UNIT 4: Investment Fraud

TEACHING STANDARDS/KEY TERMS

- ✦ Affinity fraud
- ✦ Boiler room
- ✦ Critical-thinking skills
- ✦ Fraud
- ✦ Ponzi and pyramid schemes
- ✦ Precious metals
- ✦ State securities regulators
- ✦ Telemarketing fraud

UNIT OBJECTIVES:

Students will:

- ✦ Understand how investment fraud works.
- ✦ Learn the warning signs of investment scams.
- ✦ Engage in a role-playing exercise to experience an actual fraudulent investment sales pitch.
- ✦ Understand the duty to report investment scams.
- ✦ Examine how government regulators work to stop investment fraud and help victims.

UNIT TEACHING AIDS:

LESSON 1: Investment Fraud: Myth and Reality *(Handout, page 4.10)*
Investment Scams *(Overhead, page 4.12)*

LESSON 2: How Telemarketing Fraud Works *(Handout, pages 4.13-4.14)*

LESSON 3: Investment Fraud Script *(Classroom exercise, pages 4.17-4.19)*
Investment Fraud Simulation *(Worksheet, page 4.20; Answer Key, page 4.21)*

Victim-Proof Yourself *(Overhead, page 4.22)*

UNIT TEST: *(Test, page 4.23; Answer Key, page 4.24)*

Why Teach This Unit?

The best defense against investment fraud is a smart investor. Students who do not know how to make sound economic decisions about investing may become victims of investment fraud. On the microeconomic level, the unwary victims of investment fraud often suffer catastrophic financial consequences. At the macroeconomic level, the consequences include lost confidence in legitimate marketplaces and the vanishing of productive capital that might otherwise generate jobs, tax revenues, and other important products.

Spotting and avoiding investment fraud will sharpen critical-thinking skills that can be used by students in other situations. Although there are many types of investment swindles, the tactics of con artists do not differ from scheme to scheme. Contemplating the individual economic consequences of fraud allows students to see vividly why and how ethical behavior should guide their conduct.

LESSON 1: INTRODUCTION TO INVESTMENT SCAMS, SCHEMES, AND SWINDLES

Fraud involves deceiving a person by misrepresenting the truth in order to deprive them of something, such as their hard-earned savings. However, for the victims, investment fraud is all risk and no return. State and federal officials estimate that financial swindles cost American consumers $40 billion a year.

Government regulators have limited resources to fight financial fraud. Experts warn that no one is completely immune to the seductive pitch of the investment con artist who will tell potential victims exactly what they want to hear. Victims range from the rich to lower-income, blue-collar workers. College presidents, accountants, teachers, manual laborers, and high school students are among those who have been swindled out of all or part of their hard-earned savings. Even if swindlers are caught and prosecuted, many investors never get a penny of their money back.

The best protection against investment fraud is to learn how to spot and avoid the various types of scams. Con artists appeal to the greed of some victims and in other cases, fears such as the inability to accumulate enough money to meet catastrophic medical bills, send children to college, or fund retirement. Keeping in mind that no group of investors is immune to con artists, does the average person stand a chance with a swindler? Yes, but only if she or he allows critical thinking to guide the decision-making process. When greed or fear are the deciding factors, financial disaster is all too likely to follow.

Major Types of Investment Fraud

Investment con artists or swindlers know what it takes to get a consumer's money. Some swindlers focus on specific groups such as church groups, African Americans, Latinos, doctors, or the elderly, and offer pitches tailor-made to their needs and concerns. Others take advantage of economic downturns and employment uncertainty with glowing reports on the earnings of those who buy a franchise or invest in a business opportunity. Swindlers now can take advantage of Internet access and other technological channels to solicit fraud. It is therefore important to be familiar with the common types of investment fraud and the key warning signs for each type. There are seven main types of investment scams consumers are likely to encounter:

- Pyramid schemes
- Ponzi schemes
- Precious metals fraud
- Stock swindles
- Phony international investments
- Affinity fraud
- Bogus franchise and business opportunities

Pyramid Schemes operate on the principle that each member of a group will receive a profit or a cut for recruiting new members to join the scheme. One popular pyramid scheme is the "airplane game" in which new recruits buy in as passengers for $100 and are then told that if they bring in new investors they will be able to move up to flight crew, co-pilot, and finally pilot. As pilots, they will receive $1,000 or more. In another variation on the pyramid scheme, investors buy one gold coin for $50 and are told that when they reach the top of the pyramid, they will get five gold coins, a $250 value.

