
INVESTOR AWARENESS BULLETIN

WHAT EVERY INVESTOR NEEDS TO KNOW

ABOUT BOILER ROOMS



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THE “BOILER ROOM” – WHERE TELEMARKETING INVESTMENT SCAMS ARE ALWAYS ON CALL



One of the most common types of securities fraud perpetrated against individual investors occurs far from plush corporate boardrooms and away from the big city trading centers. Rather, this type of investment scheme originates out of hundreds of largely invisible telemarketing offices located throughout the United States, Canada, and, more recently, as far away as Europe and Southeast Asia. These operations sell special “investment opportunities” over the telephone, offering remarkably high, yet practically risk-free, rates of return. What these telemarketers invariably fail to mention is that these investment opportunities only provide these tremendous risk-free returns to a limited population: themselves.

The nerve center in most of these telemarketing schemes is the sales office, otherwise known as the “boiler room.” The term “boiler room” originated during an earlier era of telemarketing fraud, where managers of

these operations would seek out cheap office space, such as in the basement of buildings, where the conditions were typically hot, uncomfortable, and crowded.

Today, the term boiler room is commonly understood to describe a commercial office setting involving a simple set-up of desks, computers, telephone lines, and salesmen employing a variety of high-pressure sales tactics to push their investment product to hundreds of potential investors across the country each day.

These offices can be established anywhere, but are often found in remote urban areas such as commercial parks, industrial parks, or other discrete locations. Beyond the low overhead and stealthy nature of these boiler rooms, the sparse set-up allows the operations to dissolve and resurface almost at will.

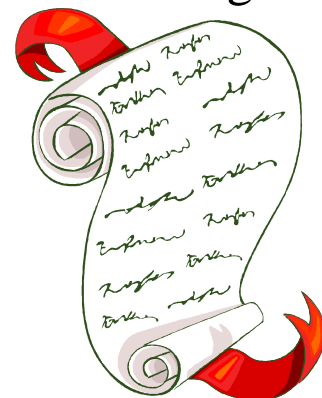
The types of boiler room investment scams are limited only by the promoter's imagination, and these operations are continually reinventing and refining their bogus investment programs. Each operation ultimately relies on three basic elements to make the telemarketers

and their telemarketing scams successful: the appearance of a legitimate investment program, investor leads, and unwary investors. Producers may design what appears to be an authentic investment opportunity in many ways. The “producers” who design these bogus investments for the boiler rooms often start by identifying a recently successful business operation or industry, and then mimic the blueprint of these business operations to construct their imaginary investment programs. As an example, telecommunication investment scams were epidemic in the early 1990s, and fraudulent ‘dot-com’ investments were the telemarketing scam of choice during the late 1990s.

Once the fraudulent investment product is prepared and packaged, often as a “private placement” to investors, the salesmen begin targeting potential investors on their “lead lists.” Lead lists are a listing of potential investors who are most likely to be interested in the fraudulent offering based on past investment patterns, internet-derived investor databases, or some other covert method of identifying potential investors. These lead leads can

be sold to boiler room operators for as much as \$3 to \$5 per name. With the lead lists in hand, experienced salesmen then make “cold-calls,” otherwise known as unsolicited calls, up to more than 200 potential investors per day.

The boiler room salesmen use any number of techniques to sell their fraudulent securities to unwary investors, their favorite quarry. A popular method is the “three-call” technique, where an initial caller will warm up the potential investor with descriptions of the company’s past successes and the exciting offerings coming ahead. If the salesman detects a level of interest, brochure materials are sent to the prospect and a second “set-up” man calls to tell the prospect of the amazing opportunity currently available. The pressure is then turned up by the experienced “closer,” who calls the prospect to say that the prospect must invest in the program now, using sales tactics and quick answers to any concerns the unwary prospect might have. Once the investment is made, usually through wire



transfer or other immediate means of payment (after all, the salesman doesn't want the investor to have any time to reflect on a rash decision), the investor's name is often elevated to a highly valued "sucker list," which will often be resold to other boiler rooms for additional securities offerings to be hatched in the future.



