

Investor Beware

Protecting Yourself From Investment Scams

Anyone can be a victim of investment fraud. Here's the low-down on the classic types of investment fraud as well as tips and tools to help you avoid being cheated by unscrupulous investment scammers.

What do Steven Spielberg, Kevin Bacon, John Malkovich, Zsa Zsa Gabor, Amy Search, Hattan, Awie and Misha Omar have in common? They were all victims of investment fraud.

The stark fact is anyone - be they rich or poor, young or old, the uninitiated or seasoned investment professionals - can be scammed. One out of 10 investors has been investment fraud victims, according to Financial Industry Regulatory Authority (FINRA).

On local shores, the recent

JJPTR, VenusFX Forex, Richway Global Venture, Change Your Life (CYL), BTC I-System scams and many more have cost investors and the economy billions.

That got *Smart Investor* peeling off the layers of scams to bring our readers the low-down on the classic types of investment fraud, as well as tips and tools to help you avoid being cheated by unscrupulous investment scammers.

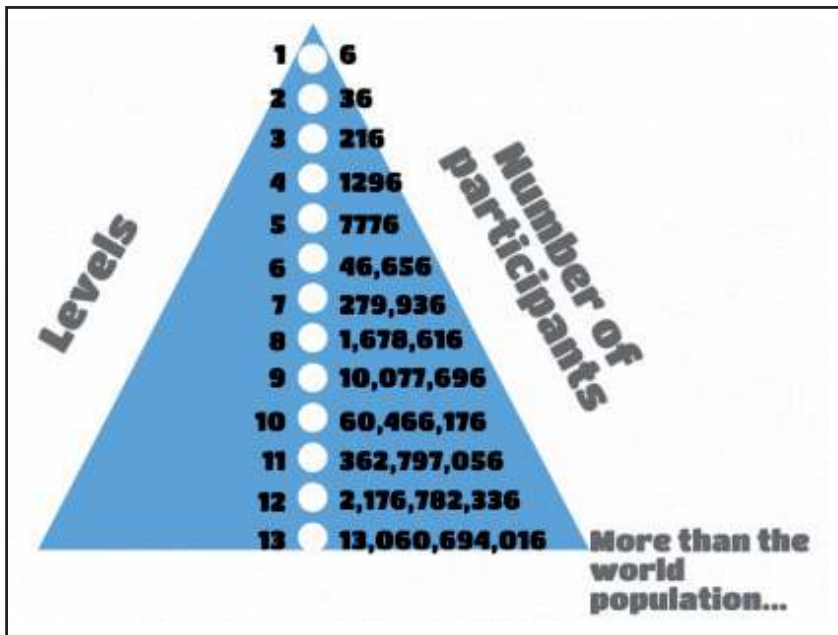
To begin with, let's look at some of the most common scams to plague society.

TYPES OF SCAMS PYRAMID SCHEMES

Pyramid schemes work by promising to pay members when they recruit more members. The scheme is not sustainable and illegal as it is based on new member enrolment rather than the sale of actual products or services. The new members' fees are used to pay the members above them.



Figure 1: Why pyramid schemes are unsustainable



Source: www.successfulbusinessonline.org

Eventually, the system will collapse as there are not enough people in the whole world to keep it going. Only the members at the top levels of the pyramid will earn a lot of money at the expense of those below them.

Red flags: It is unclear how the company generates revenue. It does not have a sellable product or service. You are compensated primarily by recruiting new members.

PONZI SCHEMES

The scam is named after Charles Ponzi, who persuaded thousands to invest in a complicated postage stamp arbitrage scheme in the 1920s. The originator collects money from new investors who are enticed by the unusually high returns.

This money is used to pay supposed returns to earlier-stage

investors, and not investing or managing the money as claimed. It is similar to pyramid schemes in that it requires continuous cash flow to remain viable.

However, it differs from pyramid schemes in that it doesn't require

recruiting new investors to earn profits. The scheme normally fails during tough economic times when most of the investors want to withdraw their cash or when the originator is unable to entice new investors to the scheme.

