

Avoiding Investment Fraud

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What is AARP?

- Nonprofit, nonpartisan organization
- Membership of more than 37 million
- AARP Kentucky
- <http://states.aarp.org/category/kentucky/>

What is DFI?

- Department of Financial Institutions – state regulator
 - License/Register
 - Examine
 - Investigate Complaints /Fraud
 - Provide Outreach
- Securities Division regulates investment advisers, brokers, issuers, offerings, etc.

What are securities?

- Documents/contracts that establish an investment that is expected to profit in some manner

What is securities fraud?

- Securities fraud takes many forms:
 - Fraudulent product/offering
 - Unsuitable investments for investor
 - Unlicensed adviser/broker
 - Unregistered product
 - Theft/misappropriation of funds
- Investment fraud is increasing:
 - More than 7.3 million older Americans have been victimized by a financial swindle
 - That's 1 in 5 citizens over age 65!

Investment fraud victims:

- Are more financially literate
- Are more likely to listen to sales pitches
- Are more likely to rely on their own experience and knowledge when making investment decisions
- Dramatically under-report fraud



By Bruce Halmo/The Sheboygan Press
Karen Lewis, who lost \$124,000, said the situation was partly to blame for her divorce.

Why SENIORS are victims

- Top behaviors that put those age 50+ at risk:
 - Opening and reading all junk mail
 - Attending free lunch seminars
 - Entering drawings to win a free prize
 - Inviting salespeople into the home
- Older victims more likely to do these activities
- Scams are underreported - only 25%
- Victims 55+ were significantly less likely to acknowledge and report victimization

Scam artist in action



Video clip from “MoneyTrack Season 3,” available online at <http://moneytrack.org/videos-2/top-stories/>.

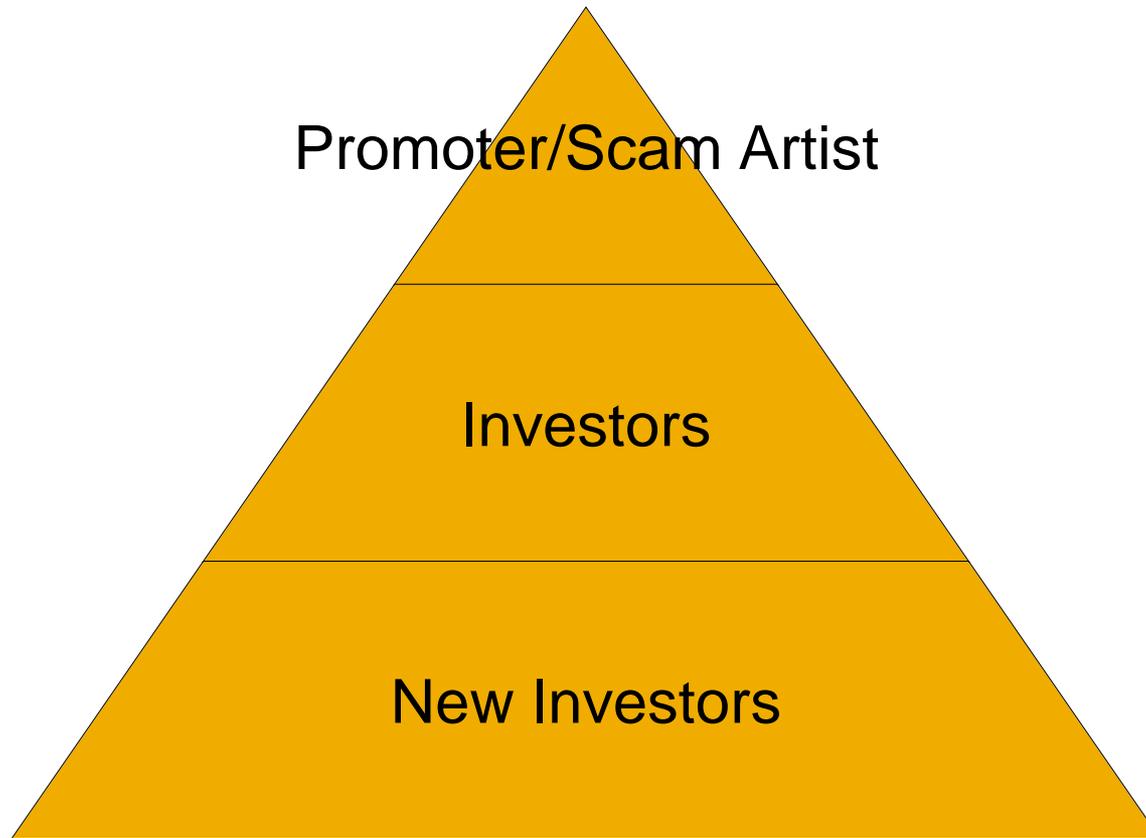
Unsuitable investments

- If an investment is unsuitable, it might mean:
 - Bad information on risks and benefits
 - A bad product for your situation
- Your investment adviser (or broker) has an obligation under state law to make sure your investments are “suitable” for you

Free-lunch seminars

- Promise of a free meal along with “high returns and little or no risk”
- In many cases it turns out to be the opposite
- Sometimes the goal is to obtain contact information for later
- Variable annuities – product often promoted

Ponzi scheme



Oil and gas scams

- Oil and gas deals are complicated investments
- Often promoted through “boiler rooms” or over the Internet
- Highly risky and often not appropriate for some investors

Other common fraud schemes

- Internet Scams/Social Networking Scams
- Unlicensed Individuals
- Unregistered Products
- Abusive Sales Practices
- Fraudulent Products

**The cons are pros –
and very convincing!**

Red flag “promises”

- High return – no risk!
- Profit guaranteed!
- For YOU only
- Today only (“limited time”)
- Make the check out to me (or “cash only”)
- I’ll get you the paperwork later
- Trust Me!

