

## TIP SHEET: HOW TO SPOT PERSUASION RED FLAGS

Investment fraud criminals use a wide array of sophisticated and highly effective tactics to target and influence prospective victims. The truth is you encounter these tactics every day; they are used by legitimate businesses — in retail stores and in advertisements.

Read and share these common persuasion tactics with your friends and neighbors to learn what to look for and how to keep a level head when you encounter them. For more information, visit [www.SaveAndInvest.org](http://www.SaveAndInvest.org).

### Phantom Riches

Definition: Dangling the prospect of wealth by enticing you with something you want but cannot have.

Example: “These gas wells are guaranteed to produce \$6,800 a month in income.”

Red Flag Rule: Take time to think through the pitch. What is the salesperson really saying? Is he dangling incredible returns? Guarantees? Is he saying that the investment itself will lead to a different — and much better — lifestyle?

### Source Credibility

Definition: Capitalizing on the belief that it is better to deal with credible people in positions of authority.

Example: “Believe me, as a senior vice president of XYZ firm, I would never sell an investment that doesn’t produce.”

Red Flag Rule: A seller may have a corner office, framed diplomas or certificates and wear a suit. But credibility can be faked. Check out the seller’s actual qualifications at [www.SaveAndInvest.org](http://www.SaveAndInvest.org).

### Social Consensus

Definition: Leading you to believe that if everyone wants it, it must be good.

Example: “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.”

Red Flag Rule: Does the pitch focus on how many others are interested? Investing is a personal decision. Ask yourself if you are interested in the investment and if the objectives and risks are right for you.

## **Reciprocity**

Definition: Offering to do a small favor in return for a big favor.

Example: “I’ll give you a break on my commission if you buy now — half off.”

Red Flag Rule: Was the pitch preceded by a free meal, book or video? Do you feel obliged to do the salesman a favor? If someone does a small favor for you, don’t feel compelled do a big favor for them in return.

## **Scarcity**

Definition: Creating a false sense of urgency by claiming limited supply or limited time; if something is rare, it must be more valuable.

Example: “There are only two units left, so I’d sign today if I were you.”

Red Flag Rule: Is the offer good for only a limited time or in a limited quantity? Take time to evaluate the offer — don’t allow yourself to be rushed into making any financial decision. A legitimate offer will be there tomorrow.

*The FINRA Investor Education Foundation contributed the information in this tip sheet to help investors reduce their risk of investment fraud by learning the persuasion tactics fraudsters commonly use.*