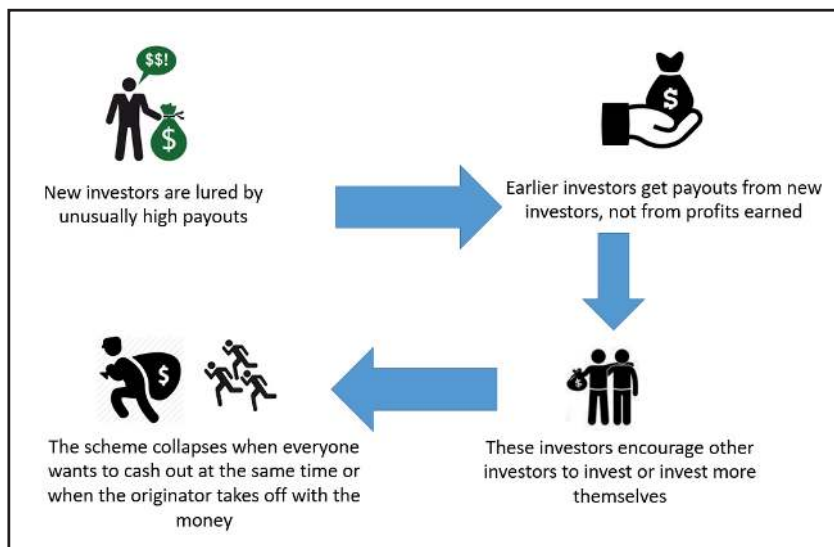
Red flags: Ridiculously high returns guaranteed. Payments made to offshore payment providers. Pressured to invest immediately.

GOLD INVESTMENT SCAMS

Gold buyback schemes such as Geneva Gold, Gold Guarantee and Suisse International promise lucrative returns for the gold purchased with an assurance that the company will buy back the gold at the original price regardless of market price fluctuations.

Geneva Gold stopped paying monthly dividends to its investors after a few months, Gold Guarantee's founder ran off with the investors' money while Suisse International investors claimed they did not receive a single monthly pay out.

Figure 2: How Ponzi Schemes Work



Source: www.successfulbusinessonline.org

Fraud is about creating false confidence, and getting people to believe in something that does not exist.”

Red flags: Interest rates are too good to be true. The gold is normally overpriced compared to the actual gold market price.

SWISSCOIN SCAM

Using a multi-level marketing (MLM) structure, this cryptocurrency scam gives compensation based on investments in tokens converted into Swisscoins.

Members are required to purchase 'educational packs' and if they invest, say, 500, they will receive 5000 tokens in a particular package. Members will also receive a bonus, called splits, which will double their tokens.

The Swisscoin mining happens in these splits. Developed and distributed exclusively by Swisscoin, this currency has no external value outside the Swisscoin ecosystem.

Red alerts: It is unclear how they work. They don't sell any retail products - only educational packs, which are sold by affiliates.

RED FLAGS OF A SCAM

As seen from above, investment scams have their own red flags. Here are the general warning signs to alert you of an investment scam:

- **Guarantees** - No investment is risk-free nor can they guarantee high returns. Be wary of those who promise these things.
- **Unregistered investments** - A lot of investment fraud revolve around unregistered and unlicensed securities. Check with

your regulators if the schemes are registered before investing into them.

- **Consistently high returns** - Investments that give overly consistent returns in spite of market conditions are suspicious, especially in times of economic turmoil. Any investment, even the most stable ones, experience down times every now and then.
- **Vague or complex strategies** - If the seller cannot explain in concise terms how they are investing the money in order to generate returns, avoid them. You should only invest in investments that you fully understand.
- **Lack of documentation** - Avoid investing in stocks with no stock symbols, mutual funds with no prospectus, or bonds with no circulars as these may signal unregistered securities.
- **Checks made to personal account** - Do not issue checks to individuals, but only to the licensed financial institution. Be wary about making payments to offshore accounts.
- **Pushy seller** - Do not succumb when the salesperson pressures you to purchase the investment immediately. You should take as much time as you need to make an informed decision about the investment.
- **Recovery tactic** - If your investment is losing money, the fraudster may promise that you can get it back by investing more money into the scheme. Do not fall for it as you will be throwing good money after bad.



The Anatomy of a Con Artist

Fraud is about creating false confidence, getting people to believe in something that does not exist. People believe that tricksters, such as Bernie Madoff, have prophetic stock-picking skills.

There is also the belief of a fail-safe mathematical scheme (Charles Ponzi) and the power of a fake currency (Swisscoin). To get a lot of people to believe in the con, the con artists usually have a charismatic personality and great selling skills.

They commonly employ the following tactics to reel in unsuspecting investors:

- **Phantom riches** - They tell you that wealth is within your reach. They use words such as high returns, risk-free or guaranteed to entice you to invest.
- **Source credibility** - They claim to be a person of authority or expert to give you the confidence to invest.
- **Social consensus** - They lead you



Though initially fuelled by money, it is often not the core motivator behind the crime.

