



The Ohio
Department
of Commerce

How To SPOT “BOILER ROOM” SCAMS

Protecting Yourself Against High Pressure Sales Tactics

OHIO DEPARTMENT OF COMMERCE, DIVISION OF SECURITIES
77 South High Street Columbus, OH 43215-6131 •(800)788-1194 •(614) 644-7381
TTY/TDD: 800-750-0750

It is estimated by the North American Securities Administrators Association that unwary investors lose billions of dollars each year to investment fraud promoted over the telephone. Wireless cable scams and other high-tech schemes are among investments most recently promoted by phone. This tip sheet is designed to provide investors with self-defense tactics to fight off the promotion of investment scams by “boiler rooms,” the high-pressure phone sales operations from which sales people call to promote abusive and fraudulent deals.

How to Spot a “Boiler Room” Scam

High-pressure sales tactics.

Salespeople may make repeated calls and even become abusive, questioning, for example, the intelligence of anyone who would pass up such a “sure thing.”

Outrageous promises of extraordinarily high profits at little or no risk.

The rule is: The higher the return, the higher the risk. Listen for salespeople who claim it is possible to make extremely high (15, 20 or 30 percent) or even “guaranteed” profits without any risk of loss. Most legitimate firms will provide written materials clearly disclosing the potential for loss in an investment, as well as its short-and long-term tax implications.

A demand for an immediate decision.

Boiler room salespeople want fast action before you have a chance to develop second thoughts or consult with a professional for advice. As a result, many deals will be “gone tomorrow,” “sold out today” or have “just one of two remaining openings.”

A reluctance to provide information about the sales firm or the investment.

If a boiler room is uncovered, it may be subject to state or federal action. Therefore, some phone scam operators are not forthcoming when asked information about the sales operation and investment.

Mumbo-jumbo about “inside information” or “secret” technology.

In order to close a sale, the voice on the other end of the phone may tell you that this is a “sure thing.” A common claim is that celebrities, major corporations or banks will be investing shortly. Or the salespeople may claim that a new geological report is coming out shortly. In other cases, the claim may be that the company is using some sort of hush-hush “black box” technology that makes it possible to process gold at a fraction of the cost paid by other firms.

Delayed delivery of the product and/or profits.

This is a classic “red flag” of an investment scam. If you don’t have your investment in hand or under your control in some other location, you have nothing for your money. Beware of promises involving delays of more than a few weeks for delivery of your investment.

Unusual arrangements for collecting funds from investors.

Some con artists try to avoid mail fraud charges by using overnight courier services (Federal Express or Purolator, for example). Other phone scam operations go even further — sending a courier or cab to pick up the check. No matter what unusual collection method is used, the purpose is the same: they don’t want to give customers enough time to back out of sending money.

How To Spot “Boiler Room” Scams

What to Do If You Are Contacted by a Phone Scammer

Many investments promoted over the phone are legitimate.

The wise investor will follow these simple steps in order to be able to distinguish the “good” from the “bad” in telephone solicitations:

- When hounded by high-pressure tactics, hang up.
- Be wary of advertisements in newspapers and other publications which give little or no information other than an “800” or “888” number.
- Do not make an immediate decision. Get written information first about the firm, the salesperson and the investment.
- Do not part with your money until you seek out a professional (lawyer, accountant or broker) for advice.

- Avoid investments you do not understand. The greater your degree of ignorance, the greater is the chance that you will be swindled.
- Do not give out your credit card number over the phone to strangers.
- Contact the Ohio Department of Commerce’s Division of Securities at 1-800-788-1194 to find out if the boiler room and salesperson are licensed to do business in Ohio. If an investment is being promoted, the firm and agent must be licensed to sell in Ohio and the investment must also be registered. A call to the Better Business Bureau in the city in which the firm is located may turn up calls from investors who have been victimized.
- If you suspect that you have been contacted by a phone scammer, notify the Ohio Division of Securities of the firm and the name of the salesperson by calling the Investor Protection Hotline at 1-800-788-1194. Prompt action on your part may protect less wary investors.