SEC
OFFICE *of* INVESTOR EDUCATION *and* ADVOCACY

Before You Invest, **Investor.gov**

STOPPING AFFINITY FRAUD IN YOUR COMMUNITY

How to avoid investment scams that target groups

WHEN A FRIEND, FAMILY MEMBER, OR CO-WORKER ENCOURAGES YOU TO INVEST YOUR MONEY IN AN OPPORTUNITY GUARANTEED TO PAY A RETURN OF 10% OR MORE PER YEAR,

WHAT SHOULD YOU DO?

The SEC's Office of Investor Education and Advocacy (OIEA) presents this guide of key strategies for protecting yourself and your community from the potentially devastating impact of affinity fraud.

Affinity Fraud

Affinity fraud refers to investment scams that target identifiable groups, often religious or ethnic communities. The fraudsters who promote affinity fraud frequently are—or pretend to be—members of the group. They often enlist respected leaders from within the group to spread the word about the scheme, by convincing them that a fraudulent investment is legitimate and worthwhile. Many times, those leaders become unwitting victims of the fraud. Fraudsters also may use social media to promote an affinity fraud and encourage group members to use social media to share information about a so-called investment opportunity with others.

These scams exploit the trust and friendship that exist in groups of people who have something in common. Because of the tight-knit structure of many groups, it can be difficult for regulators or law enforcement officials to detect affinity fraud. Victims often fail to notify authorities or pursue their legal remedies, and instead try to work things out within the group. This is particularly true where the fraudsters have used respected community or religious leaders to convince others to invest.

Many affinity frauds are Ponzi or pyramid schemes, where new investor money is used to make payments to earlier investors to create the illusion that the so-called investment is successful. This tricks new investors into investing in the scheme, and lulls existing investors into believing their investments are safe. In reality, the fraudster almost always steals investor money for personal use. When the supply of investor money inevitably dries up and current investors demand to be paid, the scheme collapses and investors discover that most or all of their money is gone.

Targets of Affinity Fraud

Fraudsters target any group they think they can convince to trust them with the group members' hard-earned savings. The SEC has investigated and brought enforcement action against affinity frauds targeting a wide spectrum of groups, including groups and communities with common ties based on:

- **Ethnicity;**
- **Religion;**
- **Sexual orientation;**
- **Military service; and**
- **Age (seniors).**

How to Avoid Affinity Fraud

The key to avoiding affinity fraud is using independent information to evaluate financial opportunities rather than trusting the judgment of a friend, family member, or co-worker. Even if you know the person making an investment offer, be sure to research the person's background, as well as the investment itself – no matter how trustworthy the person who brings the investment opportunity to your attention seems to be. Be aware that the person telling you about the investment may have been fooled into believing that the investment is legitimate when it is not.

■ Always check the background of an investment professional.

Federal and state securities laws require investment professionals and their firms to be licensed or registered. Ask anyone offering you an investment if he or she is licensed and then check out the answer with an independent source by visiting Investor.gov or calling the SEC's toll-free investor assistance line at (800) 732-0330.
A few minutes of your time may save you from sending your money to a con artist, bad financial professional, or disreputable firm.

Be Alert to Common Persuasion Tactics

The "Phantom Riches" Tactic—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."

The "Source Credibility" Tactic—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."

The "Social Consensus" Tactic—leading you 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—and so is my mom and half her church—and it's worth every dime."

The "Reciprocity" Tactic—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."

The "Scarcity" Tactic—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."

Source: FINRA Investor Education Foundation

■ Research the investment.

Any offer or sale of securities must be registered or exempt from registration. When an offering is unregistered, investors may not have access to key information about the company's management, products, services, and finances that registration requires. Check whether an offering is registered with the SEC by using the SEC's EDGAR database **(sec.gov/edgar)** or contacting the SEC's toll-free investor assistance line at (800) 732-0330.

If an offering is not registered with the SEC, check if it is registered with your state securities regulator. Contact information for your state securities regulator is available on the North American Securities Administrators Association's website **(nasaa.org/contact-your-regulator/).**

Always read an investment's prospectus or disclosure statement carefully. If you don't understand the investment and how it may make money, think twice about investing.

■ Be skeptical of recommendations made online or through social media.

Never make an investment based solely on the recommendation of a member of an organization or group to which you belong. This is especially true if the recommendation is made online or through social media.

An investment pitch made through an online or social media group of which you are a member (or that caters to one of your interests) may be a fraud.

Comparing the Risks With the Potential Rewards

The potential for greater investment returns typically comes with greater risk. Understanding this crucial trade-off between risk and reward can help you separate legitimate opportunities from unlawful schemes. Many investment frauds are pitched as high return opportunities with little or no risk. Ignore these opportunities or, better yet, report them to the SEC.

Report Potential Affinity Fraud to the SEC

If you suspect that a so-called investment opportunity may be an affinity fraud – or think that you may have lost money in an affinity fraud – contact the SEC Complaint Center **(sec.gov/complaint/select).**

“Too Good To Be True” Investment Opportunities

If you’re not sure if an investment opportunity is “too good to be true,” consider these rules of thumb:

No risk means low investment returns. If you are offered a “no risk” investment opportunity, compare its potential return with a financial choice that is truly guaranteed, such as a federally insured savings account. If the potential return of the investment opportunity is significantly higher, it could be fraudulent or contain risks you haven’t considered.

High potential investment returns typically means high risk. The stock market has produced large investment gains as well as huge losses from year to year. Any investment opportunity that guarantees you’ll get substantially more than the average return of the stock market likely is a fraud.

Promises of consistent double-digit investment returns are consistently frauds. The value of investments tends to go up and down over time, particularly for investments that offer higher potential returns. For example, it’s rare for the stock market to return its historical average in any given year.

How to Contact the SEC

The SEC's Office of Investor Education and Advocacy provides a variety of services and tools to address the problems and questions you may face as an investor. We cannot tell you what investments to make, but we can help you invest wisely and avoid fraud. Here is how you can reach us:

U.S. Securities and Exchange Commission
Office of Investor Education and Advocacy
100 F Street, NE
Washington, DC 20549-0213
Telephone: (800) 732-0330
Fax: (202) 772-9295
Email: help@sec.gov
Twitter: @SEC_Investor_Ed
Facebook: facebook.com/secinvestoreducation
Website: Investor.gov

Contact information for the SEC's Regional Offices can be found at: sec.gov/contact-information/sec-directory

The Office of Investor Education and Advocacy has provided this information as a service to investors. It is neither a legal interpretation nor a statement of SEC policy. If you have questions concerning the meaning or application of a particular law or rule, please consult with an attorney who specializes in securities law.

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