FINRA Investor Education FOUNDATION

LARA LICENSING AND REGULATORY AFFAIRS

Fighting Fraud 101

Smart Tips for Investors

Who We Are

FINRA is a not-for-profit organization dedicated to investor protection and market integrity. The FINRA Investor Education Foundation (FINRA Foundation) supports innovative research and educational projects that give underserved Americans the knowledge, skills, and tools to make sound financial decisions throughout life. FINRA and the FINRA Foundation do not sell investment products, promote products or firms, or offer specific investment advice.

The FINRA Foundation 's Investor Protection Campaign is a targeted, research-based effort to reduce the incidence of investment fraud among investors by teaching the tactics most commonly used by fraudsters and the simple steps every investor can take to reduce their risk. To learn more about the work of the FINRA Foundation, visit ***FINRAFoundation.org***.

The U.S. Securities and Exchange Commission's Office of Investor Education and Advocacy has reviewed this publication. The SEC does not endorse any particular investment product, service, profession, professional or brokerage firm.

The Face of Investment Fraud

Even if you have never been subjected to an investment fraudster's sales pitch, you probably know someone who has.

Research has shattered the stereotypes 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 financial knowledge

Above-average income

College-educated

Open to listening to new ideas or sales pitches

If so, then you know someone who fits the profile of an investment fraudster's prime target. The truth is, we're all at risk. But you can help protect your family and friends by recognizing how investment fraudsters operate and by reporting suspicious sales pitches and actual scams.

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.

Fraudsters look for your Achilles' heel. By asking seemingly benign questions—about your health, family, political views, hobbies or prior employers—they know which buttons to push. Then, they will bombard you with a flurry of persuasion tactics, which can leave even the savviest person in a haze.

Fraudsters—who spend their "careers" developing schemes to defraud victims—are continually creating new, innovative scams. Knowing the exact scam is not as important as understanding the types of persuasion tactics that are applied across many different schemes. Learning to recognize these tactics can help you avoid being a victim.

Common tactics include:

The "Phantom Riches" Tactic – dangling the prospect of wealth, or of risk-free, guaranteed investments—which, in reality, don't exist. "These gas wells are guaranteed to produce $6,800 month in income."

The "Source Credibility" Tactic – trying to build credibility by claiming to be with a reputable firm, or to have special credentials or experience. "Believe me, as a senior vice president of XYZ Firm, I would never sell an investment that doesn't produce."

The "Social Consensus" Tactic – leading you to believe that other savvy investors have already invested. "This is how Warren Buffet got his start. I know it's a lot of money, but I'm in—and so is my mom and half of her church—and it's worth every dime."

The "Reciprocity" Tactic – offering to do a small favor for you in return for a big favor. "I'll give you a break on my commission if you buy now."

The "Scarcity" Tactic – creating a false sense of urgency by claiming limited supply, limited time or exclusivity. "There are only two units left, so I'd sign today if I were you. Only a few select investors are being brought in on this deal."

Protect Yourself

If these tactics look familiar, it's because legitimate marketers use them, too. Here are three key strategies to help distinguish good offers from bad ones:

Decide now to decide later—Good investments will be there tomorrow. Don't be pressured into making immediate decisions. Develop a refusal script, then practice saying "No." Say "I never make investing decisions without first consulting my___. I'll contact you if I'm still interested." Fill in the blank with whomever you choose. Or, simply tell the person "I'm not interested. Thank you." Knowing your exit strategy in advance makes it easier to leave the conversation, particularly if the pressure starts increasing.

Better yet, refuse to engage from the outset, especially if the pitch comes over the Internet or via an unsolicited telephone call. Let the call go to voicemail. Do not respond to or click on links in unsolicited emails from unknown senders.

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

Before you invest, ask and check.

Ask:

- Are you and your firm registered with FINRA? The SEC? A state securities regulator?
- Is this investment registered with the SEC or my state securities regulator?
- How can I verify this information with a neutral third party?

