

Millions of baby boomers who are nearing or already in retirement are the focus of much attention. Anyone with a financial product to sell wants to make you a customer. That's because you have the need and the money to invest.

Legitimate or predatory, they know you have been accumulating a sizeable retirement nest egg in your 401(k) or personal accounts. Because you are in the target market as someone with money, it's likely you'll hear from a fraudster. To be safe, you need to recognize how investment fraudsters operate.

Who's the Target?

Pretty much anyone with money to invest is at risk of being targeted for bad advice, unsuitable products, and outright scams. AARP research with actual victims of investment fraud dispels the myth that they are vulnerable, naïve, stupid, or an easy mark. Actually, people who get swept into bad investments tended to be optimistic, self-reliant, college-educated, and have above-average income and financial knowledge. They are open to listening to new ideas or sales pitches, which normally is not such a bad idea, but may lead them to bad choices when they are overly confident they can trust their hunches to spot a good deal.

Why the Target Gets Hit

If victims are so smart, why do so many fail to make the best investment choice? Whether it is an outright fraudulent investment (read the AARP's Money Matters Tip Sheet on Ponzi Schemes) or a product that is unsuitable for the individual (read AARP's Money Matters Tip Sheet on Suited For You), it can be hard to tell the good from the bad. Investment fraudsters make their living being persuasive. They are in the business of convincing you that they have the right investment for you.

AARP has listened to hundreds of hours of undercover tapes studying the techniques used by fraudulent telemarketers luring investors into their traps. According to Doug Shadel, state director for AARP

Washington and one of the study authors, the investment fraudsters tailor their pitches to match the psychological profiles of their targets. They look for your Achilles' heel by asking seemingly benign questions—about your health, family, political views, or prior employers. The longer they can keep you interested, the more they learn about how they can convince you. Once they know which buttons to push, they bombard you with a flurry of influence tactics, which can leave even the savviest person in a haze.

Here are some of the physiological weapons they use to convince you to make an investment you shouldn't make:

- **Phantom Riches:** They dangle the prospect of wealth, high returns, easy money, or something they know you want but can't have. "You're guaranteed to get all your money back with 25% interest in 90 days."
- **Source Credibility:** They build credibility by claiming to have special knowledge or credentials. "I've been in this business for 20 years and I've never seen an opportunity like this."
- **Social Consensus:** They want you to believe that many smart investors are taking advantage of this investment. "My phone has been ringing off the hook with others getting in on this chance."
- **Scarcity:** They build a sense of urgency by claiming a limited supply or limited time. "I can only hold this offer open to you today because tomorrow all the shares will be gone."
- **Reciprocity:** They promise to do something for you like cut their commission if you act now.

Take Control

Keep in mind that the persuader is trying to rush you to make a decision before you have a chance to slow down the process. You'll hear one reason after another about why you need to part with your money right now—"they are leaving on vacation," "there's only one left," "the price will go up." This is because the fraudster wants to set the hook before you have a chance to get away.

Once you put some time and space between the pitch and the purchase, you will be more likely to

think independently. You can check out the logic of the argument, verify the facts, and consult with others so you make your own decision on your own time. One of the ways to tell a legitimate offer, firm, or salesperson is how much time you are given for your decision and if you are encouraged to verify the information. For example, the fraudulent person will tell you "not to worry, you can trust me" or even "don't tell your family" while someone with a real deal will encourage you to check out their credentials, get in touch with references, and take your time to make a decision that makes you feel comfortable.

Your To-Do List:

- Watch victims tell their stories** of how they were targeted for investment fraud. Visit www.aarp.org (enter "The Lure of Money" in the Search box).
- Practice your exit lines.** Knowing how you would end a conversation makes it easier to cut short a sales pitch that is pushing you hard. Try a simple, "No, I can't make a decision today" and then hang up or walk out. The North American Securities Administrators Association (NASAA) has a list of questions you should ask any broker who calls you. Download the questions and post them by your phone, www.nasaa.org/Investor_Education/Financial_Education_Resources/1257.cfm.
- Check out the seller.** A legitimate investment salesperson must be properly licensed and his or her firm registered with FINRA, the Securities and Exchange Commission (SEC), or a state securities regulator. Where they are registered depends on the services they provide. With few exceptions, the companies must also register their securities with the SEC before they can sell any shares to the public. The definition of "securities" is broad to cover most types of investment products. Always ask, "Are you and your firm registered with FINRA, the SEC or a state securities regulator?" Then verify the answers.
 - **To check the background of a broker,**
 - use FINRA BrokerCheck at www.finra.org. 1-800-289-9999.
 - **For an investment adviser,** use the SEC's Investment Adviser Public Disclosure website at www.sec.gov/investor/brokers.htm.
 - **You can find the contact information** for your state securities regulator in the government section of your local phone book or by contacting the NASAA at www.nasaa.org/QuickLinks/ContactYourRegulator.cfm or 202-737-0900.
- Check out the product.** Always ask if the investment is registered with the SEC or the state securities regulator.
 - Use the SEC's EDGAR database of company filing at www.sec.gov/edgar.shtml to confirm what the salesperson tells you. Then call your state regulator to find out what they know about the company.
- Apply a healthy dose of skepticism.** Think about it. Why is this person calling you with this offer? Why did you get this invitation to a free investment seminar? If the deal is so good, why do you need to act today? If the offer is legitimate, why were you told not to tell anyone else about it?
- Report any problems.** If you think you have been defrauded, the target of a fraudulent investment pitch, or treated unfairly by any investment professional, report your concerns in writing to www.finra.org/investors/protectyourself/.

This and other tip sheets provide general financial information; it is not meant to substitute for, or to supersede, professional or legal advice.

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