Recognizing Investment Fraud

ASC Case Studies

Anyone can become a victim of investment fraud. Read the following real-life accounts of everyday Albertans who fell victim to investment scams and/or financial exploitation. Can you spot the red flags?

Case Study 1 – Renee's rush to retirement

With a limited number of years left before retirement, Renee was not a high-risk investor and she had good knowledge of her investments. Renee was walking by an investment firm's office when a firm representative pulled her in to discuss an investment opportunity in the technology sector that was "moving fast." Renee wasn't familiar with the technology sector but the opportunity did sound exciting, which convinced her to want to learn more. She was promised high rates of return and was told the investment would help her retire sooner. Renee left the office and considered the opportunity.

During the next few days the firm contacted her repeatedly. When she hesitated because she didn't think she had enough money to invest, they urged her to use her RRSP savings. She had a bad feeling about the opportunity and felt like she was being rushed into making a decision. Giving into the pressure and visualizing the prospect of high returns and an earlier retirement, Renee decided to invest — despite the fact that she didn't have time to review and independently research the investment.

A few months later, Renee was not receiving quarterly account statements from the firm. Feeling nervous, she decided to call and check in. The representative was enthusiastic and positive about her investment, and told her there was no reason to worry. She eventually learned that she had fallen victim to a scam when she called a few weeks later and asked the firm to return her money — and they said her investment account was empty. She lost $100,000 from her retirement savings due to a fraudulent investment.

THE RED FLAGS:

- Renee did not research the firm or check if the firm was registered.
- Renee did not look into the background of the representative who sold her the investment or check his registration.
- Renee rushed into her decision without taking the time to do her own research.
- Renee invested in the technology sector without learning about it first.
- The representative employed high-pressure sales tactics.
- The representative promised guaranteed high rates of return.
- The representative did not provide account statements.

WAYS TO AVOID RENEE'S MISTAKES:

- Keep in mind that being a knowledgeable investor does not protect you from investment fraud.
- Complete a comprehensive background check to ensure both the firm and individual are registered to sell investments or securities in your province.
- Never let anyone rush you into making an investment decision or convince you of high rates of return with low or no risk; generally, the higher the return, the higher the risk.
- Make sure you feel comfortable with the person and/or company you are investing with, if you get a bad feeling it is likely for a good reason.

Case Study 2 – Tom is too trusting

Tom invested with a company and his investment seemed to be doing well. A new investment firm started sharing office space with the original company he had invested with, and Tom even recognized some of the new company representatives from his church.

Tom had some additional money to invest and decided to take part in an opportunity presented to him by the new firm. Before committing, he reviewed the materials he was given, but did not check into the backgrounds of the representatives because he felt he could trust them based on their affiliation with his church and the success of his original investment.

Promoting the investment as a "once in a lifetime" opportunity, the new firm guaranteed huge returns in a very short time period, around 40 per cent within six months. After investing, Tom was not receiving quarterly account statements and became concerned about the performance of his investment. He contacted the firm several times, and always received the same response; that he should be patient and remain positive. Then, the firm stopped returning his phone calls and emails. Tom ended up contacting the authorities about the firm, only to find out he had invested in a scam. He ended up losing his entire investment.

THE RED FLAGS:

- Tom did not check the registration of the firm or firm representative, or do any independent research.
- Tom trusted the investment and representative only because he knew them from church and they worked in the same building as a company he was familiar with.
- The firm stressed that Tom had to act quickly or he would miss a "once in a lifetime" opportunity.
- The firm offered guaranteed, extremely high returns in a short period of time.
- The firm did not provide any financial statements showing Tom's investment performance.

WAYS TO AVOID TOM'S MISTAKES:

- Do your own independent research before making a decision to invest. Tom was a victim of affinity fraud (a type of scam that exploits the trust and friendship that exists in groups of people who have something in common, such as religious or ethnic communities, social or professional groups). Simply knowing someone does not qualify them to receive your trust, nor does it eliminate the need to investigate them and their business before investing.
- Be wary of investments that seem too good to be true, such as those offering extremely high returns in short timeframes.
- Whether or not you manage your own money, it is important to regularly monitor the activity in all of your accounts. The person managing your investments should update you regularly and provide tangible account statements that demonstrate the performance of your investment.

Based on true victim testimonials from Alberta. To protect the victim's privacy, all names and identifying information have been changed.