

Investment Fraud Prevention

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About Me

Christine N. Kieffer

- ▶ Senior Director, Investor Education
- ▶ Oversee Targeted Projects
 - Investor Protection Campaign
 - Military Financial Readiness Project
 - National Financial Capability Study
- ▶ Co-Executive Producer, *Trick\$ of the Trade: Outsmarting Investment Fraud*
- ▶ Served as staff support on President's Advisory Council on Financial Capability
- ▶ Previously worked at Sallie Mae and NASDAQ
- ▶ Other? Mom to two boys



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FINRA & FINRA Foundation

Financial Industry Regulatory Authority (FINRA)

- ▶ Independent, non-governmental regulator for all securities firms doing business with the public in the U.S.
- ▶ Protects investors and maintains market integrity in a public-private partnership with the SEC
- ▶ Created through consolidation of NASD and NYSE Regulation
- ▶ Regulation, enforcement, education

FINRA Investor Education Foundation

- ▶ Awards grants and manages targeted projects focused on investor education and protection



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What Research Tells Us



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What We Learned: Victim Profile

Victim demographic trends:

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



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What We Learned: Key Risk Factors

- Owning high-risk investments
- Relying on friends, family, co-workers for advice
- Being open to new investment information
- Failing to check background and registration of financial professional and product
- Being unable to spot persuasion



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What We Learned: Fraud Weapon



2012 Financial Capability Study

- More than three-quarters of U.S. adults think they're good at managing their finances...
- But only 14 percent aced a 5-question quiz on basic financial concepts.

www.usfinancialcapability.org

What's Your Financial IQ?

Take the Financial Literacy Quiz and compare your score with the averages in specific states or the nation overall.

Suppose you have \$100 in a savings account earning 2 percent interest a year. After five years, how much would you have?

More than \$102

Exactly \$102

Less than \$102

Don't Know

Continue the quiz on our site

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[Get Widget](#)

The Bias Blind Spot

- People acknowledge that biases affect other people's choices and actions
 - Less likely to see impact on themselves
- 80% of investors believe they are “above average” at spotting fraud



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The Cons Agree



The Cons Agree

- ▶ Victims get excited easily and act on impulse.
- ▶ Victims don't ask questions, they answer questions.
- ▶ Victims don't read information, they rely on the salesman to tell them what it says.
- ▶ Victims aren't looking for why an offer is a scam; they are looking for why it will make them money.

Source: AARP Washington, Shadel



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Reducing the Risk of Investment Fraud



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Preventing Investment Fraud

1. Reduce exposure to sales pitches
2. Look for persuasion red flags
3. Ask and check the registration status of the professional and the investment



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Reduce Exposure to Pitches

- a. Use care with free lunch or dinner seminars
- b. Know your risk tolerance – avoid high-risk investments
- c. Develop a “refusal script”
- d. Sign up for the National Do Not Call Registry
www.donotcall.gov or 888-382-1222



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Look for Persuasion Red Flags

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

S-123456
"Miracle Skin"
Retail Value \$249.00
SSN Price \$49.90
5 easy payments \$9.98
Orders Today 19,921
Cedar, Pine, Oak, Hickory
Call Us 1-800-123-1234
www.ssn.com :29

The 7 Top Reasons
You Should Expect The Best from
from
A Potential 200% Return Fall in Over and
Up to 1,439% in the Next 18 Months
1. Sign of
2. Social
3. Source
4. Reciprocity
5. Scarcity
6. Phantom Riches
7. Source Credibility



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Preventing Investment Fraud

- 3. Ask and check the registration status of the professional 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 (888) 295-7422



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Before You Invest, Ask and Check

SaveAndInvest.org

PROTECT YOUR MONEY

- About Fraud
- Ask and Check**
- Identify Theft
- Alerts
- Report a Problem

Ask and Check

If a salesperson is trying to sell you an investment, ask the right questions and check them out by following these steps.

Check Out the Seller
Before you work with a broker or other financial salesperson:
 Ask, Who are you licensed with to sell

Know What to Say When a Con Calls You
 You can outsmart the cons. Watch this short video (3 min, 10 sec.) to see the wrong way—and right way—to handle a sales call from a fraudster. Remember, the word “No” is more powerful than any con man.

888-295-7422

Check Out the Investment:
 Before you buy an investment product:
 Ask, Is this investment registered with the SEC?
 Check, If you are told it is, verify that the investment is indeed registered with the SEC.

