



Look out for investment fraud flags!

Tom R. Allain, CFP

Whether it's a Ponzi scheme or e-mail or telephone scam, experts say every investment fraud case has the same red flags that were ignored by investors before they handed over their money.

The first and foremost is the guarantee of low risk and high returns - a promise that cannot be made under Canadian securities regulation.

The risk of investors falling for such promises is especially high when stock markets are volatile.

The scary thing right now for investors is that because of recent market experiences, investors may become more vulnerable to the high-return promise because they are not consistently getting anything like that out of the stock market at present.

You always have to watch for that, and it's embedded in every piece of promotional material that's given to people that are lured into it.

Another problem is so-called "affinity fraud," when investors follow their friends and family into an investment without first doing their own homework.

It's a common characteristic reflected in the recent fraud cases of Bernard Madoff, now in prison for masterminding a \$65-billion Ponzi scheme, and Earl Jones, the Quebec money manager allegedly behind a \$50-million-plus Ponzi scheme in Canada.

A Ponzi scheme is a fraudulent investment operation that pays returns to separate investors from their own money or money paid by subsequent investors, rather than from any

actual profit earned in the stock market or other investment vehicle.

Such a scheme usually offers abnormally high returns that other investments cannot guarantee to entice new investors. But the scheme usually collapses because the returns require an ever-increasing flow of money from investors to keep the fraud going.

In such frauds, the victims are often friends, family or members of the same organization.

The hook is the play on one's fear of keeping up with the Joneses and gives you false trust because your friends are in it.

The starting point with any relationship that involves fraud is building trust.

A scam artist will often recruit a trusted member of a community who is made to believe there is wonderful opportunity with high returns and low risk. Other members of that community then fall into the same trap by following the leader and skipping important steps, such as finding out if the investment adviser is registered.

Jones, for instance, was not a registered adviser. That means it is nearly impossible for regulators to track activity or handle complaints from investors that might be made against the adviser.

Other questions investors need to ask when dealing with an adviser is whether they conduct third-party audits of their activities, with what firm and how often.

Investors should also be asking their local securities commission if any complaints have been filed against the adviser.

Doing a quick Internet search of the advisor and seeing what comes up can sometimes offer important insight to the professional you are dealing with.

Also, if the adviser asks for cheques to be made out to them personally, instead of a financial institution, beware.

Investors are often too emotional or subjective about their money, when they should be more objective.

Cont...

Cont...

Research, common sense and objectivity can help investors steer clear of scams!

In summary, as with most things in life, investors have to trust their instincts when it comes to handing over their hard-earned cash.

If it sounds too good to be true, it probably is!

[Click here](#) to access an excellent information piece entitled "Avoiding Frauds and Scams" published by the Canadian Securities Regulators which will provide additional information on this current topic.



Tom Allain, CFP is an Independent Certified Financial Planner specializing in comprehensive retirement planning, investment and insurance planning to business owners/managers, and business professionals. (905) 796-1219, or email tom@allainassociates.com or visit us at www.allainassociates.com