

# FIGHTING FRAUD 101

## Smart Tips for Every Investor



**FINRA**<sup>®</sup>  
Investor Education  
FOUNDATION



**Even if you have never been subjected to an investment fraudster's sales pitch, you probably know someone who has.** Following the legendary Willie Sutton principle, fraudsters tend to go "where the money is"—or where it might one day be. And that means targeting athletes, entertainers and older Americans who are nearing or already in retirement.



## THE FACE OF INVESTMENT FRAUD

Recent research has shattered the stereotype of investment fraud victims as isolated, frail and gullible. Do you know anyone who meets the following description?

- Self-reliant when it comes to making decisions
- Optimistic
- Above-average income
- College-educated
- Experienced a recent financial or health change
- Open to listening to new ideas or sales pitches

If so, you know someone who fits the profile of an investment fraudster's prime target.

## THE PSYCHOLOGY OF A SCAM

We've all heard the timeless admonition, "If it sounds too good to be true, it probably is"—great advice, but the trick is figuring out when "good" becomes "too good." There's no bright line. Investment fraudsters make their living by making sure the deals they tout appear both good and true.

**The truth is, we're all at risk.** Anyone with any money is bound to hear from a fraudster at some point. But you can help protect yourself and your family and friends by recognizing how investment fraudsters operate and by reporting suspicious sales pitches and actual scams.

They're masters of persuasion, tailoring their pitches to match the psychological profiles of their targets. They look for your Achilles' heel by asking seemingly benign questions—about your goals, dreams, interests and stats. Once they know which buttons to push, they'll bombard you with a flurry of influence tactics, which can leave even the savviest person in a haze.

## Common tactics include:

- **“Phantom Riches”**—dangling the prospect of wealth, enticing you with something you want but can’t have. “I can double your money for you.”
- **“Source Credibility”**—trying to build credibility by claiming to be a reputable authority or expert. “Believe me, as a senior vice president of XYZ Firm, I would never sell an investment that doesn’t produce.”
- **“Social Consensus”**—leading you to believe that other savvy investors have already invested. “This is how \_\_ got his start.” Or “Everyone on the team uses \_\_ to manage their money.”
- **“Reciprocity”**—making you feel obliged to return some small favor to you (like a meal or a loan) with a big favor (handing over your money). “I’ll give you a break on my commission if you buy now—half off.”
- **“Scarcity”**—creating a false sense of urgency by claiming limited supply. “There are only two units left, so I’d sign today if I were you.”



## INVESTMENT FRAUD

### Protect Yourself

If these tactics look familiar, it's because legitimate marketers use them, too. But one key difference is that real deals will still be there tomorrow. So **always** take the time to stop and think before making an investment decision. Here are three key strategies you—or anyone you know who fits the profile of a potential fraud target—can use to help distinguish good offers from bad ones:

#### 1. Reduce your exposure

Use care when people say they can link you up with a loan or extra cash at no cost—or when people who want to manage your money offer you free meals or nights out on the town. This is what the “reciprocity” tactic can look like. It helps to have a refusal script ready. Simply tell the person, “I am not interested. Thank you.” Or tell anyone who pressures you, “I never make investing decisions without first consulting my—.” Fill in the blank with whomever you choose—your parents or an investment professional, attorney or accountant.

#### 2. Look for persuasion red flags

You don't have to remember each tactic by name. Instead, notice the emotions you feel when you see persuasion in play—and promise yourself in advance that you won't make decisions about money when you're feeling those emotions.

### 3. Ask and Check

A legitimate investment professional must be properly licensed, and his or her firm must be registered with the Financial Industry Regulatory Authority (FINRA), the Securities and Exchange Commission (SEC) or a state securities regulator—depending on the type of business the firm conducts.

So, before you give out information about yourself:

#### Ask:

- Are you and your firm registered with FINRA?
- Are you registered with the SEC?
- Are you registered with a state securities regulator? Which one(s)?
- Is this investment registered with the SEC or my state securities regulator?

#### Check:

Verify the answers by checking the seller's background.

