

# Investment Fraud

The following information was obtained from the Government of Saskatchewan Financial and Consumer Affairs Authority. For more information visit their website at: <http://www.fcaa.gov.sk.ca/Investors>.

## How to Spot an Investment Con Artist

*Con artists do not like to be found.*

Con artists take great pains to blend in political, community (such as the local senior center), religious or other groups. They quickly get to know a lot of people in the group and count on this common bond to spread the word about their investments and reel in unsuspecting investors.

*Con artists dress for success.*

Con artists dress like they are wealthy and work out of impressive looking offices. If your only contact is by mail, the office may bear a prestigious sounding address. Often, this is nothing more than a mail drop. Look behind the surface and do some serious investigating before you part with your money.

*Con artists often push poorly understood financial products.*

With a variety of institutions offering a wide range of financial products, it is no wonder that many people turn to financial advisers for guidance. Con artists know this and stand ready to assume full responsibility for your investment decisions. Don't let them! Only deal with financial advisers, broker-dealers, or financial institutions with a proven track record.

*Con artists appeal to the dreamer in you.*

International instruments such as letters of credit supposedly issued by foreign banks may spell stability for some people. Con artists sabotage your dreams by promising the investment chance of a lifetime without giving you any meaningful written information on the product or the pitfalls involved.

*Con artists bring out the worst in you.*

Skilled con artists can bring out your worst traits, particularly greed, fear, and insecurity. Fear comes into play when the con artist warns you that complaining about a failed investment to the government may result in your spoiling it for others or "rocking the boat." Con artists try to make you feel inadequate if you don't believe them. Do not make investment-related decisions based only on your emotions.

*Con artists are fair weather friends.*

Before you invest, con artists are very friendly. They take a personal interest in you out of the blue. They call back when they promised they would. Each time, they tell you even more good things about the investment. You may feel you're being pressured into investing - you are. Once you have invested your money, contact with the con artist dwindles and then stops altogether. If you cannot get answers to your questions following your investment, this may signal danger.

For every silver lining, there is a cloud.

Every investment involves risk. But to hear a con artist explain it, an investment may sound too good to be true. If it sounds too good to be true - it is. Trust your inner voice if you hear claims like these:

- "I just got a hot tip from an inside source that this stock will go through the roof."
- "The rumour on the Street is that this deal is ready to take off."
- "Your return is guaranteed. There's no way you can lose money."
- "Gotta get in on the ground floor now or you'll be left out in the cold. In fact, we'll send a messenger over tomorrow to pick up your check."
- "Where else can you earn such a large return? Not in GICs or in a savings account."
- "In just a short while, your profits will come rolling in."
- "This deal is so-great, I invested in it myself "
- "If this doesn't perform as I just said, we'll refund your money no questions asked."
- "Everyone else that invested in this did very well."

Be especially careful if the salesperson downplays any downside or denies that risk exists. Con artists usually are not very good at answering important questions. Watch out if the salesperson becomes reluctant to provide information on the following:

- The background, educational history and work experience of the deal's promoters, principals or general partners
- Information on whether your investment monies will be segregated from other funds available to the business
- Written information on the business' financial condition, such as a balance sheet and bank references
- The prior track record of the business and its principals
- The salesperson's name, where he or she is calling from, who he or she works for, his or her background and what commission or other compensation he or she will receive
- The salesperson's connection with the venture and any affiliates

In addition, be wary if the salesperson doesn't ask you questions about your past investment experience and your ability to withstand risk. Even if the salesperson does ask a few related questions, take heed if you get the sense that he or she is merely going through the motions.

### Scams to Watch Out For

*Affinity Fraud:* Con artists sometimes establish credibility by associating with an affinity group (like churches, sports organizations, or social clubs). They'll spend some time getting to know the members of the group, then they'll ask if anyone's interested in investing. They'll also often tell you to keep the deal "hush-hush", because it's such a great opportunity. What that usually means is it's a great opportunity for the con artist, not so great for the victims.

*Ponzi Scheme:* This one is named after Charles Ponzi, a career criminal who bilked thousands of Americans out of millions of dollars in the 1920s. It's also known as a "pyramid scheme", because the people who invest first are at the top of the "pyramid". They make their money by recruiting more investors to the scheme. These new investors pay fees, which go to the people who invested in the scheme before them. The people, who join the scheme later on (and make up the bottom of the "pyramid"), usually lose out when the scheme runs out of new investors.

