

# The Psychology of a Scam

**National Crime Prevention Council**  
**Webinar – June 19, 2013**



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## About Me

### Christine N. Kieffer

- ▶ Senior Director, Investor Education
- ▶ Oversees 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)

- ▶ Largest independent regulator for all securities firms doing business in the United States
- ▶ Empowered by federal government
- ▶ 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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## Major Research

- ▶ **Off the Hook (2003)** USDOJ/AARP
- ▶ **Investor Fraud Study (2006)** Consumer Fraud Research Group, WISE Senior Services, FINRA Foundation
- ▶ **Stolen Futures (2007)** AARP Washington
- ▶ **Fraud Risk Behavior Study (2007)** FINRA Foundation, AARP
- ▶ **National Fraud Victim Study (2011)** AARP Foundation
- ▶ **Scams, Schemes and Swindles (2012)** Stanford University Financial Fraud Research Center
- ▶ **Fraud Susceptibility Study (2013, forthcoming)** FINRA Foundation, Applied Research and Consulting



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## Credits

- ▶ **Doug Shadel**, Director of AARP Washington, Author *Outsmarting the Scam Artists*, *Inside the Con Man Mind*, *Weapons of Fraud*
- ▶ **Robert Cialdini**, President of INFLUENCE AT WORK (IAW), Regents' Professor Emeritus of Psychology and Marketing at Arizona State University and New York Times Bestselling Author *Influence: Science and Practice*
- ▶ Other Leading Social Scientists



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## Investment Fraud Victim Myth

Fraud victims are old, naïve, gullible, greedy, mentally deficient, elderly, and family-led



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## The Con's Playbook

What is the secret to scamming people out of their money?



*Get them "Under the Ether"*

Source: AARP Washington, Shadel



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## Key Emotions used by Cons

- ▶ **Compassion** – Messages that appeal to the heart.
- ▶ **Fear** – Messages that scare us into action.
- ▶ **Affinity/Social Acceptance** – Messages that appeal to the need for belonging.



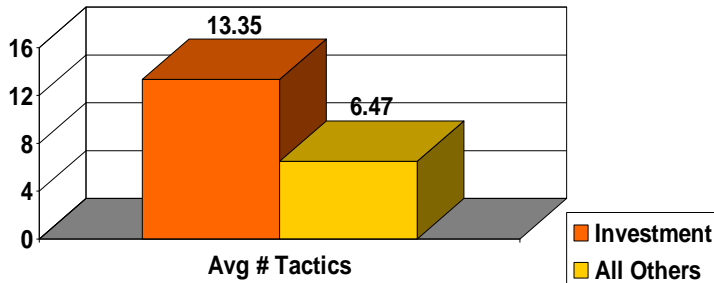
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## Fraud Weapon – Social Influence

- ▶ Scam pitches are tailored to the “hot buttons” of targets
- ▶ An investment fraud pitch is full of influence

Average # Total Tactics per Transcript

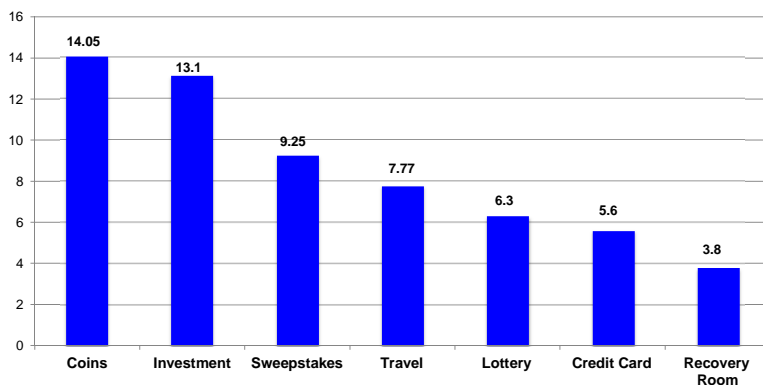


Analysis of hundreds of undercover fraud tapes for *Off the Hook Again: Understanding Why the Elderly Are Victimized by Economic Fraud Crimes* (2006)



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## Total Persuasion Tactics by Scam Type




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# McDonald's Secret New Money Making Machine?

