

Brad Brain: How to spot an investment scam

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Smart Money



Brad Brain: "Every year millions of dollars are lost to fraud in the province of British Columbia. It is probable, sooner or later, that somebody is going to try to rip you off. It might come as an email from someone you have never heard from, but it might also come over coffee from someone you know."

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I have always found the psychology behind investment scams to be fascinating. I am not referring to incidents of pure theft with no advance warning, but rather the too-frequent situation when people knowingly participate in a scheme, even if there is an abundance of red flags that indicate something is clearly off.

Every year millions of dollars are lost to fraud in the province of British Columbia. It is probable, sooner or later, that somebody is going to try to rip you off. It might come as an email from someone you have never heard from, but it might also come over coffee from someone you know.

Fortunately, you can protect yourself with some knowledge, and some healthy skepticism, should you happen to cross paths with someone making bold promises of enormous gains with no risk.

One of the most difficult types of frauds to talk about is affinity fraud. This one, by definition, means someone that you know is trying to steal from you. And this one happens a lot.

Affinity fraud is when the fraudster moves through an identifiable group, gaining the trust of some members and then leveraging that trust to gain access to more and more members of the group. This can be a religious group, or a sports club, or colleagues from work.

The reason affinity fraud is so successful is because of the trust relationship we have when we share a common background with people. But just because you went to high school with someone does not guarantee that they are not a charlatan.

The most famous scam in the world is the Ponzi scheme. This is a typical pyramid scheme. These promise big returns, with little risk. But there is no actual investment.

As money comes in, it is used to pay a return to the early investors in the scheme, which gives the appearance of a profitable investment. Once the scheme gets a reputation of legitimacy and begins to attract large deposits the perpetrator pulls the plug and flees with the cash.

Nowadays, many scams are disseminated by social media, but you might also be approached by an email, phone call, in person, or even by fax. Scams can take many forms; here are a few examples of the types of schemes that are out there.

Maybe you are tempted by the promise of getting in on something big: a COVID-19 breakthrough, some new innovation like cryptocurrency or blockchain technology, a gold or precious metals deposit, an oil and gas limited partnership, or a real estate venture. The fraudster might say, "There is a limited time opportunity for you to take advantage of, what are you waiting for? Let's go!"

Maybe you are offered the chance to create wealth with some exotic and exclusive method: binary options, offshore investing, prime bank loans, and foreign exchange transactions. The fraudster might say, "Forget about those boring old RRSPs, and TFSAs! Those are for suckers. Make money the way that the billionaires do it!"

Not all frauds are promises. Maybe you are threatened with something unpleasant: a CRA audit, a visit from the police, the public release of your internet browsing history. The fraudster might say, "Pay me or else!"

Recognize the warning signs of investment fraud. The easiest red flag is the promise of spectacular returns with little or no risk. Other red flags are lack of proper documentation, evasive answers and inability or refusal to provide further information, instructions to keep the offer confidential, the lack of any licensing or credentials, the use of peer pressure, and high-pressure tactics that encourage you to make a quick decision so that you don't miss out.

Over the years, I have ran into a number of people right here in Fort St John that have been ripped off by these very types of scams. Don't be next. You can learn more about investment fraud at www.investright.org.

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