

## Portrait of a "Boiler Room"

The SEC and state securities regulators have investigated – and taken action against – numerous firms and brokers who use high-pressure tactics to sell securities. In a recent case, "boiler rooms" were described this way:

The firm was operating a classic boiler room. The brokers sat "cheek by jowl" in a room the size of a basketball court. All of their desks were lined up side by side in rows. The firm held mandatory sales meetings every morning at 8:30 a.m. at which time sales techniques were demonstrated and scripts for the firm's "house stock" . . . were distributed. Brokers were expected to follow the scripts and only give customers the information they contained. Brokers were discouraged from doing any outside research, and were told to rely on the firm's research and representations. . . .

After the morning sales meeting, brokers were expected to spend the entire day (except for a lunch break) on the telephone. The firm expected a high volume of sales, and if brokers did not stay on the phone, they were fired. . . .

One broker conceded that he falsely identified another salesman . . . as the firm's research analyst, and gave a fictitious description of the purported analyst as "fat, bald, and badly dressed." He stated that the reason for the firm's policy of discouraging customer sales was its desire to avoid negative price pressure on house stocks, a circumstance that he did not disclose to customers.

*-- From an opinion in a recent SEC enforcement case*

Brokers in one boiler room defrauded investors by

- lying about the firm's reputation and expertise, claiming it had a "research department" that analyzed stocks when it didn't,
- refusing to say *anything* negative about the stocks they pushed, including the "risk factors" discussed in the prospectus,
- making baseless price predictions, promising that certain stocks would double in price within a short time period,
- impersonating other salespeople at the firm, and
- discouraging customers from selling the stocks they recommended without regard to the customers' best interests.

Knowing how boiler rooms operate, you should be extremely skeptical when considering any investment opportunity a stranger tries to sell over the phone.

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Microcap Fraud This brochure tells investors about microcap stocks, how to find information, what "red flags" to consider, and where to turn if you run into trouble.

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Modified: 04/17/2009