

# HOW TO SPOT AN INVESTMENT SCAM

Those who have never been conned by an investment scam are always amazed by the apparent stupidity of people who have lost their money in a swindle. The victims of these scams often suffer enormous guilt and embarrassment in addition to their financial losses and sometimes this cocktail of emotions has tragic consequences. Any person with money should use these pointers to help identify a potential investment scam. It is important to note that there is no single factor that can be used to differentiate a scam from a legitimate investment, it is usually a combination of factors. Most importantly, we should remember that effective scams use seemingly legitimate structures to mask their efforts to rob people of their money – in short it is more difficult to spot a scam than you might think.

## USE THESE POINTERS TO HELP

- Guaranteed returns, especially when the return is above 15% per year. The stock market is the best performing investment over the long term, you could reasonably expect shares to generate a return of 15% per year but this does not happen in a smooth straight line. You will experience losses and gains and when you look back after 10 or 15 years, you will find that your return was probably 15% per year. Any investment that guarantees you a return that is higher than this amount, especially if the return is a stable, fixed amount might be a scam. Think of Bernie Madoff as the great example of this type of return.
- Dr Simon Marais, Chairman of Allan Gray, said that scammers always have the best dressed salesmen. The better they are dressed the more you should investigate the proposed “investment”.
- If the investment being offered to you has an element of exclusivity or is only available for a limited time – be wary. Scammers try to create hype around their investment and a sense of urgency on the part of investors. They will often tell you that the investment is currently closed to new investors and then contact you a few days later to say there is an opening but you have to invest immediately. This prevents you from doing a proper due diligence, which is their objective.
- If they tell you that you can invest but if you take some or all your money out, you can never come back again.
- Complex products that seemingly have a secret methodology. When you start asking questions about how the underlying investment works and they tell you that it is a trade secret and cannot be shared, be aware! You need to understand what you are actually buying, if all the layers are stripped away what do you actually own?
- Everyone at church, Shul, bowls club, etc. is invested and you are the only odd one out. Some of the world’s most intelligent people have been caught in scams because they have invested when their friends invested. They all thought that the other person had done the research and therefore there was no need to do their own.
- They create a sense of obligation to invest or they give you something so that you feel indebted and therefore invest your money with them. You should never invest because you feel guilty or obliged to support someone.

- Is the Investment Company you are investing with actually registered with a regulatory body e.g. the FSB, SA Reserve Bank or the Johannesburg Stock Exchange?