

Consumer Alert

Federal Trade Commission ■ Bureau of Consumer Protection ■ Office of Consumer and Business Education

How to Avoid Losing Your Money to Investment Frauds

Washington, D.C. — Every year, Americans lose more than a billion dollars to investments that turn out to be fraudulent. Companies engaged in fraud often operate a particular scam for a short time, quickly spend the money they take in, and then close down before they can be detected. They reopen under another name selling another investment scam.

Fraudulent investment promoters are glib and resourceful. They may tell you that they have high-level financial connections; that they're privy to inside information; that they'll guarantee the investment; or that they'll buy back the investment after a certain time. To close the deal, they may serve up phony statistics, misrepresent the significance of a current event, or stress the unique quality of their offering to deter you from verifying their story.

The Federal Trade Commission suggests that potential investors can avoid losing their money if they could only recognize a phony sales pitch. Here's what to listen for:

- ❖ A "ground floor opportunity" for you to realize a better return on this investment than any other you're involved in.
- ❖ Guarantees of big profits in a short time.
- ❖ Claims that no risk is involved.
- ❖ Lots of pressure to act now because the "market is moving."

In addition, the FTC advises potential investors to:

Invest in opportunities you know something about. It's unlikely you will make money in a business deal you can't understand or verify. Don't rely on the seller's representation of the investment's value.

Be skeptical about unsolicited phone calls about investments, especially those from out-of-state salespeople or companies you never heard of. If the deal sours, you may find it very hard to get your money back.

Get all the information you can about the company and verify the data. Before you invest with any company, check the seller's materials with someone whose financial advice you trust.

Beware of testimonials. Fraudulent companies sometimes hire references to claim that the firm's investments brought them sudden wealth. Ponzi schemes — where promoters use money from new investors to pay high returns to early investors — may explain the praises.

If in doubt, don't invest. Before you invest, ask tough questions and get information from a variety of sources. If you can't get solid information about the company and the investment, you may not want to risk your money.

For more information about investment scams, visit the FTC at www.ftc.gov on the Internet, or write: Investment Scams, Consumer Response Center, FTC, Washington, D.C. 20580. For more information about the public offer and sale of securities by companies in your state, visit the North American Securities Administration Associates at www.nasaa.org on the Internet or call toll-free 1-888-84-NASAA.

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The FTC and NASAA are proud to be part of the Alliance for Investor Education.