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“Free Lunch” Investment Seminars: Avoiding the Heartburn of a Hard Sell

Investors frequently get invited to free seminars that promise to educate them about investing strategies or managing money in retirement—often with an expensive meal provided at no cost. But just because someone buys you breakfast, lunch or dinner doesn't mean you have to buy what they are saying—or selling.

We are issuing this Alert because, in many cases, free-meal investment seminars are not solely about education. Their ultimate goals are to recruit new clients and sell products—and while some pitches can be easy to swallow, the consequences can be hard to bear.

They're Popular

Free investment seminars are widespread. According to a recent survey by the FINRA Investor Education Foundation, 4 out of 5 investors age 60 and above (78 percent) got at least one invitation to a free investment seminar in the past three years—and 3 out of 5 (nearly 60 percent) got six or more. Not all of these invitations are being tossed out: nearly 25 percent of all those investors said that they went to at least one seminar in the three years. On the other hand, the good news is that relatively few older investors who do attend seminars actually buy anything—only about 9 percent.

If you haven't been invited to a free-meal investment seminar yet, you likely will be. And if you decide to go, you need to be prepared.

What's Wrong with a Free Meal?

Potentially nothing. But problems can sometimes arise when the sponsor of the event or one of the lead speakers has something to sell, even though the invitation might state otherwise. Other times, problems can arise after the seminar—during follow-up contacts from the speaker or sponsor.



Alert. Securities regulators, including FINRA, the U.S. Securities and Exchange Commission, and state regulators, recently conducted more than 100 examinations involving free-meal seminars. In half the cases, the sales materials—including the invitations and advertisements for the events—contained claims that appeared to be exaggerated, misleading or otherwise unwarranted. And 12 percent of the seminars appeared to involve fraud, ranging from unfounded projections of returns to sales of fictitious products.

Before you attend a free-meal investment seminar—whether for fun, good food, or to learn more—be aware that you may well be presented with a hard sell effort. Here are a few key points to keep in mind:

- **Seminars are designed to sell.** Even when advertised as educational, many investment seminars are intended to sell something—financial products or the speaker’s books or services. Keep in mind that, at times, sales pitches might include confusing comparisons of dissimilar products or misleading information about the safety, performance and returns of the products touted.
- **Good shows aren’t always good deals.** It’s human nature to be impressed with a well-dressed speaker in a high-end venue and to take their advice more seriously. That’s why it’s no mistake that many investment seminars are held in upscale restaurants or hotels and may offer even more than a free meal—such as door prizes, free books and vacation deals—to get you to attend and listen to the pitch. But you’ll want to take time to thoroughly assess whether the opportunity is right for you.
- **The lead speaker might not be the actual sponsor.** Even if you recognize the names of the individuals who invite you to a seminar or speak at the event, they might not be the actual sponsors. At times, insurance companies or mutual funds finance the events, expecting that the speaker will use the event to drive sales of their products.

Education Is a Great Idea—So Be Sure to Learn About Persuasion

Before you consider attending an investment seminar, take the time to learn about the persuasion tactics and influence techniques that sellers, both legitimate and not-so-legitimate, use. These include:

Phantom Riches—dangling the prospect of wealth, enticing you with something you want but can’t have. “These gas wells are guaranteed to produce \$6,800 a month in income.”

Source Credibility—trying to build credibility by claiming to be with a reputable firm or to have a special credential or experience. “Believe me, as a senior vice president of XYZ Firm, I would never sell an investment that doesn’t produce.”

Social Consensus—leading you and your fellow seminar attendees to believe that other savvy investors have already invested. “This is how ___ got his start. I know it’s a lot of money, but I’m in this investment and so is my mom and half her church—and it’s worth every dime.”

Reciprocity—providing something, such as a meal or prize, that makes you feel obligated to reciprocate or offering to do a small favor for you in return for a big favor. “I’ll give you a break on my commission if you buy now—half off.”

Scarcity—creating a false sense of urgency by claiming limited supply. “There are only two units left, so I’d sign today if I were you.”



Good Idea. Here are three key strategies you can use to help counter these persuasion tactics and to distinguish potentially good investment offers from bad ones:

- 1) **Do your homework before the seminar—** A legitimate securities salesperson must be properly licensed, and his or her firm must be registered with FINRA, the Securities and Exchange Commission, or a state securities regulator—depending on the type of business the firm conducts. And an insurance agent must be licensed by the state insurance commissioner where he or she does business.



Information. Here's how to check out seminar speakers and sponsors:

For a **broker**, use FINRA BrokerCheck call toll-free (800) 289-9999 or visit www.finra.org/brokercheck.

