May 2011

Keeping the Con Artist at Bay

Anyone can become a victim of a confidence scheme, But knowing what fraudsters look for and common-sense rules can decrease the chances of being fleeced

By Karen-Janine Cohen

BOOKMARK

STORY TOOLS
post a comment
e-mail this story
print this story

The woman's boyfriend came to her with a scary story – gangsters were after him! He needed several thousands of dollars to pay them off. She wrote a check. But it happened again. And again. Eventually, the wealthy young woman's family intervened. "He was asking someone who had a lot of money and who would give it to him," says Karen Altfest, principal of Altfest Personal Wealth Management in New York City, who said it was just one of the many examples she has seen of how wealthy people can become targets.

"She needed a lot of support, and treatment for years," says Altfest, author of Keeping Clients for Life, and co-author with her husband, Lew, of Lew Altfest Answers Almost All Your Questions About Money. Altfest often speaks about investing to women's groups and at seminars.

Since the Bernie Madoff Ponzi scheme scandal erupted in the media, more people have become aware of investment fraud and other financial crimes, which can range from simple street schemes to 'sell' fake winning lottery tickets, to grand illusions realistically portraying phoney companies, complete with brochures, fake employees and bogus testimonials. Economic crime is the tropical rainforest of thievery, with a proliferation of constantly growing and adapting scams.

Scores came to light between late 2007 and 2009, when the economic squeeze had investors rushing to cash out of what they thought were solid investments. “We saw many collapse during the financial meltdown – when the tide goes out you see who is not wearing a bathing suit,” says David Nanz, FBI supervisory special agent, whose team helped bring down Scott Rothstein, the Fort Lauderdale attorney convicted of running a Ponzi scheme – in which the money of new investors is used to pay
off the old investors, and
usually fund the Ponzi-schemer’s lavish lifestyle.

According to the FBI’s 2009 Financial Crimes Report (the latest figures available), securities and commodities fraud investigations rose by 33 percent over five years, going from 1,139 in 2005 to 1,510 in 2009, representing billions of dollars in losses.

What’s more, the increased participation of Americans in securities and commodities markets – nearly half of the population owns stocks or bonds in some fashion – and the advice to diversify investments are also giving fraudsters a new playing field, the report continued.

Trust but Verify

Few of the schemes would surprise Altfest, who has been advising investors for more than 25 years, and has become an advocate for widows, retirees, and others who suddenly come into a large amount of money and may be naïve about investing.

“I like to tell people about how to form a portfolio,” and how financial decisions can be tailored to a person’s life, she says.

And it seems that in life, just like in school, doing one’s homework is crucial.

“We tend to trust our gut a lot, and instincts are good,” she says, “but you want to have transparency. You don’t want the kind of adviser who says ‘I’ll take care of it, I’ll handle it.’ ”
Altfest says prudence dictates not having the adviser be the same person who also handles the money. “If you have Charles Schwab sending you a monthly statement, you are getting conformation that the money is really there,” she says, adding that funds should remain in the investor’s name and giving thumbs down on co-mingled accounts.

“That should give you a comfort level,” she says. “All these things protect the investor.”

In the wake of the Bernie Madoff scandal, new clients often come in and say, “You seem like nice people – but how do I know you are not Madoff?”

“People now feel they should ask that,” Altfest says, noting that, paradoxically, part of Madoff’s genius in attracting investors was his coolness. “It certainly didn’t sound like he pressured people.”

And those high pressure sales tactics are something Altfest says people should guard against – even if they come from legitimate companies. She tells of one elderly client who came to her after salespeople from a major investment firm showed up at the woman’s house, sat in her living room and would not leave until she signed up with them.

Why didn’t she kick them out? “She didn’t want to upset them,” Altfest says.

She suggests that everyone bring a trusted relative or longtime friend to such meetings, “who can say no for you.” And remember, she says, making quick decisions is to be avoided.

“If it sounds good to you on Monday, it is going to sound just as good to you on Friday,” she says.

