.

Common tactics include:

- **The "Phantom Riches" Tactic –** dangling the prospect of wealth, enticing you with something you want but can't have. "These gas wells are guaranteed to produce $6,800 month in income."
- **The "Source Credibility" Tactic –** trying to build credibility by claiming to be with a reputable firm, or to have a special credential or experience. "Believe me, as a senior vice president of XYZ Firm, I would never sell an investment that doesn't produce."
- **The "Social Consensus" Tactic –** leading you to believe that other savvy investors have already invested. "This is how ___ got his start. I know it's a lot of money, but I'm in—and so is my mom and half of her church—and it's worth every dime."
- **The "Reciprocity" Tactic –** offering to do a small favor for you in return for a big favor. "I'll give you a break on my commission if you buy now—half off."
- **The "Scarcity" Tactic –** creating a false sense of urgency by claiming limited supply. "There are only two units left, so I'd sign today if I were you."

Investment Fraud

Protect Yourself

If these tactics look familiar, it's because legitimate marketers use them, too. But one key difference is that real deals will still be there tomorrow. So always take the time to stop and think before making a decision.

Here are three key strategies you—or anyone you know who fits the profile of a potential fraud target—can use to help distinguish good offers from bad ones:

1 End the conversation

Practice saying "No." Simply tell the person, "I am sorry, I am not interested. Thank you." Or tell anyone who pressures you, "I never make investing decisions without first consulting my _____. I will contact you if I am still interested." Fill in the blank with whomever you choose—your spouse, child, investment professional, attorney or accountant. Knowing your exit strategy in advance makes it easier to leave the conversation, even if the pressure starts rising.

2 Turn the tables and ask questions

A legitimate investment professional must be properly licensed, and his or her firm must be registered with the Financial Industry Regulatory Authority (FINRA), the Securities and Exchange Commission (SEC) or a state securities regulator—depending on the type of business the firm conducts.

In addition, with very few exceptions, companies must register their securities with the SEC before they can sell shares to the public. So, before you give out information about yourself:

Ask:

- Are you and your firm registered with FINRA?
- Are you registered with the SEC?
- Are you registered with a state securities regulator? Which one(s)?
- Is this investment registered with the SEC or my state securities regulator?

Check:

Verify the answers by checking the seller's background. Visit **SaveAndInvest.org**.

Or use these other helpful resources for more information about:

- **An investment professional or firm:**
  FINRA BrokerCheck
  brokercheck.finra.org
  (800) 289-9999
- **An investment adviser:**
  SEC Investment Adviser Public Disclosure Database
  www.adviserinfo.sec.gov
- **Any investment seller:**
  North American Securities Administrators Association
  www.nasaa.org
- **An insurance agent:**
  State Insurance Commission
  National Association of Insurance Commissioners
  www.naic.org

Check: *(continued)*

Check out the investment and confirm what the salesperson tells you using the SEC's EDGAR database of company filings:

> **For investments:**
> **SEC's EDGAR Database**
> *www.sec.gov/edgar.shtml*

Also, call your state securities regulator to find out what they know about the company.

See the tear-off "Resources" panel for more information.

3 Talk to someone first

Be extremely skeptical if the person promoting the deal says, "Don't tell anyone else about this special deal!" A legitimate investment professional won't ask you to keep secrets.

Even if the seller and the investment are registered, it's always a good idea to discuss these sorts of decisions with family or a trusted financial professional.

Are you a senior investor with questions about your brokerage account statement or an investment in a brokerage account? FINRA offers a toll-free number that senior investors can call to get assistance from FINRA or raise concerns about issues with brokerage accounts and investments. Call the **FINRA Securities Helpline for Seniors™** at 844-57-HELPS (844-574-3577) or learn more at *www.finra.org/seniorhelpline*.

Take Your Name Off Solicitation Lists

One easy step you can take to reduce the number of sales pitches you receive is to take your name off of telemarketing and junk mail lists. Businesses that advertise or market their products and services directly to consumers typically purchase or compile their own lists of potential customers.

The answer to "how did they get my name?" is fairly simple: local phone listings, public real estate records, tax assessments on personal property, donations to political or charitable organizations, club rosters, alumni listings and a host of other sources. Online advertisers use "cookies," which are small data files that track information about you, such as your Web browsing patterns and items you've put into online shopping carts.

