HOW DO I KNOW WHEN I AM BEING RIPPED OFF?

Of course, there is no way to be certain when someone is conning you, but there are a number of things to look out for. Here are some of them:

1. **Are there written materials describing the investment?**

   Whether it is life insurance, securities, real estate or whatever, there should be written sales materials that describe in detail where your money is going, what the risks are, and what kind of returns you can expect. If someone tries to sell you something without such materials, it is probably something to avoid.

2. **Do the claims made by the salesperson or broker match the written materials?**

   Of course, you have to read the materials. Do NOT just take the salesman's word for it. If there are risks disclosed in the materials, you need to take them seriously. They are there for a reason. If the returns in the materials do not match what the salesperson says, you need to find out why.

3. **Do the claims seem too good to be true?**

   This is a tough one, because when we hear about something that has really great returns, like 35%, we really WANT to believe it. And the explanation for how the returns are made sounds plausible. But you know in your heart of hearts, there are not very many 35% passive returns out there, or everybody would be doing it. So you should be really suspicious of claims that fall into this category.

4. **Is there any kind of urgency to making the investment?**

   If someone needs you to make a decision right now, it usually means the product won't stand a lot of scrutiny. Anything that's worth buying will still be available tomorrow. If someone says otherwise, the best course of action is usually to walk away.

5. **Is there a verbal guarantee that is not contained in the written materials?**

   This is one of the most common areas of abuse, and it is so easy to be taken in by it. The salesperson has "plausible deniability" and you have no hard evidence to back up your claim. Remember that promises made by the salesperson are not usually binding on the company selling the product. It is very common for people, even wealthy people to "trust" their financial advisors and to not read the material that accompanies the sales presentation. You are too busy, it looks boring, you don't understand financial things very well, etc. Don't make the mistake in the first place and you will never have to consult a lawyer after you have lost your investment.

6. Who is the company that is selling the investment?

Insurance companies have ratings, and they are pretty easy to find. Company websites usually contain rating information. If not, you can go to Best's Insurance Rating Service at http://www.ambest.com/. Any company that doesn't rate at least an A deserves further research.

7. What licenses does the salesperson have?

You would be amazed how many people give professional investment advice that have no business doing so. A life insurance agent, for example, cannot properly give investment advice, but many of them do. There is also a lot of "free" investment advice available. Free investment advice is usually worth just about what you paid for it. In order to give investment advice concerning securities (mutual funds, variable life insurance, or variable annuities), an individual should have an NASD Series 6 license and a state securities license. For advice concerning stocks and bonds, they need an NASD Series 7 license and should have a state investment advisory license. There are many other designations available from various organizations as well, but these are the basics.

8. Does the investment make you nervous or excited?

Are you afraid to tell your SO? Are you afraid to ask too many questions? Do you find it hard to go to sleep for thinking about it? Are you counting the returns and thinking about how it will make you rich? These are all indications that you may be getting into something that is much more dangerous than it appears.

9. Does the investment require you to use money that has to be borrowed?
The first rule of investing is that you cannot put at risk that which you can't afford to lose. If you have to borrow money from a line of credit, you probably should not be making the investment. You may be left holding the bag, and you still have to repay the loan.

10. Did you receive copies of everything you signed?

This is the most basic rule there is. How would you be able to show someone altered an application if you don't have a copy of what you signed? How do you know what you signed unless you keep a copy and look at it? It is quite common for salespeople to misrepresent documents and then fail to give copies. During the sales presentation, you hear the story the salesperson wants you to hear. You don't want to spend a lot of time (you spent too much time already) reading documents, so you sign whatever is put in front of you. That is a mistake, but OK, you made that one. Now, at least get a copy of it so that one afternoon when you are just sitting around watching TV, you can pick it up and look at it.

11. Do you have a chance to ask questions, and do the answers make sense?

Some salespeople are really good talkers. They tell a great story, it sounds compelling, and you can't wait to invest. But before you give them your money, try to think of some questions to ask– there will always be something you don't understand, like "Exactly how are you able to guarantee that 40% annual return?" "What do I do if the policy doesn't perform like the illustration says?" If the answer seems a little too pat, or doesn't really get to the issue you asked about, you probably need to investigate.

12. If the investment involves a promissory note, what is the collateral for repayment?

Unsecured promissory note scams are some of the worst ripoffs available. If you are buying a promissory note, it means you are lending someone money. That person or company is promising to repay you with interest. How do you know they will be able to pay? What are your options if they don't? Many of these notes, if not most of them, are unregistered securities. That means no one at any regulatory agency has passed on whether the company has adequate capital requirements to issue the notes or even whether the company exists at all! Do you really want to give money to an entity that may not even exist? If there is no collateral for repayment and you don't know that payor, you probably should stay away. The fact that the salesperson is a member of your club, your church, or is a personal friend is no substitute for investigating the entity that is actually paying the obligation.