WSJ 2007

GETTING GOING

Don't Get Hit by the Pitch: How Advisers Manipulate You

We are all, I regret, under the influence.

Unscrupulous financial salespeople can often persuade even well-educated folks to sink huge sums into rotten or fraudulent investments. Indeed, over a quarter of adults have fallen prey to a scam—investment or otherwise—at some point in their lives, estimates AARP, the seniors' advocacy group.

By Jonathan Clements

How do these salespeople pull it off? Below are seven common tactics. But here's what is striking: Even ethical financial advisers use these tricks.

Your adviser might have sold you some fine investments. Along the way, however, you were likely subjected to some well-intentioned manipulation—which suggests you could be manipulated by somebody with far worse intentions.

■ "In order to take somebody, you have to win their confidence and trust," says Anthony Pratkanis, a psychology professor at the University of California at Santa Cruz.

But how? Financial salespeople frequently feign friendship, asking you all about yourself and pretending to have things in common.

■ As salespeople get to know you, they will hunt for your hot buttons, whether it's scoring big investment gains, boosting your portfolio's yield or avoiding market losses. That allows them to craft their investment pitch.

"Con men will talk about putting people under the ether," says Doug Shadel, AARP director for Washington state. "They dangle this fantasy, and people just can't think straight." Mr. Shadel and Prof. Pratkanis are co-authors of a free AARP book, "Weapons of Fraud," which you can obtain by emailing your name and address to weaponsoffraud@aarp.org.

■ Once unethical advisers know what to pitch, it's time to sell the deal. Often, they will tout an investment's scarcity, which makes it seem more valuable and desirable.

Consider the hunger for hedge funds and initial public stock offerings, with their aura of exclusivity. Alternatively, salespeople might create a sense of scarcity by pointing out that an investment's bargain price may not last.

■ The scarcity pitch can be especially effective if salespeople add that others are clamoring to get into the same deal, or that investors have had great success with the strategy.

Popularity is a pretty good guide when picking things like movies and restaurants, so it's comforting to hear that an investment is popular. "The reason these techniques work so well is because they tap into normal human tendencies that usually serve us well," notes Robert Cialdini, a psychology professor at Arizona State University.

■ Prof. Cialdini says unethical advisers may also exploit your good-natured tendency to return favors. They might give an investment seminar that includes a free lunch or offer some supposedly inside information. Suddenly, you feel like you are in their debt—and you're more likely to bite on their pitch.

■ Similarly, salespeople may take advantage of your desire to appear consistent. Early on, you might mention a concern about market declines. Later, when you get squeamish about buying, the salesperson might counter by saying, "I thought you said you were concerned about market declines."

■ After making their pitch, salespeople may skip over the question of whether you should buy and instead ask whether you want, say, 100 or 300 shares. "In sales jargon, that's called the presumptive close," Prof. Pratkanis says.

Alternatively, salespeople will suggest you invest $30,000. When you balk, they will ask for a $15,000 investment instead. Ordinarily, you wouldn't agree—but it now seems reasonable because it was preceded by the request for $30,000.

How can you avoid getting tricked into bad or fraudulent investments? "First, know the ways of persuasion," Prof. Pratkanis advises. "If you start to feel like your emotions are being played with, get out of that situation. Second, take some lessons from Warren Buffett. Understand the companies and products you invest in."

But maybe the smartest strategy is to avoid snap decisions. "I have a rule that I won't make a decision until 24 hours after hearing the sales pitch," Mr. Shadel says. "That gives time for the ether to lift."

Who's at Risk?

Victims of investment fraud tend to be:

- Knowledgeable about finance
- Suffering ill health or financial stress
- More optimistic than other people

Source: NASD Investor Education Foundation