Be Fraud Alert: Protecting Yourself Against Fraud

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Finance Program Coordinator
What is Fraud?

Dishonest or hurtful actions designed to take advantage of someone.

Fraud can happen with money, property, jobs, or investments.
The Costs of Fraud

► $50 billion per year is lost to fraud, but that’s not the whole story.

► There is an emotional side of fraud that is not often talked about.
WHO IS AT RISK?
Who is at Risk?

Victims of investment fraud have which of these characteristics?

1) Female
2) No college education
3) Below average financial literacy
4) Live alone
5) None of the above
“Even Professional Investors May Not Spot a Fraud.”
https://youtu.be/lI5Mkvl3oE
Who is at Risk?

Anyone can be a victim of fraud.

Victims of investment fraud are most often male, financially literate, college educated, and approaching or in retirement.

Lottery fraud victims are more typically single, older consumers and those who have lower levels of education and income.
Common Factors of Fraud Victims

- Own high-risk investments
- Unable to spot persuasion tactics
- Rely on friends, family for financial advice
- Fail to check broker backgrounds and open to new investment information.
RECOGNIZING FRAUD
Warning Signs

Guarantees or Promises, Pushy Salespeople

- Missing documentation, account errors or discrepancies
- Complicated strategies
- Returns that are too good to be true
- Unregistered or unlicensed products
- Products that aren’t real
Resistance to Influence – Spotting Persuasion

**Phantom Riches**
Dangling the prospect of wealth, enticing you with something you want but can’t have.

**Source Credibility**
Trying to build credibility by claiming to be with a reputable firm or to have a special credential or experience.

**Social Consensus**
Leading you to believe that other savvy investors have already invested.

**Reciprocity**
Offering to do a small favor for you in return for a big favor.

**Scarcity**
Creating a false sense of urgency by claiming limited supply.
Practice Spotting Persuasion
“Smart Shopping Network”
https://youtu.be/L02eELIlppKo
TYPES OF FRAUD OR SCAMS
Types of Fraud - Pyramid Schemes

- Promises of high returns really quick.
- Complex commission structure
- Focus on recruiting - Your income is based on how many people you sign up.
- Falls apart when it is too hard to find new recruits.
- Common products: Health drinks, vitamins, health bars, anti-aging creams and lotions, cleaning products.
Types of Fraud - Pyramid Schemes

Level 1: 6 people
Level 2: 36 people
Level 3: 216 people
Level 4: 1,296 people
Level 5: 7,776 people
Types of Fraud - Ponzi Schemes

What is it?
- Person creating the scheme promises a high rate of return, but does not invest the money.
- Pays existing investors with money from new investors.
- Must have a constant cash flow to survive.

Warning Signs
- High returns with little risks.
- “Guaranteed” to make money.
- The return or money you earn always seems to go up.
- Unlicensed sellers and unregistered investments.
- No paperwork.
- Secretive, complex strategies.
Types of Fraud - Ponzi Schemes

1. The hub promises high financial returns to new investors that aren’t available through traditional investments.

2. Then, the hub collects money from additional new investors.

3. Instead of investing the money, the hub pays so-called “returns” to earlier investors from the new investors’ money.

4. The fraud perpetuates itself as long as the hub finds new investors.
Types of Fraud: Pump-and-Dump

- Con artist encourages someone to invest in a stock that doesn't cost very much.
- Due to the increased interest in the stock, the price goes up.
- Con artist will sell their stocks at the higher price, making money.
- After the con artist dumps their stock, they stop promotion, and the price falls.
Types of Fraud - Advance Fee Fraud

Offer to pay you a high price for stock you already own that has lost a lot of money.

They offer to make the deal if you send them a fee in advance.

The fraudster will take your fee and disappear.

Take advantage of a previously bad financial decision you made.
Types of Fraud - Offshore Scams

Difficult for U.S. law enforcement to regulate.

BEWARE OF SENDING MONEY TO UNKNOWN PEOPLE

Natural Disaster Relief Scams, Royalty Scams
Affinity Fraud

When a con artist takes advantage of a common characteristic to convince potential investors that they can be trusted.

People feel guilty or hesitate to turn in the con artist because they “trusted” them.

