

# INVESTORALERT



## How to Avoid Investment Scams

Investment scams can take many forms—and fraudsters can turn on a dime when it comes to developing new pitches for the latest scam. But while the wrapper or hook might change, the most common securities frauds tend to fall into the following general schemes.

- ▶ **PONZI SCHEMES:** A central fraudster or “hub” collects money from new investors and uses it to pay purported returns to earlier-stage investors—rather than investing or managing the money as promised. Ponzi schemes require a steady stream of incoming cash to stay afloat.
- ▶ **PUMP-AND-DUMP:** A fraudster deliberately buys shares of a very low-priced stock of a small, thinly traded company and then spreads false information to drum up interest in the stock and increase its price. The fraudster then dumps his shares at the high price and vanishes, leaving many people caught with worthless or near worthless shares of stock.
- ▶ **ADVANCE FEE FRAUD:** Generally starts with an offer to pay you an enticingly high price for worthless stock in your portfolio. To take the deal, you must pay some sort of fee in advance. But if you do so, you never see that money—or any of the money from the deal—again.
- ▶ **PYRAMID SCHEMES:** Fraudsters claim that they can turn a small investment into large profits within a short period of time—but in reality, participants make money solely by recruiting new participants into the program. The fraudsters behind these schemes typically go to great lengths to make their programs appear to be legitimate multi-level marketing schemes.
- ▶ **PROMISSORY NOTE FRAUD:** A promissory note is a form of debt that companies sometimes use, like loans, to raise money. When sold fraudulently, scammers make false claims about the company, and the terms of the promissory note. Look out for deceptive statements, such as: investors will receive very high, double-digit returns; returns are guaranteed; and, the notes are backed by collateral to guarantee them.

### How Ponzi Schemes Work



#### NEW INVESTORS

The hub promises new investors high financial returns that aren't available through traditional investments.



#### PONZI HUB OPERATOR

Then, the hub collects money from additional new investors.



#### EARLIER INVESTORS

Instead of investing the money, the hub pays so-called “returns” to earlier investors from the new investors' money.



The fraud perpetuates itself as long as the hub finds new investors.

### WHO IS FINRA?

FINRA is authorized by Congress to protect America's investors by making sure the broker-dealer industry operates fairly and honestly. We work every day to ensure that everyone can participate in the market with confidence.

**FINRA**®

## PROTECT YOURSELF:

- ▶ **CHECK OUT INVESTMENT PROFESSIONALS**—Always ask whether the promoter of an investment opportunity is licensed to sell you the investment—and confirm which regulator issued that license. AND independently verify the answers.
  - For a broker or brokerage firm, use FINRA BrokerCheck  
[www.finra.org/brokercheck](http://www.finra.org/brokercheck)  
(800) 289-9999
  - For an investment adviser, use the SEC’s Investment Adviser Public Disclosure  
[www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)  
(800) SEC-0330
  - For an insurance agent, check with your state insurance department: Contact the National Association of Insurance Commissioners (NAIC)  
[www.naic.org](http://www.naic.org)  
(866) 470-NAIC
  - For all sellers, be sure to call your state securities regulator: Contact the North American Securities Administrators Association  
[www.nasaa.org](http://www.nasaa.org)  
(202) 737-0900
- ▶ **CHECK OUT INVESTMENTS**—Unregistered investments magnify risk because often they offer little or no publicly available information. To check if a product is registered use the SEC’s EDGAR database or contact your state securities regulator.  
[www.investor.gov](http://www.investor.gov)

## USE THESE RESOURCES

### FINRA Investor Information

You’ll find investor-focused tools and resources on FINRA’s website, including where to turn if you have questions about your brokerage account statements or investments.

#### WEBSITE:

[www.finra.org/investor](http://www.finra.org/investor)

### FINRA Securities Helpline for Seniors—HELPS®

A toll-free number that senior investors can call to get assistance from FINRA or raise concerns about issues with brokerage accounts and investments.

#### WEBSITE:

[www.finra.org/seniorhelpline](http://www.finra.org/seniorhelpline)

**TOLL-FREE: 844-57-HELPS**  
(844) 574-3577

### The Alert Investor Newsletter

For more information about saving and investing, subscribe to FINRA’s The Alert Investor newsletter.

#### WEBSITE:

[www.finra.org/investor/subscribe](http://www.finra.org/investor/subscribe)



## RED FLAGS OF INVESTMENT FRAUD

### Be on guard for these warnings signs:

1. **Guarantees:** Be suspect of anyone who guarantees that an investment will perform a certain way.
2. **Unregistered products:** Unregistered securities sold by unlicensed individuals are often fictitious.
3. **Overly consistent returns:** Investments that consistently go up—or provide remarkably steady returns regardless of market conditions—should raise suspicions.
4. **Complex strategies:** Avoid anyone who credits a highly complex investing technique for unusual success.
5. **Missing documentation:** Be wary if there is no prospectus, offering circular or stock symbol.
6. **Account discrepancies:** Keep an eye on your account statements to make sure account activity is consistent with your instructions, and be sure you know who holds your assets.
7. **A pushy salesperson:** No reputable investment professional should push you to make an immediate decision about an investment, or tell you that you must “act now.”

1735 K Street, NW  
Washington, DC 20006-1506  
[www.finra.org](http://www.finra.org)

© 2020 FINRA. All rights reserved.  
20\_0063.1 —02/20