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A PROJECT OF THE FINRA INVESTOR EDUCATION FOUNDATION®

Tips,  
Tools and  
Resources for  
Individuals

# How to Spot a “Free Lunch” Scam

**A free lunch or dinner invitation** can be a hard thing to pass up! As investors – you, your friends or family members might have gotten invited to free meals that include presentations on investment strategies. But be careful. They could be trying to defraud you of your hard-earned money! If you go, use this kit to spot scams and protect your friends and yourself from possible fraudsters.

## **INCLUDED IN THIS KIT:**

- 1** Overview
- 2** The Basic Steps
- 5** Tip Sheet: How to Spot Persuasion Red Flags
- 6** Checklist: What to Listen for at Free Lunch Investment Seminars
- 10** Additional Resources



# How to Spot a “Free Lunch” Scam

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## OVERVIEW

### The problem

Older investors are intensely targeted with investment offers, both legitimate and fraudulent. Research conducted on behalf of FINRA, the Financial Industry Regulatory Authority, found free seminars are the top way in which older investors receive unsolicited investment offers.

Investment professionals and companies often host free lunch or dinner seminars to educate potential investors about opportunities and products. Many times these seminars are hosted by legitimate companies with good intentions. However, invitees need to be careful; sometimes investment fraudsters use them to scam older adults out of their hard-earned savings!

Seminar hosts may claim “nothing will be sold” at these free lunches. But they could be trying to sell you and your friends fraudulent investments. After attending a free lunch seminar, more than one third of attendees were contacted about buying an investment product — and many felt pressured to invest. Remember, just because someone buys you a meal doesn’t mean you have to buy what they’re saying or selling.

### The solution

Become an AARP Free Lunch Monitor! You can learn how to easily spot the persuasion tactics fraudsters use and how to report them to AARP and the authorities.

### Time commitment

Only a few hours in order to attend a free lunch seminar as a monitor and report the information to AARP. If you only have a few minutes, simply send your free lunch seminar invitations to AARP.

### Special considerations

You or a friend or relative would need to be invited to a “free lunch or dinner investment seminar.” Or you might see an ad in your local newspaper. You may need to RSVP to attend.

### Who can do this?

Anyone who wants to help protect themselves and others in their community from investment fraud!

### Great reasons to do this project

You’ll be making the financial marketplace safer for you, your family, friends and neighbors!



Nearly six million Americans age 55 and older attended free lunch seminars in 2009.

Nearly one in four advisors holding free lunch seminars recommended investments that were unsuitable for the attendee.



Three times (21%) as many known investment fraud victims have attended a free lunch investment seminar compared to investors nationally (7%).



## The Basic Steps:

As a “free lunch” monitor, you’ll help keep your friends, family and neighbors safe from fraudulent investment practices and products.

You can follow these steps to monitor and report on seminars to which you’ve been invited. For more information, visit [www.aarp.org/nofreelunch](http://www.aarp.org/nofreelunch).

## Step 1: PREPARE FOR THE SEMINAR

- Sign up to attend the investment seminar if required.
- Print out the checklist found later in this guide titled What to Listen for at Free Lunch Investment Seminars, developed by AARP and the North American Securities Administrators Association (NASAA). It includes a list of questions and cues to help you, AARP and the authorities figure out whether the financial advisor is selling appropriate products or even fraudulent investments.
- Read the FINRA Investor Education Foundation’s Tip Sheet: How to Spot Persuasion Red Flags on the persuasion tactics that both legitimate financial professionals and fraudsters use to sell investment products.
- Learn the questions to ask a financial professional and how to check the answers provided.
  - ✓ Ask: Are you a licensed broker? Who are you licensed with to sell this investment? Is that investment registered?
  - ✓ Check: [www.SaveAndInvest.org/55Plus](http://www.SaveAndInvest.org/55Plus) to find ways to check if a professional is licensed and a product registered.

## Step 2: ATTEND THE SEMINAR

- Do not wear anything that says “AARP” or announces that you’re a “free lunch” monitor.
- Fill in your observations on the Checklist during or right after the seminars.

