

Ask an Expert: Eight Tips to Help You Avoid Investment Fraud

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Research statistics

on the Financial Industry Regulatory Authority's (FINRA) website show that eight in 10 individuals have been solicited about potentially fraudulent investment offers. Con artists are successful because they eliminate rational behavior and prey on your emotion. Financial fraud flourishes in Utah because of the strong entrepreneurial spirit and residents' tendency to trust others. In order to avoid falling victim to a con artist, it is important to recognize common tactics and know where to go for help. (FINRA Foundation, 2016)

Common tactics of con artists include:

- **Reciprocity:** Free lunch or dinner seminars, books or gifts are often used to guilt investors into giving an investment adviser money. A free lunch is not really free if you give away your life's savings.
- **Affinity fraud:** Con artists typically take advantage of commonalities they share with unsuspecting investors. They may claim to be part of your religious group, professional organization, an alumnus of your university or have children in the same school. Be cautious when someone tries to convince you that an investment decision should be based on a similarity.
- **Source credibility:** Does the investment professional drive a very expensive car? Is he/she wearing very nice clothing or trying to impress you with credentials? Many times con artists will use their surroundings to lead an investor into believing they are credible.

- **Scarcity:** Limited time offers on land, gold, securities and commodities are designed to pressure you into making a quick decision. Be cautious of secret deals or when they tell you not to share details of the opportunity with anyone.
- **Phantom riches:** Some professionals will promise you extremely high rates of return to support a lifestyle that you dream of attaining. The average rate of return in the stock market is 10 percent; any promised return above and beyond the market average should be a red flag.
- **When in doubt, check it out.** Before you invest:
- **Check out the person:** FINRA keeps a detailed database of an investment professional's history, credentials and licensure suspensions. To investigate a prospective investment professional, go to [BrokerCheck by FINRA](#).
- **Research the professional designations:** Investment professionals can receive a number of licenses and designations. To understand licensure acronyms at the end of an investment professional's name, go to: [Investors Professional Designations](#).
- **Investigate the product:** Transparency is critical. Company filings and event reports should be available if the investment has been registered with the Securities and Exchange Commission. Search the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) database at the [SEC](#) for information on 20 million investments.

Investment fraud is very common and costs consumers \$50 billion a year. If you have been a victim of fraud, contact FINRA, the SEC or the Utah Division of Securities for help. Your experience could protect and save future investors from falling prey to fraudsters. For more information, call the Utah Division of Securities at 801-530-6600.

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