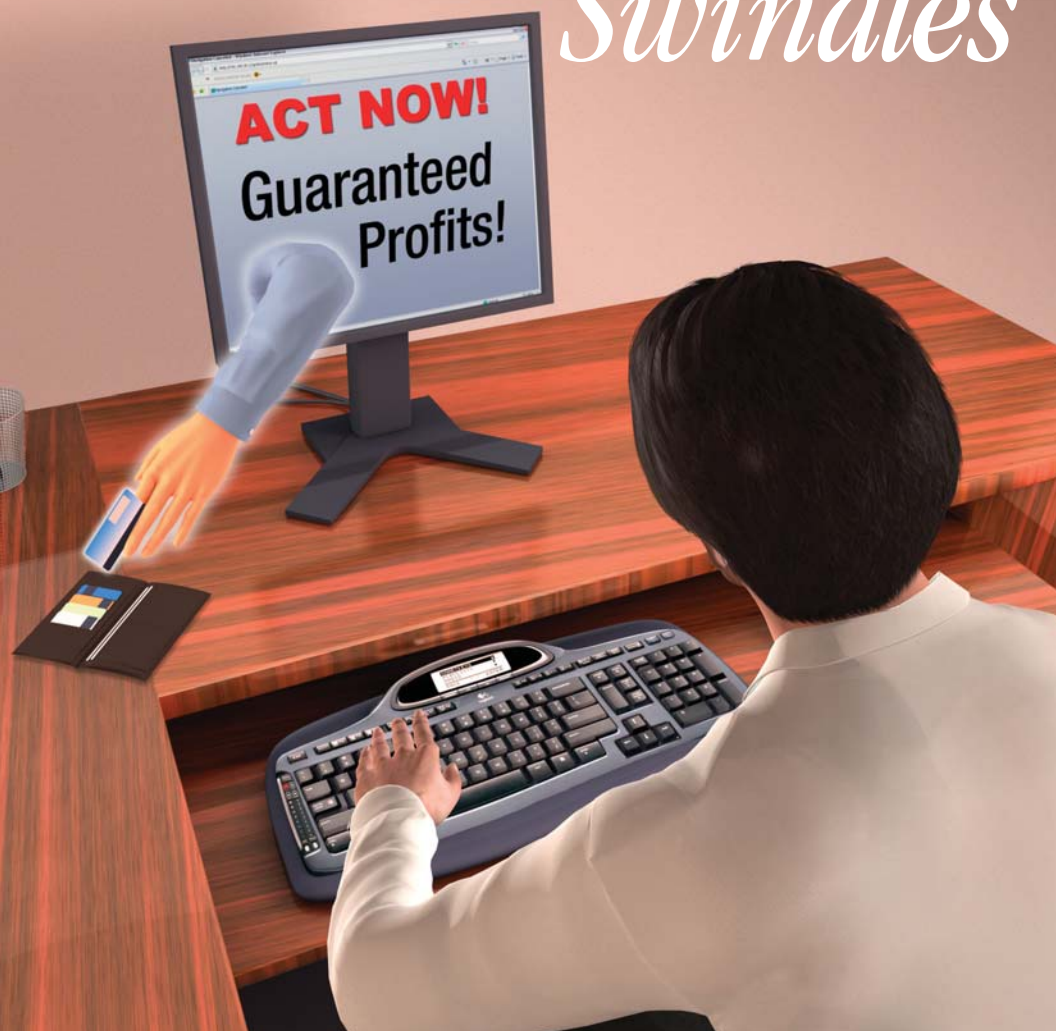


Scams AND *Swindles*



An Educational Guide to
Avoiding
Investment Fraud



Scams AND *Swindles*

An Educational Guide to
Avoiding Investment Fraud



*“Double your money in six months
with absolutely no risk!”*

*“You must act now
because this incredible
opportunity won’t last long!”*

*“We guarantee you will see
big profits!”*

Investment pitches come at us from a variety of sources. Some arrive by telephone in the form of a telemarketer. Some arrive in your e-mail inbox. Some appear in an advertisement in your newspaper or favorite magazine. Still others enter your living room late at night through your television in the form of an “infomercial.” And some even come from a co-worker, friend or neighbor.

But no matter how you hear or read about these investment opportunities, be very careful. Although some may be legitimate offers, many of these investment opportunities are scams designed with the sole purpose of separating you from your money.

