Protecting Your Investments from Fraud

PICPA
Pennsylvania Institute of Certified Public Accountants

Scams attract unwitting investors with promises of huge profits in a short period of time. Here are seven tips from CPAs to help protect you against fraudulent investment schemes.

Know the person you are dealing with.

Don't let appearances fool you. Fraudulent promoters often create the illusion of a successful business by renting office space, printing slick promotional materials, and issuing stock certificates. A legitimate investment professional must be properly licensed and registered with at least one of the following:

- Financial Industry Regulatory Authority (FINRA) – www.finra.org/brokercheck
- Securities and Exchange Commission (SEC) – www.sec.gov
- Applicable state securities commission – www.psc.state.pa.us (for Pennsylvania)

In addition to the investment professional being licensed, the products must usually be registered. To check out a particular investment you can go to www.sec.gov/edgar.shtml.

Be wary of any references provided by an unsolicited promoter. The person touting the investment could be a company insider or paid promoter hired to tell you that the firm's investments brought him or her enormous wealth. Also, question any high-profile names a promoter claims have come aboard. Even high-profile investors have been swindled.

Be wary of high-pressure telemarketers.

Telemarketing is a legitimate way for businesses to contact potential customers, and many investment firms use this method. However, be wary of aggressive cold callers who tell you to "act now, before it's too late!" High-pressure pitches are often used to get you to buy an investment before you have had a chance to understand and research it. Chances are these individuals are trying to fill their own pockets with your money. The elderly should be particularly cautious as some swindlers prey on older individuals.

Make sure an investment is consistent with your needs and fits your plan.

Be sure that any investment presented to you meets your objectives. Before you put your money on the line, consider whether the investment makes sense for your age, long-term goals, liquidity needs, and tolerance for risk. If you don't understand what you are being sold, get professional advice from a CPA or don't make the purchase.

Use caution when investing over the Internet.

The Internet can be an excellent resource for investors, but it also can be dangerous. The Internet makes it easy for scammers to make their messages look credible. Without spending much time or money, anyone can build a website, send thousands of spam e-mails, and publish an official-looking online investment newsletter. There are legitimate ways to buy stock over the Internet, but make sure you're dealing with a genuine business engaged in a legitimate venture.

Obtain written financial information.

Before you invest, always obtain written financial information about the investment, such as a prospectus, annual report, offering circular, and financial statements. Take the time to read and understand these documents. If you don't thoroughly understand the information, hire a CPA to help you make sense of the numbers and disclosures. In addition, you should always receive confirmations of transactions and be able to access your account online.

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Don't believe everything you hear.

Bad information and false news reports are plentiful. Before you act on information from neighbors, friends, or an unknown Internet source, verify the facts by visiting the company's website or contacting its investor relations department.

If it sounds too good to be true, it probably is.

Stay in charge of your money.

This is vital if you want to protect your financial future. Seek advice from a trusted financial adviser, such as your CPA, in developing an investment strategy that addresses your unique needs. Then, be sure to monitor the performance of your investments regularly. Vigilance is one of the most effective ways to protect yourself against fraud.

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