BEWARE OF “BOILER ROOM” OPERATIONS

by Wilfredo A. Baltazar*


The “boiler room” is the heart of a fraudulent telemarketing investment operation, usually a rented space with desks, telephones, and experienced salespeople who talk to hundreds of people from across the country every day.

In a typical “boiler room” the “brokers” (unregistered salespersons or telemarketers) sit crowded together in a room with long tables, with up to seven phone stations per table. The firm may hold a mandatory sales meeting every morning at which time sales techniques are demonstrated and “scripts” for the firm’s “house stock” (unregistered stocks) are distributed. Brokers are expected to follow the script and give customers only the information it contains.

After the morning sales meeting, the brokers are expected to spend the entire day on the phone. The firm expects a high volume of sales, and if brokers do not stay on the phone, they are fired.

The brokers are aware that many “boiler room” firms utilize a monitoring process which randomly tape-records telephone sales conversations it. This acts as internal policing for the company to ensure that no incoming cheques are misdirected from the main operation.

A boiler room’s primary activity involves raising funds out of the investments of their customers which will then be pocketed by the brokers or telemarketers in the form of commissions, costs and fees.

Once customers’ complaints starts coming into the company, “boiler room” entitles usually close their business and reincorporate under a different name.

Investors should protect themselves from this kind of investment fraud. Here are some telltale signs of “boiler room” operations.

1. High-Pressure Sales Tactics – A salesperson or telemarketer may make repeated call to you. If you express any hesitation about investing your money, the caller may become abusive and question, for example, the intelligence of someone who passes up a “sure thing.”

2. Promises of Extraordinarily High Profit at Little or No Risk – Investment rules dictate that “The higher the return, the higher the risk.” “Boiler Room” salespersons claim to make extremely high (30, 40, or 50%) profits, without any risk of loss.
3. A Demand for Immediate Decision – “Boiler Room” salespeople want fast action before you have a chance to develop second thoughts or consult a professional for advice.

4. A Reluctance to Provide Information About the Sales Firm or the Investment – “Boiler Room” telemarketers are evasive when questioned about their sales operation or the investment they are promoting.

5. Mumbo-Jumbo about “Inside Information” or “Secret” Technology – In order to close the sale, the salespeople may claim that a major corporation or bank will be investing shortly, or that a new geological report is coming out soon.

6. Delayed Delivery of the Product and/or Profits – This is a classic “red flag” of an investment scam. If you don’t have your investment in hand or under your control in some other location, you have nothing for your money. Beware of promises involving delays of more than a few weeks for delivery of your investment.

7. Unusual Arrangements for Collecting Funds From Investors – “Boiler Room” operators use unusual collection methods with the purpose of not giving customers enough time to back out.

If you are contacted by a “Boiler Room” salesperson, do the following:

1. Simply hang up;
2. Don’t believe that you’ve been “specially chosen” to receive the salesperson’s offer;
3. Don’t be impressed by a salesperson’s title;
4. Don’t feel foolish for failing to act on a caller’s sales pitch;
5. Do not make an immediate decision;
6. Know your risk tolerance for possible loss of your invested money;
7. Avoid investments you do not understand;
8. Don’t give your credit card number or other personal financial information over the phone to strangers; and
9. Verify with the Securities and Exchange Commission if the salesperson and firms are registered and allowed to do business in the Philippines.

Finally, if you think your caller is not a “boiler room” operator but someone worth listening to, make sure you fully understand the investment before you part with your hard-earned money. Insist on, and read carefully, the operation’s financial statements.

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