Pyramid investment scams are different from legitimate sales organizations that recruit individuals to expand their sales staff. Legitimate sales firms recruit new salespeople to sell tangible products. Illegal pyramid schemes offer participants payment for recruiting new members into the sales force rather than for selling products.

The problem with pyramid schemes can be explained simply: There are not enough potential participants in the whole world to keep pyramids growing steadily for even a few months. Warning signs of pyramid scams include:

- Sky-high profits are promised for a small amount of effort.
- Sellers and buyers are expected to recruit new sellers and buyers to keep the pyramid growing.
- People must pay a membership fee to participate in the scheme.
- If products are offered, they will cost more than similar products.
- Unrealistic claims are made about product quality or performance.
- Participants are paid for recruiting others.

Ponzi schemes are a type of pyramid scheme named for Charles Ponzi who duped thousands of New England residents into investing in a postage stamp speculation scheme. Ponzi determined that it was possible to take advantage of differences between U.S. and foreign currencies to buy and sell international mail coupons.

Ponzi told investors that he could provide a 40 percent return in just 90 days compared to 5 percent for bank savings accounts. Ponzi was deluged with funds from investors, taking in $1 million during a single three-hour period. Although he paid a few early investors in order to make the scheme look legitimate, an investigation found that Ponzi had purchased only about $30 worth of the international mail coupons.

Ponzi worked in the 1920s, however even today Ponzi schemers continue to work on the "rob-Peter-to-pay-Paul" principle; money from new investors is used to pay off earlier investors until the whole scheme collapses. In one case, a con artist now serving 12 years in prison told investors that he could buy Mexican pesos for a fraction of their face value and then convert them at full value back into U.S. dollars. Victims in this scheme included members of Kansas churches and Texas motorcycle gangs. The swindler behind the pesos scam took in $27 million by promising investors phenomenal returns of 12 percent a week—600 percent a year!

Ponzi schemes often have the following characteristics:

- Promises of very large returns on an investment, such as "double your money in 60 to 90 days."
- A "can't lose" scheme for making money that others have overlooked.
- Payments are made to a few early investors to prove that the investment isn't crooked. These fortunate few are known as "songbirds," because they sing the praises of the scam to others, thus bringing in new victims.
- The Ponzi scheme collapses when the number of previous investors seeking a return exceeds the number of new investors bringing in additional money.

Precious metals have always attracted investors. They include tangibles such as gold and silver and seem particularly appealing to investors during uncertain times. Con artists urge jittery investors to put their savings into something they can hold on to rather than paper investments such as stocks and bonds. There are several examples of precious metals schemes:

- **Coin swindles.** Swindlers may sell consumers low-quality coins that they claim are valuable. These coins often arrive in poor condition or are never sent at all.
- **Gold mining schemes.** How does buying gold, silver or platinum at dirt-cheap prices sound? That is the promise of swindlers who claim to be able to sell precious metals directly from mines using a new technology to recover trace amounts that other mining firms have not been able to retrieve. Securities regulators sometimes refer to these schemes as "dirt pile" swindles involving promises of "no-see-um" gold because investors never see the promised precious metals. All they get for their money is dirt.

- **Bullion deals.** How can swindlers avoid delivering promised goods, such as gold bars? One popular tactic is to stall by offering bullion storage services so that a consumer who supposedly buys precious metals in bullion form can have them stored in a vault. The investor never even sees the product, in this case, gold bars—an open invitation to fraud. In one major scam, con artists pocketed millions of dollars of investor funds and never bothered to buy the gold.