“Most fraudsters seek the adulation that comes with prestige and power. They often enjoy the thrill of deceit, knowing they can manipulate and cheat anyone out of anything. Power and recognition fuel their egos and money is simply the vehicle to get there,” she stated in her book.

Cross also calls them financial psychopaths, being only concerned with their own needs. “Many are sociopaths or psychopaths. They almost have to be,

to carry out their crimes without conscience, knowing the financial ruin they bring upon their unsuspecting victims.”

Aside from their psyche, fraudsters are overly concerned about the image they are presenting. If they can show you how successful and well-connected they are, perhaps you will feel confident to invest with them.

Here are some outward signs you can look for:

- Boasting about their social connections and rubbing shoulders with celebrities, business tycoons and politicians.
- Donating huge amounts of other people’s money to charity in order to get a school or hospital wing named after them.
- Owning and showing off flashy and expensive cars, homes, jewellery and yachts.

to believe other prominent people or smart investors have already invested into the scheme, so it must be social-proof.

- **Reciprocity tactic** - They offer to do a small favour for you in exchange for your investment, such as offering a waiver of their commission.

- **Scarcity tactic** - They pressure you into investing immediately by claiming that the funds will be closed soon or that there are limited quantities available.

Fraudsters see other people as objects, showing no concern for their investors other than a source of funds. They first swindle the people who trust them and then encourage the victims to bring in fresh investors who trust them.

According to Colleen Cross, author of *Anatomy of a Ponzi*, fraudsters are driven by their ego or the need to feel important.

THE UNRAVELLING OF A SCAM

Investment fraudsters normally begin their scams during good times, even if there are more news of investment fraud schemes now when times are tough.

Regulatory bodies such as FINRA believe that most of these illegal investment schemes have been going on for a number of years. This indicates these frauds started when the economy was strong.

It’s during times of economy turbulence that investors begin withdrawing their investments, thus unravelling the investment schemes.

“For investment scams like the Ponzi scheme, it’s a zero-sum game. The earlier investors gain high returns at the expense of the ones that come in later,” said Khairul Ridzwan Abdul Kuddus, Head of Consumer and Investor Office, Securities Commission Malaysia.

“The scheme can continue for years until the majority of investors begin demanding their money back. It’s basically unsustainable,” he added.

WHO GETS SCAMMED?

According to Khairul Ridzwan, people who become victims of investment fraud typically rely on the advice from friends, family, co-workers for their investment decisions.

“They fail to check the background of the investment or financial advisor. They also fail to detect the tactics used by the scammers, which have become rather sophisticated of late.”

“Fraudsters can even claim to represent a reputable investment house. They can give you false calling cards under the said investment house’s branding and logo. You may even receive fraudulent monthly statements that show deposited

interest payment which you can't withdraw," said Khairul Ridzwan.

"They may also promise regular returns until such a point where the scheme becomes unsustainable. In those cases, the early entrants may get their principal amount back in the form of the interest payments. They are the lucky ones even though they may not think so as they did not get the high returns they were promised," he explained.

The startling fact is there are people who are actively looking out for scams. "They eagerly participate in a scheme even though they strongly suspect or know that it is a scam.

"What they want is to get in and out quickly and profit from it before the house of cards falls.

They have no qualms about fleecing their family members and friends as long as they gain," Khairul Ridzwan revealed.

In that respect, they are no better than the originator of the scam. He also suspects that many investment fraud victims do not report the crime. "This could be due to feelings of guilt or shame in being involved in the scam."

HOW TO PROTECT YOURSELF

When it comes to investments, there are a few things to remember:

- A good investor is a patient one. The desire to get rich quick is the snare to participate in illegal investment schemes.
- If it sounds too good to be true, it probably is a scam. All investments have an element of risk and cannot guarantee you regular high returns. Beware of those that guarantee you double digit returns.

- Knowledge is key. The best way to avoid such scams is to equip yourself with the knowledge and skills in investing. Do your research and get advice from licensed financial professionals before going into any deals.

As such, you need to conduct as much due diligence as possible about the investment scheme, the organisation and the people you wish to invest on:

- The investment professional/organisation. Is the agent or promoter licensed to sell you the investment? Which regulator issued the license and has the license ever been revoked or suspended?

You can independently verify their license status at the following sites:

Capital markets

investment professionals (Company & Individual) - <https://www.sc.com.my/licensing/public-register-of-licence-holders>

Licensed financial Institutions, licensed money changers, remittance service

providers and currency wholesalers - <http://www.bnm.gov.my>

Unit trust/PRS consultants - <https://www.fimm.com.my/investor/is-my-consultant-authorized>

- The investment scheme. Is the investment registered in Malaysia and which regulator was it registered under? It is critical to buy only securities products that are registered with the SC and BNM so that you can seek recourse if things go awry.