What You Should Know About Investment Fraud

Anyone can be a victim of investment fraud.

Although you may think only widows, retirees and low-income wage earners are the targets of investment fraud, swindlers do not discriminate. Professional athletes, successful business executives, political leaders, doctors, lawyers and even economists have all fallen victim to investment fraud.

In fact, some swindlers specifically target persons with deep pockets, while others deliberately seek out families that may have limited means or financial difficulties, figuring such persons may be particularly receptive to a proposal that offers fast and large profits.

Although victims of investment fraud can differ from one another in many ways, they do have one trait in common: greed that exceeds their caution.

Let's face it. We all want to have more money - to pay bills, to send our kids to college, to travel, to retire comfortably. Sometimes that desire for money clouds our judgment, leading us to disregard what our common sense is telling us and believe instead only what we want to believe.

If you think this could never happen to you, think again!



Even if you already know the most common schemes, innovative swindlers constantly devise new ones.

Fraud artists are skilled liars.

Swindlers are very good at sounding like they represent legitimate businesses. Never assume that you'll know a scam when you hear one. Swindlers convincingly offer attractive investments, products and services, "sell" subscriptions, promote travel and vacation plans, and solicit donations...the list seems endless. Even if you already know the most common

schemes, innovative swindlers constantly devise new ones.

No matter what questions, or how many, you ask...skilled swindlers have believable answers. That's why sales pitches from persons or organizations that are unknown to you should always be carefully investigated before you buy or invest.

Characteristics of an Investment Swindle

The swindler wants to be your friend.

Many victims of investment scams report that the swindler “seemed like such a nice person.” It’s true. Swindlers are very friendly -- initially. They listen to your personal problems. They call back when they say they will. They seem to really care about you. Unfortunately, the friendship ends soon after they get your money.

High-pressure sales tactics.

The sales pitch may begin on a friendly note, but if the swindler senses that you will not be an “easy-sell” he may shift to a “hard-sell” approach. Some swindlers may resort to insult or argument, questioning your intelligence or warning that “you’ll never get rich without taking a chance.”

A “demand” for an immediate decision.

Swindlers always seem to have an



answer for any question you may have regarding the investment. And if you show any hesitation, swindlers often insist that you should or must make your decision “right now.”

An offer that sounds too good to be true.

The oldest advice is still the best: “if it sounds too good to be true, it probably is.” You should be aware, however, that some crooks are very sophisticated.

They say things that sound just reasonable enough to keep you interested.

A request for a credit card number other than to make a purchase.

A fraudster may ask you for your credit card number “for identification” or some other plausible reason. Whatever the ploy, once a swindler has your card number, you will likely see unauthorized charges appear on your statement.

An offer to send someone to “pick up the money” or any other scheme to get to you more quickly.

This may be part of an “urgency” pitch. It may also be an effort to avoid federal mail fraud charges by bypassing postal authorities...or simply an attempt to get your money before you change your mind.

A promise that something is “free.”

This is often followed by an “explanation” that a “token good faith” payment is required on your part. While honest firms may indeed promote free offers to attract customers, swindlers usually ask you to pay something to get whatever is “free.” Whatever you receive “free,” if anything, will probably be worth much less than what you’ve paid for it.

An investment that is “without risk.”

Except for obligations of the U.S. government, all investments have a degree of risk. Think about it! If there were any such thing as a completely risk-free investment, with big profits assured, do you think the swindler would want to share that information with additional investors?

Refusal to provide written information or references you can contact.

Swindlers give many reasons why they can’t comply with such requests: “There isn’t time for that,” or “it’s a new offer and the printed material is not available yet.” Remember, even with references, be cautious.

A suggestion that you make a purchase or investment based on “trust.”

“Trust me,” the caller says. But, although trust is indeed a laudable trait, it should not be given indiscriminately...certainly not to unknown persons asking for your money!

“There isn’t time for that, it’s a new offer . . .”

Common Types of Investment Fraud

Ponzi/pyramid schemes

This is one of the oldest and most often used investment schemes because it’s proven to be one of the most lucrative. In a Ponzi operation, the swindler initially approaches a small number of people and convinces them to invest in his program. He then widens his net and uses the money he receives from a second group of investors to pay large profits to the original group. The original group, buoyed by their success, tells more friends about this lucrative opportunity. The number of investors continues to grow and the swindler continues to collect more money. Then, he abruptly disappears.

