Avoiding Investment Fraud

Background
Many Americans invest in stocks, bonds, mutual funds, currency, real estate, and collectibles. And more and more, as companies continue to eliminate their pension plans, they are managing their own retirement savings. Their financial well-being, especially for retirement, is dependent on the success of their investments. As a result, fraudsters are increasingly targeting older people with schemes to help themselves to the seniors’ money.

Most people make legitimate investments. But con artists lie or twist the truth to get their hands on their target’s savings, whether by “guaranteeing” high rates of returns or low risks, or by selling a product that is clearly inappropriate for the investor. In other cases, the scammer talks people into investing in products that don’t exist; instead, the investment goes right into the perpetrator’s bank account.

But investors can take steps to invest safely. By doing a little homework and following the tips in this fact sheet, they probably won’t fall victim to these schemes.

The Senior Slant
People over 65 make up about 13 percent of the population, but account for an estimated 30 percent of fraud victims. As the first of the baby boomers begin to turn 65 in 2011, investigators expect to see a dramatic increase in financial fraud. Seniors, as a group, have a great deal of capital, much of it already invested. But unscrupulous telemarketers will still try to convince seniors to buy into fraudulent investments.

Here’s a sampling of some of the schemes that con artists use to swindle seniors.

Low Risk—Big Return
Investment fraudsters frequently promise huge returns with little or no risk. Often, the caller will tell the senior investor that the product he or she is offering is not affected by the ups and downs of the stock market and, therefore, bears no risk. Or, the caller will claim that the stock is guaranteed to rise in value. Usually the caller tries to convince the target that he or she needs to act immediately. Tip: Remember that investing always involves some degree of risk.

Insider Information
Con artists call seniors pretending to be company “insiders” with knowledge that a certain stock is going to make news. Sometimes they say that the company is going to release a new product, or that it’s about to win necessary government approval for a new and lucrative venture, or that it’s about to finalize an anticipated merger. Once the event happens, the caller says, the company’s stock will soar. The scammers use this tactic to entice lots of people to buy the stock, thereby running up the price. Once they succeed, they sell their interest to take their
profit, and the stock falls back to, or beneath, its earlier level. *Tip: Never make an investment based simply on a telephone sales pitch.*

**The Three-Call Technique**

In the first call—the warm-up—the caller tries to build trust by telling his target about his company or describing his past successes. In the second call—the set-up—he or she has a “deal” to bring to the target’s attention. In the third call—the closer—the caller urges the target to buy the hot stock now, or risk missing out. The caller then absconds with the target’s money. *Tip: Be careful when callers try to win your friendship or flatter you, or put you off-guard by chatting about things you are familiar with.*

**Before deciding to invest, follow these tips to ensure that you are investing wisely:**

- Call your state securities regulators to check the credentials of those offering investment deals and to ensure that they are licensed to sell securities in your state.
- Be especially suspicious of offers made to you by way of unsolicited “cold calls.”
- Get a second opinion whenever possible by talking to a trusted financial adviser or an attorney.
- Be extremely wary of companies that guarantee outlandish profits, or that claim to always out-perform the market. No one can guarantee a high rate of return on stocks. Some investments, like bonds and certificates of deposit, have fixed rates of return that are comparable with the rates offered on financial products by legitimate banks in your community.
- Take your time. Often, the caller will say you must act immediately, without thinking about it or discussing it with others.

**More Information**

For additional information, visit

- National Association of Securities Dealers, www.nasd.com

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