



In August 2007, the FINRA Investor Education Foundation contracted Applied Research & Consulting LLC for an investment fraud risk survey of investors ages 55-64. The survey was intended to benchmark the behavioral norms of the target audience with regard to risk and openness to investment pitches.

As detailed in this report, the Senior Fraud Risk Survey found that many older investors engage in behaviors that put them at risk of becoming fraud victims:

- About 79% of all respondents didn't check their broker for previous law violations, and 65% didn't check their registration.
- Approximately 70% of all respondents didn't check to see if their investment was registered.
- About 40% of the national sample – but almost 60% of the victim sample – chose a broker based on the recommendation of a relative, friend, neighbor or co-worker.
- More than a third (36%) of the national sample – but 70% of the victims – made an investment based on the advice of a relative, friend, neighbor or co-worker.
- Nearly three times (20%) as many victims in the 55-64 age category went to a free lunch seminar than did the national sample respondents (7%).
- 46% of respondents who have heard an investment professional state that they hold a specific accreditation to advise on senior financial issues indicated that the accreditation made them more likely to listen to the professional's advice.

FINRA Foundation Senior Fraud Risk Survey Topline Findings

Following are topline findings from the FINRA Foundation Senior Fraud Risk Survey. Statistical differences between the 464 respondents from the National Sample (this number excludes the 36 self-identified fraud victims in the National Sample) and the Victim Sample (101 respondents) are noted.

Interviews were conducted by telephone between August 9 and August 27, 2007.

- **National Sample Criteria**
Americans age 55-64 with at least \$2,000 in securities investments were interviewed. Total data from the national sample has been weighted to reflect equal gender distribution.
- **Victim Sample**
101 interviews were conducted from a national list, obtained from law enforcement, of individuals who are known victims of specific investment frauds. Their ages ranged from 25 to 85 and they had net household investments ranging from less than \$2,000 to more than \$750,000.

National Sample Findings (N=464)

Investor History

- Most investors surveyed have been investing for long time.
 - 50% have been investing for **more than 20 years**.
 - 79% have been investing for **more than 10 years**.
- Only a slight majority of those surveyed (58%) use a **professional advisor**, indicating many investors navigate their pre-retirement/retirement investments on their own.
- Of those respondents who do use a professional, 72% **have been with this professional for 6 or more years**.

Investment Interest/Ownership

Respondents were asked to rate their level of interest in a range of investment vehicles, on a scale of 1 to 7, where 1 means “not at all interested” and 7 mean “extremely interested.”

Investment Interest Rankings

Investment	Mean Interest Ratings	
	National Sample	Victim Sample
Mutual funds	4.47	4.37
Stocks	4.26	4.13
Certificates of deposit	3.84	3.39
Bonds	3.33	3.18
Private investments in new energy technology such as fuel cells or biodiesel	3.06	3.07
Fixed Annuities	3.00	2.90
Equity indexed annuities	2.57	2.61
Variable annuities	2.53	2.59
Private investments in an Internet start up company like Amazon or Google	2.47	2.53
Private investments in precious metals such as gold or rare coins	2.45	2.58
Private investments in oil and gas exploration	2.44	2.32
Private investments in commercial real estate like a shopping mall	2.29	2.88
Commodities Futures/ Options	2.08	2.20
Promissory notes secured by real estate	2.04	2.59*
Penny Stocks	2.00	1.97
Private investments in foreign currency or foreign banks	1.69	1.84
Hedge funds	1.56	1.72
Private investments in a multi-million dollar movie deal	1.50	1.56
Sale and leaseback contracts	1.50	1.95

*** indicates that the reported percentage is significantly greater than the opposing sample.**

- Respondents are more interested in private investments in new energy (mean interest: 3.06 out of 7) than other types of private investments.
- Victims are significantly more likely than National Sample respondents to show interest in **riskier private investments** such as promissory notes secured by real estate, and sale and leaseback contracts.
- Males are significantly more interested in risky investments such as **penny stocks, metals & rare coins, commercial real estate, and foreign currency** than females.
- Broadly held investments include **stocks** (86% ownership rate), **mutual funds** (80%), **CDs** (74%), and **bonds** (70%).
- 84% of respondents also **own real estate**, approximately equal to those who have **savings accounts** (86%).
- Victims are significantly more likely to have owned penny stocks (31%), **commodities, futures/options** (23%), **promissory notes secured by real estate** (26%), **private investments in Internet start-ups** (24%), **sale and leaseback contracts** (11%) and are significantly less likely to have owned **bonds** (58%).

Sales Tactics Affinity

Respondents were asked to rate their interest in investments based on a series of statements that might be made by a salesperson.

