The Psychology of a Scam

National Crime Prevention Council
Webinar – June 19, 2013

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
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

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
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 stupid, naïve, gullible, greedy, mentally deficient, elderly, and easily-led.
The Con’s Playbook

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

Get them “Under the Ether”

Source: AARP Washington, Shadel

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.
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

A $10,000 ground floor investment in McDonald's could grow to $38,400 by this Fall as the fast food chains start lining up.
Persuasion Literacy

<table>
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<tr>
<td>There is no way to lose on this investment- it is fully guaranteed.</td>
<td>10.28%</td>
<td>12.40%</td>
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<td>This is an opportunity to get in on the ground floor of a company about to roll out a revolutionary new technology</td>
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<tr>
<td>The lowest return you could possibly get on this investment is 50% annually, but most investors are making upwards of 110% a year.</td>
<td>13.89%</td>
<td>20.00%</td>
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<tr>
<td>This investment made hundreds of people extremely wealthy</td>
<td>7.87%</td>
<td>11.57%</td>
</tr>
<tr>
<td>Combined Scores</td>
<td><strong>10.67%</strong></td>
<td><strong>14.64%</strong></td>
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Victims Show Higher Interest in Con Statements

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.”
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!

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.”
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!

“Mr. Roberts, you know from having read my book that, with my fifteen years of success as a CSFA and Investment Broker, you can rest assured your money is in good hands.”
“Mr. Roberts, you know from having read my book that, with my fifteen years of success as a CSFA and Investment Broker, you can rest assured your money is in good hands.”

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!

Persuasion Tactics

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

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.”
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!

Acme Oil Development - Pitch

"Jim, my name is Don Kingman. I’m the vice president here at Acme Oil Development. You spoke with one of my employees Dwayne. He was talking about an area called the Barnett Shale. It’s a very, very large area and geologically, it’s 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.
The Psychology of a Scam

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**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, every major oil and gas company is out here. Exxon, which is the largest company in the world, is in the Barnett Shale."

"I have all kinds of investors: retired doctors, retired lawyers, diplomats, even retired geologists. Many of these investors are seeing $15-20,000 a 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.)**

"And that’s what this project will do but again, I’ll be frank with you, the majority of this project is gone. We’ve been funding this thing for about six weeks now and we’re probably – we’ve maybe got 300,000 left. Maybe we have 300,000 left."

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.

"It’s 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."
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.
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

Before You Invest, Ask and Check

www.SaveAndInvest.org/FraudCenter

(888) 295-7422
Check Professional Registration

FINRA BrokerCheck Results

888-295-7422

Professional Designations

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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

Before You Invest, Ask and Check

SaveAndInvest.org
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