

Avoiding Investment Fraud: Signs of a Scam

It might come from someone you know, someone you're related to—or it might just be an offer you get out of the blue, by phone, in an email, or from a pop-up ad online. The investments can be tempting. But they are also risky.

Unsolicited investment offers are intended to catch your attention and look like an investment you should seriously consider. It could be an offer to get in on the ground floor of the next big box office hit, or for a complex-sounding international monetary exchange deal. Maybe it's for a variable annuity, oil lease, shopping mall deal, or even rare coins that are sure to grow in value.

Joe and Alice had known Ernest for years. But when Ernest offered Joe the chance to make guaranteed big money, at no risk at all, Joe wasn't sure. Then he heard that all their friends had already received good returns because Ernest made investing so easy. Not wanting to be left behind, Joe and Alice used more than half of their savings and wrote a check to Ernest. Sadly, before long their money disappeared.

Warning Signs

Investment scams can take many shapes—and they'll be really tempting. If it didn't sound good, you wouldn't give it a second thought! Whatever the enticing investment, scammers use specific tactics to get you hooked. Be cautious and think twice if you hear any of these phrases:

- ❖ “Your profit is guaranteed.”
- ❖ “It's an amazingly high rate of return.”
- ❖ “There's no risk.”
- ❖ “You can get in on the ground floor.” “You would be a fool to pass this by.”

- ❖ “This offer is only available today.”
- ❖ “It's a secret investment tip just for you.”
- ❖ “I'll get you the paperwork later.”
- ❖ “Just make your check out to me.”

These lines are tricks of the trade for scammers. You and the scammers know that there are no guarantees in life—especially in investing. Nevertheless, scammers use these lines and promises every day to convince unsuspecting investors to part with their money.

It's their business to convince you to invest. These lines help them do it. If you hear any lines like these, or feel pressured to invest, STOP. Take your time and check it out. A good deal (a real deal, not a scam) will still be there the next day. And, most important, remember that if an investment sounds too good to be true, it probably is.

Check Before You Invest

No matter what that “great opportunity” is—or who offers it to you—there are steps you should take before you invest your money. It doesn't matter whether the offer comes from a financial professional, your brother-in-law, a stranger on the phone, a friend, that nice young man at your church, or anyone else. Before parting with your money, your checklist is the same:

Check the product. Most investments are some form of securities that must be registered with your state securities regulator or with the Securities and Exchange Commission (SEC). You can check to see if the investment opportunity is registered by contacting your state securities regulator. If your potential investment is not properly registered, you do not want to invest.

Check the fit. Even if the product is registered,

you need to carefully consider if it is the right kind of investment for you. Are you comfortable with the level of risk, your ability to access your funds, and the length of time before you will see a return? Some investing opportunities charge excessive withdrawal penalties if you need to access your money. Other investments may be suitable for your brother-in-law but not for you.

Check the person. Is the person properly licensed in your state or with the SEC to sell this product? If not, beware. Are you dealing with a broker, a person who is licensed to buy and sell stocks, bonds and other securities, or with an investment adviser, someone who is paid to provide advice about investing in securities but is not licensed to sell them? Their license has to match the service or product they are offering. For example, an insurance agent may be properly licensed to sell insurance but cannot recommend or sell securities.

Federal or state securities laws require brokers,

investment advisers, and their firms to be licensed and registered. They are also required to make important information available to the public. It's up to you to use that information to protect your investment dollars. The good news is that this information is easy to get, and one phone call or Internet search may save you from sending money to a con artist, a bad financial professional, or a disreputable firm. Before you invest in any product or pay for any investment advice, make sure your brokers and investment adviser representatives are licensed.

Always check to see if they or their firms have had any complaints filed against them with regulators. If you do business with an unlicensed securities broker or a firm that later goes out of business, there may be no way for you to recover your money—even if an arbitrator or court rules in your favor. Once you check with your state securities regulator or the SEC, you can decide if the investment (if it really is an investment) is the right one for you.

Your To-Do List:

- ❑ Contact your state regulator. To check on an investment offer or salesperson, or to file a complaint, contact your state regulator. You can find how to contact your regulator by going to www.nasaa.org and clicking on the “Contact Your Regulator” tab.
- ❑ Ask your state regulator about your broker or investment adviser. For brokers, you can check the Central Registration Depository (CRD) for information about complaints, disciplinary actions, education and previous employment. For investment advisers, this type of information is found in their Form ADV. Because some investment advisers and their representatives are also brokers, you may want to check both the CRD and Form ADV. The Financial Industry Regulatory Authority (FINRA) maintains the CRD, but your state regulator can help you access all this information.
- ❑ Check the FINRA website. FINRA also has BrokerCheck, an online resource to check the background of your investment professional. Visit www.finra.org/BrokerCheck.
- ❑ Stay on alert. The SEC’s Office of Investor Education and Advocacy can address problems and questions you may face as an investor. At www.investor.gov, the agency posts alerts about recent investment scams.
- ❑ Get educated. NASAA maintains an investor education section, including a Senior Investor Resource Center. Visit www.nasaa.org/investor-education.
- ❑ Read more about investor protection at www.aarp.org/investmentfraud.
- ❑ Check out the AARP Free Lunch Monitor program. AARP is working with NASAA to ensure that older investors are not being pressured into purchasing fraudulent or unsuitable investments at so-called “free lunch seminars.” You can also sign up to work as a volunteer undercover lunch monitor.



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