Investment Fraud

This program is made possible by a grant from the FINRA Investor Education Foundation through Smart Investing@your library®, a partnership with the American Library Association.
So What Is Investment Fraud?

• A deceptive practice in the stock or commodities markets that entices investors to make purchase or sale decisions on the basis of false information, frequently resulting in losses. In violation of securities laws.
• It’s a scheme or deception relating to investments that affect a person or company.
• These dishonest people provide false information, withhold key information, offer bad advise.
Who is Victimized?

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
Who’s At Risk?

Anyone *can be a victim of financial fraud*

Victim profiles vary by scam:

- 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
HOW DO THEY DO IT?

• Very persuasive
• Claim that they are credible, that they would never sell an investment that doesn’t produce.
• They tell you that other people have done it and that it’s how they got started.
• They make a deal or favor. “I’ll give you a break on my commission if you buy today.”
• Make a false sense of urgency. “Only two units left.”
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.

**Scarcity**
Creating a false sense of urgency by claiming limited supply.

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

• Promises
• Guarantees
• No risk. (Investments always have risk)
• If they tell you that the investment opportunity is confidential.
• Investment isn’t in writing.
How Can I Avoid Investment Fraud?

• Find someone you trust to help you with your finances.
• Always check into your advisor and the investments.
• Do your own research and ask for the investment prospectus. Investment prospectus is a fund overview with details on the investment.
• Ask questions.
• Take your time, don’t feel rushed.
Common Features of Scams

► Scams are creative and consistently changing
  – Disaster Relief
  – Green Energy
  – Oil & Gas
  – “Marijuana” Stocks
  – Terrorism

► New distribution channels are constantly being created
  – Seminars
  – Email & Internet
  – Direct Mail
  – Word of Mouth
  – Telephone
  – Text Messages
  – Answering Machines
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.

NEARLY 2/3 of victims reported experiencing at least one non-financial cost of fraud to a serious degree.

- Severe stress: 50%
- Anxiety: 44%
- Difficulty sleeping: 38%
- Depression: 35%
Check Professional - BrokerCheck

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

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- Products & Professionals
- Protect Your Money
- Have a Problem?
- Tools and Calculators

NEWS & EVENTS
MARCH 16, 2013
FINRA Launches Redesigned finra.org Website

MARCH 12, 2013
FINRA Sanctions Brookville Capital Partners $1.5 Million and Bars President Anthony Lodolisi for Fraud

MARCH 9, 2013
FINRA Foundation Research Reveals Fraud Victims Vulnerable to Severe Stress, Anxiety and Depression

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Check Professional - BrokerCheck

Registered?

Problems?

Experience?

Licenses?
# Understanding Designations

## What is it?

**3 Dimensional Wealth Practitioner (C3DWP)**

<table>
<thead>
<tr>
<th>Designation Essentials</th>
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<tbody>
<tr>
<td>Designation Status: No longer offered or recognized by the issuing organization.</td>
</tr>
<tr>
<td>Designation: 3 Dimensional Wealth Practitioner</td>
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</tbody>
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## What’s required?

### Qualification and Educational Requirements

<table>
<thead>
<tr>
<th>Required Prerequisites</th>
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<tbody>
<tr>
<td>Required Education:</td>
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<tr>
<td>Exam Type:</td>
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<tr>
<td>Required Experience:</td>
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</tbody>
</table>

## How does it work?

### Verification and Complaints

- Investor Complaint Process
- Public Disciplinary Process
- Professional Online Status URL
- Accredited By
More on Professionals & Products

Products & Professionals

Whether you’re just starting out or a seasoned investor, it’s smart to understand fundamental concepts such as asset allocation and how to figure return on your investment. That base will help you evaluate investment products you might encounter—and investment professionals who sell them. Once you’ve mastered the basics, move on to more advanced concepts and strategies.

Choosing an Investment Professional

Types of Investments

Financial products—from bank products to stocks—may be sold by investment professionals. Before hiring one, make sure you know:

- Their qualifications
- Their experience
- Their fee structure

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.

www.FINRA.org/Investors
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

www.securities.utah.gov/investors

- Ask Questions and Keep Notes
Protect Your Money

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

Protecting your money involves staying informed and vigilant. Use the tools offered, such as BrokerCheck, to access alerts and information. Sign up for the newsletter to receive updates. Report any issues you encounter to help others stay protected.

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What Questions Should You Ask Your Investment Advisor?

<table>
<thead>
<tr>
<th>Ask! Ask!! Ask!!!</th>
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</thead>
<tbody>
<tr>
<td>What experience do you have, especially with people in my circumstances?</td>
</tr>
<tr>
<td>Where did you go to school? What is your recent employment history?</td>
</tr>
<tr>
<td>What licenses do you hold? Are you registered with the SEC, a state, or the Financial Industry Regulatory Authority (FINRA)?</td>
</tr>
<tr>
<td>What products and services do you offer?</td>
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<tr>
<td>Can you only recommend a limited number of products or services to me? If so, why?</td>
</tr>
<tr>
<td>How are you paid for your services? What is your usual hourly rate, flat fee, or commission?</td>
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<tr>
<td>Have you ever been disciplined by any government regulator for unethical or improper conduct or been sued by a client who was not happy with the work you did?</td>
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<tr>
<td>For registered investment advisers, will you send me a copy of both parts of your Form ADV?</td>
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More Questions to Ask Your Investment Advisor...

<table>
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<tr>
<td>How will the investment make money?</td>
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<tr>
<td>How is this investment consistent with my investment goals?</td>
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<tr>
<td>What must happen for the investment to increase in value?</td>
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<tr>
<td>Can I get a copy of the investment prospectus?</td>
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<tr>
<td>What are the risks?</td>
</tr>
<tr>
<td>Where can I get more information?</td>
</tr>
<tr>
<td>How will you contact me if you want to sell a security?</td>
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<tr>
<td>Will I have an online account where I can monitor my investments?</td>
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What Should I Expect?

They should ask you your goals.

You should have the final say in the investment decision.

Discretionary authority gives the broker power to buy and sell without consulting you. Be careful with this.

Ask for documentation.

Make sure the professional is licensed and registered with your State Securities office, FINRA, and/or the SEC.
Thank you!

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