*One important note: AARP and Create The Good strongly discourage giving your personal information to anyone you don’t know and trust and inviting individuals you don’t know into your home.*



## Step 3: SEND YOUR NOTES TO AARP

- Send your completed Checklist along with the seminar invitation to AARP:
  - ✓ Mail to: AARP Free Lunch Monitor Program, PO Box 93028, Long Beach, CA, 90809, or
  - ✓ Scan and email the documents to: [nofreelunch@aarp.org](mailto:nofreelunch@aarp.org).
- AARP will share these checklists with state securities regulators to assist them in preventing fraud.

## Step 4: INSPIRE OTHERS ON CREATETHEGOOD.ORG!

### TELL US WHAT YOU DID!

We want to hear stories about how you helped give back to your community.

[www.CreateTheGood.org/stories](http://www.CreateTheGood.org/stories)

You just might inspire others to do the same.

### SHARE FEEDBACK

We are always looking for feedback on our materials, so please let us know how this guide was helpful or additional information you wish we could have included. Share lessons learned and other tips for others who are interested in becoming a Free Lunch Monitor at [www.aarp.org/community/groups/CreateTheGood](http://www.aarp.org/community/groups/CreateTheGood).

### KEEP UP THE GOOD!

Remember: Whether you’ve got five minutes, five hours or five days, you can make a positive impact in your community. And if you have more time, consider organizing another service activity, finding local opportunities and posting your events at [www.CreateTheGood.org](http://www.CreateTheGood.org).



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## ADDITIONAL INVESTMENT FRAUD PREVENTION ACTIVITIES

You don't need to attend a free lunch seminar to protect others from investment fraud. Here are a few other ways you can help in as little as five minutes!

- ***Send AARP free lunch seminar invitations or advertisements.***

If you get an invitation in the mail or see an advertisement for a free lunch seminar in the newspaper, sending it to AARP is an easy way to help. Knowing how these seminars are marketed helps AARP and securities regulators determine if investment professionals are truly working in the best interest of investors.

Send materials by mail to AARP Free Lunch Monitor Program, PO Box 93028, Long Beach, CA, 90809, or scan and email invitations to [nofreelunch@aarp.org](mailto:nofreelunch@aarp.org).

- ***Send regulators tips and complaints.***

Visit [www.SaveAndInvest.org/55Plus/Problems](http://www.SaveAndInvest.org/55Plus/Problems) for more information and to report abuse if you believe your family and friends — or you — have been defrauded or treated unfairly by a securities professional or firm.



## 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).

PERSUASION TACTICS	DEFINITION	EXAMPLE	RED FLAG RULE
<b>PHANTOM RICHES</b>	Dangling the prospect of wealth by enticing you with something you want but cannot have	“These gas wells are guaranteed to produce \$6,800 a month in income.”	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?
<b>SOURCE CREDIBILITY</b>	Capitalizing on the belief that it is better to deal with credible people in positions of authority	“Believe me, as a senior vice president of XYZ firm, I would never sell an investment that doesn’t produce.”	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 <a href="http://www.SaveAndInvest.org">www.SaveAndInvest.org</a> .
<b>SOCIAL CONSENSUS</b>	Leading you to believe that if everyone wants it, it must be good	“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.”	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.
<b>RECIPROCITY</b>	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.”	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 to do a big favor for them in return.
<b>SCARCITY</b>	Creating a false sense of urgency by claiming limited supply or limited time; if something is rare, it must be more valuable.	“There are only two units left, so I’d sign today if I were you.”	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.