Stock swindles pose a major threat to consumers. In the late 1980s, small investors lost $2 billion in scams involving penny stocks, so named because the shares sell for less than $3. In the late 1990s, investors were victimized in the systematic manipulation of "micro-cap" stocks, which are little-known company stocks with relatively small numbers of shares that can be easily manipulated. A stock swindler may claim that a company has developed a cure for AIDS or is about to announce a business deal that will cause its stock to double or triple in value. In a penny stock example, con artists convinced investors to put millions of dollars into a non-existent company supposedly developing a self-chilling beverage can that would eliminate the need to refrigerate soda and other liquids. The deal failed and investors saw their money go down the drain.

To see how investment swindles use email to hype investors, go to **http://www.investingonline.org/isc/index.html** and go through the "Don't Get Burned" simulation. (Flash required.)

Phony international investments is a fast-growing area of interest for U.S. investors. With the rapid pace of political and economic changes overseas and the strong performance of some foreign stock markets, many American consumers are investing funds abroad. Con artists have responded by offering scams with an international flair. In one recent case, a Washington State con artist fleeced 400 investors out of $7 million by promising 30 to 40 percent returns on certificates of deposit and other investments through a bank in the Marshall Islands. After the swindler fled the United States, investigators found that the bank existed only on paper and that its sole officer was a Marshall Islands gas station attendant who was instructed to go to the post office, pick up investors' checks, and then mail them back to the con artist.

Even when U.S. investors deal with legitimate investment opportunities overseas, they remain vulnerable to such factors as loose or nonexistent investor protection regulation, currency fluctuations, limited opportunities to pursue grievances, and political instability in some nations.

Affinity fraud describes investment schemes that prey upon members of identifiable groups. Con artists promote affinity scams that exploit the sense of trust and friendship that exist in groups of people who have something in common. For example, one thousand immigrants from El Salvador recently lost $6 million of their savings in a phony investment bank that promoted itself exclusively to Latinos in the Washington, D.C. area.

Con artists recognize that the tight-knit structure of many groups makes it less likely that a scam will be detected by regulators and law enforcement officials and that those who become victims will be more likely to forgive one of their own. Affinity fraud is also dangerous because the usual warnings about investment schemes promoted by strangers don't apply. In these cases, a friend, colleague, or someone else who inspires trust may introduce the investor to the scheme.

Affinity fraud swindlers will enlist respected leaders within a community or group to spread the word about an investment deal. The key to avoiding affinity fraud is to check out everything, no matter how trustworthy the person may be who presents the investment opportunity.

Bogus Franchise and Business Opportunities appeal to the dream of being your own boss. In fact, legitimate franchise operations may soon account for a majority of all retail sales made in the United States. Unfortunately, con artists realize that the desire of many Americans to own their own business may make them less cautious when it comes to evaluating franchises and business opportunity deals. Such investments may be promoted on the basis of the fear of losing a job or general uneasiness about the economic situation.

Ads for fraudulent business opportunity schemes may appear in otherwise reputable television programs, newspapers, and magazines. Investors incorrectly assume that because the media outlet is reputable the advertisers are as well, not realizing that the media outlet may not screen its advertisers. Ads for frauds often offer high income to the person who will invest enough to cover individual start-up costs, ranging from $50 to several thousand dollars. The only people who make money are the swindlers who receive the start-up investment money. Fraudulent business opportunity ads frequently appeal to people who have few job skills and are desperate for money. Examples include work-at-home and animal-raising schemes.

LESSON 2: HOW TELEMARKETING FRAUD WORKS— INSIDE THE BOILER "ROOM"

Email and Web sites are the newest friends of scam artists, however the telephone remains the swindler's weapon of choice. A phone scammer can use the telephone to contact 100 or more potential victims in a single day. These swindlers use the phone as a weapon in much the same way that a mugger uses a weapon. Databases are used to generate special lists of people who may be more likely than others to fall into the trap of a particular investment scam. Con artists who operate by phone are often said to be engaging in "boiler room" operations. This term for the calling center is used because it is where swindlers "turn up the heat" on their potential victims.

Fraudulent sales callers have one thing in common: They are skilled liars and experts at deceit. Their success depends on it. Many are coached to say whatever it takes to get the victim's money. The callers make hundreds of repetitious calls, hour after hour.