Check:

Verify the answers by checking the seller's background. Use **FINRA's BrokerCheck**, a free online tool that can help you research the backgrounds of investment professionals and firms. BrokerCheck can tell you if an individual or firm is registered, provide an overview of an individual's work history and the firm's history. BrokerCheck also provides other important information such as regulatory actions, criminal convictions, and customer complaints involving the investment professional or firm. Using BrokerCheck is easy, visit *brokercheck.finra.org* or call (800) 289-9999.

Check out the investment and confirm what the salesperson tells you using the SEC's EDGAR database of company filings: **SEC's EDGAR Database**
www.sec.gov/edgar.shtml

Contact your state securities regulator to find out what they know about the company: **North American Securities Administrators Association**
www.nasaa.org

Talk to someone first

Be extremely skeptical if the person promoting the deal says, "Don't tell anyone else about this special deal!" A legitimate investment professional won't ask you to keep secrets.

Even if the seller and the investment are registered, it's always a good idea to discuss these sorts of decisions with family or a trusted financial professional that is not connected to the offer.

See the "Resources" panel at the back of this brochure for contact information and a list of other helpful resources.

Are you a senior investor with questions about your brokerage account statement or an investment in a brokerage account? FINRA offers a toll-free number that senior investors can call to get assistance from FINRA or raise concerns about issues with brokerage accounts and investments. Call the **FINRA Securities Helpline for Seniors®** at 844-57-HELPS (844-574-3577) or learn more at ***www.finra.org/seniorhelpline***.

Take Your Name Off Solicitation Lists

One easy step you can take to reduce the number of sales pitches you receive is to take your name off of telemarketing and junk mail lists.

The answer to "How did they get my name?" is fairly simple: local phone listings, public real estate records, tax assessments on personal property, donations to political or charitable organizations, club rosters, and a host of other sources. Online advertisers use "cookies," which are small data files that track information about you. Here's how to cut the clutter:

Telemarketing Calls
www.donotcall.gov
(888) 382-1222

Direct Mail and Email Offers
www.dmachoice.org

Credit Card Offers
www.optoutprescreen.com
(888) 567-8688

Online Cookie Collecting
www.networkadvertising.org

Most legitimate businesses—including securities firms—will honor your request. So, if you receive a solicitation after taking the steps above, you should be all the more skeptical of the offer. Internet-powered phone systems have made it cheap and easy for scammers to make illegal sales "robocalls" from anywhere in the world. It also lets them hide from law enforcement by displaying fake caller ID information.

Contact your telephone service provider to see if they offer a call-blocking service or consider purchasing an app or device to intersect these calls.

Resources

Before you invest, ask and check. Use these helpful resources for more information about:

A Broker or Firm:
FINRA BrokerCheck
www.brokercheck.finra.org
(800) 289-9999

An Investment Adviser or an Investment:
SEC's Public Disclosure Database and EDGAR Database
www.investor.gov
(800) SEC-0330

State-Specific Information on a Broker-Dealer, Investment Adviser, or Investment:
North American Securities Administrators Association
www.nasaa.org
(202) 737-0900

An Insurance Agent:
National Association of Insurance Commissioners
www.naic.org
(866) 470-6242

A Commodities/Futures/Foreign Exchange Dealer:
National Futures Association—BASIC Check
www.nfa.futures.org/basicnet
(800) 621-3570

Be a Fraud Fighter and help others learn to spot and avoid fraud. Find helpful tools and information at *www.FINRA.org/Investors*.

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
Fax: (866) 397-3290
www.finra.org/complaint
www.finra.org/fileatip

FINRA Securities Helpline for Seniors®
Toll-Free: (844) 574-3577
Monday – Friday, 9 a.m. – 5 p.m. Eastern Time
www.finra.org/seniorhelpline

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

State of Michigan, Corporations Securities and Commercial Licensing (CSCL)
P. O. Box 30018, Lansing MI 48909
Overnight Mail (FedEx/UPS), 2407
N. Grand River Ave, Lansing, MI 48906
(517) 241-1484
www.michigan.gov/cscl

Other State Securities Regulator
North American Securities Administrators Association
Phone: (202) 737-0900
www.nasaa.org

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