**McDonald's, Starbucks and Burger King** are launching MAJOR NATIONAL MARKETING CAMPAIGNS around this Mega market that is already seeing sales of over \$3.5 billion annually  
**...see page 5**

This patent-pending product is now being served in **Subway** restaurants in Australia!  
**...see page 7**

This stock has the long-term price potential of \$11.54 for a 1,439% gain  
**...see page 17**



**A \$10,000 ground floor investment in [redacted] could grow to \$38,400 by this Fall as the fast food chains start lining up**

## Smoothies

**Are Not Just A Major Food —They Are Now A Mega Investment Trend!**

Food industry insiders know it... and they're moving fast.

**DON'T BE CAUGHT ON THE SIDE! CHAINS LIKE STARBUCKS, MCD, BURGER KING ARE THROWING OF MILLIONS AT THE MARKET, TO MAKE BILLIONS!**

A lot of very smart people were caught flat-footed as the health trend unfolded during the past three years. Today, people who continue to ignore this mega trend are at risk of having their money in discount-store companies that fail to adapt and become extinct!

Of course, a number of sharp-eyed investors spotted this Mega Trend early.

**Analyst Projections**

Ticker: [redacted]  
 Company: [redacted]  
 Current Price: \$0.75  
 Short-Term (1-6 Months): \$2.89  
 Near-Term (7-12 Month) Target: \$5.77  
 Long Term (12-18 Months) Target: \$11.54

## The 7 Top Reasons

**You Should Expect The Best from [redacted] ...**

**1** **Sign of Greatness: Patent-Pending Package Creates A Giant Barrier To Entry For Any Potential Competition**

**Nobody Else Meets The \$189 Billion Global QSR Restaurant Industry's Most Urgent Need For A Turnkey Solution**

**A Potential 285% Before Fall Is Over and Up to 1,439% in the Next 18 Months**

With 24% a year growth, smoothies are one of the new food trends that checks all the boxes... a snack, health food, a whole light meal, treat, good as a salad.

Until now, the only way a restaurant could serve a natural fruit smoothie was to blend fresh fruit, ice, juice and yogurt from scratch.

And that just didn't work in a burger joint or sandwich shop. Especially not if the ice machine was on the customer side of the counter.

No Ice = No Smoothie

With almost zero adjustment to their counter space, any restaurant can add turnkey ready to blend smoothies to the menu. [redacted] can even create restaurant/chain specific fruit/ flavor profiles that the restaurant can private label as their own.

**What's in the Bag?**

[redacted] "Simoo" Smoothie packet includes

- ✓ Real fruit frozen at peak ripeness
- ✓ Clean, pure ice
- ✓ Low-fat yogurt
- ✓ Low fat sorbet (dairy free flavors)
- ✓ Frozen juice

Throw in a blender, add water. Serve every last drop... no waste.



**Ice**      **Real fruit pieces**

**Juice**

**Low fat frozen yogurt or sorbet**

## Persuasion Literacy

### *Victims Show Higher Interest in Con Statements*

Con Man Statement	AARP (2007)		AARP Foundation (2008)	
	GP	Victims	GP	Victims
There is no way to lose on this investment- it is fully guaranteed.	10.28%	12.40%	20.27%	28.08%
This is an opportunity to get in on the ground floor of a company about to roll out a revolutionary new technology	*	*	14.86%	23.97%
The lowest return you could possibly get on this investment is 50% annually, but most investors are making upwards of 110% a year.	13.89%	20.00%	29.25%	36.81%
This investment made hundreds of people extremely wealthy	7.87%	11.57%	14.29%	26.71%
<b>Combined Scores</b>	<b>10.67%</b>	<b>14.64%</b>	<b>19.66%</b>	<b>28.87%</b>



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## Persuasion Tactics

**Phantom Riches** – Dangling the prospect of wealth; something you want but can't have.

**“300% in the next 90 days. It's opportunity knocking. We have a well that is coming in at 1,000 barrels.”**



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## Red Flag Rule—Phantom Riches

Take some time to assess how you are reacting to images of phantom riches. If you feel your heart starting to pound faster or your emotional state heightened...