How can one tell a legitimate telemarketing call from the seductive sales pitch of a swindler? There is no way to determine whether a sales call is honest simply by talking with someone on the phone. No matter what questions are asked, skilled swindlers will have ready answers. That's why sales calls from unknown persons should always be thoroughly researched before investing.

Phone swindlers are likely to know more about their potential victims than will be known about them. Con artists may know all about the people they call: age and income, health and hobbies, occupation and marital status, education, the cost of their home, what magazines are subscribed to, and whether they have bought by phone in the past. They assume that everyone wants more income, are receptive to a bargain, and will be reluctant to be discourteous to someone on the phone.

Phone swindlers are extremely good at sounding as though they represent legitimate businesses. They offer investments, describe employment opportunities—the list goes on. One can never assume they will immediately recognize a phone scam. Innovative swindlers constantly devise new schemes.

Here are the hallmarks of phone-based investment scams:

- **Sales pitches with slick talk about little or no risk, secret tips, and an unrealistically high rate of return.** The rate is usually much greater than that from more traditional investment opportunities.
- **Demand for immediate action.** The last thing a phone swindler wants is for a potential victim to have time to reflect upon the phony investment or, even worse, seek the advice of a trusted, knowledgeable third-party, such as an accountant, broker, securities regulator or banker. Swindlers often push victims to send money immediately or offer to pick it up by courier or delivery service.
- **No disclosure of the street address of the boiler room operation.** Instead, con artists will frequently use a mail drop. This decreases the chances of being caught by local law enforcement officials.
- **No use of the U.S. mails.** Many con artists fear that federal mail fraud statutes will be invoked against them as a result of their schemes, so they commonly resort to alternate delivery methods, including overnight delivery services and couriers to pick up the money.
- **Stalling suspicious investors who suspect that they have been defrauded.** This process may involve lull letters, in which the promoter of the scam blames the temporary delay in the promised high returns on various factors, including weather, union problems, delayed equipment delivery, labor problems, government red tape, and so on. Such excuses may provide the con artist with valuable additional weeks or months in which to swindle hundreds of additional victims.
- **Pulling a vanishing act.** When the heat is on, telephone con artists move on to the next city or state. Very often, this will also involve a switch in scams, so someone who is a precious metals salesperson today may be selling $99 round trips to Hawaii next week.

LESSON 3: TEACH YOUR STUDENTS TO BECOME "VICTIM PROOF"— SELF DEFENSE TIPS AGAINST FRAUD

Investment con artists do not break into homes. They do not pull a gun on their victims and demand their money. Instead, they get people to *give* them their money… voluntarily! Most investors are at risk of victimization simply because they lack information about investment choices and are unaware of how to evaluate investment opportunities. The following four key steps will help students protect their money:

- **Stop and think before acting.** Never invest merely on the basis of a sales pitch. Get written information and evaluate it. Remember that the person on the other end of the phone is a salesperson even if he or she is a stockbroker, investment adviser, or has an impressive title. The first priority of people who sell investments is to make money for themselves and their employers, it is not to ensure the investor's financial future. That does not mean that all people who promote investments are dishonest, it just means that their goals may not be the same as the investor's.
- **Study the deal—and get input.** Read the material about the investment to determine how it is supposed to make money. Seek the counsel of someone such as a trusted broker, accountant, banker or an experienced investor who is more knowledgeable. Never provide personal or financial information like bank accounts or credit card numbers to investment telemarketers even if they pressure for it. If the caller is legitimate, the deal will still be available after thoroughly checking it out.
- **Stick to what is clearly understood.** Consumers need to stick with investments they understand, particularly when it comes to the potential risks or rewards. They shouldn't get caught in the trap of trusting a salesperson who claims to understand it all and promises to take care of them. It's important to not sign papers before reading and understanding them—a lawyer or another investment professional should answer any questions concerning the agreement before signing.
- **Apply critical-thinking skills.** Students should ask themselves: Does what I am being promised really make sense? Although there are government and industry regulatory offices that actively oversee the investment marketplace, the best forms of protection are good critical-thinking skills and a sound decision-making model to determine the legitimacy of any investment opportunity. Ask common sense questions about the nature of the investment: Where exactly is the money going?; How much will the salesperson get in fees or commissions?; What is the track record of the investment? Don't sit still for mumbo-jumbo or double-talk. When it comes to financial assets, the only dumb questions are the ones not asked.

