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To Avoid Fraud, Thoroughly Research Investment Tips

By Gerri Walsh, *FINRA Investor Education Foundation*

There's nothing wrong with getting investment ideas from friends and acquaintances, but investors shouldn't just rely on casual tips. Before handing over any money, you need to thoroughly research the investment and the person selling it.

It was a lesson that Carolyn and Ray Thompson of Brewer, Maine, learned the hard way. Friends of theirs told them about a new and exciting green energy opportunity involving windmills.

They were told the windmills would be small enough to install on rooftops, Ray Thompson, 71, said. Shareholders could purchase exclusive territories and lease windmills to homeowners and businesses.

The Thompsons invested $30,000 and were to receive shares in the windmill company, three territories in which they could launch their business and three free windmills of their own. But after traveling to Las Vegas for the initial shareholder meeting in 2008, the Thompsons realized they had been scammed—there were no innovative new windmills. The Thompsons and about 200 other investors were shown a full-size windmill, still being set up in the middle of the Nevada desert.

"When I saw that windmill," said Carolyn Thompson, 65, "I couldn't stop the tears from rolling down my cheeks. It was nothing like what they were telling us."

Con men regularly rely on word-of-mouth to bring in new victims. Or they make their pitches to groups, knowing that subtle social pressure brings in more money. Psychologists call it "social consensus," and it is the foundation of affinity fraud. The thinking goes that if everyone is doing it, it must be okay. But the problem is that no one looks behind the curtain to question the man working the levers.

In the Thompsons' case, that man had a long history of alleged scams and was eventually convicted of fraud in a federal district court in California.

"What we really feel bad about," said Ray Thompson, "is that we talked to other people and got them into it, too. They lost $10,000 each. My losses are my fault, but when I bring other people into it, I'm really sorry about that."

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Always Ask & Check

While there's no guarantee that a registered security will be a safe investment, the chances for fraud increase substantially with unregistered securities that offer little or no public financial information.

Follow these steps to protect yourself:

- Check with the Maine Department of Professional and Financial Regulation Office of Securities or U.S. Securities and Exchange Commission (*SEC.gov*) to make sure an investment is registered.
- Also ask if the person selling the investment is registered with FINRA, the Maine Department of Professional and Financial Regulation Office of Securities or the SEC.
- If the seller says yes, verify the information by checking his or her background and the background of the firm using the free, online BrokerCheck tool (*FINRA.org/BrokerCheck*).

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