Boiler room salesmen are glib and resourceful, and have a number of other techniques to help you part with your money. If the particular investment is "guaranteed," or if the salesman will buy back the investment "after a certain time period," a red flag should immediately go up.

Most, if not all, investments (perhaps other than certain low-yield government bonds and bank certificate of deposits), have at least some elements of risk. If a particular investment was not highly risky, the owners of the securities would not likely find it necessary to sell the investment through cold calls to unknown individuals! Similarly, when the salesman is suggesting that he will buy back the investment at a later date, he is again

intimating that there is no risk associated with the investment; alarms should be sounding since the claim is not credible.

A similar alarm should sound when the investment is offering an exorbitant rate of return. As said many times, if something sounds too good to be true, it probably is. This mantra is the bane of all telemarketing scams; their success depends on the investor's belief that an investment may exist that has little or no risk but offers an extremely high rate of return. There is no such an animal, and even if did one exist, would a telemarketer have to call a stranger to sell it? The answer is a resounding "of course not!" Still another red flag is the salesman's dire warning that the "window of opportunity" is closing on the investment opportunity, and the prospective investor "must act now."

This routine ploy is usually nothing more than the salesman's attempt to prevent the investor from making sensible background checks, researching into the company further, checking with regulators, and/or reflecting on the rashness of the decision. This now-or-

never pitch can often be translated as it applies to the investor's money: lose it to the salesman in the boiler room - now or never. The salesman will use any tactic in his repertoire, including formulated scripts and answers, levels of aggression, derision or flattery, anything it takes for the investor to swallow the bait and "act now."

An individual who becomes a target for one of these boiler rooms can take various steps to insulate himself or herself from this type of securities fraud. The most obvious and effective strategy is to immediately decline the opportunity to invest with the boiler room caller, but this can, at times, be more difficult than it sounds. These telemarketers are experienced sellers that have heard practically every excuse, enabling them to develop what seems to be a rational answer to almost any question, concern, or reservation.

This being the case, if you begin to feel pressure to invest in a particular investment "opportunity," simply terminates the call. Hanging up the phone is the most effective way of having the telemarketer move onto

another lead. Other policies should also be considered when dealing with a potentially fraudulent investment telemarketer. First, never be pressured into giving an immediate decision on investing. If that is the only alternative the salesman is offering you, then its time for you to go.

Next, make sure you receive everything in writing before making any investment decisions, particularly over the phone. You may be surprised to find that the verbal representations made by the salesmen are at odds with the documentation offered by the company. Alternatively, the written disclosures about this company may, in fact, be woefully inadequate and/or suspect.

With over-the-phone securities solicitations, another important policy is to always consult with the state and federal regulatory bodies charged with overseeing this activity. These agencies can often determine whether the securities being offered to you have been properly filed or registered, as well as determining whether the principals of the company have had any prior disciplinary problems within the industry. Often a fraudulent telemarketer may

scold or threaten you for requesting to do such a check, a classic indication that something is amiss.

Finally, be aware and have a healthy level of cynicism about any investment offer made over the phone. If an offering is very low risk and offers a high return, if you can't lose, or if the investment is sure to go public and double, triple, or quadruple, recognize that if that truly was the case, the boiler room on the other end of the line wouldn't have called you in the first place.

To obtain more information about investing in general, about other investment scams, or to request a background check of a person or company, feel free to call the Arizona Corporation Commission's Securities Division or visit the Securities Division's Investor Education web site at www.azinvestor.gov. You can also contact the local Better Business Bureau for complaint information on many Arizona companies. Telephone numbers are listed on the next page.

IMPORTANT TELEPHONE NUMBERS

Arizona Corporation Commission's
Securities Division 602-542-4242
Toll Free 1-866-VERIFY-9 (837-4399)

Arizona Attorney General's Office
Complaint & Information Center 602-542-5763

Better Business Bureau
Phoenix 602-264-1721
Tucson and Southern Arizona 520-888-5353
Flagstaff 928-772-3410



For additional information on how to investigate any offering before you invest, see the brochure, “How Do I Verify Before I Buy Securities?” available at the Investor Info Center of the Securities Division’s Investor Education web site, www.azinvestor.gov.