## CHECKLIST: WHAT TO LISTEN FOR AT FREE LUNCH INVESTMENT SEMINARS

### 1. How did you find out about the session?

- Newspaper
- Mailed Invitation
- Other \_\_\_\_\_

### 2a. Where was the event held? (City and state)

### 2b. Date of Event

### 3. Who was listed as the event sponsor/host?

### 4. What topics were discussed during the presentation?

### 5. What was the name of the speaker(s)?

### 6. Did the speaker use a title that suggested he or she was particularly qualified to advise older investors?

- Yes
- No

### 7. What credentials or licenses did the speaker(s) say he or she had? (Write “none mentioned” if appropriate.)

### 8. Provide the name of any broker or financial adviser recommended or associated with the presentation.

### 9. Provide the name of any company whose investment products were recommended or associated with the presentation.



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**10. Did the speaker say or suggest in any way that AARP, FINRA, SEC, NAIC, NASAA or a state regulator was involved, had endorsed the session or the product, had sponsored the event or had provided your name for the invitation list?**

Yes       No

**11. Did you feel pressured to make an immediate decision?**

Yes       No

**12. Was a home visit or appointment mentioned as a follow-up to the event?**

Yes       No

**13. Have you been contacted as a result of the seminar, even if you did not ask to be?**

Yes       No

**14. Were you asked to provide information about your finances or investment holdings, such as stocks, bonds or mutual funds?**

Yes       No

**15a. For any mentioned investment product:**

What rate of return was promised? \_\_\_\_\_

**15b. Was the investment represented as being qualified for a 401(k) or IRA rollover?**

Yes       No

**16a. Were any of these investment opportunities mentioned?**

Real estate

Yes       No

Oil or gas

Yes       No

Start-up companies

Yes       No

Promissory notes

Yes       No

Other \_\_\_\_\_



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## 16b. Did the speaker balance both the advantages and disadvantages for the product?

Yes  No

## 17a. Did the speaker talk about any of the following annuities?

Variable annuities?

Yes  No

Deferred annuities?

Yes  No

Equity-indexed annuities?

Yes  No

Fixed immediate annuities?

Yes  No

Other \_\_\_\_\_

## 17b. Did the speaker discuss the risks associated with these products?

Yes  No

## 17c. Did the speaker disclose the surrender charges and tax penalties if the annuities were cancelled early?

Yes  No

## 17d. Were you encouraged to purchase an annuity?

Yes  No

## 18a. What other products were mentioned at the presentation or in the marketing materials?

Living trusts

Yes  No

Prescription drug or medical-discount programs

Yes  No

Life insurance

Yes  No

Reverse mortgages

Yes  No

Long Term Care insurance

Yes  No

Other \_\_\_\_\_



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**18b. Did the speaker balance both the advantages and disadvantages of the product?**

Yes       No

**19. Were any of these phrases emphasized at presentation or in marketing materials?**

“You have to decide today.”

Yes       No

“Only a few opportunities are left.”

Yes       No

“There’s a high rate of return.”

Yes       No

“The risk is low.”

Yes       No

“People are making a lot of money from similar investments.”

Yes       No

**NAME:**

\_\_\_\_\_

**ADDRESS:**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**EMAIL ADDRESS:**

\_\_\_\_\_

Yes, please keep in touch with me by email about Create The Good and other activities, events and member benefits.

**Share additional comments on the back.**

Send completed checklist to:

AARP Free Lunch Monitor Program

PO Box 93028

Long Beach, CA 90809

Or scan and email to [nofreelunch@aarp.org](mailto:nofreelunch@aarp.org).



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## ADDITIONAL RESOURCES

For additional information about ways to help your family, friends and neighbors outsmart investment fraud, check out these tools.

### *Learn More about Investment Fraud*

- [www.SaveAndInvest.org/55Plus](http://www.SaveAndInvest.org/55Plus) is an online resource developed by the FINRA Investor Education Foundation to help you understand the everyday behaviors that may put you at risk of investment fraud and the influence tactics used by fraudsters to perpetrate their crime. It also can help you verify the licensing of investment products and professionals.
- **Your state securities regulator** can provide information about the seller and also take enforcement action. To find your state regulator, visit [www.nasaa.org](http://www.nasaa.org) or call (202) 737-0900.
- **“Trick\$ of the Trade: Outsmarting Investment Fraud”** is a free, hour-long documentary DVD developed by the FINRA Investor Education Foundation, in collaboration with AARP, that uncovers the persuasion tactics that con artists use to defraud their victims and the basic tools you can use to defend against fraud. Visit [www.CreateTheGood.org/fightfraud/DVD](http://www.CreateTheGood.org/fightfraud/DVD) or call 866-973-4672.
- **Fraud prevention brochure in Spanish:** Cómo combatir el fraude financiero [www. SaveAndInvest.org/CombataFraude](http://www.SaveAndInvest.org/CombataFraude)

