

# Common Investment Scams



Seniors are prime targets for investment scams and fraud because they often have a “nest egg,” own their home, have excellent credit, and are perceived as open and trusting. Check with the **California Department of Corporations** to verify the legitimacy of salespeople and companies *before you invest* (see page 23). If you believe you have been victimized, immediately call local law enforcement and contact the **California Department of Corporations** to determine if you should also file a formal complaint.

## Affinity Marketing and Affinity Fraud

**Affinity** consists of mutual trust, friendship, and sympathy among people who share similar religious beliefs, ethnic background, language, culture, age, profession, or other characteristics. Don't automatically trust salespeople because they appear to share your background or interests, or advertise in your favorite magazines. Certain salespeople are even hired specifically to gain the trust of target groups. Once a salesperson gains your trust, he/she then promotes products or services that may be inappropriate for you, or worse, fraudulent.

Part of what makes **affinity fraud** so dangerous is the snowball effect. Once a group member or a respected community leader personally invests in a service or product, word spreads quickly, and more people come to trust the salesperson and decide that the product or investment is legitimate and worthwhile, even when it is not. Affinity fraud is typically perpetrated on a large scale, resulting in a devastated community and big payoffs for scamsters (until they get caught). Unfortunately, due to shame and embarrassment, affinity fraud is often not reported to the appropriate authorities.

## Bait and Switch Schemes

Be wary of enticing financial promises or spectacular profits that sound too good to be true, especially if a personal visit is required. A salesperson may switch paperwork or try to persuade you to make a different investment—changes likely to be unsuitable and/or provide large commissions for the salesperson. Read everything before you sign. Similar bait and switch tactics may also occur in real estate financing, car purchases, personal loans, or other financial agreements.

## Bogus Credentials

Sometimes salespeople or financial advisors try to create the impression they have special education or expertise in senior services and products. If credentials contain such words as “senior” or “elder” in conjunction with “certified” or “registered,” be cautious. For example, “RES” (standing for “Registered Elder Specialist”) is nothing more than a commercial gimmick.

**Note:** There **are** lawyers and other professionals who specialize in senior issues. Always ask the person with whom you do financial or legal business to complete the “**Check Before You Invest**” form (see page 23).

## CDs with Bonus

Companies promise investors tantalizingly high rates of return on CDs (certificates of deposit) by including a bonus to attract investors, but then convince the person to buy a different product. Be wary—this is a classic “bait and switch” tactic.

## “FREE” Meals, Living Trusts, and Other Seminars

Seniors are often invited to receive free meals and hear about insurance, real estate, and other investment opportunities; financial planning; reverse mortgages; or wills and living trusts. Be wary—some so-called “experts” misrepresent their qualifications. Seminar salespeople may try to sell you unsuitable investments or try to convince you to replace your existing investments.

They may also fail to disclose their fees and commissions or other pertinent information, making it difficult to accurately compare products and services. Worse, some events are just a ploy to obtain your personal and financial information.

**Always** have presenters complete the “**Check Before You Invest**” form (see page 23), since California law requires they and their company be appropriately licensed to sell/offer the specific type of product or service. **DO NOT** do business with any person or company that is reluctant or refuses to fill out the form.

If you need to prepare or revise your will or other estate or tax-related documents, be sure those documents comply with California law and meet your needs. For more information about preparing end-of-life paperwork, see pages 16-17.



## Life Insurance Products

Some life insurance products, such as variable or deferred annuities, are marketed as solid investment products, although they provide questionable future benefits for some seniors and charge very high premiums. These products usually pay large up-front commissions for the salesperson. They may have high withdrawal penalties if the annuity is cancelled before maturity, making them unsuitable for many seniors. Worse, some salespeople steer seniors away from existing low-cost policies into higher-cost annuity policies that, if analyzed as a financial investment, actually offer less in future benefits, except to the salesperson.

## Ponzi and Pyramid Schemes

An unknown company offers high investment returns from a plausible-sounding but vaguely described business. Such schemes are often spread by word of mouth through churches, ethnic groups or professional affiliations, frequently in an atmosphere of secrecy. The formula is simple: promise high returns to new investors and use the money to pay previous investors. These schemes collapse—leaving most of the participants with a financial loss.

## Viatical and Life Settlement Investment Scams

Terminally ill or elderly people sell the death benefit of their life insurance policy at a discount for cash. Or, seniors are offered cash to take out new life insurance policies in their own name, based on their health and age. A broker then sells shares to investors, each to receive a proportionate share of the death benefit when the insured person dies.

Often these investments are promoted as “guaranteed,” but they actually are extremely risky. Investors rely completely on the broker’s company to find the policy, obtain ownership of the death benefit, pay the premiums, track the status of the insured person, and pay off the investment.

Risk is also increased for the following reasons:

- Precise dates of death cannot be predicted
- All insurance policies are contestable for two years after being issued
- Policies may have been fraudulently obtained, and all premiums must have been paid or the policy is cancelled

- Most companies have no proven track record of paying premiums or actually paying off on the investments when they become due

Other investments related to anticipated cash windfalls or future settlements (for example, insurance settlements, inheritances, or lottery winnings) also pose similar high risks.

## Wrong Number and Stock Tip Scams

People receive a “misdialed” call from a stranger who leaves a hot investment tip. The message sounds as if the caller didn’t realize that he/she was leaving it on the wrong answering machine. Con artists may also send similar fraudulent e-mails or faxes - this type of marketing is used to “pump” the stock and generate a buzz among investors, who buy the stock, raising its price. The con artists then “dump” the stock and make a profit, causing the stock price to fall rapidly.