

How to Avoid Fraud

This is crucial knowledge as you enter the world of investment. Crucial questions are:

Who are the most common targets of fraud and why?

And

How should you protect yourself?

This module will answer these questions as we work through the following topics:

- a) Example of a Fraud
- b) Target Identifiers
- c) Identifying a Fraudulent Investment Opportunity
- d) Complaints

Example of a Fraud

Mr. and Mrs. Anderson, a retired couple in their early 70's, have typically been very conservative investors. One evening over coffee, friends of theirs, the McLeans, told them about a great investment opportunity where they could invest in an off-shore, tax-sheltered venture that could provide them with a return in excess of 50% per year, but it was a secret.

Shortly thereafter, the Andersons met a financial planner, Stuart, who made them promise not to tell their banker, lawyer, or accountant about this investment! He told them that this opportunity was usually open only to large international banks, but they could "get in on it". The McLeans had already earned a return of 25% in just two weeks!

The Andersons were impressed and invested the minimum amount. In short order they received an interest cheque. Convinced, they cashed in some of their conservative investments and invested much more in this "great" opportunity. A week later, they got another interest cheque. Time passed, and they did not receive any more interest cheques. They called their friends, who had also not received any more cheques. They called Stuart, the financial planner, and he told them that their cheque was on its way. Still more time passed, and when the Andersons and McLeans tried to call Stuart again, they found his telephone had been disconnected. They called their provincial securities regulator.

After an investigation, they found out that Stuart had taken almost seven million dollars from more than 500 people. None of these people ever received their original investment back, let alone the fantastic returns that were promised. The Andersons and the McLeans had become victims of a Prime Bank Instrument Fraud.

Target Identifiers

Your lifestyle may increase your chances of being approached by a fraud artist. Do any of the following describe you?

- **You are often home to answer the phone or the door**
- **You are involved in community or interest groups (associations, clubs, churches, etc.)**

- **You are alone during the day**
- **You have health-related difficulties that have increased your reliance on others**
- **You are dissatisfied with interest rates or returns on your current investments**

Scam artists may use the situations listed above to **take advantage of you by gaining your trust** to steal your money. Fraud artists have no conscience and will engage in illegal activity to get at your money. They can be very convincing and will take advantage of individuals who they feel lack investment knowledge. These scam artists will often use technology to their advantage. Every year in Canada, thousands of well-meaning investors become victimized by schemes involving billions of dollars.

Prevention is the best way to protect yourself from fraud.

Here's how you can prevent yourself from becoming a victim:

- **Educate yourself about the warning signs of fraud**
- **Know what to look for and what to avoid**
- **Don't allow yourself to be drawn in by excitement**
- **don't allow your emotions to take control of your money**

Recognize investment schemes and learn how to protect your finances from various types of fraud.

In most cases, people who wish to take advantage of you will attempt to gain your trust. As in the case of the Andersons, con-artists are sometimes able to establish credibility through their friends or various affinity groups (groups that are organized around a common interest such as sports, hobbies, religion, or various social groups). Once a fraudster is able to establish credibility by association with these friendships or groups, they will ask for your involvement in an investment scheme, usually a very secretive one.

Identifying a Fraudulent Investment Opportunity

A scam organizer will often take advantage of anti-tax or anti-government sentiments held by potential investors. The promoter will offer the ability to avoid paying tax and may offer to keep your money outside of Canada where the government won't be able to touch it. The scheme will usually offer very attractive rates of return – as high as 2% per week, or up to 300% per year. Many times, you will be told to keep the opportunity a secret and not disclose the information to anyone – especially lawyers, accountants, bankers, or representatives of the government.

If you choose to participate in an investment scheme that you know is illegal (i.e. income tax evasion), it is very likely that you may lose all the money you invest. In such cases, there is little or nothing that securities regulators can do to help you recover your money. An illegal \$5000 investment to save \$700 in taxes may actually end up costing you \$5000.

QUICK RESULTS

It is very common for investors like the Andersons and the MacLeans to receive a payment from the scam organizer within a short period of time. After being given the chance to develop some confidence in the promoter and the investment, the investor will be asked to make a further contribution so they can enjoy the same percentage return on a larger investment.

WHERE DOES THE MONEY COME FROM?

Schemes are based on having a number of investors. A fraud operator will use money from later investors to pay the returns of earlier investors. In the case of the Andersons and McLeans, the returns they received came from people who invested after they did. By continuing in this way, scam artists can pay handsome returns to investors while keeping the majority of invested money for themselves. Sometimes scam artists will actually pay you back with your own money (that you

gave to them) and call it "a return." In many cases, THERE IS NO ACTUAL INVESTMENT PRODUCT.

DISAPPEARING ACT

After the scam artist has received a substantial amount of money from an investor, the returns usually stop, and often, the person who sold it to you will disappear – no matter how well you might have known them.

PROTECT YOUR HARD-EARNED MONEY

Many investment scams are made to seem complex. Fraud artists will assume their victims will not understand and will make themselves sound like experts. Here are 10 tips to help protect you and your money:

- Don't ever be afraid to ask questions and make sure your questions are answered
- Take notes of every contact with a salesperson, including date and time
- If an adviser intimidates or pressures you, look for an adviser with whom you are more comfortable
- Don't assume that a salesperson or financial adviser is an "expert"
- Always get a second opinion
- Always get written documentation - NEVER accept a verbal contract
- NEVER sign anything before reading it carefully
- If you don't understand what is written, refer it to a lawyer
- Don't allow anyone to rush your decision making process
- Don't be drawn in by a well-dressed, confident salesperson – fraud artists are very aware of the importance of first impressions If you are in doubt about an investment or the seller of an investment, contact your provincial securities regulator.

WHAT SHOULD I WATCH OUT FOR?

- Any financial transaction completed on your behalf or without your consent
- Transactions for which you have no record
- Someone who promises or guarantees you a high return or a future price
- Someone who suggests that an investment will eventually be listed on a stock exchange
- Back-dated purchase orders
- Anyone asking you to pre-sign blank forms
- Guarantees of any kind or promises to refund purchase price
- Failure to provide a prospectus
- Secretive behaviour or requests for silence

Complaints

WHAT DO I DO IF I HAVE AN INQUIRY OR A COMPLAINT?

- 1) Contact your adviser to see if he or she can answer your question
- 2) Contact your adviser's supervisor, compliance officer, or manager
- 3) Contact your provincial securities regulator

WHAT INFORMATION WILL I NEED BEFORE I MAKE A COMPLAINT?

- The name of the account holder
- Your account number
- Salesperson/Representative's name
- Chronological list of events (dates & times)
- Copies of documents (statements, letters, forms, applications)
- A description of how you want the company to rectify the situation
- The date that you would like to hear back from them

It is always a good idea to keep track of the above information in writing.

Although this video presentation is not the longest in this series, it holds a wealth of information vital to protecting your money and your investments against fraud. Module 5 continues on this same theme by identifying indicators of affinity fraud.

Thank you for watching. This concludes Module 4: How to Avoid Fraud.