

## Baby Boomers and Investment Fraud Research Findings

*FINRA Investor Education Foundation-funded research unveiled in July 2006 shattered the stereotypes of senior investment fraud victims. Not only was the fraud victim profile counterintuitive in many respects, but the influence tactics used by fraudsters were sophisticated and highly effective. Further research commissioned by the FINRA Investor Education Foundation in 2007 among a national sample of investors ages 55 to 65 identified that many investors within this group practice financially risky behaviors. Highlights of both studies appear below.*

### **A typical fraud victim is not who you might think.**

- ❑ Typical victims are financially knowledgeable (victims scored higher on financial literacy tests than non-victims), are college educated, have above average income and are self-reliant when it comes to making decisions.

### **A majority of older investors do not perceive themselves as vulnerable to investment fraud; yet many of their reported investment behaviors put them at risk.**

- ❑ A majority of older investors indicated they did not check the registration status of a financial professional (65 percent) or a financial professional's background for any broken laws or violations (78 percent).
- ❑ A significant number of older investors (68 percent) did not check the registration of an investment product.
- ❑ Personal relationships often factor into decision-making. More than 40 percent have hired a financial professional recommended by a friend, relative, co-worker or neighbor. Roughly 35 percent have bought investments recommended by a friend, relative, co-worker or neighbor; and 23 percent indicated they rely on investment "tips" from people they know.
- ❑ Among identified victims of fraud, these numbers are significantly higher. Nearly 60 percent (58 percent) have hired a financial professional based on recommendations from family and friends; 70 percent have bought investments.
- ❑ Among older investors, identified victims of fraud were three times more likely to attend a free lunch seminar.
- ❑ While 75 percent of older investors have not had an investment professional tell them they have a special accreditation to advise senior investors, of those who have, nearly half (46 percent) indicated it made them more likely to listen to their advice.

**Investment fraud criminals are masters of persuasion. They use a wide array of sophisticated and highly effective tactics to profile and influence their target. Examples of common tactics include:**

- ❑ **Phantom Riches**—Dangling the prospect of wealth by enticing investors with something they want but cannot have. “These gas wells are guaranteed to produce \$6,800 a month in income.”
- ❑ **Source Credibility**—Trying to build credibility by claiming to be with a reputable firm or to have a special credential or experience. “Believe me, as a senior vice president of XYZ firm, I would never sell an investment that doesn't produce.”
- ❑ **Social Consensus**—Leading individuals to believe that other savvy investors have already invested. “This is how \_\_\_ got his start. I know it's a lot of money, but I'm in—and so is my mom and half her church—and it's worth every dime.”
- ❑ **Reciprocity**—Offering to do a small favor in return for a big favor. “I'll give you a break on my commission if you buy now—half off.”
- ❑ **Scarcity**—Creating a false sense of urgency by claiming limited supply. “There are only two units left, so I'd sign today if I were you.”

*For more information on the FINRA Investor Education Foundation/WISE Senior Services Study or the Senior Fraud Risk Survey, please visit [www.SaveAndInvest.org](http://www.SaveAndInvest.org).*

*The mission of the FINRA Investor Education Foundation is to provide underserved Americans with the knowledge, skills and tools necessary for financial success throughout life. The FINRA Foundation awards education and research grants and develops targeted programs aimed at segments of the investing public that could benefit from additional resources. Empowered by the federal government, FINRA is an independent, not-for-profit regulator of all securities firms doing business in the United States. FINRA and the FINRA Investor Education Foundation do not sell investment products, promote products or firms or offer specific investment advice.*