

“Phantom Riches,” Real Fraud

BY JOHN GANNON, PRESIDENT OF THE FINRA INVESTOR EDUCATION FOUNDATION

This phantom lurks in every investment scam. Sometimes, it takes the form of a big payoff; other times, it may be the security of “guaranteed” returns. Fraud experts call it “phantom riches,” and it is the most common tactic cons use to rip off investors. However, the criminal cannot really deliver on the promise of riches, because they do not exist.

Researchers funded by the FINRA Investor Education Foundation analyzed hundreds of hours of undercover audiotape to determine the most common persuasion tactics fraudsters used to lure

victims. These tactics, along with tips on how to spot and avoid them, are featured in a free documentary, *Trick\$ of the Trade: Outsmarting Investment Fraud*.

“The phantom’s purpose is to get you to stop thinking logically,” said Doug Shadel, the Washington state director of AARP and an expert in financial fraud who led the research team. “A key goal of persuasion is to move you out of the logical reasoning part of your mind into the emotional. It’s what con artists call putting you under the ether.”

Jameson Kauhi of Vancouver, Wash., knows what that ether feels

like. He was lured into a scam by a local businessman who promised him millions of dollars in a real estate development investment; but first Kauhi had to pay \$82,000 in fees to access that money. All the documents looked good, and the con was a smooth talker. “He knew how to push my buttons to cause me to give him the money,” Kauhi said.

The best way to avoid getting swept up in an offer of phantom riches is to slow down the pitch.

- **First, ask questions.** Ask if the seller is registered with FINRA, the U.S. Securities and Exchange Commission (SEC) or your state

securities regulator. Ask if the investment is registered with the SEC or your state.

- **Second, check the answers before investing.** Don’t just take the seller’s word for it. Check the information you receive with the proper authorities. Visit SaveAndInvest.org/55Plus for more information.

SaveAndInvest.org is a project of the FINRA Investor Education Foundation in collaboration with the U.S. Securities and Exchange Commission, AARP West Virginia and the West Virginia Offices of the State Attorney General, Auditor and Insurance Commissioner.

Phantom riches clouded my judgment. Learn to protect yourself.

As a real estate developer, I know that, without risk, there is no reward. Yet that mentality cost me \$82,000. A local businessman promised me millions to develop real estate. He gave me documents that looked good and was a smooth talker. After forking over the “fees” to access the money, I got nothing in return. The businessman was convicted for racketeering and fraud, but I don’t expect to collect anything back. Don’t let this happen to you. Don’t say yes until you check out the salesman and the investment with the authorities.

