



# The Money Corner<sup>®</sup>

## Financial Fraud: The Tale of the Three S's



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Ghouls, ghosts, and goblins! They abound during Halloween.

Scam artists, fast talking abusive salespeople, and crooks abound during periods of economic chaos. We call them the "scammers." They deliver "scams."

Their target? YOU! The "scammed." People are scammed on an equal opportunity basis without regard of race, color, age, or creed. However, the retired senior that lives alone is a prime target.

The scam, the scammer, and the scammed. The Three S's.

Fear is a powerful emotion. Most of the "scammed" are attracted to "scams" out of fear. The "scammers" know you are fearful. They are skilled at developing and exploiting your fear. If you are not fearful, the accomplished scammer can, in a short conversation, or through the use of a carefully scripted advertisement, turn the most stalwart individual into a "doubting Thomas".

Fear, in our current environment, is easy to come by. When stock markets crash.

When interest rates are low. When people lose their homes to foreclosure. When people lose their jobs. When the value of retirement plans are cut in half by volatile markets. When people lose their savings. When bankruptcies soar. When banks close. When you can't get credit. When home prices drop below their mortgage values. When government bailouts support the economy. When the government owns businesses and banks. When these things happen. When they happen near simultaneously. When they happen around the world. You have economic chaos and fear abounds.

Greed is also a powerful emotion. Greed is the selfish desire for, or pursuit of, money, wealth, power, or other material possessions.

Scammers who can tap your combined "fear" and "greed" emotions are powerfully effective, especially if the product or service they are offering is "free".

Any financial product or service can be abused and turned into a scam. Any individual can be a scammer.

Legitimate financial products, services, and service providers frequently used in scams include life insurance, annuities (particularly the popular index annuity), health insurance, mutual funds, stocks, bonds (including "high yield" or "junk" bonds), limited partnerships, credit cards, debit cards, credit counseling companies, foreclosure assistance companies, product oriented radio and television talk shows, radio and television infomercials, bank and credit union financial representatives, financial planners/advisors, commodities, initial public offerings, U.S. Treasury instruments, mortgages and mortgage companies, charitable organizations (including churches, and church organizations) - and the list goes on. The challenge associated with these "opportunities" is: 1) do you need the product or service?; and, 2) is the product or service suitable for you?

Here is one example of a legitimate financial service product that can be easily turned in a scam:

A conservative Denver radio talk station is airing an advertisement that suggests that

because of the volatile stock market you need to sell your "risky" stock portfolio and buy their "new account." The account "pays you a 10 percent upfront bonus, will never put your principal at risk, and pays you guaranteed 8 percent earnings." No mention of what the product is. No company name. No indication that the advertiser has any licenses or professional affiliation. Just a telephone number. Is this a legitimate product? Or a scam? You have no way of knowing. But we do know that the advertiser has targeted your fear and greed emotions. Guaranteed interest and principal. An 8 percent interest rate.

#### SO WHAT IS IT? IS IT LEGITIMATE?

Yes – the advertised product is legitimate. It is an index annuity offered by a reputable life insurance company licensed in 49 states. And the features advertised are available. But looking a little closer we find the advertised annuity is offered by a lower rated life insurance company that most insurance agents cannot sell (because their malpractice insurance limits their annuity sales to insurance companies that carry high ratings).

- The annuity will pay a 10 percent upfront bonus on all deposits made to the account during the first five years. To get access to the bonus you must annuitize the annuity.
- The annuity gives you a number of investment choices. Most people select the choice that has the value of the account increase if during your policy year the S&P 500 Index increases. The issue here is that if the stock market has a 30 percent recovery year (like 2003), your account can only go up to the limit of the "cap" on the account established (and changeable by) the insurance company which is currently 11 percent. Insurance agents will quickly point out that if the S&P 500 Index goes down, the value of your index annuity can never be lower than its highest value.
- The "8 percent guaranteed" interest rate is not an automatic feature of the annuity. But you may make it a feature of the annuity if you purchase an 8 percent guaranteed rider – at a cost of 4.5 percent each year. You end up with a net rate of 4.5 percent - which you can realize if, in the future, you take income from the annuity. Unfortunately the net 4.5 percent is below the 5.02 percent guaranteed rate that is available from many other life insurance companies. To be fair, the 4.5 percent net rate is

available for the life of the policy. The 5.02 percent rate is currently available for a five year guarantee period (with no surrender charge after the five year guarantee period ends – which means that if interest rates go up, you can purchase a new annuity at the higher interest rate).

- A feature that was not in the advertisement was that this index annuity carries a 16 year surrender period starting at 20 percent in the first year. This means that if you withdraw more than 10 percent of your original deposit in any year during the 16 year surrender period, you will pay a steep backend penalty to get access to your own money.

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- Also not in the advertisement – the agent receives a 10 percent commission for selling this product (commissions are reduced for sales to older individuals).

Do you need this product? Is this product suitable for you? What makes this product a scam is the life insurance agent that will convince a senior to a) sell their stocks, causing a 40 percent loss, to purchase an index annuity, b) or sell their bonds, c) or liquidate a certificate of deposit (incurring an interest penalty), d) or take money out of their residence via a reverse mortgage, or you get the point...

Illegitimate financial products and services are also numerous. Identity theft, impersonation, and identity fraud.

Telemarketing scams. Internet scams. Health insurance and medicare fraud. Advance fee scams. The Nigerian Letter or "419" fraud (these schemes themselves violate section 419 of the Nigerian criminal code, hence the label "419" fraud). Letter of credit fraud. Prime bank note fraud. Ponzi and pyramid schemes... to mention a few.

If you want to know more about fraud and scams and how to protect yourself, Google "Federal Bureau of Investigation – Common Fraud Schemes." Or go to your local library and ask a research assistant to help you get educated about fraud and scams.

More importantly – what should you do if approached by that "very nice person," or advertisement that plies on your fear and greed emotions?

#### JUST SAY "NO!"

If you want to do your own research on an "opportunity" or the person presenting the opportunity – many agencies are available to assist you. Your state securities or insurance commissioner's office can be a great resource, especially if the person whom you are talking with has a securities or insurance license. The FINRA Web site contains licensing information and disciplinary history on stock brokers and registered investment advisors. State Attorney General offices, and county (or judicial district) District Attorneys maintain Consumer Fraud Units that will help you check on companies and individuals. The Better Business Bureau may be helpful. Self conducted research at the library or via the Internet will generally provide valuable information. If an individual has a professional designation or certification, e.g. Attorney, CPA, CFP®, CFA, etc., there is a professional or trade organization that maintains information, and disciplinary information on their members. Finally, consider asking for a second opinion from a CERTIFIED FINANCIAL PLANNER® professional. [www.fpanet.org](http://www.fpanet.org). (800) 322-4237.

Be careful out there! Be alert for the Three S's.

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