A suddenly profitable business, or sale proceeds realized by Internet entrepreneurs, can lead to similar pitfalls, says Dr. Kerry Sulkowicz, psychiatrist, psychoanalyst and founder of the Boswell Group, a New York-headquartered consulting firm focusing on the psychology of business.

“Part of what makes them vulnerable is the lack of knowledge of what to do with it,” he says. “You need all kinds of advice and help. The most basic thing these people are told is that they have to diversify – therein lies the opportunity for schemers and scammers,” he says, echoing the FBI report.

The challenge of weeding out good offers and advice from bad can be overwhelming, he says. And overwhelmed people may tend to become passive, he adds. Some may also have anxiety about having so much money – as well as guilt, which, Sulkowicz says, are also risk factors for becoming a victim.

The Con in the Confidence Scheme

There is a reason they call it a confidence scheme. Unlike breaking and entering, grand theft auto, or a jewelry heist, the perpetrator plays on the natural emotions of those they target.

Victims can be left feeling foolish, embarrassed, and guilty for perceiving that they in some way contributed to their own fleecing. This is just what scam artists count on.

What makes a fraudster good, is identifying the emotional soft spot in the potential victim that they can hook into, says psychoanalyst Dr. Alexander Stein, also of the Boswell Group. Stein, an internationally regarded expert in the psychology of fraud, says part of the problem is that society, including the legal system,
often shift at least some culpability to the victim (“he was greedy”).

“One of the things that makes criminal fraud unique from any other kind of crime, is some form of participation,” he says. “Fraud is about manipulation and trickery. At some level, that has given rise to such a characterization.”

But part of the fraudster’s skills, he says, is being able to suss out what the victim wants and position himself or his product to provide it, building on normal human desires, emotions and relationships. “This is something the best of them understand in how they manipulate their victims,” he says. And gaining trust is at the heart of the process. “This is someone who has learned to hide himself in artful ways.”

Trust, first built then betrayed, is the window into the minds of such criminals, Stein says. “They leave a psychological fingerprint that is telling about their own experiences,” he says.

Typically, he says, such a person was unable to come to terms with an early dislocation or trauma that someone with more resilience could overcome. “Fraudsters are crippled in regard to this and they are unable to come through these experiences in a workable way, and instead, harbor acidic reservoirs of rage that get unleashed on others.”

These people, adds Stein’s colleague, Sulkowicz, often first come across as seductive, and tend to make all kinds of promises.

The key though, is how they act when they don’t get their way. “They are very accommodating until they get wind that you may not be interested in giving them what they want,” he says. “Then they lose interest in you."

Investors must do background checks, references checks and consider, at least at the beginning, staying with a well-known name or institution, Sulkowicz says.

"What we are talking about is trust. And trust is relationship based. It's not something you can sell, it's something earned over time."

RELATED ARTICLES

One language, two Languages, or More: the Developmental View
How best to foster the considerable advantages of bilingualism in our kids —at home and school
Read full story

Out of the Rubble
Colombian American Sandra Marquez Stathis, author of the recently released "Rubble: The Search for a Haitian Boy," about reconnecting with a Haitian friend after the 2010 earthquake, recalls how their chance meeting on a Port-au-Prince street when he was 7 turned into a life-changing relationship for both
Read full story

Julio Sánchez Cristo
The popular colombian broadcaster's radio show has been in Miami for several years and is besting the competition. He brings his own take to world events, entertainment and popular culture in a program unlike any other
Read full story

20 Under 40
Armando Christian Perez, better known as Pitbull, is one of 20 young Hispanics already making their mark in business, entertainment, science and the arts.
Read full story

Aristide returns to Haiti, ending 7-year exile
The former Haitian president ignored international requests not to return prior to Sunday's presidential election
Read full story

Fields of Dreams
Strawberries took the Chávez family in one generation from picking fruit to owning orchards
Read full story

READERS DISCUSSION

Name