

Protecting Older Investors

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Askew Institute, Consumer Protection in the Digital Age

It's No Secret

- > Older persons have money
 - > \$16 Trillion in assets
 - > $\frac{3}{4}$ of nation's consumer financial assets
- > Older persons are investors
 - > Increasingly responsible for building and managing portfolios
- > Mid-life and older persons need assistance and guidance in investing
- > Many want to help them invest
- > Some have a distorted view of helping
 - > Finding ways to help themselves to some of that money
- > Swindlers target older investors just like bank robbers rob banks

Financial adviser charged with bilking elderly clients

By Associated Press | February 22, 2007

A federal grand jury indicted an Andover financial adviser yesterday on charges he bilked senior citizens in Connecticut and Massachusetts out of nearly \$2 million and spent the money on lavish trips to Las Vegas and \$5,000-a-day visits to strip clubs.

John A. Baldo, 38, was charged with six counts of mail fraud, five counts of wire fraud, and one count of violating the Investment Advisers Act, the office of US Attorney Michael J. Sullivan said.

Baldo allegedly cheated several elderly people in Massachusetts and Connecticut and spent their millions on luxury cars, jewels, gifts for exotic dancers, and frequent gambling trips to Las Vegas.

Baldo claimed to be a **certified financial adviser** and beginning in late 2005 talked his victims into liquidating their assets to put the money into an annuity account he said would **guarantee them generous income**, prosecutors said.

An 88-year-old man in Storrs, Conn., gave Baldo \$1.6 million, and his 85-year-old brother, who also lives in Connecticut, gave him \$200,000, according to the indictment. Prosecutors say he also stole \$200,000 from a 63-year-old Rockport woman.

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Why At Risk

- > May have low financial literacy
- > May have declining capacity
- > May be too trusting
- > May not have enough money to meet basic needs in retirement
- > May be concerned that money won't last
- > Must have the personal responsibility to manage investments
- > Will have no time to catch up if lose to fraud

Michigan Attorney General Mike Cox Charges Traverse City Financial Advisors With Embezzling \$1.1 Million From Northern Michigan Seniors

July 8, 2005

The victims include an 80-year-old Traverse City nursing home resident who has been forced onto Medicaid as a result of losing her savings, and a 74-year-old Traverse City assisted living care patient who was also using her savings to pay for her care. The victims span six counties While 14 of the company's clients lost more than \$1.1 million, the defendants earned commissions in excess of \$340,000.

One Victim's Story

- > **“Henry” was a successful businessman, married for 30 years, raised a family and lived a good life.**
- > **Accumulated a significant nest egg for his retirement.**
- > **Shortly after his wife's death, received Federal Express package containing very professional, slick materials detailing an investment in oil and gas wells.**
- > **The next day, a salesman called him and used high pressure sales tactics to persuade him to invest \$40,000.**

One Victim's Story

> Phrases used:

- > **“These gas wells are guaranteed to produce \$6,800 a month in income.”**
- > **“Some of the most successful investors in the country are interested in these wells.”**
- > **“There are only two units left in this project.”**
- > **“We drilled a well in Texas that had these same early gas readings and the investors all made millions.”**

One Victim's Story

- > **Initial \$40,000 was just the beginning.**
- > **Within six weeks of first investment, contacted again by the same company.**
- > **The caller said the well was being dug, but to access the “vast gas fields” they would need another \$50,000 to drill deeper.**
- > **Over three years, Henry re-contacted twelve times.**
- > **Ultimately lost over \$500,000 to this oil and gas scam.**
- > **Wells always seemed promising at first, but “ran into trouble” and were all capped.**

Investor Fraud Study

- > **How did this happen?**
- > **How can a successful, financially intelligent investor fall prey to such a scam and lose his life savings?**
- > **Among the questions the NASD Investor Fraud Study sought to answer**
- > **AARP staff were principal researchers**

Overview of Research

Undercover Tape Analysis

- > **Tapes provided to AARP by law enforcement agencies.**
- > **Detailed content analysis of 128 full-length transcripts to identify specific persuasion tactics.**
- > **Several different types of scams: investments, gold coins, lottery, travel, recovery and charity fraud.**

Survey of Victims and Non-Victims

- > **In-depth interviews with 21 victims and non-victims and two focus groups of victims and non-victims.**
- > **Extensive survey of 150 non-victims and 165 victims of investment and lottery fraud**
- > **Determine how they differ and develop clues for how to prevent future victimization.**
- > **All victims had lost more than \$1,000.**

Who's Been a Victim

- > Investment fraud victims are more likely to:
 - > Be male.
 - > Live with one or more people.
 - > Be married.
 - > Make more than \$30,000 per year.
 - > Have at least a college degree.
- > Lottery fraud victims are more likely to:
 - > Be female.
 - > Live alone.
 - > Be widowed.
 - > Make less than \$30,000 per year.
 - > Have a high school diploma or less.