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Where to Check

Professional or Product Type	Check	URL and Phone
Broker	FINRA BrokerCheck	www.SaveAndInvest.org (888) 295-7422
Investment Adviser Firm and Product	U.S. Securities and Exchange Commission (SEC)	www.sec.gov or www.investor.gov (800) SEC-0330
Investment Professional and Product	State Securities Regulators – check North American Securities Administrators Association (NASAA)	www.nasaa.org (202) 737-0900
Commodity, Futures, Foreign Currency Trader	U.S. Commodity Futures Trading Commission (CFTC) and National Futures Association BASIC	www.cftc.gov www.nfa.futures.org
Insurance Agent	State Insurance Regulators – check National Association of Insurance Commissioners (NAIC)	www.naic.org (866) 470-6242

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Check Professional

FINRA BrokerCheck Results

The screenshot shows the FINRA BrokerCheck interface. At the top, there's a navigation bar with 'FINRA Home', 'About FINRA', and 'Newsroom'. Below that, a search bar contains 'JOHN A. DOE' and 'CRDH 11111'. The main content area displays the broker's name and a 'GET DETAILED REPORT' button. A large yellow box with the phone number '888-295-7422' is overlaid on the bottom right of the page.

Professional Designations

The screenshot shows the FINRA Professional Designations page. It features a search bar at the top right. Below the navigation bar, there's a section titled 'Professional Designations' with a sub-heading 'Understanding Professional Designations'. A search box is labeled 'Look up financial designations' and 'Find out what abbreviations mean and compare designations'. A yellow button at the bottom left says 'Click to Visit the Designations Database'. The footer includes logos for 'SaveAndInvest.org', 'NATIONAL CRIME PREVENTION COUNCIL', and 'FINRA Investor Education Foundation'.

Research Investments - SEC

The screenshot shows the Investor.gov website. The main navigation bar includes 'News & Alerts', 'Tools', 'Publications & Research Studies', 'In the Classroom', and 'Glossary'. Below this, there are tabs for 'Home', 'Introduction to the Markets', 'Investing Basics', 'Researching & Managing Investments' (which is selected), 'Employment to Retirement', and 'Life Events'. The 'Researching & Managing Investments' section is active, displaying a sidebar with a 'Researching & Managing Investments' menu and a main content area with the heading 'Researching Investments'. The main content area includes a paragraph about due diligence, a 'Useful Tools' section with links to BrokerCheck, Investment Adviser Public Disclosure (APD), Electronic Data Gathering and Retrieval (EDGAR), and Electronic Market Municipal Access (EMMA), and a 'Related Concepts' section with links to Investment Products, Understanding Fees, and Avoiding Fraud. A footer contains various links like 'SEC.gov', 'MyMoney.gov', 'USA.gov', 'FOIA', 'Sitemap', 'Privacy', 'Accessibility', 'Plain Writing', 'Disclaimer', and a phone number '(800) 732-0330'.

Research Investments - FINRA

The screenshot shows the FINRA Investor Education Center website. The main navigation bar includes 'Investors', 'Tools & Calculators', 'Contacts', and 'Subscriptions'. Below this, there are tabs for 'Protect Yourself', 'Smart Investing', and 'Market Data' (which is selected). The 'Market Data' section is active, displaying a sidebar with a 'Market Data' menu and a main content area with the heading 'Market Data'. The main content area includes a paragraph about the Market Data Center, a 'Market Indices' table, a line chart for the DJIA, and a 'FINRA TRACE Bond Market Activity' table. A yellow callout box on the left says 'Click to Visit the Market Data Center'. The 'Market Indices' table shows the following data:

Index	Value	Change	% Change
DJIA	15,439.26	-45.00	-0.29%
NASDAQ	3,595.66	-11.83	-0.33%
S&P 500	1,674.99	-8.11	-0.48%

The 'FINRA-Bloomberg Active US Corporate Bond Indices' table shows the following data:

Index	Value	Change	% Change
Investment Grade Index (NBBI), Total Return*	176.35	0.21	0.12%
High Yield Index(NBBH), Total Return*	294.92	1.31	0.44%

The 'FINRA TRACE Bond Market Activity' table shows the following data:

View	All Issues	Investment Grade	High Yield	Convertible
Total Issues Traded	6243	4426	1627	190
Advances	3728	2643	977	108
Declines	2239	1662	503	74

The 'Quick Search' section includes a search bar and options for 'Debt / Asset Class' (Treasury/Agency, Corporate, Municipal) and 'Show Results As' (Bonds, Trades).

Other Questions to Ask

1. How does the investment match my goals?
2. How does the investment risk compare with my personal risk tolerance?
3. What are the fees and expenses? How does the professional make money on the sale?
4. Will the investment help me diversify?



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Key Principles of Investing

1. Do your homework; buy what you know and what you understand
2. Invest for the long term
3. Diversify
4. Know your risk tolerance
5. Slow down decision-making
6. All investments have fees...and fees matter
7. Independently verify information



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Before You Invest, Ask and Check

SaveAndInvest.org

Contact: Christine Kieffer

christine.kieffer@finra.org or (202) 728-6970



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