### *Help Protect Your Friends from Investment Fraud*

- Download the Help Others Outsmart Investment Fraud Guide at [www.CreateTheGood.org/fightfraud](http://www.CreateTheGood.org/fightfraud).

### *Check Out AARP’s Investor Protection Articles*

- **“Your Financial Future: Investor, Protect Thyself”** is an AARP Bulletin article [http://www.aarp.org/work/retirement-planning/info-01-2010/your\\_financial\\_future\\_investor\\_protect\\_thyself.html](http://www.aarp.org/work/retirement-planning/info-01-2010/your_financial_future_investor_protect_thyself.html) highlighting the tools and information available on the Securities and Exchange Commission’s investor education and protection website, [www.Investor.gov](http://www.Investor.gov).
- **AARP’s Bulletin Today** provides **Scam Alerts** to help investors protect their family and friends — and themselves — from investment and other types of fraud. Visit <http://www.aarp.org/money/scams-fraud/> to read about the latest scams.

### *Explore Persuasion and Investment Fraud on a Deeper Level*

- **Protecting Older Investors: 2009 Free Lunch Seminar Report** is based on extensive research done by AARP. It provides interesting insight on free lunch investment seminars from a consumer’s perspective. Visit [www.aarp.org/money/scams-fraud](http://www.aarp.org/money/scams-fraud).



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- **Off the Hook Again: Understanding Why the Elderly Are Victimized by Economic Fraud Crimes** is a research report conducted by the **Consumer Fraud Research Group** that identifies the persuasion tactics con criminals use in investment scams. Visit [www.SaveAndInvest.org/55Plus/Resources](http://www.SaveAndInvest.org/55Plus/Resources).
- **Dr. Robert Cialdini’s Influence: The Psychology of Persuasion** (revised edition, 2007) explains six universal principles, how to use them to become a skilled persuader and how to defend yourself against them.
- **Dr. Anthony Pratkanis’ and Douglas P. Shadel’s Weapons of Fraud** (2005) helps readers identify the underlying building blocks of today’s most popular scams and prepares consumers to recognize and protect themselves from the scams of tomorrow.

## MORE INFORMATION

### CREATE THE GOOD

Create The Good ([www.CreateTheGood.org](http://www.CreateTheGood.org)) is a network of people sharing tools and ideas to help make a difference on their own or in larger groups in their communities. It is powered by AARP and the AARP Foundation’s more than nine million volunteers, donors and activists. [www.CreateTheGood.org](http://www.CreateTheGood.org) offers local volunteer opportunities as well as ideas for self-directed activities and how-to videos for simple service projects people can organize on their own, like weatherizing homes, starting healthy walking groups, fighting fraud, preparing for a hurricane and other needs.

### FINRA AND THE FINRA INVESTOR EDUCATION FOUNDATION

FINRA is an independent regulatory organization empowered by the federal government to ensure that America’s 90 million investors are protected. 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. FINRA and the FINRA Investor Education Foundation do not sell investment products, promote products or firms or offer specific investment advice.

The FINRA Foundation’s Investor Protection Campaign, [www.SaveAndInvest.org](http://www.SaveAndInvest.org), is a targeted effort to reduce the incidence of investment fraud among older investors by teaching the tactics most commonly used by fraudsters and the simple steps every investor can take to reduce their risk.

To increase your fraud-fighting knowledge, please visit [www.SaveAndInvest.org](http://www.SaveAndInvest.org).