Investment Victim Profile

- > More financially literate than non-victims;
- > More likely to listen to sales pitches;
- > More likely to rely on their own experience and knowledge when making investment decisions;
- > Have had recent negative life events;
- > More optimistic about the future;
- > Male; and
- > Reluctant to report to anyone.

www.nasdfoundation.org/WISE_Investor_Fraud_Study_Final_Report.pdf

Negative Life Experiences

Recent loss of employment for you or spouse
Recent retirement of you or your spouse

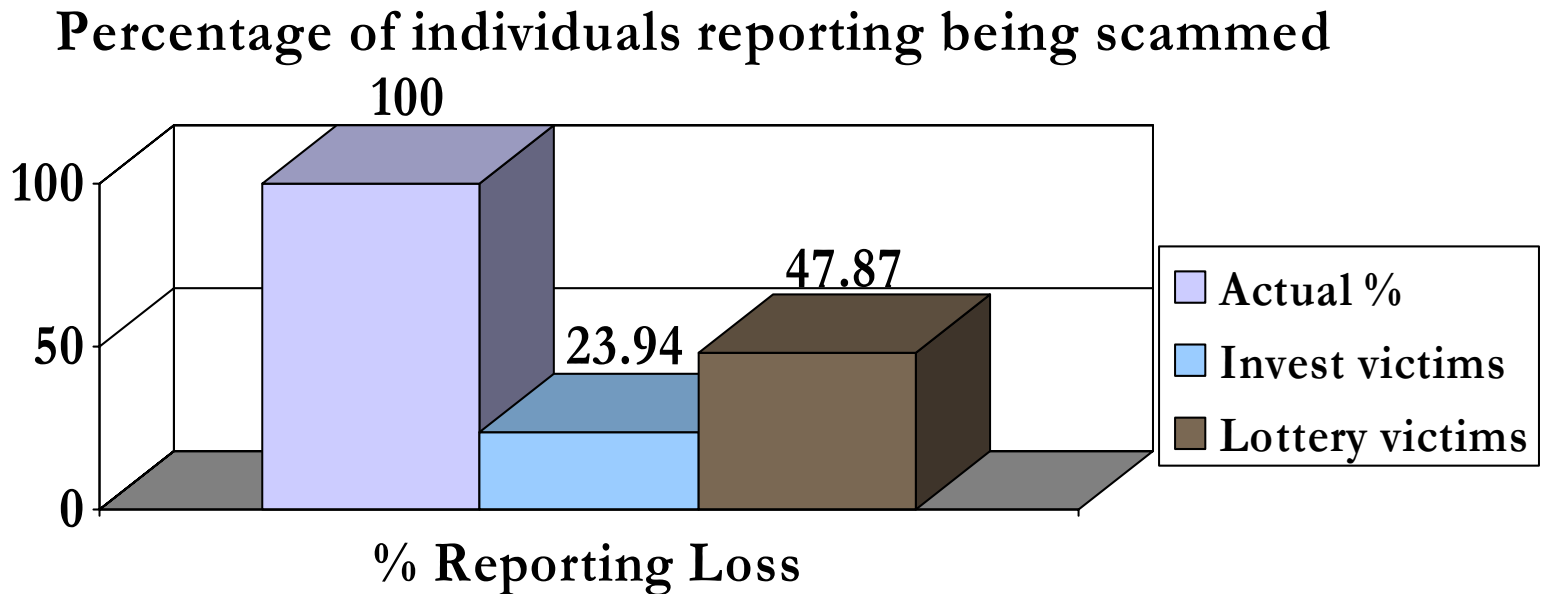
Negative change in financial status
Foreclosure on mortgage or loan
Concerns about owing money
Concerns about money for emergencies
Concerned about money for basic necessities

Problems with the upkeep of home
Recent change in living arrangements
Recently moved or changed residences

Change in social activities for the worse
Change in daily routine

Victims Don't Report

- > Investment and lottery victims dramatically under-report fraud.
 - > Previous research shows victims under-report fraud (AARP, 2003.)
 - > In present survey all victims surveyed had lost a minimum of \$1000.



Undercover Tape Analysis

Investment Fraud is Committed Using
Sophisticated Social Influence Tactics.