- **A broker or firm:**  
FINRA BrokerCheck  
[www.finra.org/brokercheck](http://www.finra.org/brokercheck)  
(800) 289-9999
- **An investment adviser:**  
SEC Investment Adviser  
Public Disclosure Database  
[www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)
- **Any investment seller:**  
North American Securities  
Administrators Association  
[www.nasaa.org](http://www.nasaa.org)
- **An insurance agent:**  
State Insurance Commission  
National Association of  
Insurance Commissioners  
[www.naic.org](http://www.naic.org)



## **IDENTIFY THEFT**

Identity theft occurs when someone obtains your personal information—such as your full name, Social Security number, birthday or mother’s maiden name—and uses it to take your money or to commit fraud or other crimes. ID theft is much more than an inconvenience—it can devastate your credit rating and your financial security.

### **How Does Identity Theft Occur?**

A variety of ways. Some identity thieves go online, capturing usernames and passwords through keystroke-logging software hidden in instant messages, emails or freeware. Others “phish” for sensitive information by sending phony emails that pretend to come from a legitimate financial institution but that ask for information the firm would never request through email—such as confirmation of an account number, password, credit card number or Social Security number. Still others use the old-fashioned method of “dumpster-diving” to recover discarded account statements or other records. And some simply ask their targets for the information.

## Protect Yourself

Here are some tips to help you avoid ID theft:

### Keep your personal information private

Unless you're applying for a loan, opening an account at a financial institution or dealing with your employer (or your school), do not give out your Social Security number—and avoid using it as a username, password or PIN. Keep your bank or credit card account numbers private, and do not share passwords or PINs for any financial accounts with other people.

### Avoid inviting trouble

Safeguard your computer or laptop by installing a personal firewall and up-to-date security software. Never respond to an email that asks you to reveal personal information, such as account numbers, your Social Security number and usernames, passwords or PINs.

### Stay on top of your finances

Always read your monthly account statements, and alert your bank, brokerage firm or other financial institution if you see a transaction you didn't authorize or if your statement doesn't arrive. Check your credit report for free each year using **AnnualCreditReport.com**. And be sure to store financial records in a safe place, and shred—never simply toss out—documents containing sensitive information.

## IF YOU SUSPECT A PROBLEM

If you think that your personal information has been stolen, immediately contact your bank, brokerage firm and other financial institutions, including credit card issuers, to notify them of the problem. And be sure to change your username and password or PIN for the account. For more tips, visit **[www.finra.org/investors](http://www.finra.org/investors)**.



## WHO WE ARE

The **FINRA Investor Education Foundation** helps Americans build financial stability, invest for life goals and guard against financial fraud and exploitation. **FINRA** is a not-for-profit organization dedicated to investor protection and market integrity. It regulates one critical part of the securities industry—brokerage firms doing business with the public in the United States. The FINRA Foundation, NFL Player Engagement and NFL Security have joined forces to give you and your family information and tools to make smart investing decisions and to spot and avoid fraud.

FINRA and the FINRA Investor Education Foundation do not sell investment products, promote products or firms or offer specific investment advice.

### **Educational Tools**

The FINRA Foundation, NFL Player Engagement and NFL Security have joined forces to give you and your family information and tools to spot and avoid investment fraud. Visit **[www.finrafoundation.org/nfl](http://www.finrafoundation.org/nfl)** for:

- Fraud Prevention Tools
- Investor Alerts
- Smart Investing Series
- Fund Analyzer
- Financial Calculators
- Understanding Professional Designations

## **IF A PROBLEM OCCURS**

If you believe you have been defrauded or treated unfairly—or if you suspect that someone you know has been taken in by a scam—be sure to send a written complaint to a securities regulator.

### **Here's where you can turn for help:**

#### **FINRA Complaints and Tips**

9509 Key West Avenue

Rockville, MD 20850

Investor Help Line: (202) 728-6964

Fax: (866) 397-3290

[www.finra.org/complaint](http://www.finra.org/complaint)

[www.finra.org/fileatip](http://www.finra.org/fileatip)

#### **SEC Office of Investor Education and Advocacy**

100 F Street, NE

Washington, DC 20549-0213

Phone: (800) SEC-0330

Fax: (202) 772-9295

[www.sec.gov/complaint.shtml](http://www.sec.gov/complaint.shtml)

Email a tip: [enforcement@sec.gov](mailto:enforcement@sec.gov)

#### **North American Securities Administrators Association**

750 First Street, NE, Suite 1140

Washington, DC 20002

Phone: (202) 737-0900

Fax: (202) 783-3571

[www.nasaa.org](http://www.nasaa.org)

### **The NFL can also help:**

#### **NFL Player Engagement**

Phone: (855) 4PE-2472

#### **NFL Security**

Phone: (800) 635-1099



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