LESSON 4: HOW REGULATORS HELP TO PROTECT INVESTORS

State and federal agencies and self-regulatory organizations devote millions of dollars and many hours each year to stopping investment fraud. However, one of the biggest obstacles to stopping investment fraud are the embarrassed individuals who would rather suffer their losses in silence than admit that they have been cheated.

Consumers who are approached by a con artist, or have been victimized by such a person, should report it to the proper authorities. The longer a con artist goes unreported, the more money victims will lose. Enforcement authorities, such as the state securities regulator, the National Association of Securities Dealers, and the U.S. Securities and Exchange Commission will prosecute scam artists, but they cannot carry out their responsibility without the public's help. For information about how to report investment fraud schemes, go to the following web sites:

North American Securities Administrators Association
http://www.nasaa.org

U.S. Securities and Exchange Commission
http://www.sec.gov

National Association of Securities Dealers, Inc. (NASD)
http://www.nasd.com

Most of the investment marketplace is run on the "up and up." But there are bad guys out there. Considerable state, federal and self-regulatory agency resources are spent to combat investment fraud. However, crooks invent scams that fall between the various laws and remain out of the reach of regulators. The quick and easy portability of a swindling operation severely limits the effectiveness of the law enforcement response. Often, by the time the rip-off is discovered, the crooks have closed up shop, moved down the road and reopened under a new name. The problem is so massive that even vigorous, well-staffed, well-coordinated law enforcement efforts can only make a dent in the problem. On the other hand, regulators can, and do, cooperate with each other to stop some scams. In one recent fraud case, a swindler was caught and jailed by a cooperative posse of local authorities, state securities regulators, members of the U.S. Office of the Attorney General, the U.S. Postal Service, and the Internal Revenue Service.

Although many regulations have been enacted and institutions established to protect consumers in their investment activities, the principle of caveat emptor—let the buyer beware—remains the investor's best protection. Legal protections are limited, fraudulent activities flourish, and once money is invested in a fraudulent scheme, the chances of getting it back are extremely small. You shouldn't be afraid to invest—but you should be on your guard against being swindled.

INVESTMENT FRAUD: MYTH AND REALITY

MYTH	REALITY
There are investments that offer extremely high reward with little or no risk.	The rule of thumb in investing is that a well-above average rate of return almost certainly means more risk. Otherwise no one would put money into investments of equal risk with much lower potential for return. The "high return/low or no risk" offer is almost always a sure tip-off that an investor is being deceived.
I'm too smart to be a victim.	Investment swindlers are sometimes referred to as "con artists," short for confidence artists. That term describes how swindlers establish and build up the confidence of potential victims before taking advantage of them. A con artist can take the few things that he knows about potential victims and use them to gain their confidence. For example, if you are facing major medical bills, the swindler may promise you investment returns that will get you in and out of the hospital with money to spare. Con artists may also play on an investor's desire to make money quickly. The con artist determines what "buttons" to push to convince the victim that the investment scheme is legitimate.

LESSON OUTLINE: INTRODUCTION TO INVESTMENT SCAMS

OBJECTIVE	**Students will:** • Discuss common types of investment fraud. • Recognize key indicators of investment schemes.
MATERIALS	• Access to Internet or newspapers.
PROCEDURES	**Teacher will:** • Discuss the key elements of scams. **Students will:** • Work in groups of three to five (depending on computer access or the number of newspapers). • Identify articles that describe an investment fraud. • List the fraud indicators that consumers could have recognized and avoided.
ASSESSMENT	• Groups will turn in a copy of the article they reviewed as well as their list of fraud indicators.
ESTIMATED TIME	• 45-60 minutes of class time.
BEYOND THE CLASSROOM	• Invite a guest from your state securities agency to discuss fraud protection. • Teams of students go through local classified newspaper sections to identify investment-related advertisements that they think may be fraudulent. Many con artists use classified ads to lure consumers. Students should compile a grid that shows the warning signs they associate with the suspect ads and the list of questions they would want to have answered before they invest.