Refer to the regulators' lists of unauthorised websites, investment products, companies and individuals which are updated regularly:

Securities Commission - <https://www.sc.com.my>

Bank Negara Malaysia - <http://www.bnm.gov.my>

IF YOU ENCOUNTER A PROBLEM

If you believe you have been scammed or treated unfairly by an investment professional or firm, or if you just want to inquire about investment schemes, you may contact the following departments:

SC's Investor Affairs & Complaints department: email aduan@seccom.com.my or call 03-62048999

BNMTELELINK (Call Centre) - Email bnmteleshop@bnm.gov.my or call 1-300-88-5465 (1-300-88-LINK)

Complaints and inquiries that fall outside of the regulators' purview are channelled to the appropriate enforcement authority which includes the Ministry of Domestic Trade, Co-operatives and Consumerism, the Companies Commission Malaysia and the Royal Malaysian Police.

GETTING BACK YOUR MONEY

For monetary disputes not exceeding RM250,000 with authorised capital market intermediaries, investors can avail themselves to the services of Securities Industry Dispute Resolution Centre (SIDREC).

Sujatha Sekhar Naik, CEO of SIDREC emphasised on the importance of investing only into legal and licensed schemes, saying, "If you invest in illegal schemes, or through unlicensed or unauthorised entities or individuals, you deprive yourself of the protection and help that you can get when you invest in legitimate investments.

"This included the checks and balances of the regulatory



Khairul Ridzwan
Abdul Kuddus

framework and the support built into the ecosystem such as SIDREC's dispute resolution services," she added.

According to Sujatha, SIDREC was set up by the SC to provide investors with a free and alternative avenue for redress (outside the courts) if their disputes cannot be resolved directly with capital market intermediaries who are SIDREC's members.

"SIDREC is independent and impartial. It does not favour either the investor or the capital market intermediary but rather, takes all circumstances into account and brings parties together to try to resolve whatever problems they may have in a professional manner," she said.

"We will first try to mediate a resolution and if this is not possible, we will review the matter through an adjudication hearing and make a decision that binds our member."

SIDREC members include capital market intermediaries such as banks, stockbrokers, derivatives brokers, fund managers, unit trust management companies, private retirement scheme providers and distributors.



Sujatha Sekhar Naik

PREVENTION IS BETTER THAN CURE

On a positive note, SC reported that there is an increase of investor awareness. In 2016,

66% of enquiries received were about the schemes' legality or licensing status as compared to 52% in 2015.

"It is gratifying to note that more investors are taking the initiative to seek information from authorities when they are in doubt. We strongly encourage more investors to do so," Khairul Ridzwan concluded. **SI**

Wealth Management Industry Not Doing Enough

Money games and get-rich scams – who's to blame?



Yap Ming Hui

It has recently been brought to light the staggering number of Malaysians who are still falling victim to money games and get-rich-quick schemes despite various efforts to increase public awareness on the subject matter.

But why is this still the case? One interesting idea to consider is that investors are not getting what they need from their current wealth management providers, or, in other

words, there is a mismatch of what investors need with what the financial institutions are trying to sell.

As it is, investors approach wealth management providers to be guided to use regulated investments to grow their money with high certainty and achieve financial freedom. Unfortunately, due the lack of advisory support from the relevant service providers, investors feel easily overwhelmed by the choices offered and may not know what to do when their investment loses money.

"It's ironic because of the bad experience, investors now perceive regulated investments as highly volatile and uncertain, and ultimately loses faith in the system," noted Yap Ming Hui, Managing Director, Whitman Independent Advisors.

Suffice to say, some investors end up falling for these money games because they are sold on the idea of fixed return investments that are perceived to be low risk, in addition to the promise of high return.

There would be less victims of money games, Yap believed, if the wealth management industry as a whole steps up and delivers on their promise of being a one-stop centre that helps their customers address all financial and investment issues at various points of their life.

The wealth management industry could, for instance, provide investors with a clearer picture of where they stand now and offer a tailored action plan on how to achieve their financial freedom.

Taking the first step in the right direction, Whitman has recently launched the first Holistic Wealth Management programme in Malaysia with the ultimate goal of protecting investors from falling for 'too good to be true' investment schemes – a much-needed solution for the industry to address issues arising from gaps in the current wealth management set-up that has indirectly led to scamming opportunists. **SI**