Internet stock tips

This is also known as the “pump and dump” scam. Swindlers send spam emails recommending that you buy a company’s stock. Usually, the email tells you to “get

in now while the stock price is still low.” When you – and other victims like you – buy the stock, the demand for the stock rises and so does the price. That’s when the swindlers sell off their shares, leaving you with worthless stock. These types of scams can also be found in online investment newsletters and online bulletin boards.

Seasonal trading in oil and gas

If a broker claims that there are seasonal tendencies in heating oil or unleaded gasoline or any other market, and that you can make a lot of money because people need to heat their homes in the winter or use more gasoline in the summer, be suspicious. Usually, by the time you get into the energy market, the market has already factored in any “seasonal” demands.



Affinity fraud

Swindlers often target groups with common interests (ethnic groups, clubs, associations, religious groups, etc.) because people tend to trust someone who is like them or has similar

interests as they do. Don't let the fact that the offer comes from someone who has the same ethnic background or belongs to the same church as you do cloud your judgment.

How To Avoid Becoming A Victim

Don't be pushed into a quick decision.

There may be times when you will want to make a prompt decision. But those occasions shouldn't involve making a financial commitment to purchase a product or make an investment you're not familiar with from an individual you don't know. No purchase decision should ever be made under pressure.

Always request written information.

Ask about the product, service, investment or charity—and about the organization offering it. This should not be a problem for legitimate firms. Swindlers, however, may not be willing to provide such materials and will not want to risk exposure to legal or regulatory authorities. Also, insist on having enough time to study any information you receive before being contacted again.

Never make any investment or purchase you don't fully understand.

The globalization of the markets and the widespread use of the Internet have resulted in almost limitless investment and product opportunities. But that diversity includes the bad as well as the good. Swindlers seek individuals who don't know what they are really doing, and they often attempt to flatter prospects into thinking they are making an informed decision. Unless you understand completely the product or investment you are buying, you can suffer serious financial loss.

“You'll never get rich without taking a chance.”

Ask what state or federal agencies the firm is regulated by and with whom it is registered.

If you get such information, ask for a phone number and address so you can contact the agencies and verify the facts. If the firm says they're not subject to registration or regulation, watch out! Increase your level of caution accordingly.

Check out the company or organization carefully.

Swindlers seldom provide you with information about their company. They know that most people do not carefully check or contact a regulatory agency until it's too late...until they have already been "taken." Prove them wrong! Do your research!

Ask what recourse you would have should you make a purchase and are not satisfied.

If there is a warranty or refund provision, it is essential to have it "in writing" as well as to be fully