Many times the con artist will use respected leaders in the community to convince others to help them.
Recent Headlines for Affinity Schemes

SEC Halts Pyramid Scheme Targeting Dominican and Brazilian Immigrants.

SEC Charges Operators of Pyramid Scheme Targeting Asian and Latino Communities.

SEC Charges Ponzi Scheme Promoter Targeting African-American Churchgoers.
Credit Card Fraud

Obtain your credit card number to make purchases.

May open additional accounts under your name.

Stop Credit Cards Offers from coming in the mail: www.optoutprescreen.com
Other Ways People Try and Commit Fraud

- Pretend to be companies or government offices
- Emails and Phone Calls
  Do not give out your personal info
- The IRS and Bank will never call asking for your personal information over the phone.
Spotting a Scam

Dear Visa customer,

This email is to inform you of a recent update we made to our systems, To avoid service interruption we require that you confirm your account as soon as possible.

Please take a moment to confirm your account by going to the following address:

http://visa-secure.com/personal/secure_with_visa/

Follow these steps:

1: Confirm your account by clicking the link above.
2: Verify your visa card information.
3: Your account will then be updated, you may continue using your visa without any in

*** Please note: If you FAIL to update your visa card, it will be temporarily disabled.

We apologize for any inconvenience this may cause. The visa team is working hard to bring you the best services on the web.

STATEMENT URGING IMMEDIATE ACTION

POSSIBLE DISGUISE FOR WWW.VISA.COM

GENERIC SALUTATION

UNPROFESSIONAL MANNER

USE OF A TRUSTED COMPANY LOGO
How to Protect Yourself and Use Available Resources
What If You Are a Victim of Fraud

• FINRA
  – www.finra.org

• Contact the Securities and Exchange Complaint Center

• Contact your State’s Securities Administrator and Attorney General’s Office.
Before you Invest...

• Verify the licenses of the investment advisor.
• Ignore them when they tell you “everyone is investing.”
• Take your time. Refuse to be rushed.
• Never feel obligated. Do not feel guilt for the free dinner or meal they are giving you.
Protecting Sensitive Information

• Do not use your debit card online.
• Do not carry your Social Security Card in your purse or wallet.
• Do not save your Social Security Numbers or passwords in your phone.
• Lock up your important papers.
  • Social Security, I-9 forms, VISAs, Passports, Marriage License.
What Does it Mean to Ask/Check?

Ask and Check

U.S. securities laws require brokers, investment advisers and their firms to be licensed or registered—with FINRA, the Securities and Exchange Commission or a state securities regulator, depending on the type of business the firm conducts—and to make important information public. In addition, with very few exceptions, companies must register their securities with the SEC before they can sell shares to the public.

It’s up to you to find that information and use it to protect your investment dollars. Regardless of your trust or ties, or prior dealings with the professional, do your homework.

Before she had the opportunity to present her investment opportunity to her network, she had to be sure the seller was someone she could trust. Here are some steps you can take to check out the seller:

**To check out the seller:**

- **Ask:** Are you and your firm registered with FINRA? The SEC? A state securities regulator? If so, which one(s)?
- **Check:** Use FINRA BrokerCheck for access to the registration information for both FINRA- and SEC-registered investment professionals. Also, be sure to call your state securities regulator. This will give you information on the individual’s employment history, qualifications, disclosure events and more. See FINRA for more on where and how to check.

**To check out the investment:**

- **Ask:** Is this investment registered with the SEC or with my state securities regulator? If not, why not?
- **Check:** Researching investments is part of an investor’s due diligence. Lack of registration could be a red flag, as scams often involve unregistered investments. See the SEC’s tips for researching investments to confirm what the salesperson tells you. Also call your state securities regulator to find out what they know about the investment.

www.SaveAndInvest.org
Know What To Say

View The Wrong Way and the Right Way in “Hang Up on Investment Fraud.”

https://youtu.be/9PtCxXTUhJg
Check Professional - BrokerCheck

FINRA Foundation
FINRA gives an additional $50M to improve financial capability in the U.S.

Learn More

For Industry Professionals »
Access the information, training and other resources you need to comply with FINRA rules and regulations.

- Oversight
- Rules and Guidance
- Registration and Qualification
- Regulatory Filing and Reporting
- Education and Training

For Investors »
Learn how to invest, build your financial knowledge and protect your investments from fraud.

