



# PARTNERS IN CRIME PREVENTION

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## FIGHTING FRAUD 101— LEARN TO AVOID BEING VICTIMIZED

Financial fraud is a crime that often does not receive much publicity, but can take thousands of dollars from its victims. Financial fraud can come in many schemes. But, its basis is very simple, to separate the victim from his or her money without providing any service or return.

FINRA (the Financial Industry Regulatory Authority, Inc.) Education Foundation conducts financial education for investment consumers. Part of its education program is to teach older investors how to recognize fraud (although anyone of any age would benefit from this education). The FINRA education program aims to allow investors to:

1. Recognize that they are vulnerable to financial fraud.
2. Identify persuasion techniques
3. Reduce risky behaviors by asking questions and checking information.

In 2006, the Foundation conducted research into who were fraud victims. This research revealed that basic assumptions, that victims were older, financially uneducated and easily susceptible to manipulation because of diminished mental capability, were completely wrong. Victims were found to be financially sophisticated and influence techniques used by fraudsters are equally sophisticated.

In addition, incidents of fraud are grossly

under reported to law enforcement agencies. 80% of victims felt that they have been scammed but only 20% report the crime. One in five think that they made a bad investment decision.

As a result, the foundation has launched an educational campaign to teach investors how to stay away from financial fraud.

The material in this issue is based on the CD "Tricks of the Trade Outsmarting Investment Fraud" which you can obtain from the FINRA website at:

<http://www.saveandinvest.org/55Plus/index.htm>

You can find educational material about fraud prevention at:

[www.SaveAndInvest.org](http://www.SaveAndInvest.org)

Also, you can contact the Snohomish County Sheriff's Office for a live talk to your group.

Contact:

Sgt. Darrell O'Neill

[darrell.oneill@snoco.org](mailto:darrell.oneill@snoco.org)



**John Lovick, Sheriff  
Snohomish County  
Sheriff's Office**

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M/S 606  
Everett, WA 98201  
425-388-3393  
<http://sheriff.snoco.org>

## REPORT A PROBLEM

*If you believe you have been defrauded or treated unfairly by a securities professional or firm, please file a complaint with FINRA. Also, if you suspect that someone you know has been taken in by an investment scam, be sure to give FINRA a tip..*

You can go to its website to file online:

<http://www.saveandinvest.org/55Plus/Problems/index.htm>

Or you can mail or fax to:

FINRA Complaints and Tips  
9509 Key West Avenue  
Rockville, MD 20850  
Fax: (866) 397-3290

To file a complaint with the SEC, write to:

SEC Complaint Center  
100 F Street, NE  
Washington, DC 20549-0213  
Fax: (202) 772-9295  
Web site: [www.sec.gov](http://www.sec.gov)

## FIGHTING FRAUD 101- RISK

Who is at risk of falling victim to financial fraud might surprise you. Most investors are normal people not necessarily little old ladies. Typical victims:

- Age 55-65
- Male
- Financially literate
- Highly Educated
- Higher income
- Self reliant
- Own high-risk investments- such as penny stocks, promissory notes, futures, options or private investments in foreign currency
- Rely on friends, family and co-workers for advice- 70% of victims made an investment based on advice from a relative or friend
- Are open to new investment information- such as “free” investment seminars
- Fail to check the background of an investment or broker
- Have an inability to spot persuasion tactics use by fraudsters- they may be financially literate but not persuasion literate

**Risk Meter-** Go to this meter to see if you have the traits that make you vulnerable to investment fraud:

<http://apps.finra.org/meters/2/riskmeter.aspx>

### Some risky investment scams-

- **Pyramid schemes**- Fraudster claims to turn a small investment into a large profit in a short period of time. In reality, participants make money by recruiting new participants.
- **Ponzi schemes**- A central scammer collects money from new investors using the new money to pay purported returns to earlier-stage “investors.”
- **Pump and dump**- Fraudster buys shares of a low-priced stock, then spreads false information to create interest and raise the price. After a buying frenzy raises the price the fraudster dumps his shares leaving everyone with a worthless stock.
- **Advance Fee Fraud**- Scammer offers an enticing price for a worthless stock in your portfolio. To get the price you have to send him a fee. The scammer keeps the fee and does not purchase your stock.
- **Offshore Scams**- These often involve “Regulation S,” which exempts US companies from registering securities with the Securities and Exchange Commission (SEC) that are sold to foreign or “offshore” investors. Fraudsters break the rule by reselling Regulation S stocks to US investors.

