

Affinity Fraud: How to Protect Yourself

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In a world of increasing complexity, it can be very difficult to figure out whom to trust. This is especially true when it comes to investing money. How our financial markets work can be a mystery to just about everyone and knowing how to research an investment or its seller thoroughly is important. The current turmoil in the current financial market and fears of older adults that they will outlive their retirement savings have provided fertile ground for this type of financial exploitation.

One all-too-common fraud people fall prey to is what we call “affinity group fraud.” This type of fraud is perpetrated by a con artist who claims to be a member of the same ethnic, religious, career or community-based group. By joining your group they are saying “you can trust me” because they claim to be like you, with the same interests and background. And, of course, they always want to “help you make money.”

Another equally effective approach is for the con artist to lull members into a misplaced trust by first selling the scheme to a few prominent members. Then, using their names, the con artist pitches the scam to the rest of the group. The effect is the same: Once the connection to the group is understood, the individual's skepticism melts away and another sale occurs.

Religious affinity group fraud remains a problem. Consumers report fraud and abuse by "born again" financial planners, con artists claiming church endorsements and givers of "divinely inspired" investment advice.

Protect Yourself

The tight-knit structure of many religious, community and social groups is a perfect environment for the con artist. What can you do to protect yourself?

1. Beware of the use of names or testimonials from other group members. Scam artists frequently pay high returns to early investors with money generated from later investors. As a result, early investors might be wildly enthusiastic about a scheme that collapses once you've invested.
2. Obtain a prospectus or other forms of written information that details the risks in the investment as well as procedures for getting your money out.
3. Ask for professional advice from a neutral outside expert outside the group, such as an accountant, attorney or financial planner.
4. Contact the state securities board for information about the firm and the person selling the investment, including whether he or she is registered.

How the Faithful Can Avoid Scams

1. Be wary of investments that seem closely tied to a particular religious belief. It makes little sense that an investment opportunity would be available only to members of a specific church or faith. Many religious scriptures warn of those who would exploit faith for personal enrichment.
2. Be cautious if the promoter of an investment opportunity tries to capitalize on connections or leadership within a religious group. The success of the investment is unlikely linked to the promoter's inside contacts.
3. Beware of a new member of your church who springs up out of nowhere with a surefire investment scheme. Some con artists will waste no time ingratiating themselves within a religious circle. Find out about the person's background, if any, within the church.
4. Exercise the same caution and skepticism that you would with any other investment.
5. Ignore claims that religion-based investments aren't regulated. Almost all investments, including church bonds, are regulated by state and federal securities or commodities laws.
6. Check out the promoter and the investment. The Better Business Bureau may have records of complaints about the promoter.
7. Don't give a break to a swindler who hides behind religion. Don't be victimized for a second time by letting an investment scammer off the hook. He might take the opportunity to take advantage of new victims elsewhere.

Resources include contacting the Better Business Bureau at 713-868-9500 and the Texas State Securities Board at 713-426-0336, and visiting www.investor.gov. 🟡