

BOILER ROOM RED FLAGS

When you receive unsolicited telephone calls or emails, look and listen for red flags.

One warning sign is the “three-call” technique. The first call sets the stage by developing the relationship, discussing general investments, and establishing the reputation of the firm. The follow-up call whets the investor’s appetite for an investment by hyping the company, its product, its breakthrough, its technology, or its service. These fraudulent statements misrepresent the investment and mislead investors. On the last call the broker pressures the investor to buy the stock by imposing false deadlines, rejecting any questions, and harassing the investor.

Another warning sign is the “bait and switch” technique. Unscrupulous brokers lure in new clients by offering them well-known and widely-traded blue chip stock, but once the account is opened at their firm, the broker pressures the investor to buy a micro-cap stock. Sometimes these brokers will even buy the stock without the investor’s approval!

Other red flags that the brokerage firm is a boiler room include:

- Repeated, unsolicited calls or emails hyping a deal
- Refusal to say anything negative about the investment
- Baseless price predictions (e.g. “the stock will double in price in a short time period”)
- Pressure based on peers that have already invested
- Insults and condescending behavior (e.g. questioning the intelligence of passing a “sure thing”)
- Extraordinary profits with little or no risk
- Promises of “Guaranteed profits”
- Urgency and False Deadlines (e.g. “immediate action required” “the opportunity will be gone tomorrow”)
- Exclusive deals (e.g. “special” or “private” deal only made to “a few lucky investors” to “get in on the ground floor”)
- Inside information
- Unusual arrangements for collecting funds from investors