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Is Your Broker Tweeting Lies?

Regulators are targeting social-media investment scams. Here's how to protect yourself.

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The rapid rise of social media networks like Facebook and Twitter has led to a host of new dangers -- from identity theft to online predators and cyber-bullies. But now regulators are turning their sights on a new area they say is becoming more vulnerable to abuse: the financial advice business.

Last week, the Securities and Exchange Commission charged Illinois-based adviser Anthony Fields with advertising fictitious investments on LinkedIn, and for the first time issued formal guidance on how advisers should use social media to communicate with investors. In another first, the SEC issued an investor alert on the kinds of scams investors might find on social media sites, including advisers lying about their credentials, hyping investments or pitching fake ones.

The scrutiny comes at a time when more advisers are using social media sites to build their brands, find potential clients and communicate with existing ones. About 47% of advisers used social media for their businesses in 2011, up from 35% in 2009, according to a survey by Aite Group, a research and advisory firm for the financial services industry. "The world is going toward more communication through social-media sites," says Mike Alfred, co-founder and chief executive officer of BrightScope, a firm that provides online records of financial professionals.

But watchdogs say the newness of the media, and the lack of set policies for how advisers should use it, opens the door for abuse. "Social media is another avenue for the con artists to try to get people to separate their money from their wallets," says Lori Schock, director of investor education for the SEC.

For advisers and brokers, some of the rules around using social media are still unclear. The SEC, which oversees investment advisers, hasn't issued specific rules, but last week the regulator recommended steps firms can take to monitor the use of social media, such as limiting how advisers can use certain sites, approving content before it is posted and creating a certification process for advisers before they can use social media. And many financial advisory firms are still ironing out their individual policies, regulators say. "I think people are still trying to digest some of the guidelines," says Patrick Burns, a securities lawyer based in Beverly Hills, Calif.

Meanwhile, the Financial Industry Regulatory Authority, which oversees the brokerage industry, has adapted some of its rules to social media. The regulator requires that brokerage firms keep record of any communications had with clients on social media, that investments recommended to clients through the sites be "suitable" for the investor, and that any claims brokerage firms make on such

networks be "fair and balanced." "You can't say on Twitter that your firm is the 'best in the world' if you don't have evidence," says Joe Price, Finra's senior vice president for advertising regulation.

In the meantime, consumer advocates say there are steps investors should take to protect themselves when using some of these networks. One risk investors run into, the SEC says: Trusting the recommendation of a friend or someone they know. Just as investors should vet recommendations made by a friend at a golf club, social-media users need to double check advisers or investments suggested by friends online, says Alfred. Check out brokers with Finra and confirm that investments advisers are registered with the SEC, he says. Fields, for example, allegedly claimed to be a broker, but he wasn't registered with the SEC, according to the complaint. Fields didn't return calls seeking comment.

When it comes to investments pitched by friends, or purported financial pros, investors should also check if the securities are registered with the SEC or a state regulator before they invest, says Schock. And experts say investors should be skeptical about investments that promise too much. Some fraudsters lure in desperate investors by promising "guaranteed returns" of up to 40%, but realistic yields on safe saving vehicles are much closer to zero in today's low yield environment, warns Schock.

"Very low risk with very high return -- that gets you Bernie Madoff," says Patrick Dorsey, director of research for Sanibel Captiva Investment Advisers, a wealth management firm.