INVESTMENT SCAMS

- ✦ Pyramid schemes
- ✦ Ponzi schemes
- ✦ Precious metals fraud
- ✦ Stock swindles
- ✦ Phony international investments
- ✦ Affinity fraud
- ✦ Bogus franchise and business opportunities

HOW TELEMARKETING FRAUD WORKS

What the con artist says...	The truth of the matter...
"You can make 30, 50, or even 100 percent in just three to six months."	If a stranger calls and offers you a way to double or triple your money in no time at all, there is zero chance that you are being approached with a legitimate business opportunity. Why would anyone be doing you this favor? Why wouldn't this wonderful investment opportunity already be snapped up by investment professionals long before you ever got a chance to see it? If this was a legitimate opportunity, doesn't it seem likely that the demand from investors would have dried up the supply of opportunities long before your name came up?
"The good news doesn't stop there. Not only can you get a way above average rate of return, but there is no risk to your capital."	Ask yourself: Is this a reasonable risk-reward statement? The rule of thumb is simple: As the potential for profit (or reward) rises, so too does the element of risk. The suggestion that sky-high returns can come with no risk is a sure tip-off to a scam.
"You must act now to take advantage of this incredible opportunity."	While it is true that some investment opportunities are fast moving and change from day to day or even hour to hour, a stranger pressuring you to act immediately is a major warning sign of an investment scam. Take the time to learn about any investment and the person promoting it. Consult first with someone—such as a trusted accountant, banker or lawyer—who might know more about the investment. Never send your money just because someone insists that you do so!

HOW TELEMARKETING FRAUD WORKS

What the con artist says...	The truth of the matter...
"We have secret information about a special contract that the company is getting with a Fortune 100 corporation."	This is another clear indication of a scam. Insider trading is a violation of federal law that can result in steep financial penalties and even jail time. The "secret" information or, in other scams, the claim of the recent discovery of revolutionary new technology is another tip-off that you should hang on to your wallet and hang up the phone!

LESSON OUTLINE: HOW TELEMARKETING FRAUD WORKS

OBJECTIVE	**Students will:** • Experience a fraudulent telemarketing situation. • Recognize the warning signs of fraud.
MATERIALS	• Two telephones, real or imagined. • Two chairs at opposite ends of a table. • "Investment Fraud Script" (Pages 4.17-4.19). • "Debriefing Session Discussion Questions" (Page 4.20).
PROCEDURES	**Teacher will:** • Discuss how to protect oneself from fraud using the overhead "Victim-Proof Yourself" (Page 4.22). • Select three participants with dramatic skills—a narrator, a swindler, and a potential victim. • Give the three players the script in advance so that they can review it prior to the role play. Encourage them to use their own words to express the key ideas. • Debrief the class after the first ending. Use the "Debriefing Session Discussion Questions" along with any questions generated by the group. • Have students proceed to read the second ending. Discuss the importance of using what they have learned to expose swindles.
ASSESSMENT	• Class participation.
ESTIMATED TIME	• 45-60 minutes of class time.

BEYOND THE CLASSROOM

- Students will discuss with a parent or other adult what they know about investment scams or victims. (Almost everyone knows someone or of someone who has been victimized in a scam.) They will then bring the stories back to class for a follow-up discussion.
- Students will search the Internet to learn more about scams promoted online. How are these scams similar to and how do they differ from the telemarketing scam in the role-play?
- Teachers may refer to Unit 3 to discuss how to check out a broker who is soliciting investments over the phone, in the newspaper, or through other mediums.

INVESTMENT FRAUD SCRIPT

Introduction (Narrator)

We are about to listen in on a telephone conversation between a boiler-room scam artist and a potential investor. The swindler is lying. The question is: Will the potential victim fall for the phony pitch? A "mooch" is what con artists call their victims.

Swindler: Hello, is this Mrs. Johnson? My name is Tim Thayer. My friends call me Tim and that's what I want you to do. I'm calling today to offer you the opportunity of a lifetime. Do you have a minute to hear how you can make a lot of money in a few short months?

