# Investment Fraud

Investment Fraud (also known as Securities Fraud) is a term that covers a wide range of illegal activities including the deception of investors or the manipulation of financial markets.

We've all heard the timeless saying "If it sounds too good to be true, it probably is." As an investor, these are good words to live by. The trick is knowing when "good" becomes "too good."

## Senior certifications and designations

A popular practice among financial services salespeople is to identify themselves by a “senior designation” to signal that they have expertise in retirement planning or the investment needs of older people.

The requirements to earn and maintain financial credentials, such as a senior designation, vary considerably. Programs of study range from weekend seminars to two-year graduate programs. The initials on a business card don’t provide information about the quality of the designation. Some designations indicate extensive knowledge in the financial needs of older consumers, while others are merely marketing tools.

While the majority of investment advisers, financial planners, and broker-dealers are honest and reputable, it pays to check on a senior designation if you are presented with one (see details on page 3). Be wary of investment scams, including the ones listed on the next page.

## Common investment scams

- **Ponzi schemes:** This is an old scam with a simple formula: Scammers promise high returns to investors. Money from new investors is used to pay previous investors. These schemes eventually collapse—leaving most of the investors with a financial loss.
- **Unscrupulous financial advisers:** Some advisers cut corners, resort to outright fraud, or bilk older adults with unexplained fees, unauthorized trades or other irregularities.
- **Affinity fraud:** A scammer pretends to be a member of a religious organization or a military or an ethnic group in order to win the trust of a member or members of the

group. Those committing affinity fraud often use symbols, language, and iconography to appear associated with a specific group in their solicitations.

- **Internet fraud – the "Dot-Con":** Using the internet, it is easy for con artists to reach millions of potential older victims at minimal cost. This form of fraud is constantly evolving. Scammers often design email and social media accounts to appear as legitimate businesses or even family members.
- **Inappropriate or fraudulent annuity sales:** Variable annuities are often pitched to seniors through "free lunch" investment seminars. These products can be unsuitable for many retirees and are sometimes sold by salespersons who fail to disclose steep sales commissions and surrender charges that impose costly fees or penalties for taking the money out before the maturity date.

## How do I check the credentials of my financial adviser?

You can check a broker's background via the Financial Industry Regulatory Authority (FINRA) BrokerCheck at **finra.org** or by calling the FINRA BrokerCheck Hotline at 1-800-289-9999.

You can check the background of a Registered Investment Advisor via the Securities and Exchange Commission (SEC) Investment Advisor Public Disclosure Database at **adviserinfo.sec.gov**. You may also contact your state securities office and Better Business Bureau to check if there have been any disciplinary actions against a licensed securities broker/dealer.

To learn more about senior certification and designations, visit FINRA at **finra.org/investors/professional-designations/accredited-designations**. Scroll to the bottom of the FINRA page to find links to other helpful resources.

Consult the CFPB consumer guide *Know Your Financial Adviser* to help you ask the right questions if you're shopping for an adviser with expertise in senior financial planning. Visit **consumerfinance.gov/blog/know-your-financial-adviser**.

## Loss prevention tips for investors

Invest wisely online and offline. Here are some important tips you should keep in mind when you are considering purchasing investment products and for protecting those investments once you have them:

- Never judge a person's trustworthiness by the sound of their voice.
- Take your time when making investment choices. Be careful of "act now" or "before it's too late" statements.
- Say "no" to anybody who tries to pressure you or rush you into an investment.
- Be wary of salespeople who prey upon your fears or promise returns that sound too good to be true, such as guaranteed high interest rates or no risk investments.
- Always ask for a written explanation of any investment opportunity and then shop around and get a second opinion.
- Be wary of any financial adviser who tells you to leave everything in his or her care.
- Stay in charge of your money or enlist the help of a trusted and capable third party to assist you.
- Make checks payable to a company or financial institution, never an individual.
- Retain and maintain account statements and confirmations you receive about your investment transaction.

- Document every conversation with financial advisers.
- Don't put all of your eggs in one basket—divide your investments among different asset categories, such as stocks, bonds, and cash held in federally insured deposit accounts.
- Take immediate action if you detect a problem. Time is critical, so do not be afraid to complain.
- Don't let embarrassment or fear stop you from reporting financial exploitation or investment fraud.

## Additional tips to keep in mind when considering investment products

- Save enough emergency money in a savings or other readily accessible federally insured deposit account to support you and your family for at least six months before investing in non-deposit products.
- Do your homework. Never invest in a product you do not understand fully.
- Attend classes, seminars, or check the business reference section of the public library to become better informed.
- Look out for marketing techniques. Many investment professionals offer "free meal seminars" as a marketing technique for obtaining new clients. Check the background of the presenter, research any recommended investment products, and get a second opinion before making the decision to invest. That "free meal seminar" can turn out to be expensive if it results in your becoming a victim of fraud.

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- Tell your financial adviser of your financial objectives and risk tolerance.

## Understanding FDIC insurance

If you select investment products offered by a bank, it is important to understand which of your investments are covered by the Federal Deposit Insurance Corporation (FDIC). The FDIC insures funds in deposit accounts at FDIC-insured institutions including:

- Checking
- Savings
- Money Market Deposit Accounts (MMDAs)
- Certificates of Deposit (CDs)

Another federal agency, the National Credit Union Administration, provides similar deposit insurance coverage to depositors at federally insured credit unions.

FDIC insurance protects depositors up to a capped amount in the event of a bank failure. It does **not** protect depositors from losses resulting from theft, fraud, or robbery.

FDIC does not insure non-deposit investment products, even if they were purchased at an insured bank, including stocks, bonds, mutual fund shares, life insurance policies, annuities and municipal securities. When you meet or talk with a sales representative about non-deposit investment products, they must tell you that the product(s) are not insured by the FDIC.

Contents of safe deposit boxes also are not protected by FDIC insurance.

By law, federal deposit insurance is backed by the full faith and credit of the federal government. If a bank fails, the FDIC will pay all insured deposits up to the insurance limit, including principal and any accrued interest through the date of the bank closing. Federal law requires that all insured deposits be paid as soon as possible.

## Insurance coverage and ownership categories

Deposit insurance coverage is based on a depositor's ability to meet the specific requirements for an ownership category. The most common account ownership categories for individual and family deposits are single accounts, joint accounts, revocable trust accounts, and certain retirement accounts.

Each ownership category has different requirements, and the potential amount of insurance coverage for each category is based on the Standard Maximum Deposit Insurance Amount (SMDIA), which is $250,000.

For additional details on the coverage limits, requirements, and in-depth information on all account ownership categories and other types of deposit accounts, visit **fdic.gov/deposit/deposits**, call toll-free 1-877-ASK-FDIC (1-877-275-3342), or talk to your bank representative.