NASAA Investor Bulletin

Social Isolation and the Risk of Investment Fraud

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FINRA, the North American Securities Administrators Association (NASAA), the staff of the SEC's Office of Investor Education and Advocacy, NFA and the Commodity Futures Trading Commission's Office of Customer Education and Outreach are updating this investor article to continue raising awareness of the devastating impact social isolation can have on senior investors and offer tips that can help.

Social isolation, whether voluntary or involuntary, has long been a leading factor contributing to the financial exploitation of older investors. While financial abuse can happen at any time, perpetrators often strike during times in a senior's life when they might be more vulnerable, such as during a health crisis or after the death of a loved one. Scammers often gather personal details from obituaries and social media posts and use this information to target their victims. Some also might attempt to exploit trust within seniors' social and support groups to become more involved in their lives.

Social Isolation and Fraud

- Social isolation and diminishing cognitive capacity can combine to affect the judgment and decision-making capacity of senior investors, which can in turn make them more vulnerable to financial abuse.

- Sadly, fraud victimization seems to go hand in hand with social isolation—whether involuntary or voluntary. People who don't have, or don't choose, anyone to discuss an investment proposal with might be more receptive to outreach from scammers. Common scams can range from pump and dump and Ponzi schemes to identity theft.

- When older adults and others are socially isolated, they increasingly turn to the internet for social interaction and also more frequently rely on online services for shopping, banking, and the initiation of electronic payments that might in the past have been paid in person. Research has found that people who are contacted by scammers through social media or through a pop-up message on a website are more likely to engage with the scammer and lose more money than those who are targeted by phone or email.

- Loneliness also leads some to look for companionship—or even just conversation—online. As a result, relationship investment scams have become increasingly pervasive because scammers can easily mask their deceptive intentions online. They often try to build trust through initial interactions, then convert the conversations to investment opportunities or other financial topics.

How to Protect Yourself From Investment Fraud

- ***Ask for input from others.*** Scammers try to isolate their victims. Don't be afraid to contact a friend or a company or organization you trust for advice.

- ***Do additional research before sending any money.*** One easy action: Do an online search to see if the website or pitch has been flagged as fraudulent or potentially fraudulent by news organizations or members of the public. Make sure you understand the investment, the risk attached, and the company's history.

To learn more, contact the Department of Licensing and Regulatory Affairs (LARA), Corporations Securities & Commercial Licensing Bureau (CSCL)
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- ***Focus on your financial health and literacy.*** Individuals under financial strain and those with lower levels of financial literacy might be more susceptible to scammers.

- ***Knowledge is power.*** Knowing about scams and scammer tactics can be your best defense in successfully reducing their impact. Keep up with the latest frauds by subscribing to consumer newsletters and seeking out information on current scams. Fraudsters rely on the fact that many people simply don't bother to investigate before they invest. Take the time to do your own independent research and talk to friends and family first before investing.

- ***Never be afraid to complain.*** If you suspect fraud or a questionable practice and the explanations that you receive aren't satisfactory, don't let embarrassment or concern that you'll be judged incapable of handling your own affairs prevent you from filing a complaint with the SEC, FINRA, NFA or your state securities regulator.

Red Flags of Fraud

- ***Unregistered and Unlicensed Sellers.*** Always check whether the person offering to sell you an investment is currently registered and/or licensed, **even if you know them personally**. Unregistered and unlicensed persons commit many of the frauds that target older investors. Also watch for signs of impersonation schemes in which scammers pose as an actual investment professional at a registered firm. Researching the background of the individuals and firms selling you investments, including their registration/license status and disciplinary history, is easy and free. You can verify the status of investment professionals and find out whether they have a history of customer harm by contacting your state securities regulator or using tools available for free from the SEC, FINRA and NFA.

  - **SEC's Office of Investor Education and Advocacy** – Call (800) 732-0330 directly to get help researching the person and firm selling you an investment

  - **FINRA's Securities Helpline for Seniors®** - Call 844-57-HELPS (844-574-3577) toll free, Monday through Friday, 9 a.m. – 5 p.m. Eastern Time to ask questions or raise concerns about issues with brokerage accounts and investments.

  - **NFA's Information Center** – Call (312) 781-1410 or (800) 621-3570 (Monday – Friday, 8:00 a.m. – 5:00 p.m. Central Time) to reach representatives available to help answer investor questions.

