



Wary Investors Turn to Lie Pros

by Kyle Stock
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Deception detectors find a new niche.

When screening a fund manager, investors like to see experience and a consistent record or returns. Elizabeth Prial, however, looks for dilated pupils and uneven breathing.

Ms. Prial, a psychologist and former Federal Bureau of Investigation agent, has spent most of her career looking for lies in the statements of mafia hitmen and terrorists. Now, she is on the hunt for the next Bernard Madoff, selling her deception-detection skills to institutional investors and others with large pools of money who want to know if prospective fund managers are telling the truth.

"It's usually very clear," she said. "I'm 90% confident in most of the things that I can see."

Amid the rush to fortify the nation's still-rickety regulations in the wake of the financial crisis, affluent investors are turning to behavioral specialists, looking to find things in faces and phrases that may not be revealed in financial statements.

J.J. Newberry, a lauded California-based human lie detector, has trained almost a dozen investment professionals in workshops typically reserved for police officers and government agents.

Mark Frank, another deception detection consultant who teaches at the University of Buffalo, said in recent months he has repeatedly turned down requests to analyze subjects for Wall Street firms.

Eccentric screening techniques are nothing new to Wall Street. Seigmund Warburg, founder of the giant London-based investment bank S. G. Warburg & Co., was notorious for subjecting customers and employees to psychological tests. He was particularly diligent about evaluating hand-writing samples of would-be workers, in attempt to uncover character flaws.

Detecting Deception

There is no universal movement or "Pinocchio's nose" that denotes a lie. But here are several things that people known as "deception detection" professionals look for when examining a money manager's truthfulness.

• Pupils changing size:

Often corresponds to extreme emotion, including fear.

• Irregular breathing:

Can flag nervousness and agitation.

• Microexpressions:

Split-second facial expressions that portray various emotions (despair, fear or anger).

• Crossing legs:

Liars typically try to distance themselves from an untruth; crossed legs can be a manifestation of that.

• Motionlessness:

Often caused by the extreme focus associated with telling and maintaining a lie.

• Quick verbal responses:

Often indicates a premeditated, scripted statement.

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Ms. Prial, 43 years old, has assessed almost 50 fund managers on behalf of prospective investors. Though she still consults for the departments of Defense and Homeland Security, her private sector employer is Insite Security, a New York-based firm that also sells standard due diligence and workplace disaster-preparedness plans. Insite's clients -- pension funds, affluent families and private-equity companies -- pay about \$10,000 a meeting for the service.

Ms. Prial, slim, dark-haired and unassuming, is introduced as an associate and sits quietly while the would-be fund manager is interviewed by Insite's client. She watches and listens for the myriad subtle signs that researchers have linked to lying: facial twitches, changes in breathing tempo, and shifts in language patterns.

Professional human lie detectors said that people are uncomfortable with untruths and will show that in certain ways, such as microexpressions -- brief flashes of fear or other emotions in a face -- or concealing motions like crossing one's legs or touching one's face. Lies in speech are often flagged by a switch from the first person to the third person, as when a subject suddenly begins speaking on behalf of "the firm" or "the team."

"The most accurate indicator is the pupil size changing," Ms. Prial said. "If you can

be close enough to see that, then you're golden."

But deceptive "tells" are not universal, which is where the psychology comes into play. Human lie detectors said the practice is most effective when the analyst can establish a pattern of behavior and then flag transgressions from that pattern.

"I can't say 'Oh, when they scratch their nose, they're lying,' " Ms. Prial said. "It's more like: 'What does this person look like when they're telling the truth, and when do those characteristics disappear?'"

Traditional polygraphers and investigators employ many of the same interviewing techniques as Ms. Prial. Skeptics, however, abound. A federal initiative that trained about 3,000 airport screeners in similar techniques has sparked debate. In a May report, the Government Accountability Office called into question the effectiveness and the scientific foundation of deception-detection techniques.

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Jim Roth, founder of corporate intelligence firm The Langley Group, said the results can be inconsistent and less than telling.

"If you did nothing but deception detection, I don't think it gets you very far," he said. "In my world, I would characterize it as a small tool."

Mr. Roth said straightforward analysis can be more useful. When investigating a company for potential weaknesses, his firm looks for less subjective things: an exodus in the ranks of middle management, a spike in the ratio of accounts receivable to revenue, and unusual share sales by top executives.

Even professional lie detectors say that their work is fallible. Humans lack "a Pinocchio's nose," and some people simply can't be read with accuracy.

Insite wouldn't reveal its clients, and Ms. Prial doesn't keep any written record of her work. Christopher Falkenberg, a former Secret Service agent who founded Insite, said the value of the service is in identifying "hot spots," areas where some more probing might reveal a lie or information that a subject is trying to conceal.

Mr. Falkenberg said the idea to hire Ms. Prial was triggered by the fraud cases against Mr. Madoff and Allen Stanford, who slipped by formal federal inquiries many times.

"It occurred to me that had the victims called us, we would have utilized very standard due diligence techniques," he said. "But I can't tell you that we would have been able to find the very nuanced covers that were evidence of these scams."

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Ms. Prial, a relatively passive mutual-fund investor, is still getting used to the ways of Wall Street, after years spent analyzing criminals and terrorists.

People on Wall Street are better liars, she said. Fund managers she screens are more self-aware than common criminals or terrorists and thus more skilled at covering up their deceptions, she added.

Ms. Prial also said many honest investment professionals have behaviors that point to narcissism, a trait that often goes hand-in-hand with deception. She has had to learn that an inflated sense of self isn't a suspicious anomaly on Wall Street.

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