## FIGHTING FRAUD 101- PERSUASION

Fraudsters use persuasion to convince you to give them money. Some of their techniques might be used by legitimate advertisers but fraudsters will look for an opening to exploit by asking seemingly benign questions about your health, family, political views, hobbies or prior employers. By getting to know your personal life, the con tugs at your emotions; getting you "under the ether" as cons call it. Fraudsters don't want you to think, they want you to decide emotionally

They apply five tactics to convince you to part with your money:

1. **Phantom Riches**– Enticing with something you want but can't have. They often claim wealth that is not there; this stock is guaranteed to give you a 15% return for years to come.
2. **Source Credibility**– They will claim to be from a reputable firm or to have special expertise.
3. **Social Consensus**– They try to convince you that everybody is doing it, so it must be good. The con might use a "singer", someone planted in the situation who vouches for the fraud.
4. **Reciprocity**– We are taught that when we receive we are obligated to give back. They will do a small favor for you and ask a big favor from you. A subliminal way to do this is to take you to dinner. While there is no stated requirement, you might feel an obligation to put your money in their investment scheme.
5. **Scarcity**– They will create a false sense of urgency by claiming limited supply. This investment is rare, it is valuable and if you don't buy now you will lose out.

**Red flags.** Some tricks a fraudster might use to watch out for include:

- **Guarantees**– Be wary of any guarantees that an investment will perform in a certain way. All investments carry some risk.
- **Unregistered products**– Many investment scams involve unlicensed fraudsters selling unregistered investments such as stocks, bonds, notes, hedge funds, etc.
- **Overly consistent returns**– Be suspicious of claims that the investment consistently goes up month to month or that it provides remarkably steady returns.
- **Complex strategies**– Stay away from any investment that is highly complex. A legitimate investment professional should be able to explain the investment clearly and simply.
- **Missing documentation**– Stocks and mutual funds should have a prospectus and bonds should have an offering circular.
- **Account discrepancies**– For any account, watch for unauthorized trades, missing funds, or other problems. This could be an indication of fraud.
- **A pushy salesperson**– Steer clear of anyone who pressures you to make a decision right away.

Scam meter:

<http://apps.finra.org/meters/2/ScamMeter.aspx>

## DEPARTMENT OF FINANCIAL INSTITUTIONS

*The Washington State Department of Financial Institutions (DFI) regulates and examines a variety of state chartered financial services. The Department also provides education and outreach to protect consumers from financial fraud. Contact DFI at:*

**1.877.RING DFI  
(746-4334)**

or by emailing [webguy@dfi.wa.gov](mailto:webguy@dfi.wa.gov)

Website:

<http://www.dfi.wa.gov/>

## FIGHTING FRAUD 101- ASK AND CHECK

Protecting yourself for fraud doesn't have to be complicated. Remember, there is no such thing as a free lunch. You have heard this before, "If it sounds too good to be true, it probably is." But to follow this advice, you need to think logically, not emotionally like a fraudster wants you to.

Some things that might help:

- Avoid high risk investments.
- Sign up for Do Not Call list (<https://www.donotcall.gov/>). This way you won't get any calls from fraudsters.
- Develop and practice a refusal script. This way you know what to say if a fraudster calls. And, say no as many times as it takes to get them off your back.
- Get a second opinion from someone independent.
- If it is complicated, if you can't explain it to yourself, run away from the offer.
- Think about what is in it for the scammer.
- **ASK** many logical questions.
- **ASK** if they are licensed and if their instrument is registered with FINRA, the SEC, or the state securities regulator.

**90% of fraud cases involve an un-licensed broker or un-registered investment**

- **CHECK**
  - For a broker or brokerage firm, FINRA Brokerage Check at [www.finra.org/brokercheck](http://www.finra.org/brokercheck) or call (800) 289-9999.
  - For an investment adviser use the SEC's Investment Adviser Public Disclosure Web site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) or call (800) SEC-0330
  - For an insurance agent, agency or company go to the Washington State Insurance Commissioner's Consumer Toolkit at <http://www.insurance.wa.gov/consumertoolkit/start.aspx>
    - The Washington State Department of Financial Institutions can also help you verify banks, credit unions, securities, mortgage brokers, loan companies, and much more at <http://www.dfi.wa.gov/consumers/findcompany.htm>

### CRIME PREVENTION COORDINATORS

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If you have questions regarding this newsletter or any articles that appear in it, please contact the editor at neighborhoodwatch@snoco.org

### TIP LINES



Snohomish County Sheriff's Office: 425-388-3845

<http://www.snoco.org/app/ssh/anonymoustips/>

Crime Stoppers of Puget Sound: 1-800-222-8477