



THE INFORMED INVESTOR

No. 4

HOW TO SPOT A CON ARTIST

Investing in securities is risky enough without worrying about whether your salesperson is out to fleece you. To be an informed investor, you must know what danger signs to look for. Some are subtle, and some are easier to spot.

RULE NUMBER 1: CON ARTISTS DO NOT LIKE TO BE FOUND

Con artists know that being themselves hurts business. Effective con artists must disguise their true motives. Whether your first contact with the con artist is through an unsolicited telephone call or a stranger ringing your doorbell, the con artist takes great pains to look, sound and speak like you or me. Often, con artists like to blend in with others in your group whether that group be political, community (such as the local senior center), religious or other. They quickly get to know a lot of people in the group so they can count on this common bond to spread the word about their questionable investments and reel in unsuspecting investors.

RULE NUMBER 2: CON ARTISTS DRESS FOR SUCCESS

Even though con artists would like you to believe that they are “just plain folk,” they are smart enough to realize that this alone will not sway you to part with your money. They work very hard to come across as smooth, professional and successful. Con artists may dress like they are wealthy and work out of impressive looking offices. If your only contact is by mail, the office may bear a prestigious sounding address. Often, this is nothing more than a mail drop. Your

best bet is to look behind the surface and do some serious investigating before you part with your money.

RULE NUMBER 3: CON ARTISTS OFTEN PUSH POORLY UNDERSTOOD FINANCIAL PRODUCTS

Today, a variety of institutions, from banks to brokerage firms to financial planners, offer a wide range of financial products. With such a confusing mix to choose from, it is no wonder that many people turn to financial advisers for guidance. Con artists know this and stand ready to assume full responsibility for your investment decisions. **Don't let them!** When it comes to your money, think things through for yourself after getting all the facts. Never give someone control over your purse strings just because you think you are too old, young or financially inexperienced. If you really need help, only deal with financial advisers, broker-dealers or financial institutions with a proven track record.

Con artists also appeal to the dreamer in you. Many people secretly believe that Horatio Alger's rags-to-riches story can become a reality for them—if only they get the right break. To them, investing in untested technologies and cutting edge products before anyone else does is a sure-fire way to make money. International instruments such as letters of credit supposedly issued by foreign banks may spell stability for some people. Con artists sabotage your dreams. They promise you the investment chance of a lifetime without giving you any meaningful written information on the product or the pitfalls involved.



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RULE NUMBER 4: CON ARTISTS BRING OUT THE WORST IN YOU

Skilled con artists can bring out your worst traits, particularly greed, fear, and insecurity. Fear comes into play when the con artist warns you that complaining about a failed investment to the government may result in your spoiling it for others or “rocking the boat.” Con artists try to make you feel inadequate if you don’t believe them. In addition, con artists know how to make you believe that if you lack confidence in them, this is a personal slight to their abilities. If you find yourself making investment-related decisions based only on your emotions, watch out!

RULE NUMBER 5: CON ARTISTS ARE FAIR WEATHER FRIENDS

Before you invest, con artists are very friendly. They take a personal interest in you out of the blue. They call back when they promised they would. Each time, they tell you even more good things about the investment. You may feel you’re being pressured into investing. You are. Face it. Despite his or her kind words, the con artist will do anything in his or her power to make a sale. In fact, the contacts may become so repeated that you may wish that your first contact had been your last. Too often, however, once you have invested your money, contact with the con artist dwindles and then stops altogether. If you cannot get answers to your questions following your investment, this may signal danger.

RULE NUMBER 6: FOR EVERY SILVER LINING, THERE IS A CLOUD

Every investment involves risk. But to hear the con artist explain it, the investment may be too good to be true. Trust your inner voice if you hear claims like these:

- “I just got a *hot tip* from an *inside source* that this stock will go through the roof.”
- “The *rumor* on the Street is that this deal is ready to take off.”
- “Your return is *guaranteed*. There’s no way you can lose money.”
- “Gotta get in on the ground floor *now* or you’ll be

left out in the cold. In fact, we’ll send a messenger over tomorrow to pick up your check.” (Con artists often use this device to avoid federal mail fraud charges.)