**WATCH OUT!**



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## 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.”**



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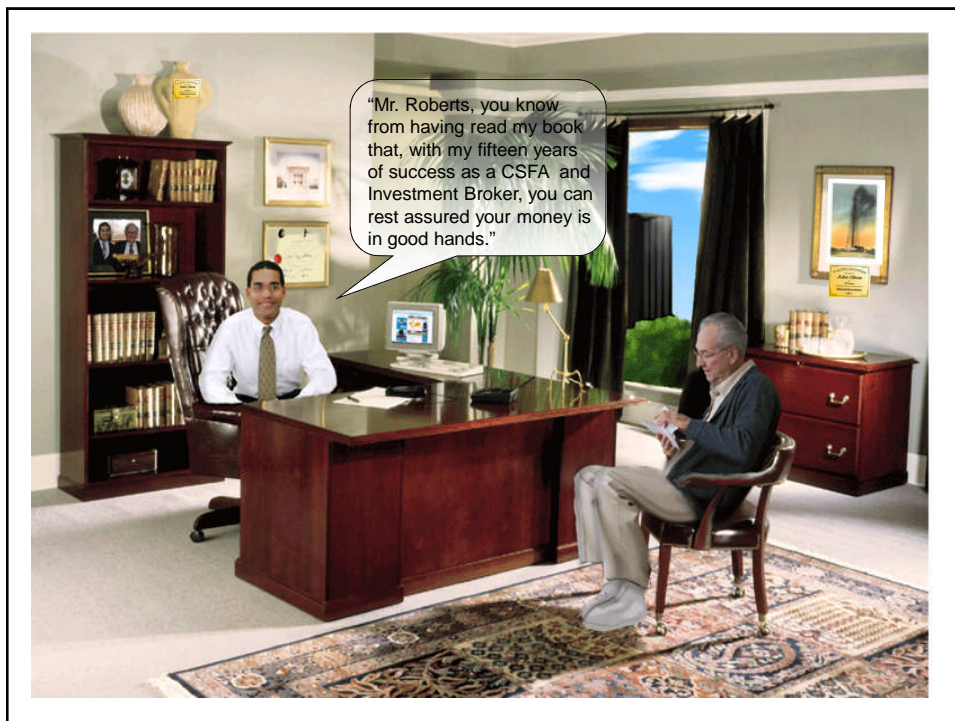
## Red Flag Rule—Source Credibility

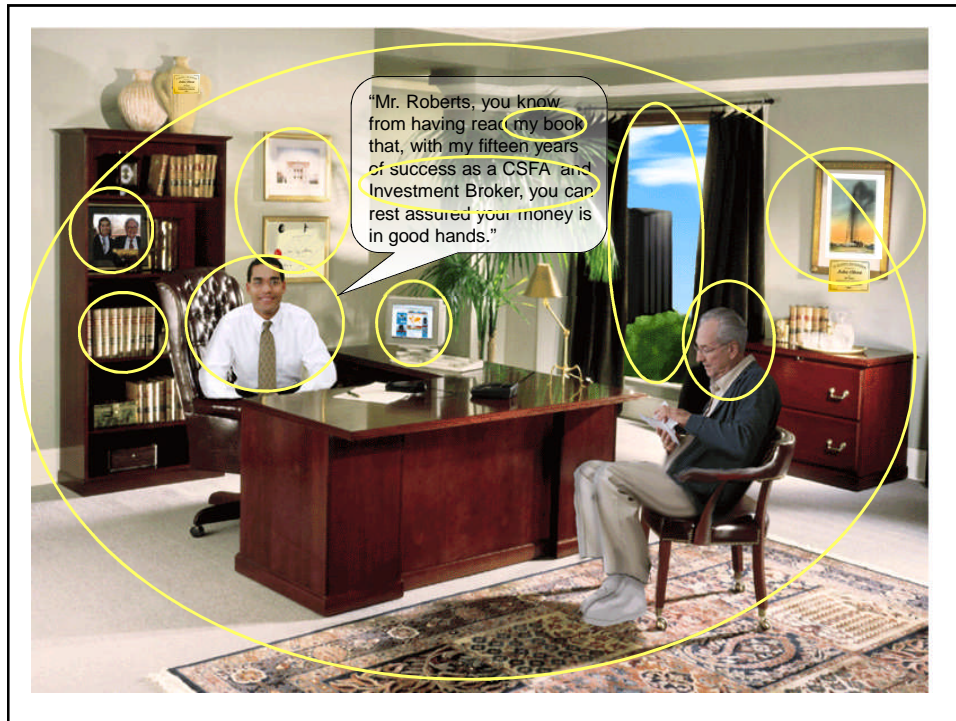
Credibility can be faked. Check out the actual qualifications of the source of information. If the source is not an expert on the product being promoted or the claims cannot be independently verified...