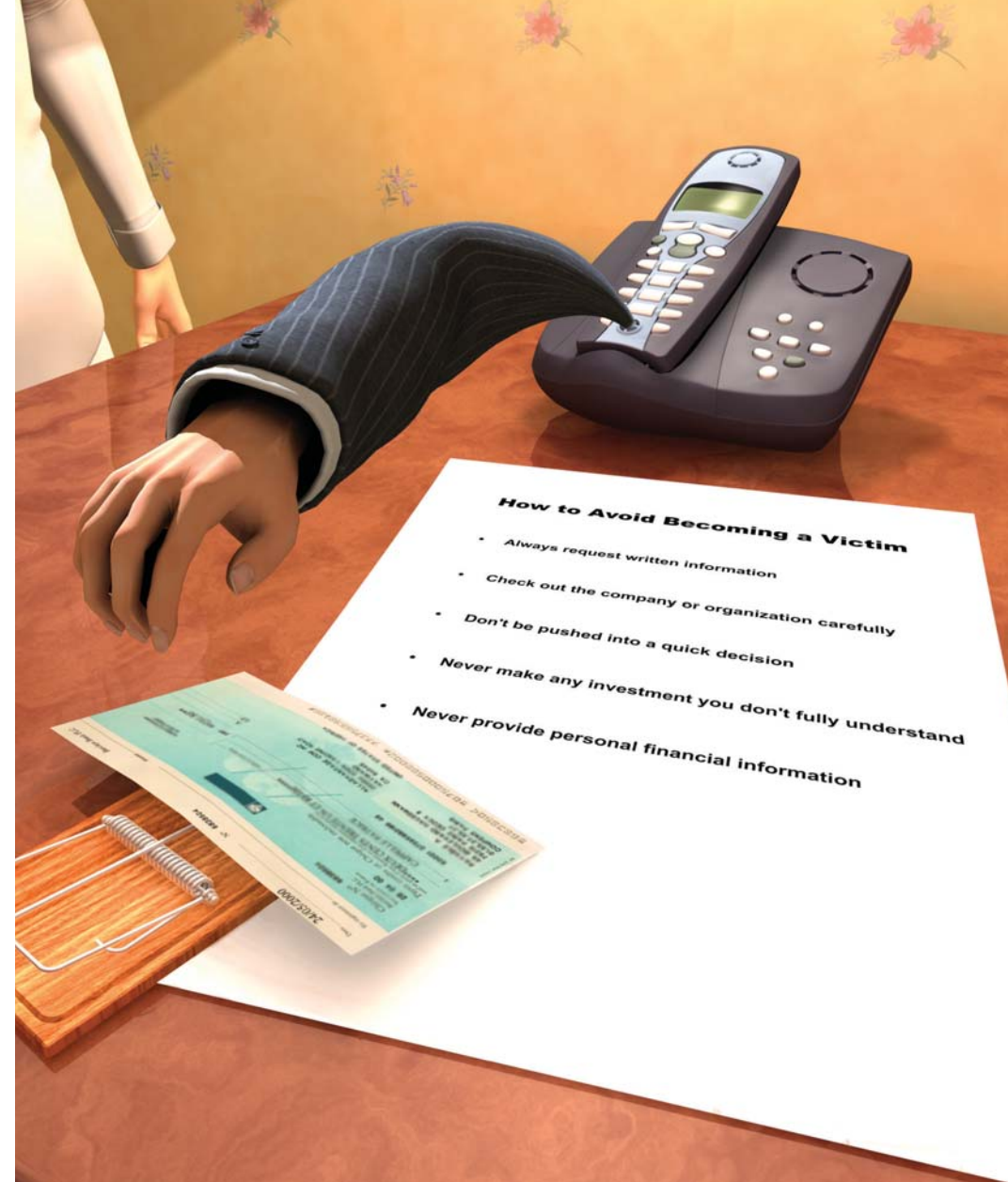
satisfied that the business will honor its guarantees, should that become necessary.

Beware of testimonials you have no way of checking.

They may provide nothing more than a "con" who is paid to speak well of a product, service or organization. There are many ways to check the legitimacy of an enterprise, and it is your responsibility to use the many resources available to become an informed and responsible consumer.

Beware of fake Web sites.

Swindlers are becoming more and more sophisticated in their schemes. Some have developed fake Web sites for their companies and products. Some have even developed fake Web sites claiming to be the federal agency responsible for regulating their company. Always do your research and fully understand the agency or organization that has regulatory authority for the type of investment you are considering.



“ . . . if it sounds too good to be true, it probably is.”

Don't provide personal financial information.

This applies especially to credit card and bank account information. The only time you should give anyone your credit card number is after you have firmly decided to make a purchase and want to charge it to that account. Always be cautious and be certain you are dealing with a reputable company.

Just walk away.

If the swindler is using the telephone to market his scams, just hang up the next time he calls. If the offer comes from an email, delete it. If the infomercial sounds too good to be true, switch channels.

Be smart.

Don't be scammed!

RESOURCES

If the investment offer involves futures, contact NFA (www.nfa.futures.org) to see if the company is registered with the Commodity Futures Trading Commission (www.cftc.gov).

If the investment offer involves securities, contact the National Association of Securities Dealers (www.nasd.com) to see if the company is registered with the Securities and Exchange Commission (www.sec.gov).

You can also contact your states securities agency (available through the North American Securities Administrators Association at www.nasaa.org).

Additional Resources:

National Fraud Information Center
www.fraud.org

Alliance for Investor Education
www.investoreducation.org

Investor Protection Trust
www.investorprotection.org

National Futures Association is a congressionally authorized self-regulatory organization of the United States futures industry. Its mission is to provide innovative regulatory programs and services that protect investors and ensure market integrity.

NFA has prepared this pamphlet as part of its continuing public education efforts to provide information to potential investors.

PUBLISHER

National Futures Association
800-621-3570 • www.nfa.futures.org

DESIGN

Lenz Design • Chicago, Illinois • www.lenzdesign.com

ILLUSTRATION

Philip Nicholson • Varberg, Sweden • www.illustrations.se

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