Investment Fraud Prevention
National Crime Prevention Council
Webinar – August 21, 2013

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
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

What Research Tells Us
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

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
What We Learned: Fraud Weapon

Phantom Riches
Dangling the prospect of wealth, enticing you with something you want but can’t have.

Source Credibility
Trying to build credibility by claiming to be with a reputable firm or to have a special credential or experience.

Social Consensus
Leading you to believe that other savvy investors have already invested.

Reciprocity
Offering to do a small favor for you in return for a big favor.

Scarcity
Creating a false sense of urgency by claiming limited supply.

RED FLAGS OF FRAUD

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
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

The Cons Agree

Jim Vitale
Convicted Con Criminal

Michael Shinfeld
Convicted Con Criminal

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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
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

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
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 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
## Before You Invest, Ask and Check

Before investing in any stock, mutual fund, or real estate, you need to ask yourself the following questions:

1. **Check Out the Seller**
   - Before you work with a broker or other financial advisor, ask the right questions and check them out by following these steps:
     - **Know What to Say When a Con Calls You**
     - You can prevent the con from deceiving you.
     - Check the short video (3 min. 30 sec.) to see the wrong way—and right way—to handle a sales call from a fraudster. Remember the most you’ll ever lose is your cost basis.

2. **Where to Check**

<table>
<thead>
<tr>
<th>Professional or Product Type</th>
<th>Check</th>
<th>URL and Phone</th>
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<tbody>
<tr>
<td>Broker</td>
<td>FINRA BrokerCheck</td>
<td><a href="https://www.SaveAndInvest.org">www.SaveAndInvest.org</a> (888) 295-7422</td>
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<tr>
<td>Commodity, Futures, Foreign Currency Trader</td>
<td>U.S. Commodity Futures Trading Commission (CFTC) and National Futures Association BASIC</td>
<td><a href="https://www.cftc.gov">www.cftc.gov</a> <a href="https://www.nfa.futures.org">www.nfa.futures.org</a></td>
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<tr>
<td>Insurance Agent</td>
<td>State Insurance Regulators – check National Association of Insurance Commissioners (NAIC)</td>
<td><a href="https://www.naic.org">www.naic.org</a> (866) 470-6242</td>
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Research Investments - SEC

Research Investments - FINRA

Click to Visit the Market Data Center
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?

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
Before You Invest, Ask and Check

SaveAndInvest.org
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