For an **investment adviser**, use the SEC's Investment Adviser Public Disclosure Website at www.adviserinfo.sec.gov.

For an **insurance agent**, check with your state insurance department. You'll find contact information through the National Association of Insurance Commissioners (NAIC) at www.naic.org.

For **all sellers**, be sure to call your state securities regulator. You can find that number in the government section of your local phone book or by contacting the North American Securities Administrators Association (202) 737-0900 or www.nasaa.org.

2) Ask questions while you're there—Turn the tables on the speaker, and ask questions. Ask as many as you want until you are satisfied you know what you are buying and understand the risks and costs:

- What are the risks of this investment?
- How much does it cost initially to purchase the investment?
- What, if any, additional or ongoing costs will I have to pay?
- How liquid is this investment? If I need to sell or cash in the investment, how readily can I do so?
- Will my investment be tied up for period of time? If so, for how long?
- What happens if I decide to sell or cash in my investment? Are there surrender charges? Other fees?
- For what type of investor is this investment a good idea? For what type of investor is this investment a bad idea?
- Is the investment registered? If so, with which regulator? (See next column for tips on how to confirm what the speaker says.)

If the speaker can't or won't answer your questions to your satisfaction, then the investment is not right for you.

3) Decide now to decide later, and do more homework after the event—Commit to yourself before the seminar that you won't purchase anything or open an account on the spot. Bear in mind that the seminar might actually be an initial "soft sell"—a lure to introduce you to the product. The hard sell might come later during subsequent contacts from the person or firm selling the product. That's why it important to take time after the event to do some research on your own. Be sure to consider all the pros and cons, especially the following:

- **Is the investment registered?** Most investors will want to buy securities products that are registered with the SEC or with state regulators. 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 SEC by using the EDGAR database at www.sec.gov/edgar. Also call your state securities regulator to find out what they know about the company that issues the investment.
- **What are the risks?** While the prospect of high rates of return might sound tempting, remember that there may be additional risks—or costs—associated with the product.



Smart Thinking. The bottom line is that savvy investors refuse to be rushed. Rarely—if ever—do you have to invest your money on the spot. A good investment will be available tomorrow or next week or next month, when you are ready and understand where your money is going. While a free meal or prize might be enticing, remember that there are unbiased, noncommercial places to go for information about investing, including regulators such as the SEC, FINRA and state securities regulators.

If a Problem Occurs

If you believe you have been defrauded or treated unfairly by a securities professional or firm, please send us a written complaint. If you suspect that someone you know has been taken in by a scam, be sure to give us that tip. Here's how:

Online:

File a Complaint (for you):
www.finra.org/complaint

Send a Tip (for others):
www.finra.org/fileatip

Mail or Fax:

FINRA Complaints and Tips
9509 Key West Avenue
Rockville, MD 20850
Fax: (866) 397-3290

More Information

For additional information, the following resources are available at www.finra.org:

- FINRA Fraud Fighting 101: *Smart Tips for Older Investors*
- FINRA Investor Education Foundation
- SaveAndInvest.org/55Plus



Investor Resources

FINRA Investor Information—Investor Alerts, tools and much more to help you invest smarter and safer.

- Investor Alerts
- Smart Saving for College
- Fund Analyzer
- Smart Bond Investing
- Smart 401(k) Investing
- Financial Calculators

Website: www.finra.org/investor

Phone: (202) 728-6964

FINRA Market Data—Data on equities, options, mutual funds and a wide range of bonds, including real-time corporate bond prices and FINRA-Bloomberg Bond Indices.

Website: www.finra.org/marketdata

FINRA BrokerCheck—Check the background of a broker or brokerage firm.

Website: www.finra.org/brokercheck

Toll-free: (800) 289-9999

FINRA Investor Complaint Center—If you feel you've been treated unfairly.

FINRA Investor Complaint Center

9509 Key West Avenue
Rockville, MD 20850-3329

Website: www.finra.org/complaint

Fax: (866) 397-3290

FINRA Dispute Resolution—If you seek to recover damages.

FINRA Dispute Resolution

One Liberty Plaza
165 Broadway, 27th Floor
New York, NY 10006

Website: www.finra.org/ArbitrationMediation

Phone: (212) 858-4400

Fax: (212) 858-4429

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FINRA, the Financial Industry Regulatory Authority, is an independent regulatory organization empowered by the federal government to ensure that America's 90 million investors are protected. Our independent regulation plays a critical role in America's financial system—at no cost to taxpayers. We register brokers and brokerage firms, write and enforce rules governing their activities, examine firms for compliance, and foster market transparency and educate investors. For more information, visit www.finra.org.