

The Red Flags of Investment Fraud

Protect yourself by learning to recognize the warning signs of a fraudulent investment pitch. Visit CT.gov/dob for more resources for consumers and investors.



Red Flag: This investment has guaranteed high returns – no risk!

There's no such thing – the higher the returns, the higher the risk. This type of sales pitch is often aimed at people who are non-risk takers, particularly those individuals who are on a fixed income or those who are near retirement and are worried about not having a large enough nest egg. Even with legitimate investments, know the risk level you are taking and invest only what you are willing and can afford to lose.

Red Flag: There's a shortage – get in before it's too late!

If a legitimate deal, it'll be there tomorrow. This type of sales pitch is used to create a false sense of urgency, whether it's a limited amount of the investment product or a scarcity of time to invest. Don't feel pressured to make a quick decision. Take your time and talk it over with an objective third party, someone who can check the facts regarding the investment opportunity.

Red Flag: This is an offshore investment – tax free!

You can defer paying taxes, but you can't avoid paying them. This type of deal is often pitched as a secret and is an opportunity you should keep to yourself. Promoters of these investments hope to avoid hard questions from family, friends or financial advisers who might see through the scam. Often, your money will be transferred to overseas locations, making it harder to recover and even harder for the authorities to investigate.

Red Flag: You can profit like the experts – get the secrets to success!

If the investment is so profitable, why do the investment promoters need to contact YOU out of the blue? Promoters utilizing this tactic are trying to convince you that he or she has access to inside information known only to a select few who are said to be making a lot of money. If you hear phrases like "secret markets," "prime bank guarantees," take your checkbook and run because secret prime bank markets simply don't exist.

Red Flag: Great investment opportunity – your friends can't be wrong!

Fraudsters have been known to work their way into organizations and befriend members in order to sell them fraudulent investment products. The pitch relies on the trust you place in your friends and the fear you may have of not keeping up with them financially. Watch out for this sneaky greed factor since fraudsters often pay out profits to early investors who unwittingly convince others to get on the bandwagon.

Red Flag: You can trust me—I have credentials and extensive experience.

The truth is that credibility can be stretched and faked. If the promoter is legitimate, he or she should have no qualms about your conducting a background check. Take the time to determine if the authenticity of the individual's education and experience requirements by contacting the organization that issued the credential. Most importantly, contact your state or provincial securities regulator to determine if the person is registered to sell investments and does not have a disciplinary history.