

Script for DSEF virtual seminar series for NCPW 2009
(Nuts and Bolts: Tools for Today's Economy)

Hello, my name is Dan Roth and I am the president and CEO of National Futures Association. NFA is a self-regulatory organization for the U.S. futures industry dedicated to safeguarding the integrity of the futures markets and protecting investors like you. NFA is overseen by the Commodity Futures Trading Commission, the government oversight agency.

NFA is honored to participate in this year's National Consumers Protection Week. Given the events of the past few months, this year's theme, "Nuts and Bolts: Tools for Today's Economy" is especially relevant. During these times of financial turmoil, it is especially important for investors to get back to the basics and thoroughly research any investment opportunity before giving someone their hard-earned money.

Although there are many legitimate investment opportunities being offered to consumers, there is also a lot of investment fraud going on right now. And these fraudulent sales pitches are coming at us in many ways. Some arrive by telephone in the form of a telemarketer. Some arrive as hot stock tips via email. Some appear in an advertisement in your newspaper or favorite magazine. And, unfortunately, some even come from a co-worker, friend or neighbor.

During the next few minutes, I will share with you some essential truths about investment fraud, common characteristics of an investment swindle, different types of investment schemes that you should be wary of and what you can do to protect yourself.

There are two things you should know about investment fraud.

First, anyone can become a victim of investment fraud.

Many people think that widows, retirees and low-income wage earners are the only targets of investment fraud. They are wrong. Successful business executives, professional athletes, political leaders, doctors, lawyers and even economists have fallen prey to investment fraud. The recent revelations regarding Bernard Madoff, a man who allegedly swindled billions of dollars from some very high profile clients, just highlights the fact that swindlers do not discriminate.

Although victims of investment fraud can differ from one another in many ways, they do have one trait in common: greed that exceeds their caution.

We all want to have more money – to pay bills, to send our kids to college, to travel, to retire comfortably. Sometimes that desire for money clouds our judgment, leads us to disregard what our common sense is telling us and believe instead only what we want to believe. And when you do that, you are especially vulnerable to investment fraud.

The second thing you should know about investment fraud is that fraud artists are skilled liars.

Swindlers are very good at sounding like they represent legitimate businesses. The biggest mistake you can make is to believe that you'll recognize a scam when you hear one. Swindlers convincingly offer attractive investments, products and services, "sell" subscriptions, promote travel and vacation plans, and solicit donations. The list is endless. Even if you already know the most common schemes, innovative swindlers constantly devise new ones. That's why you should always carefully investigate any person or organization before you buy or invest.

Now let's look at some of the most common characteristics of an investment swindle.

Many swindlers use high-pressure sales tactics.

Although many swindlers begin their sales pitches on a friendly note, they will quickly shift to a "hard sell" approach if they sense that you will not be an easy mark. Some may resort to insult or argument, questioning your intelligence or warning that "you'll never get rich without taking a chance".

Swindlers will also urge you to make an immediate decision because, in their words, "this opportunity won't last long".

Some may even offer to send someone to your home to pick up your check or tell you to send your check by an overnight delivery service. They simply want to get your money before you change your mind.

Another common characteristic of an investment swindle is a request for a credit card number.

The swindler may ask you for your credit card number "for identification" or some other plausible reason. However, once the swindler has your card number, you will likely see unauthorized charges appear on your statement.

Now let's look at some of the most common types of investment frauds.

First is the Ponzi scam, also known as the pyramid scam.

This is one of the oldest and most often used investment schemes because it's proven to be one of the most lucrative. In a Ponzi operation, the swindler initially approaches a small number of people and convinces them to invest in his program. He then widens his net and uses the money he receives from a second group of investors to pay large profits to the original group. Flush with success, these early investors then promote the investment offer to their friends and family, allowing the con artist to continue his scheme right up until the moment he skips town.

An increasingly prevalent type of fraud is Affinity Fraud.

Swindlers often target groups with common interests such as specific ethnic groups, social clubs and religious groups, because people tend to trust someone who is like them or has similar interests as they do. Just because someone belongs to your church or speaks your native language does not guarantee that the investment opportunity they are offering is legitimate.

Another type of fraud is wrapped up in an appetizing package. It's called a Free Lunch Seminar.

Free lunch seminars are often advertised in local newspapers, through mass-mailed invitations, e-mails and on websites. The seminars are commonly held at upscale hotels, nice restaurants, retirement communities and golf courses. In addition to providing a free meal, the firms and individuals that conduct these seminars often use other incentives such as door prizes, free books, and vacation deals to encourage attendance.

Be very careful of invitations that guarantee income substantially higher than the returns someone on a fixed income can expect to get from certificates of deposit, money market investments or other traditional financial products.

As you learn about these types of investment frauds, you should consider the steps to take to prevent this from happening to you. Individuals who have been victims of investment fraud could probably have avoided being scammed if they had taken the time to do a little homework.

Now that you know about some of the types of investment fraud, here are some tips to help you avoid becoming fooled by a swindler.

- Beware of anyone who approaches you with an investment opportunity that promises great financial reward and no risk.
- Don't be pushed into a quick decision. Never make a decision with an investment you don't fully understand.
- Always request written information that details the risks in the investment and procedures to get your money out.
- Beware of testimonials you have no way of checking. Con men often pay others to act as "satisfied customers".
- Always conduct a background check of the individual, firm or organization.
- Ask what state or federal agencies the firm is regulated by and with whom it is registered. And verify whatever information you receive. If the firm says they're not subject to registration or regulation, proceed with caution.
- And finally, just walk away. If the swindler is using the telephone to market his scams, just hang up the next time he calls. If the offer comes from an email, delete it.

Of course, the oldest advice against investment fraud is still the best. If the offer sounds too good to be true, it probably is. There is no such thing as a no-risk investment and you should never believe someone who tries to tell you that there is.

I encourage you to share these nuts and bolts with your family, friends and neighbors, so they too can be better equipped with the necessary tools to help them make sound financial decisions and avoid becoming a victim of investment fraud.

Unfortunately, most people do not want to admit that they may have been scammed. If you are suspicious of an offer or have a complaint against an individual or firm, you should speak out, seek help and contact the appropriate regulatory agency.

If the investment offer involves futures, contact NFA to see if the company is an NFA Member registered with the Commodity Futures Trading Commission.

If the investment offer involves securities, contact the Financial Industry Regulatory Authority to see if the company is registered with the Securities and Exchange Commission. You can also contact your local state securities regulator.

I also encourage you to visit NFA's Website at www.nfa.futures.org for additional investor protection information.