Investment Interest Rankings

Investment	Mean Interest Ratings	
	National Sample	Victim Sample
This stock has outperformed the Dow Jones each year for the last 5 years.	4.01	4.08
This investment product is registered with the SEC and your state security agency.	3.68	3.70
This investment is for a company with excellent management and in a high growth industry.	3.67	3.71
I am a licensed broker through NASD.	2.89	2.64
The lowest return you could possibly get on this investment is 50% annually.	2.89	3.00
This is an opportunity to get in on the ground floor of a company that is about to roll out a revolutionary new technology.	2.60	2.99
There is no way to lose on this investment – it is fully guaranteed.	2.53	2.56
This investment made hundreds of people extremely wealthy	2.43	2.73

- The statement, **“This stock has outperformed the Dow Jones each year for the past 5 years”** was the strongest statement in driving interest in an investment. (Mean interest rating 4.01 out of 7)
- **“I am licensed broker through NASD”** (Mean interest: 2.89) garnered the same amount of interest than the statement, **“The lowest return you can get is 50% annually.”**

Broker/Investment Background Checking

- Most respondents (65%) have **not checked the registration status of a broker.**
 - Many of these respondents either **trusted their broker** (13%) or **trusted the reputation of a big firm** the broker worked for (25%)
- Most respondents (79%) **have not checked the background of a broker** to see if that broker had not broken any laws.
 - **Trust of the broker** (20%) and the **reputation of the big firm** (25%) are the most cited reasons as why they did not check.
- Most (68%) **have not checked the registration of an investment product.**
 - 41% of these respondents stated they **trusted their financial advisor**
 - 23% trusted the **reputation of a big firm.**
 - 19% stated they never **actually thought about checking** the registration of the investment product.

Broker/Investment Recommendations

- 41% have **hired a broker that has been recommended by a friend, relative, co-worker or neighbor.**
 - Significantly more victims (58%) have done so.
- 36% **have bought investments recommended by a friend, relative, co-worker or neighbor.**
 - 70% of fraud victims have bought investments recommended by a friend, relative, co-worker or neighbor.
- The last time respondents made a major investment, **42% consult a financial planner or an accountant**, while **43% went online** to search for information about the investment.
- 25% of the National Sample stated **they rely on tips from family members, friends, business associates or church members.**

Negative Life Events

- 21% of respondents state they have had “**Extreme Difficulty**” (rating 7 out of 7) with a serious injury, illness or death in the family.
- **Females are significantly more likely** to say that they have had “Extreme Difficulty” (28%) than males (14%).

Securities Risk Awareness

- 37% of the National Sample **inaccurately believes that the FDIC insures** consumers against losses in the stock market. Many believed that the SEC (32%) and the Securities Investment Protection Corp (19%) offer the same insurance.
- Only 32% correctly stated that “**none of the above**” **insure consumers against stock market losses.**

Perceived Fraud Risk

- 18% are **not** signed up on the **Do Not Call List**.
- 58% of respondents felt that they had a **below average chance of being taken in an investment fraud**.
- 75% believe they have an **above average ability** to resist high-pressure sales tactics.
- Only 15% of respondents said they **prefer riskier investments** with higher than average returns to safe investments with average returns.

Broker Accreditation Affinity

- 76% of respondents say that they **have not had any investment professional tell them that they are specifically accredited** to advise on senior financial issues.
- Of those who have heard a person state an accreditation, 47% say it **made them more likely to listen to their advice**.

Findings from the Known Victim Sample (N=101)

- Of known victims, 88% admit to having lost money in an investment.
- Of known victims, only 50% state they lost money due to being misled or defrauded by the broker or company they invested in.
- Of victims who admit to being defrauded, only 56% reported the broker or company to anyone.
- Of those who admit to having been misled or defrauded, 82% report that they were introduced to the broker or company through a mutual friend or family member. Of those, 52% were introduced in-person.

Senior Designation Data

Percentage of National Panel and Known Victim respondents stating that various professional accreditations would make them more likely to take the advice of someone who had the accreditation.

Accreditation Title	% Likely to take Advice	
	National Sample	Victims
CPA or Certified Public Accountant	70%	78%
Registered broker	62%	66%
CFP or Certified Financial Planner	60%	73%*
Registered investment adviser	38%	51%*
CLU or Certified Life Underwriter	24%	18%
Certified Senior Advisor	19%	17%
Certified Senior Consultant	18%	22%
CFA or Chartered Financial Analyst	18%	18%
<i>Certified Advisor for Senior Investing**</i>	17%	15%
Chartered Retirement Planning Counselor	16%	16%
Elder Care Asset Protection Specialist	13%	9%
Certified Elder Planning Specialist	12%	7%
Chartered Advisor for Senior Living	7%	9%

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**** designation does not exist. Inserted for comparison purposes only.**