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.

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.

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.*