**WATCH OUT!**



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## Persuasion Tactics

Social Consensus – If everybody wants it, it must be good.

**"With gas prices soaring, everyone is demanding alternative sources of energy."**



## Red Flag Rule—Social Consensus

Think about whether YOU are interested in the product. If a sales presentation focuses on how many others have bought the product or how there is a line running around the block...

**WATCH OUT!**



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## Persuasion Tactics

Reciprocity – Doing a small favor in return for a big favor.



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## Red Flag Rule—Reciprocity

If someone does a small favor for you like offers you a free lunch, book or video, don't automatically do a **BIG** favor for them.




  

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## Persuasion Tactics

Scarcity – If something is rare or scarce, it must be more valuable.

**“This offer is good for today and today only. We’ve got to move now if you want in on this deal.”**

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## Red Flag Rule—Scarcity

Take some time to evaluate the offer. If a sales person tells you there is a limited time in which you can decide to buy or that there are only a limited number of items left...


**WATCH OUT!**

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## Acme Oil Development - Pitch



geologically, its impossible to hit a dry well in the Barnett Shale.

What I'm looking for is an investor who I can sit down with, work the numbers and get involved...period. The wells that I've done out here so far have done on average about 19% return on the absolute worst and 68% return on the absolute best. You'll make about \$8-9,000 a month on the low end. So basically I'll beat any stock that you have...period.

I don't know about you but that's the type of investment that I want to be involved in. And again, I can back up the returns from the state of Texas. The governing body of the oil and gas industry in Texas is known as the Texas Railroad Commission. I can validate everything that I am explaining to you through the state of Texas.

Phantom Riches      Social Consensus      Reciprocity  
Source Credibility      Scarcity

## Acme Oil Development (Cont.)

“The area we’re in has been talked about in every major newspaper from coast to coast: The Washington Post, the New York Times, the Wall Street Journal. It’s been on MSNBC, it’s been on Dateline. The area has been talked about on 60 Minutes, Greenspan’s talked about the area,

month from the wells they’ve done with me. And to be real frank with you, that’s where I want to get you. We can start by getting you to where you are doing \$8-9,000 a month. Sure that’s a great return, but in order for you to be able to go on vacation whenever you decide to go or to get on a plane and flip a quarter where you are going to go today, you need to have \$15-20,000 a month coming in, sitting in your mailbox when you come home.”

Phantom Riches      Social Consensus      Reciprocity  
Source Credibility      Scarcity

## Acme Oil Development (Cont.)

What I can do for you is, through our relationship with the US Securities and Exchange Commission, I can place a “hold” on a position for you, meaning that no one else can buy that position so to speak. I can reserve a half unit for you.”

