Complex strategies: Avoid anyone who credits a highly complex investing technique for unusual success. Legitimate professionals should be able to explain clearly what they are doing. It is critical that you fully understand any investment you are seriously considering – including what it is, what the risks are and how the investment makes money.

Missing documentation: If someone tries to sell you a security with no documentation – that is, no prospectus in the case of a stock or a mutual fund, and no offering circular in the case of a bond – he or she may be selling unregistered securities.

Account discrepancies: Unauthorized trades, missing funds or other problems with your account statements could be the result of a genuine error – or they could indicate churning or fraud. Keep an eye on your account statements to make sure account activity is consistent with your instructions, and be sure you know who holds your assets.

A pushy salesperson: No reputable investment professional should push you to make an immediate decision about an investment, or tell you that you have got to "act now." If someone pressures you to make a quick decision on a stock sale or purchase, steer clear.

HOW CAN I PROTECT MYSELF?

It is critical that you ask questions about investments and the people who pitch them – and then verify the answers – before you invest.

Check Out the Investment Professional: Ask whether and where the promoter of an investment opportunity is registered to sell you the investment. A legitimate financial professional and his or her firm must be registered with the Bureau, FINRA, or the S.E.C. – depending on the type of business the individual or firm conducts. Then, independently verify that information by visiting **www.NJSecurities.gov**.

Check Out the Investment: Ask whether and where the investment is registered. With very few exceptions, companies must register their securities before they can sell shares to the public. You can find out whether a product is registered with the S.E.C. by using the EDGAR database (**www.sec.gov/edgar.shtml**), or with the Bureau by calling **1-866-I-Invest**.

IF A PROBLEM OCCURS

Don't be embarrassed if you are a victim of fraud. If you feel that you have been a victim of fraud or of abusive practices by a consultant, advisor, family member or friend, file a complaint with the Bureau:

Online: **www.NJSecurities.gov**
By Phone: **1-866-I-Invest**

AVOIDING INVESTMENT SCAMS

*The **New Jersey Bureau of Securities** ("Bureau") is committed to protecting New Jersey residents from becoming victims of investment fraud. This guide will assist you in identifying investor scams, as well as give you tips regarding how to avoid becoming a victim of fraud.*

New Jersey Bureau of Securities

COMMON INVESTMENT SCAMS

Investment scams can take many forms. While the sales pitch might change, the most common securities frauds tend to fall into the following general schemes:

Pyramid Scheme: A fraudster claims that he or she can turn a small investment into a large profit within a short period of time. In reality, participants make money solely by recruiting new participants into the program. The fraudsters behind these schemes typically go to great lengths to make their programs appear to be legitimate multi-level marketing schemes. Pyramid schemes eventually fall apart when it becomes impossible to recruit new participants.

Ponzi Scheme: A central fraudster collects money from new investors and uses it to pay purported returns to earlier-stage investors, rather than investing or managing the money as promised. Like pyramid schemes, Ponzi schemes require a steady stream of incoming cash to stay afloat. But, unlike pyramid schemes, investors in a Ponzi scheme typically do not have to recruit new investors to earn a share of the "profits." Ponzi schemes tend to collapse when the central fraudster can no longer attract new investors or when too many investors attempt to get their money out – for example, during turbulent economic times.

Pump-and-Dump Scheme: A fraudster deliberately buys shares of a very low-priced stock of a small, thinly traded company and then spreads false information to drum up interest in the stock and increase its stock price. Believing they are getting a good deal on a promising stock, investors create buying demand at increasingly higher prices. The fraudster then dumps his shares at the high price and vanishes, leaving many people caught with worthless shares of stock.

COMMON FRAUDULENT SALES TACTICS

Investment fraudsters make their living by making sure the deals they tout appear both good and true. Some of the most common tactics include:

The "Phantom Riches" Tactic: Dangling the prospect of wealth, enticing you with something you want. "These gas wells are guaranteed to produce $6,800 a month in income."

The "Source Credibility" Tactic: Trying to build credibility by claiming to be a reputable authority or expert. "Believe me, as a senior vice president of XYZ Firm, I would never sell an investment that does not produce."

The "Social Consensus" Tactic: Leading you to believe that other savvy investors have already invested. "This is how ___ got his start. I know it is a lot of money, but I am in – and so is my mom and half her church – and it is worth every dime."

The "Reciprocity" Tactic: Offering to do a small favor for you in return for a big favor. "I will give you a break on my commission if you buy now – half off."

The "Scarcity" Tactic: Creating a false sense of urgency by claiming limited supply. "There are only two units left, so I would sign today if I were you."

RED FLAGS OF FRAUD

To stay on guard and avoid becoming drawn into a scam, look for these warning signs of investment fraud:

Guarantees: Be suspicious if anyone guarantees that an investment will perform a certain way. All investments carry some degree of risk.

Unregistered products: Be highly skeptical of any investment that is not registered or that is being sold by an unregistered financial professional or a security that is not registered.

Overly consistent returns: Any investment that consistently goes up month after month – or that provides remarkably steady returns regardless of market conditions – should raise suspicions, especially during turbulent times.