*Boiler Room Scams:* These scams involve individuals claiming to represent a brokerage house and use high-pressure sales tactics, often offering investors an exceptional deal on stock. They're called "boiler room scams" because the "salespeople" who call to offer you a "once in a lifetime deal" are usually calling from a room, called a "boiler room", filled with other con artists on the phone doing exactly the same thing. The "brokerage house" typically owns most – or all – of the stock, which it actively promotes to drive the price up. Once the firm has sold its holdings, it stops promoting the stock. The price of the stock falls, and you lose your money.

*RRSP Scams:* These scams are often promoted in newspaper ads for RRSP "loans" that let you take advantage of a "loophole" in the tax laws to access your locked-in RRSP funds. In reality, the promoter encourages you use your RRSP holdings to purchase stock in a start-up company. In return he or she "promises" to loan you 60-70% of the value of the investment. The stock is often worthless, you often get no funds from the loan they promise, and you may end up paying tax on the money you withdrew from your RRSP, even though you don't have it.

*Nigerian Letter Fraud:* These letters have appeared in various forms through the mail or via e-mail since the late 1970s. They appear to be from a government official or higher-up who claims to have access to millions of dollars and needs help getting the money out of the country. All they need is for you to hold the money in your bank account. The sender of the letter will ask for your banking information and offer to give you a percentage of the proceeds in return for your "help". Watch out! Once they have your banking information, they'll empty your account.

To learn more about other scams visit [Member Awareness Links](#)

### How to Avoid Investment Fraud and Scams

Do your homework before you invest:

- Deal only with financial advisers, investment dealers or financial institutions having a proven track record.
- Contact the Saskatchewan Financial Services Commission (SFSC) at (306) 787-5645 to determine if the investment product and the person selling it are registered.
- The SFSC can identify whether the salesperson has a disciplinary history, that is, whether any civil, criminal or administrative proceedings have been brought against him or her.
- Contact your local Better Business Bureau to see if any complaints have been filed against the venture's promoters or principals.
- Ask for written information on the investment product and the business. Such information, including financial data on the company and the risks involved in the investment, is contained in a prospectus. Read it carefully.
- Don't take everything you hear or read at face value. Ask questions if you don't understand, and do some

sleuthing for yourself. If you need help in evaluating the investment, go to someone independent whom you can trust such as a lawyer or an accountant.

- Steer clear of investments touted with no downside or risk.
- 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

## How to Make a Complaint

### Making a Complaint Against a Broker

If you have a complaint against your broker, talk to your broker about it as soon as possible. If this does not resolve the matter, send a written complaint to the firm that employs the broker requesting a meeting with the branch manager or compliance officer to discuss your concerns.

If you have a complaint against a member of the Investment Industry Regulatory organization of Canada (IIROC) you have two options for seeking a resolution.

- Contact the Ombudsman for Banking Services and Investments (OBSI) for a free, independent and impartial dispute resolution service. OBSI may conduct independent investigations into client complaints and IDA Member firms are required to fully cooperate. OBSI's recommendations for resolution may include compensation, and any that are not accepted by firms will be published. Learn more about OBSI at [www.obsi.ca](http://www.obsi.ca).
- Access IIROC's arbitration program to have your dispute heard by an independent, impartial arbitrator. This independent program is cheaper and faster than pursuing a case through the civil court system, and the decision is binding. Learn more about arbitration at [www.iiroc.ca](http://www.iiroc.ca).

### Making a Complaint to FCAA

If the matter still remains unresolved or if you have a complaint that is not against a broker, you will need to file a written complaint with Financial and Consumer Affairs Authority (FCAA).

Provide a description of your problem, when it happened, and the names of those involved. Also give us your name, address, and telephone number. We keep complaints confidential, but we must be able to contact you for more information.

Send this information to:

*Securities Division*

*Financial and Consumer Affairs Authority*

*601- 1919 Saskatchewan Drive*

*Regina, SK S4P 4H2*

*Telephone (306) 787-5645*

*Fax (306) 787-5899*

[investment-complaints@gov.sk.ca](mailto:investment-complaints@gov.sk.ca)

### What FCAA Can Do

- We will review your complaint to determine whether there has been a breach of Saskatchewan securities laws.
- We will investigate the alleged misconduct and may impose administrative sanctions.
- We may refer some complaints to other agencies, if appropriate.
- We will advise you of the final outcome of our investigation into your complaint. However, bear in mind that a review and investigation can be a lengthy process.