“Its not something you are required to do but again I have seen on other projects where the project is phenomenal, I send out a prospectus to someone, it takes a couple days to get there and then the investor calls me up and says, “yeah Don, I really want to do it, the returns look great,” and I have unfortunately the horrible job of telling that investor that unfortunately they can’t be involved because its gone.

Phantom Riches      Social Consensus      Reciprocity  
Source Credibility      Scarcity

## Other Persuasion Tactics

- ▶ **Profiling:** Be wary of salesman that ask more questions than they answer.
- ▶ **Friendship:** Appearing to be the victim's friend to gain trust.
- ▶ **Comparison:** Comparing sale price to an artificially high comparison or anchor price.
- ▶ **Commitment:** Victim makes a commitment early on, then the con uses it against them.

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### Phantom Riches, Source Credibility, Social Consensus, Reciprocity, Scarcity

S-123456

"Miracle Slim"

Retail Value  
~~\$207.00~~  
SSN Price  
\$49.90

5 easy payments  
\$9.98

Orders Today  
19,921

Cedar, Pine, Oak, Hickory  
Sold Out Sold Out Sold Out

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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



## Preventing Fraud – Ask and Check

- ▶ Those who counter-argue and actively question a communication are less persuaded
- ▶ Interviews of cons reveal that they do not like to be questioned
- ▶ 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

[www.SaveAndInvest.org/FraudCenter](http://www.SaveAndInvest.org/FraudCenter)

The screenshot shows the website's navigation bar with 'MILITARY CENTER' and 'FRAUD CENTER' tabs. Below the navigation is a search bar and a 'SIGN UP FOR OUR NEWSLETTER' button. The main content area features a sidebar with 'PROTECT YOUR MONEY' links: 'About Fraud', 'Ask and Check', 'Identify Theft', 'Alerts', and 'Report a Problem'. The 'Ask and Check' link is highlighted, and the main content area displays the 'Ask and Check' heading, a brief description, and two sub-sections: 'Check Out the Seller' and 'Know What to Say When a Con Calls You'.

**(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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**JOHN A. DOE**  
CRDH 11111

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Currently employed by and registered with the following FINRA Firm(s):  
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CITY, STATE 12345-0100  
CRDH 22222  
Registered with this firm since: 1/19/2005

**Report Summary for this Broker**  
This report summary provides an overview of the broker's professional background and conduct. Additional information can be found in the detailed report.

**Broker Qualifications** ⓘ  
This broker is registered with:  
• 1 Self-Regulatory Organization  
• 10 U.S. states and territories

**Disclosure Events** ⓘ  
Disclosure events are certain criminal matters, regulatory actions, civil judicial proceedings, customer complaints, arbitrations, or civil litigations, employment terminations, and financial matters in which the broker has been involved.

Is this broker currently suspended or inactive with any regulator? **No**

Are there events disclosed about this broker? **Yes**  
[Get Detailed Report](#)

The following types of disclosures were reported:  
Criminal  
Civil Event

**Registration History** ⓘ  
This broker was previously registered with FINRA at the following brokerage firms:  
SECURITE'S FIRM B  
CRDH 55555  
CITY, STATE 66789 - 12304

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# Become a Fraud Fighter

**File a tip with regulators**

**Share the DVD and materials with others**

**Sign up for the e-newsletter!**

**Ask and Check**

The screenshot shows the SaveAndInvest.org website interface. At the top, there are navigation tabs for 'Home', 'About Us', 'Contact Us', and 'Sign Up'. Below the navigation is a search bar and a main banner area with the text 'Be a fraud fighter. Get informed—and get involved.' To the left of the main content, there are several callout boxes with arrows pointing to specific website elements: 'File a tip with regulators' points to a 'Report a Problem' link; 'Share the DVD and materials with others' points to a 'Share' button; 'Sign up for the e-newsletter!' points to a 'Sign Up' button; and 'Ask and Check' points to a 'Before You Invest, Ask and Check' section. The website also features a 'Research Center on the Prevention of Financial Fraud' and a 'Tricks of the Trade' section.



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## Before You Invest, Ask and Check

### SaveAndInvest.org

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