Here's how to cut the clutter:

- **Telemarketing Calls**
  www.donotcall.gov
  or call toll-free (888) 382-1222
- **Direct Mail and Email Offers**
  www.dmachoice.org
- **Credit Card Offers**
  www.optoutprescreen.com
  or call toll-free (888) 567-8688
- **Online Cookie Collecting**
  www.networkadvertising.org

Most legitimate businesses—including securities firms—will honor your request. So, if you receive a solicitation after taking the steps above, you should be all the more skeptical of the offer.

Who We Are

FINRA, the **Financial Industry Regulatory Authority**, is an independent regulatory organization empowered by the federal government to ensure that America's 90 million investors are protected. Established in 2003 by the **Financial Industry Regulatory Authority**, the **FINRA Investor Education Foundation** empowers underserved Americans with the knowledge, skills and tools to make sound financial decisions throughout life.

The FINRA Foundation's Investor Protection Campaign, **SaveAndInvest.org**, is a targeted effort to reduce the incidence of investment fraud among investors by teaching the tactics most commonly used by fraudsters and the simple steps every investor can take to reduce their risk. Become a Fraud Fighter—visit **SaveAndInvest.org**.

The U.S. Securities and Exchange Commission's Office of Investor Education and Advocacy has reviewed this publication. The SEC does not endorse any particular investment product, service, profession, professional or brokerage firm.

If a Problem Occurs

If you believe you have been defrauded or treated unfairly—or if you suspect that someone you know has been taken in by a scam—be sure to send a written complaint to a securities regulator.

Here's where you can turn for help:

FINRA Complaints and Tips
9509 Key West Avenue
Rockville, MD 20850
Fax: (866) 397-3290
www.finra.org/complaint
www.finra.org/fileatip

FINRA Securities Helpline for Seniors™
(844) 574-3577
Monday-Friday, 9 a.m. – 5 p.m. Eastern Time
www.finra.org/seniorhelpline

SEC Office of Investor Education and Advocacy
100 F Street, NE
Washington, DC 20549-0213
Phone: (800) SEC-0330
Fax: (202) 772-9295
www.sec.gov/complaint.shtml

New Jersey Bureau of Securities
Office of the New Jersey Attorney General
153 Halsey Street, 6th Floor
Newark, NJ 07102
www.njsecurities.gov
(866) 446-8378 or (973) 504-3600

Resources

Before you invest, ask and check. Visit or call:

SaveAndInvest.org

Or use these other helpful resources for more information about:

A broker or firm:
FINRA BrokerCheck
brokercheck.finra.org
(800) 289-9999

An investment adviser:
SEC—Public Disclosure Database
Available through BrokerCheck or
www.adviserinfo.sec.gov

A New Jersey broker-dealer, investment adviser or investment:
New Jersey Bureau of Securities,
Office of the New Jersey Attorney General
www.njsecurities.gov
(866) 446-8378 or (973) 504-3600

A New Jersey insurance agent:
New Jersey Department of Banking and Insurance
www.state.nj.us/dobi
(800) 446-7467 or (609) 292-7272

A commodities/futures/foreign exchange dealer:
National Futures Association—BASIC Check
www.nfa.futures.org/basicnet
(800) 621-3570

An investment:
SEC—EDGAR Database
www.sec.gov/edgar.shtml or
www.investor.gov

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Protect Yourself from Investment Fraud

Always take the time to stop and think before making an investment decision. Here are three key strategies you can use to help distinguish good investment offers from bad ones:

1. **End the conversation:** Simply tell the person, "I am sorry, I am not interested." Or tell anyone who pressures you, "I never make investment decisions without first consulting my ___." Fill in the blank with whomever you choose. And don't worry about missing out—real deals will still be there tomorrow.
2. **Turn the tables and ask questions:** Before you give out information about yourself, or sign on the dotted line, ask, "Are you a licensed broker? Is that investment registered?" Then check out the seller and the investment using the resources on the back of this card.
3. **Talk to someone first:** Even if the seller and the investment are registered, it's always a good idea to discuss these sorts of decisions with family or a trusted financial professional.

Keep this card somewhere handy!

Learn more at SaveAndInvest.org:
SaveAndInvest.org is a free service from the financial authorities at the FINRA Investor Education Foundation—helping protect you from investment fraud and providing information to help you confidently handle your finances.

SaveAndInvest.org

New Jersey Bureau of Securities
1-866-I-Invest
NJSecurities.gov

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