FINRA Investor Education FOUNDATION

Senior Fraud Risk Survey

In August 2007, the FINRA Investor Education Foundation commissioned Applied Research & Consulting LLC to conduct a national investment fraud risk survey among older investors ages 55-64 to capture and benchmark behavioral norms associated with financial risk taking and susceptibility to fraudulent investment tactics. A separate survey was conducted with identified victims of fraud to provide a comparison among attitudes and behaviors.

Findings from the national survey show that a majority of older investors do not perceive themselves as vulnerable to investment fraud, yet many of their reported investment behaviors put them at risk of becoming fraud victims:

- A majority of seniors indicated they did not check the registration status of a broker (65 percent) or a broker's background for any broken laws or violations (78 percent).

- A significant number of seniors (68 percent) did not check the registration of an investment product.

- Personal relationships factor into senior investor decision making. More than 40 percent have hired a broker recommended by a friend, relative, co-worker or neighbor. Roughly 35 percent (33 percent) have bought investments recommended by a friend, relative, co-worker or neighbor; and 23 percent indicated they rely on investment "tips" from people they know.

- Among identified victims of fraud, these numbers are significantly higher. Nearly 60 percent (58 percent) have hired a broker based on recommendations from family and friends; 70 percent have bought investments.

- Among seniors, identified victims of fraud were three times more likely to attend a free lunch seminar (21 percent compared to seven percent respectively).

- While 75 percent of seniors have not had an investment professional tell them they have a special accreditation to advise senior investors, of those who have, nearly half (46 percent) indicated it made them more likely to listen to their advice.

Financial Industry Regulatory Authority
Investor Education Foundation

1735 K Street, NW
Washington, DC
20006-1506

t 202 728 6964
www.finrafoundation.org

FINRA Foundation Senior Fraud Risk Survey Topline Findings

Following are topline findings from the FINRA Foundation Senior Fraud Risk Survey. Statistical differences between the 371 respondents from the National Sample (this number excludes the 29 self-identified fraud victims in the National Sample) and the Victim Sample (101 respondents) are noted.

Interviews were conducted by telephone between August 9 and August 27, 2007.

- **National Sample Criteria**
  Americans age 55-64 with at least $2,000 in securities investments were interviewed. Total data from the national sample has been weighted to reflect equal gender distribution.

- **Victim Sample**
  101 interviews were conducted from a national list, obtained from law enforcement, of individuals who are known victims of specific investment frauds. Their ages ranged from 25 to 85 and they had net household investments ranging from less than $2,000 to more than $750,000.

National Sample Findings (N=371)

Investor History

- Most investors surveyed have been investing for a long time, 81 percent for 10 or more years, and 53 percent for 20 or more.
- Only a slight majority of those surveyed (57 percent) use a **professional advisor (**70 percent used this professional for six or more years**)** indicating many investors navigate their investments on their own.

Investment Interest/Ownership

Respondents were asked to rate their level of interest in a range of investment vehicles (from mutual funds and CDs to private investments and hedge funds).

- The more traditional (mutual funds, stocks, CDs, bonds and fixed annuities) – and generally **less risky** – investments garnered the **most *interest***.
- 58 percent of the national sample respondents showed significant ***interest*** (rating five to seven on a seven-point scale) in at least one **risky investment**.
- 52 percent of the national sample respondents actually currently ***own*** or have owned one of the **risky investments**, with victim significantly more likely (73 percent) to own or have owned one.
- Victims are significantly more likely than National Sample respondents to *show interest* **in the riskier investments** of commercial real estate, promissory notes secured by real estate, sale and leaseback contracts.
- Victims are significantly more likely to have *owned* **penny stocks** (31 percent), **commodities, futures/options** (23 percent), **promissory notes secured by real estate** (26 percent), **private investments in foreign currency or foreign banks** (24 percent) and are significantly less likely to have owned **bonds** (58 percent).

Sales Tactics Affinity

Respondents were asked to rate their interest in investments based on a series of persuasive statements that might be made by a salesperson, such as “This stock has outperformed the Dow Jones each year for the last five years,” and “There is no way to lose on this investment – it is fully guaranteed.”