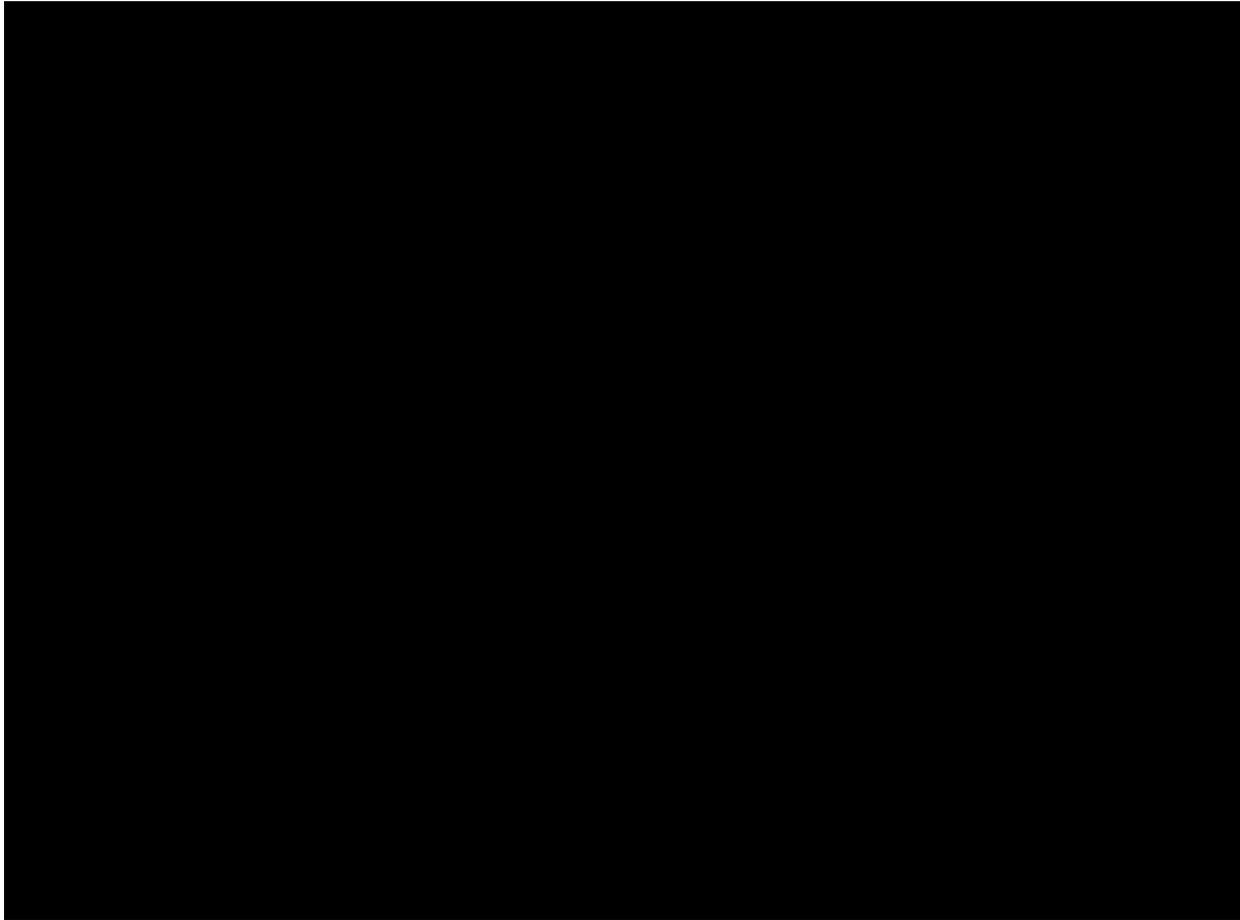
Red flag “promises”

TRUST ME!!!

Affinity fraud

- Relies on trust
- Con artists become part of a group (religious, ethnic, cultural, professional)
- Once they are accepted members, then they sell their securities (scam)
- Or they may sell to the group leader, and convince the group leader to help persuade the others to join in
- If friends/family are victim, they may recommend a false product to you

Affinity fraud



Video clip from “The Lure of Money,” as used in the DFI and AARP-produced “Buyer Beware” video available on YouTube at www.youtube.com/kydfi.

How to avoid scams – 4 easy steps

1. End calls

- Register on Do Not Call List www.donotcall.gov or 888-382-1222
- Be skeptical of unsolicited calls and emails

2. Just say NO

- Have a refusal script/plan to get off the phone
- Have a “buddy” to help get out of high-pressure situations

3. Cool off

- Take your time/wait before buying
- Don't trust testimonials & beware of investment “hot tips”

4. Check it out

- Do your homework before signing any contract
- Get it in writing & read the fine print
- Check out the source & check references
- Provide complete and accurate information
- Know your right to cancel

Planning ahead

- As retirement approaches, plan ahead
- Invest wisely
- Get help if you need it ... you're not alone!

To check it out – or report fraud

- Contact the DFI Securities Division
 - 800-223-2579
 - 502-573-3390
 - <http://kfi.ky.gov/public/Pages/invest.aspx>
- Other contacts:
 - FINRA BrokerCheck www.finra.org/brokercheck
 - SEC Investment Adviser www.adviserinfo.sec.gov
 - KY Dept. of Insurance <http://insurance.ky.gov>
 - SEC's EDGAR Database www.sec.gov/edgar.shtml