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No Free Lunch

<http://www.fool.com/personal-finance/general/2007/09/11/no-free-lunch.aspx>

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It shouldn't come as any surprise that there's no such thing as a free lunch. Still, the fancy invitations that arrive from investment firms requesting one's attendance at a posh function, promising both a lovely lunch and financial success, can prove alluring.

Don't do it -- especially if you're a senior.

The report

A recent investigation conducted by the Securities and Exchange Commission, the Financial Industry Regulatory Authority (FINRA), and state regulators into "free lunch" seminars has revealed these sessions to be largely high-pressure sales pitches aimed at seniors. The group studied practices in seven states with high populations of retirees: Alabama, Arizona, California, Florida, North Carolina, South Carolina, and Texas. The investigators found that those at the seminars frequently provided misleading claims and pushed unsuitable financial products, and even fraud.

The report takes aim at investment firm supervisors for failing to properly supervise their employees. Although a firm's supervisors are required by law to approve sales pitches and marketing materials, nearly 60% of the 110 firms subject to the review did not do so. Other alarming findings include that nearly half of the examinations conducted included misleading claims, 23% included unsuitable recommendations, and 13% appeared fraudulent, such as liquidating an account without a customer's consent or selling bogus investments.

The background

The "free lunch" report grew from an effort that started in May 2006, with the SEC and state regulators covering active investor education and outreach to seniors. They also looked to detect abusive sales tactics aimed at seniors and encouraged aggressive enforcement of securities laws in cases of fraud against seniors.

While all of us can fall prey to scams, why do the elderly get targeted so often? It's not because they're any less sophisticated than younger folks. Rather, it's where scam artists find the money. The SEC estimates that 75% of the nation's consumer financial assets, valued at \$16 trillion, are held by households led by someone older than 50. Fraudsters take note of that demographic and try to take advantage of the worries often incumbent on retirees. Although individuals ages 60 or older represent only 15% of this country's total population, they comprise 30% of fraud victims.

At first, you might think that con artists try to find people who know nothing about finance. But a study in 2004 funded by the National Association of Securities Dealers' Investor Education Foundation found that victims of investment fraud score higher on financial literacy tests than nonvictims. This discovery suggests that those literacy programs are important, but aren't enough to deflect the wide array of influence tactics used to defraud victims. The AARP has identified several strategies often used by con artists, including:

- **Reciprocity.** A small favor, such as a free lunch, is used to induce the victim to return the

favor by buying the investment.

- **Phantom fixation.** A prize such as an enormous promised return is used to entice a victim.
- **Social consensus.** A victim becomes convinced that peers and other respected members of a community are all making this particular investment.
- **Scarcity.** A false time-sensitive situation is presented that pressures victims to act quickly on an investment before it's too late.

Continuing efforts

The regulators aren't sitting idly by while announcing their findings. The report urges firms to take steps to assure that supervisory procedures concerning sales seminars are being implemented effectively. SEC Chairman Christopher Cox said that "the SEC and our fellow regulators intend to put a stop to this. ... We will sanction crooks who try to feast on the life savings of older investors." In the past two years, the SEC has brought more than 40 enforcement actions against frauds targeting older investors.

FINRA also has been examining other pitches targeting older investors, including retiring early and cashing out 401(k) accounts, selling risky collateralized mortgage obligations, marketing of "senior financial investment specialists" and life settlement transactions, in which the holder of a life insurance policy sells it to a third party for more than its cash surrender value but less than the net death benefit. On Monday, the regulators and the AARP hosted the second annual Seniors Summit to help seniors identify and avoid potential swindles.

Conclusion

Not all investment presentations are scams. If an oceanside seafood buffet proves just too much to resist, then go -- but leave your wallet and brokerage account statements at home. Know that you're attending a sales seminar that may be sponsored by an undisclosed company with a financial interest and intended to result in the purchase of financial products, not an unbiased educational presentation. Research the broker, firm, and product thoroughly, and take your time before deciding on whether to make an investment or open an account.

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