Mooch: Well, I guess so. What's up?

Swindler: I am with the International Mining Company and for a limited time we are selling investment units in high-yield gold and silver mines in southern Texas. We guarantee that for each $1,000 you invest you will receive a $3,000 return on your money in just six months and there is no risk of loss whatsoever. Sound good?

Mooch: I don't know enough about gold and silver mining to invest.

Swindler: I understand, Mrs. Johnson, and I appreciate your concern. However, you probably don't know how to build a car—and neither do I—but that wouldn't keep us from investing in General Motors or Ford stock if we knew we would earn a lot of money. Doesn't it make sense, Mrs. Johnson, to just look at the return on your investment and leave the mining to us?

Mooch: I just don't know. My money is doing just fine in CDs.

Swindler: The truth, Mrs. Johnson, is that CDs are for suckers. The same goes for savings deposits, Treasury bills, municipals, and blue-chip stocks. You keep your money there earning its pitiful 3 to 6 percent a year and you can take it from me, Mrs. Johnson: The rich will stay rich and the poor—including you—will stay poor. What I'm talking about is putting an end to that. This is your chance to break out of the pack, move up to the big time, and take care of your future needs. Probably the hardest thing to do, Mrs. Johnson, is to make a decision. But let's face it, only the doers achieve success—because they reach out and grasp the opportunity. If you don't do anything, nothing gets done! Right?

Mooch: I have to think this one over.

Swindler: Our information is very clear or I haven't done my job. I have plenty of research information to help you make an intelligent decision. If you are a serious investor, you can check everything out. Our company has business offices throughout the United States, Europe, and the Pacific Rim. We enjoy an international reputation for good management. As a matter of fact, the Securities and Exchange Commission recently listed our company as the #1 investment company in safety and yield over the next 10 years. So, can you make a decision to invest today?

Mooch: I still need more information.

Swindler: Fine, Mrs. Johnson. I'll send all the information you need about our company and its highly trained mining engineers. This is no secret silver mine. We have mountains of research reports if you care to read and study them. Oh, by the way, Mrs. Johnson, you do have the cash available to take advantage of this investment opportunity, don't you?

Mooch: Yes, I have the money and it sounds like a good investment. I'd sure like to get that kind of return on my money, but it just sounds too good to be true. Will you put the guarantee in writing?

Swindler: This company is solid. You saw what happened to the savings and loan industry. And now the banks are in trouble. I wouldn't keep my money in any bank these days. Be safe. Put your money with us. How many units are you prepared to buy today?

Mooch: Oh, I'm not sure.

Swindler: Let me help you make the decision, Mrs. Johnson. A $10,000 investment today will yield $30,000 in just six months. What do you say?

Mooch: Let me think about it for a couple of days.

Swindler: Look, Mrs. Johnson, the deal is for today only. The opportunity will be gone tomorrow. You're not a procrastinator, are you? A courier will be at your house by 3 o'clock today. Just have your check or cash for $10,000 ready. You won't regret it.

Mooch: You sound honest, and the investment sounds good. I'll have my check ready today at 3 o'clock.

Conclusion 1:

Narrator: The victim gave the swindler $10,000 of hard-earned savings, and never heard from the con artist or saw her money again.

Mrs. Johnson was too embarrassed to tell anyone for days. By the time she told the authorities, the swindler had moved on to take money from a new set of people who trust too much. They let greed or fear distort their common sense.

Second Ending:

Swindler: Look, I can tell that you're a person that likes to put your money to work. You obviously are a savvy investor. You recognize a good investment when you see one. You will not be sorry. I guarantee it.

Mooch: As soon as I get your printed information I will discuss it with my investment adviser and my family. And by the way, Mr. Thayer, where did you say you are located? I need your address and the phone number of the headquarters office.

Swindler: You don't need to bother with all that information. Just trust me. Listen, Mrs. Johnson, this opportunity may be gone tomorrow. Units are selling fast. Shall I have a courier stop by your house today and pick up your check?

Mooch: Just send the information. I want to contact the nearest Better Business Bureau and the office of my state securities regulator. I like to check these things out, you know.