Tactics Used

- > **Phantom Fixation** – “These gas wells are guaranteed to produce \$6,800 a month in income.”
- > **Commitment** – “You can vote to stop drilling, but if you do, all the rest of what you have invested will be lost.”
- > **Authority** – “I have been in the oil business for over 30 years and I have seen it all.”
- > **Social Consensus** – “I know it’s a lot of additional money to spend, but I am in this thing just as deep as you are and I say its worth every dime.”
- > **Scarcity** – “There are only two units left in this well.”

Products on the Firing Line

- > Annuities
 - > Variable
 - > Equity Indexed
 - > Charitable Gift
- > “Risk Free” Investments
- > Fake CDs or Secured Debt Obligations
- > Viaticals
- > Payphone lease back
- > Oil and gas ventures
- > Promissory Notes

Practices on the Front Line

- > Diversion of funds to speculative investments or own pocket
- > Unrealistic promises, pitches or guarantees
- > Unsuitable recommendations
- > Bait and Switch
 - > Get hooked with 1 thing and sell something else
- > Churning
 - > Rolling over investments to make more commissions
- > Pump and Dump
 - > Promote an inexpensive stock to drive up price, then sell

DFS Arrests Two S. Fla. Agents in \$1.2 M Ponzi Scheme

May 17, 2005

Two South Florida insurance agents have been arrested in Palm Beach Gardens and Delray Beach, Fla. on first-degree felony charges of operating a **Ponzi scheme which scammed an estimated \$1.2 million from 31 investors. The probe revealed the two were convincing their clients to liquidate annuity investments and invest in a **bogus** company that would buy and sell distressed real estate and promised returns of up to 9 percent.**

Adviser charged for 'no risk' trading pitch

By [Darla Mercado](#) September 27, 2007

The Securities and Exchange Commission today filed fraud charges against a California investment adviser who misappropriated more than \$3.4 million from his clients.

Posing as an investor, he would make trades online and over the phone with these accounts and siphon off cash, transferring it to his bank account and that of his wife.

Mr. Triglio lured clients to his practice by promising “high monthly returns” from “risk-free” options trading, according to the complaint.

He then took the investors’ personal information so that he could control the brokerage accounts.

When the trading losses piled up, Mr. Triglio tricked his clients by giving them false statements: One client thought he had \$220,000 invested, when his account was really worth \$63.

He also misappropriated investors’ money to pay other clients their promised returns, the SEC said.



Jacksonville agent faces prison time

May 18, 2005, TALLAHASSEE, Fla. (AP) - A Jacksonville insurance agent is facing three years in prison and has been ordered to pay more than \$366,000 in restitution after he persuaded at least six elderly clients to **cash in their annuities** and reinvest in other insurance products. However, Thomas Griggs instead used the proceeds for his personal benefit. The 48-year old Griggs operated Griggs Financial Services in Jacksonville and was a licensed insurance agent.

Who's Preying on Your Grandparents?

May 15, 2005

By **GRETCHEN MORGENSON**

Jose and Gloria Aquino received a flier in the mail inviting them to a free seminar on one of their favorite topics: protecting their financial assets and offered a **free lunch**. The crowd listened to the presentation by two investment executives and they passed out forms for retirees to list all of their assets and financial holdings. The Aquinos filled theirs out and left....two days later an executive came to their home and describe and investment with a life insurance company which would provide 7 percent interest on their money immediately. The investment chosen was an annuity and the one they signed up for had a 17.5% **surrender charge** if cashed in the first year and exit charges would not disappear until 17 years after the purchase.

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Senior Citizen, Son Hunt Down Scammers

New Palm Beach Scam Targets Seniors

POSTED: 6:54 pm EDT June 23, 2005

PALM BEACH GARDENS, Fla. – A new scam is targeting senior citizens.

Richard Hanson, a senior from Palm Beach Gardens, is no fool.

"These (scammers) figure those old fogies don't know anything," he said.

Hanson almost put his suspicions aside completely when a Bank of America cashier's check arrived in the mail. The letter that came with it said Hanson could cash it to pay for the taxes on a \$49,000 lottery payout he would eventually receive.

Scams Follow the News

- > Stimulus Payment
 - > Fake email “from” IRS
 - > Link to fake IRS web site
 - > Phone call “from” IRS
 - > “We can help you get your check sooner”
 - > “We can help you file”
 - > “We need your bank account number to send you your check”
 - > We need to confirm your SSN so we can send you your check”
 - > “Don’t wait for the IRS, get your check now”