- ***Promises of High Returns With Little or No Risk.*** The promise of a high rate of return, with little or no risk, is a classic warning sign of investment fraud. Every investment carries some degree of risk, and the potential for greater returns usually comes with greater risk. Avoid putting money into "can't miss" investment opportunities or those promising "guaranteed returns."

- ***Pressure to Buy Quickly.*** No reputable investment professional should push you to make an immediate decision about an investment or tell you that you must "act now." If someone pressures you to decide on an investment without giving you time to do your research, walk away.

- ***Red Flags in the Financial Professional's Background.*** Even if an investment professional is in good standing with their regulators, you should be aware of potential red flags in the professional's background. SEC, FINRA, NFA and state securities regulator records can be used to identify red flags for potential problems, including: (1) employment at firms that have been expelled from FINRA membership; (2) personal bankruptcy; (3) termination; (4) being subject to internal review by an employer; (5) a high number of customer complaints; (6) failed industry qualification examinations; (7) federal tax liens; and (8) repeatedly moving firms.

Common Warning Signs of Senior Exploitation

Senior financial exploitation can be difficult to identify or recognize. Watch for warning signs among the older adults you know, including:

- Family members or others who maneuver themselves into a

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senior's life to act like "family" to extract money for loans or expenses;

- a new and overly protective friend or caregiver;
- surrendering of passwords to financial accounts or control of finances to a new friend or partner;
- fear or sudden change in feelings about somebody;
- a lack of knowledge about financial status or new reluctance to discuss financial matters;
- sudden or unexplained changes in spending habits, a will, trust or beneficiary designations;
- unexplained checks made out to cash, unexplained loans, or unexplained disappearance of assets (cash, valuables, securities, etc.);
- suspicious signatures on the senior's checks or other documents.

How to Help Protect the Seniors in Your Life

Social isolation increases vulnerability to financial exploitation and fraud. It's important to keep seniors socially and mentally engaged, especially if they're physically limited.

- ***Contact.*** Be sure to keep in touch with older family members, friends and neighbors. Call or visit regularly. If they have the technology, send them a text or email, or connect through video conferencing. Contact is key to letting your loved ones know you're thinking of them and that they are not alone.
- ***Inform.*** Let your older family members know fraudsters and scammers have found many ways to exploit seniors. Make them aware of the red flags of fraud and common scams, which remain consistent over time. Send them updates on current scams targeting older people.
- ***Act.*** Individuals who suspect of possible investment fraud or financial exploitation should contact their state securities regulators, local Adult Protective Services agencies, FINRA or the SEC. Financial and investment professionals also are encouraged to contact their state securities regulator to request a Senior$afe presentation on how to spot and report suspected senior financial exploitation.

Additional Resources

Use these additional resources to learn more about social isolation and senior investor protection:

- NASAA: Guarding the Guardians: The Red Flags of Guardian Financial Abuse (https://www.nasaa.org/serveourseniors/investor-resources/red-flags-guardian-financial-abuse/)
- NASAA: 10 Tips to Protect Your Nest Egg (https://www.nasaa.org/serveourseniors/investor-resources/how-to-protect-your-nestegg/)
- SEC: Older Investors (https://www.investor.gov/additional-resources/information/older-investors)
- SEC: Spotting and Reporting Investment Scams Targeting Older Investors (https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-alerts/spotting-and-reporting-investment-scams-targeting-older-investors)
- FINRA: Protecting Seniors From Financial Exploitation (https://www.finra.org/investors/insights/senior-financial-exploitation)
- FINRA: Three Resources for Senior Investors (https://www.finra.org/investors/insights/three-resources-for-senior-investors)
- CFTC: How to Identify and Talk About Elder Fraud (https://www.cftc.gov/LearnAndProtect/AdvisoriesAndArticles/ElderFraud.htm)
- CFTC: Isolated? Don't Make Snap Investment Decisions (https://www.cftc.gov/LearnAndProtect/AdvisoriesAndArticles/isolated.html)
- CFTC: Relationship Cons, Recovery Scams, & Money Laundering (https://www.cftc.gov/LearnAndProtect/AdvisoriesAndArticles/Fraudin3Acts.html)
- Michigan Department of Health& Human Services, Adult Protective Services Phone: (855) 444-3911 I MHHS website (https://www.michigan.gov/mdhhs/adult-child-serv/abuse-neglect/adult-ps)

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