Swindler: Have a pencil handy? I can give you the number of the International Better Business Bureau. It's 1-800-999-9999. Check us out. I'll call you back in an hour.

Conclusion 2:

Narrator: The 800 number turned out to be a fraud, too. The person who answered the phone was hired by the National Mining Company to say nice things about the gold and sliver mine investment.

Mrs. Johnson did not invest, but rather reported the fraudulent telephone call to the state securities regulator. Local newspapers, radio, and TV newscasts picked up the story and warned others of the fraud.

The telemarketing scam moved on to the next victim. Mooches are plentiful and swindlers are difficult to catch. *Caveat emptor*—buyer beware.

Name______________________________ Date______________

INVESTMENT FRAUD SIMULATION

Debriefing Session Discussion Questions

1. What were the warning signs that this was a scam?

2. Why did this scam appeal to Mrs. Johnson?

3. How will this experience affect Mrs. Johnson's trust of people who offer to help her in the future?

4. When the swindler is caught, what would be an appropriate punishment for the crime?

Name____ Date__________________

INVESTMENT FRAUD SIMULATION: ANSWER KEY

Possible Responses to Debriefing Session Discussion Questions

1. **What were the warning signs that this was a scam?**
   High-pressure sales techniques
   Promise of high return on money
   No-risk investment, promise of safety
   Promise of an opportunity of a lifetime
   Lies and false promises
   Limited time offer, opportunity gone tomorrow
   Critical of common investments such as CDs and savings accounts

2. **Why did this scam appeal to Mrs. Johnson?**
   Swindler was friendly
   Mrs. Johnson wanted to get a good return on her investment
   Swindler assured her that she did not have to know about gold and silver in order to invest
   Swindler promised that this investment would help her take care of her future goals
   Swindler promised that information would be sent to Mrs. Johnson
   Mrs. Johnson believed that the investment was good

3. **How will this experience affect Mrs. Johnson's trust of people who offer to help her in the future?**
   The experience will probably cause Mrs. Johnson to distrust people who offer to help. It could cause her to pass up reasonable opportunities out of fear of being cheated. In this way, fraud poisons the atmosphere of legitimate business transactions.

4. **When the swindler is caught, what would be an appropriate punishment for the crime?**
   Have students consider such factors as the severity of the offense, the impact on the victim, the damage that fraud does to legitimate marketplace transactions, and the costs of protecting people from fraud. Suggested punishments will probably range from a small fine to time in jail. The criminal record is also a form of punishment.

VICTIM-PROOF YOURSELF

- ✦ **Stop and think before acting.**
- ✦ **Study the deal—and get advice.**
- ✦ **Stick to what you understand.**
- ✦ **Apply your critical thinking skills.**

Name____ Date__________________

UNIT 4 TEST

True or False

Read each statement carefully and mark T for True or F for False.

1. ______ People of all income levels and professions can be taken by investment fraud.
2. ______ State and federal officials estimate that financial swindles cost American consumers $40 billion a year.
3. ______ It is very easy to recognize the difference between people who sell fraudulent investments and those who are legitimate business people.
4. ______ States have agencies to fight investment fraud.

Multiple Choice

Circle the letter that answers the question correctly.

5. Which of the following statements is characteristic of securities fraud?

   A. Salesperson provides accurate and complete information.

   B. Salesperson is usually a local person who works for a reputable investment firm and is known to the family.

   C. Salesperson guarantees that the investor will make sky-high profits.

   D. Salesperson does not pressure for a quick decision.

Short Answer

6. List four characteristics of investment pitches that could be tip-offs that the deal is a scam.

7. A telemarketer calls saying you have won a trip and asks for your checking account number to hold your prize. What should you do?

UNIT 4—ANSWER KEY

True or False

1. True
2. True
3. False
4. True

Multiple Choice

5. C

Short Answer

6. High-pressure sales tactics, need for immediate decision, promises that sound too good to be true, promise of risk-free investments, no written information or inaccurate information, request for your credit card or checking account number, offer to pick up your money at your house, offer of a free gift or trip.

7. Hang up.