- “Where else can you earn such a *large return*? Not in CDs or in a savings account.”
- “In *just a short while*, your profits will come rolling in.”
- “This deal is so great, I invested in it myself.”
- “If this doesn’t perform as I just said, we’ll *refund your money*—no questions asked.”
- “Everyone else that invested in this did very well.”

Be especially careful if the salesperson downplays any downside or denies that risk exists. Con artists usually are not very good at answering important questions. Watch out if the salesperson becomes reluctant to provide information on the following:

- The background, educational history and work experience of the deal’s promoters, principals or general partners
- Information on whether your investment monies will be segregated from other funds available to the business
- Written information on the business’ financial condition, such as a balance sheet and bank references
- The prior track record of the business and its principals
- The salesperson’s name, where he or she is calling from, who he or she works for, his or her background and what commission or other compensation he or she will receive
- The salesperson’s connection with the venture and any affiliates

In addition, be wary if the salesperson doesn’t ask **you** questions about your past investment experience and your ability to withstand risk. Even if the salesperson does ask a few related questions, take heed if you get the sense that he or she is merely going through the motions.

RULE NUMBER 7: WATCH OUT FOR THE MAN FROM P.O.N.Z.I. (PAY-OUT NOW, ZERO IMMINENT)

No self-respecting con artist would actually admit that he or she was involved in a Ponzi scheme. The Ponzi scheme was named after Charles Ponzi, an Italian immigrant who, after being jailed in Canada for fraud, moved to Boston in the early part of this century. Ponzi solicited people to invest in International Postal Reply Coupons which could be redeemed for stamps. He promised them a 40 percent return in just 90 days. Ultimately, the authorities discovered that there were not enough coupons in circulation to support Ponzi's schemes. Ponzi was imprisoned in Massachusetts and then deported to Italy. The scheme he created, however, continues to survive in many forms.

In a typical Ponzi scheme, large returns are paid to initial investors out of the funds of later investors. Not only does this give the first investors confidence in the deal, but it motivates others to invest. Unfortunately, the later investors lose all or most of their money to the con artist. If you are promised high, guaranteed profits and given no written explanation concerning the investment vehicle, the promoter's background or the risks involved, be careful. A Ponzi scheme may be at work. Ponzi operators also tend to persuade you to "roll over" your "profits" into still another investment - so your return only ends up being on paper.

RULE NUMBER 8: STEER CLEAR OF PYRAMID SCHEMES

Pyramid schemes are a variation of the Ponzi scam. Think of a pyramid. Money is collected from people on the bottom to pay off other individuals farther up the pyramid. As more people invest, new pyramid levels are created, and your position in the pyramid rises. In theory, you would be entitled to more money. Many times, you must also buy a product to join.

However, unlike a true multi-level marketing plan, selling the product is less important than recruiting others to join the network. Ultimately, there comes a time when no new money flows in. When this happens, the pyramid collapses.

TIPS ON NOT FALLING PREY TO A CON ARTIST

Avoiding being hurt by a con artist is as easy as doing your homework—*before* you invest.

- Contact your state or provincial securities regulator to see if the investment vehicle and the person selling it are registered.
- Your state or provincial securities regulator will also be able to tell you if the salesperson has a disciplinary history, that is, whether any civil, criminal or administrative proceedings have been brought against him or her.
- Contact your local Better Business Bureau to see if any complaints have been filed against the venture's promoters or principals.
- Deal only with financial advisers, broker-dealers or financial institutions having a proven track record.
- Ask for written information on the investment product and the business. Such information, including financial data on the company and the risks involved in the investment, is contained in a prospectus. Read it carefully.
- Don't take everything you hear or read at face value. Ask questions if you don't understand, and do some sleuthing for yourself. If you need help in evaluating the investment, go to someone independent whom you can trust such as an attorney or an accountant.
- Steer clear of investments touted with no downside or risk.