$ Prepare to Invest

Products & Professionals

Protect Your Money

Have a Problem?

Tools and Calculators

NEWS & EVENTS

MARCH 16, 2015
FINRA Launches Redesigned finra.org Website

MARCH 12, 2015
FINRA Sanctions Brookville Capital Partners $1.5 Million and Bars President Anthony Lodato for Fraud

MARCH 9, 2015
FINRA Foundation Research Reveals Fraud Victims Vulnerable to Severe Stress, Anxiety and Depression

SEE ALL NEWS & EVENTS »

FINRA AT A GLANCE

WE ARE FINRA

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Check Professional - BrokerCheck

- Registered?
- Problems?
- Experience?
- Licenses?
# Understanding Designations

**What is it?**

<table>
<thead>
<tr>
<th>Designation Essentials</th>
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</thead>
<tbody>
<tr>
<td>Designation Status</td>
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<tr>
<td>Designation</td>
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</table>

**What’s required?**

<table>
<thead>
<tr>
<th>Qualification and Educational Requirements</th>
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<tbody>
<tr>
<td>Required Prerequisites</td>
</tr>
<tr>
<td>Required Education</td>
</tr>
<tr>
<td>Exam Type</td>
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<tr>
<td>Required Experience</td>
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</table>

**How does it work?**

<table>
<thead>
<tr>
<th>Verification and Complaints</th>
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<tbody>
<tr>
<td>Investor Complaint Process</td>
</tr>
<tr>
<td>Public Disciplinary Process</td>
</tr>
<tr>
<td>Professional Online Status URL</td>
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<tr>
<td>Accredited By</td>
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*Disclaimer:
FINRA does NOT approve or endorse any professional credential or designation.*
Check the Investment - SEC

Investor.gov
U.S. Securities and Exchange Commission

Researching Investments

Researching investments is part of an investor's due diligence. Companies must provide certain information when they initially offer stocks or bonds for sale to the public. Companies and bond issuers must also must provide certain information to the public periodically. These disclosures provide

800-SEC-0330

Public Companies

How to Read a 10-K

Using EMMA - Researching Municipal Securities and 529 Plans

Shareholder Voting

Useful Tools

BrokerCheck
Investment Adviser Public Disclosure (IAPD)
Filing Date Calendar

Investment Products
Understanding Fees
Avoiding Fraud

How to Read a 10-K
How to Read an 8-K
Using EMMA - Researching Municipal Securities and 529 Plans
More on Professionals & Products

Choosing an Investment Professional

Types of Investments
Financial products—from bank products to stocks—have different risk levels. Understanding these differences is key.

Key Investing Concepts
Learn about the rate of return, asset allocation, diversification and rebalancing your portfolio, as well as the relationship between reward and risk.

Understanding the Brokerage Account Transfer Process
At times, investors transfer their securities accounts between broker-dealers. While the process generally runs smoothly for the vast majority of the thousands of accounts transferred each year, there are times when delays occur and investors pose questions.

Advanced Investing
Learn more about managing your investments, from reading your account statement to employing various investment strategies. If you day trade or have a margin account, be sure you know the accompanying risks.
FINRA Securities Helpline for Seniors

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 toll-free: 844-57-HELPS (844-574-3577)
- Monday to Friday, 9 am – 5 pm (Eastern Time)
Utah Division of Securities

For Investors

The Utah Division of Securities seeks to provide investors with the information and resources they need to make informed decisions about their investments. This includes information on the securities industry, various investment products, and common scams that investors face. The Division also provides tools and resources so that investors can research the investment opportunity being presented and the companies or individuals selling those investments.

For more information call the Division at (801) 530-6600

INVESTOR EDUCATION

- Retirement Toolbox
- What is a Security?
- Affinity Fraud
- Hedge Funds
- Ponzi Schemes
- Prime Bank & Offshore

- Ask Questions and Keep Notes

www.securities.utah.gov/investors
Protect Your Money

- Protect your money
- Access alerts and information
- Sign up for the newsletter!
- Find tools, including BrokerCheck
- Report a problem
Thank you!

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www.slcolibrary.org/smartinvesting