

TOTAL BULL AND BS

A recent study undertaken to investigate consumer and investment fraud by NASD Investor Education Foundation sought to understand how victims of investment fraud differ from non-victims and whether financial literacy might help prevent investment fraud. The study reviewed investment pitches provided by law enforcement agencies to the AARP after victims of elder fraud were identified who had received calls from criminal con men [or women].

The results of the study were surprising in that:

- Investment fraud victims scored higher on financial literacy tests than non-victims
- Investment con artists use a number of “influence tactics” to defraud investors
- Investment fraud victims are more self reliant and more likely to listen to sales pitches
- Investment fraud victims are more optimistic about the future in a “wishful thinking” manner than non-victims
- Investment fraud victims are more resistant to hiring lawyers, accountants and financial planners than non-victims

The implications of this study are that investor education alone will not prevent investor fraud. The study found that the tactics used by the fraudsters did not differ substantially from the persuasion techniques used by legitimate salesmen, either in telemarketing, on television, or otherwise. The techniques common to the sales pitches include the following:

- Phantom Fixation—dangling the prospect of wealth and riches
- Scarcity—making the product offered seem rare to increase its value
- Source Credibility—claiming to be from a known legitimate business
- Friendship—appearing to be the victim’s friend
- Commitment—victim makes an early commitment, used against the victim



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- Social Consensus—the con makes it seem everyone is buying the product
- Reciprocity—the con will do a small favor to put pressure on the victim to reciprocate
- Landscaping—structure the interaction with the victim so all roads lead to where the con wants it to go
- Profiling—identifying the victim’s psychological hot buttons through extensive questioning
- Fear—use of fear and intimidation to persuade the victim
- Authority—the con plays the role of an authority figure in order to put the victim in a role as agent of that authority
- Dependent—the con plays the role of a helpless dependent to put the victim in the role of a parent who will help by buying whatever he is selling

the victim’s psychological hot buttons through extensive questioning

Many victims of investment fraud report that they felt in a psychological haze that changes a normal ability to spot and resist persuasion. One con man related that “my pitch puts the victim in a haze of ether...I wanted to sell them as soon and as often as I could before the ether wore off.”

The conclusion is that in addition to financial literacy, education in rudimentary persuasion techniques is necessary to protect oneself from both legitimate and criminal “influence tactics.”

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