- **“I am licensed broker through NASD”** garnered only slightly greater interest than the red flag statement, **“The lowest return you can get is 50 percent annually.”**

- One in five investors in the national sample **can't spot persuasion used by con men**.

Broker/Investment Background Checking

- A **strong majority of respondents did not check** their broker's or investment product's registration.
- Most respondents (65 percent) have **not checked the registration status of a broker**.
- Most respondents (78 percent) **have not checked the background of a broker** to see if that broker had not broken any laws.
- Most (68 percent) **have not checked the registration of an investment product**.

Broker/Investment Recommendations

- 41 percent have **hired a broker** recommended by a friend, relative, co-worker or neighbor**.** Significantly more victims (58 percent) have done so.
- 33 percent have **bought investments** recommended by a friend, relative, co-worker or neighbor. Significantly more (70 percent) fraud victims bought investments so recommended.
- 23 percent of the National Sample stated **they rely on tips** from family members, friends, business associates or church members
- **Before a major investment**, about as many respondents consult with a financial planner or an accountant (43 percent) as went online to find out about it (44 percent).
- Three times (21 percent) as many victims in the 55-64 age category went to a **free lunch seminar** than did the national sample respondents (7 percent).

Securities Risk Awareness

- 40 percent of the national sample **inaccurately believes that the FDIC insures** consumers against losses in the stock market. Many believed that the SEC (33 percent) and the Securities Investment Protection Corp (20 percent) offer the same insurance.
- Only 32 percent knew that no organization **insures consumers against stock market losses.**

Fraud Risk

- 58 percent of respondents felt that they had a **below average chance of being taken in an investment fraud,** and 75 percent believe they have an **above average ability** to resist high-pressure sales tactics.
- Only 13 percent of national sample respondents said they **prefer riskier investments** with higher than average returns to safe investments with average returns. Twice the amount (25 percent) of the victims preferred riskier investments.

Senior Designations

- 75 percent of respondents say that they **have not had any investment professional tell them that they are specifically accredited** to advice on senior financial issues.
- Of those who have heard a person state an accreditation, 46 percent say it **made them more likely to listen to their advice**.
- Interestingly, the **fabricated** "Certified Senior Advisor for Senior Investing" ranked in the middle of the **bottom tier**, but **higher than** the very rigorous – and highly respected by regulators – **Chartered Financial Analyst**.

Percentage of national sample and known victim respondents stating that various professional accreditations would make them more likely to take the advice of someone who had the accreditation.

Accreditation Title	Percent Likely to Take Advice	
	National Sample	Victims
CPA or Certified Public Accountant	71 percent	78 percent
CFP or Certified Financial Planner	64 percent	73 percent
Registered broker	63 percent	66 percent
Registered investment adviser	39 percent	51 percent*
CLU or Certified Life Underwriter	24 percent	18 percent
Certified Senior Advisor	20 percent	17 percent
Certified Senior Consultant	19 percent	22 percent
Certified Advisor for Senior Investing **	17 percent	15 percent
CFA or Chartered Financial Analyst	17 percent	18 percent
Chartered Retirement Planning Counselor	17 percent	16 percent
Elder Care Asset Protection Specialist	14 percent	9 percent
Certified Elder Planning Specialist	13 percent*	7 percent
Chartered Advisor for Senior Living	7 percent	9 percent

*** Indicates that the reported percentage is significantly greater than the opposing sample.**
**** Fabricated designation.**

Additional Findings from the Known Victim Sample (N=101)

- Even though all of the known victims were victimized, **only 88 percent admit** to having lost money in an investment.
- Only **50 percent state they lost money** due to being misled or defrauded.
- Of victims who admit to being defrauded, **only 56 percent reported** the broker or company to anyone.
- Of victims who admit to being defrauded, **82 percent were introduced** to the broker or firm through a friend or family member. Of those, 52 percent were introduced in-person.
- One in four (27 percent) victims were contacted by the seller who defrauded them **by telephone**.