

Common types of investment fraud

AFFINITY FRAUD exploits the trust and friendship that exists in groups of people who have something in common, such as religious or ethnic communities, the elderly or professional groups. The fraudsters who promote affinity scams frequently are - or pretend to be - members of the group. They often enlist respected leaders (who may be unsuspecting victims) from within the group to spread the word about the scheme, by convincing those people that a fraudulent investment is legitimate and worthwhile. The resulting sense of affinity and trust allows fraudsters to more effectively lure their victims into a fraudulent investment.

A **PONZI SCHEME** promises high rates of return with little or no risk to investors. Unknown to the investors, returns are paid from their own money or money paid by new investors rather than from profit. There is no legitimate investment. This scam will usually pay promised returns to early investors, as long as new investing occurs. These schemes always collapse on themselves as new investments stop and investors lose some or all of their money.

In a **PYRAMID SCHEME**, participants actively promote the scheme and try to make money solely by recruiting new participants into the program. Participants move up the “pyramid” as new investors buy in. However, when new participants cease to exist, the scheme collapses. Pyramid schemes are often advertised as Gifting or Networking Clubs. Promoters of pyramid schemes refer to “Gifting” and claim that it is legal. If participants enter into a scheme with the expectation of profit - this not a gift exchange. A gift is something that does not involve the receipt of a benefit. Typically, the majority of those who invest in pyramid schemes lose their investment and can become the subject of investigations by the police and Canada Revenue Agency.

In a typical **PUMP-AND-DUMP** scheme, the potential investor receives an email or call promoting or “pumping” an incredible deal on a low-priced stock. However, what investors may not know is that the promoter likely owns much of this stock. As more investors buy shares, the value of the stock skyrockets. Once the share price hits a peak, the scam artist sells or “dumps” their own shares and the value of the stock plummets, leaving investors with worthless shares.

Tips for Protecting Your Money

- Don't be afraid to ask questions and make sure they are answered to your satisfaction.
- Take notes during conversations with salespeople.
- Beware of high-pressure sales tactics.
- Take your time to make decisions. Don't allow anyone to rush you.
- Always seek independent financial advice or see a lawyer if you don't understand a document.
- Never accept a verbal agreement – get it in writing.
- Never sign any document before reading it carefully.
- Don't be drawn in by appearances – fraudsters know the importance of first impressions.

How to Avoid Investment Fraud

FIVE THINGS YOU NEED TO KNOW

1. KNOW YOURSELF AND YOUR INVESTING GOALS

You should know your investing objectives and your level of investing knowledge. Ask yourself: What can you afford to lose? What is your risk tolerance? Do you need external guidance to help you invest?

2. KNOW WHO YOU ARE DEALING WITH

You should know if the person offering you the investment opportunity is registered to sell investments, what their background is, how they are paid, what kinds of products they offer, who their other clients are and what level of service you can expect. Before you invest, do a background check on the people and company selling the investment.

3. KNOW WHAT YOU ARE INVESTING IN

For example, is the purchase a security? Is the company relying on an exemption? Ask questions, take notes and get a second opinion from a registered adviser. Never sign a document before reading it carefully, and don't be drawn in by appearances or smooth talk. Remember most fraudulent investments are very well thought out and appear professional in their presentation.

4. KNOW THE RED FLAGS WHICH COULD SIGNAL A FRAUD

- *Promises of high returns with little or no risk.* There is no such thing. Usually, the higher the returns, the higher the level of risk.
- *Pressure to invest immediately or miss the opportunity.* Don't be pulled in. This tactic is used to pressure investors into handing over their money without doing their homework or asking for independent advice.
- *Offshore investment - tax-free.* Taxes can sometimes be deferred, but they can't be avoided. This tactic is used to get investors to send their money offshore where it is difficult, if not impossible, to get back.
- *Great investment opportunity - your friends can't be wrong.* Yes, they can. Many investment fraud victims were introduced to the fraud by family, friends or co-workers.

5. KNOW WHO TO CALL FOR HELP

The Alberta Securities Commission (1-877-355-4488) provides investors with information and support to help them ask the right questions to make informed investment decisions.

If you are still unclear about an investment opportunity, consult a registered financial adviser or obtain legal advice before making a decision.

Visit our website at www.albertasecurities.com to find a range of timely, practical and non-promotional information.

Alberta Securities Commission, Suite 600, 250 - 5th Street SW, Calgary, Alberta, Canada T2P 0R4 403.297.6454