



# Avoiding common investment scams

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- Investors have always attracted fraudsters, but there are steps you can take to help reduce the risk of falling prey.
- Some scams may seem bang up to date, but the underlying lure of guaranteed returns with little or no risk is timeless. Remember, if it seems too good to be true, it probably is!
- Although self-discipline combined with a healthy dose of scepticism is likely to be your best method of defence, there are some practical steps you can take to help reduce your chances of becoming a victim.

Where the word 'scam' came from is unclear. It's of American origin, is now widely used even in official UK circles and, colourful though it is, is more properly defined as 'fraud'. Or even 'theft'.

Whatever name you give it, this is a practice that has long been targeted at investors. And the reason isn't hard to find. An investment, unlike a bank deposit, is something that may be lost. If the scammer can claim to have done their best for the client, no crime is suspected.

The individuals who commit these crimes are known as 'confidence tricksters' or 'con artists'. They often prey on the vulnerable and deceive people by convincing them to believe something that isn't true. But the underlying fraudulent activity is the same – there are no new crimes, only new criminals and new ways to commit them.

## Scams are on the rise during the Coronavirus pandemic

It's difficult to believe how anyone could use the current crisis to trick people into parting ways with their hard earned money, but this is exactly what fraudsters are doing. Since the Coronavirus pandemic swept across the UK, the number of scams have continued to rise with fraudulent activity becoming more sophisticated in a bid to take full advantage of people's vulnerability.

Action Fraud, the national fraud reporting centre, stated that the number of investment fraud reports increased by 28% between September 2019 and September 2020 compared to the same period the year before. And as the UK adjusted to life after lockdown, reports soared as fraudsters took advantage of the unprecedented circumstances.

Not only is there an obvious loss for the victims of scams, there is a cost to the economy too. In fact, the Financial Cost of Fraud Report 2019, found that fraud losses in the UK equate to a staggering £130 billion each year. And this could increase as more people fall for 'get rich quick' schemes as COVID-19 increases job insecurity across the country.

## What is investment firm cloning fraud?

There has been a significant increase in investment fraud too. Individuals have been contacted by investment firms which appear genuine, but are in fact clones of another firm's brand.

Thankfully, some people have become suspicious and reported the attempted fraudulent activity before parting with their money. Sadly, others have lost large sums of money believing that they were investing with a reputable company.

So, how do the fake investment firms trick people into parting with their hard earned cash? The answer is that the fraudsters go to great lengths to appear that they are the genuine article. Many fraudulent investment companies set up adverts on Google offering safe investments which then links to a bogus page.

When the victim reaches the fake web page, they are asked to complete some basic details. They then receive a call from the fraudster taking them through an identification and verification procedure, adding to the apparent authenticity of the company.

The fraudsters then go on to register a new domain on the web and ask the victim to transfer a small amount of money, then gradually ask for further transfers ensuring they keep below the thresholds most banks use to trigger alerts.

Very often, before doubt sets in, thousands of pounds has already been transferred.

### **How to avoid investment scams**

So, rule number one is to rely on yourself and your gut instinct in the first instance to help keep your assets safe and become your own first line of defence.

There are different sorts of investment scams, but remember they all rest on one premise – to get you rich quick. Some are allegedly based on clever foreign currency trading, some on property-related ruses, or on insurance products or offshore bond trading. All supposedly offer market beating returns.

The best antidote to falling for this patter is to recall the advice of Anglo-American investor Max Gunther published in his 1985 book 'The Zurich Axioms'. He offers guidance regarding astrologers, fortune tellers and anyone else claiming to see the future: are they rich? If not, why not? Similarly, why would the scam artist want to share his good fortune with you when he could keep it all to himself?

### **What should I look out for?**

Just because you're your own best defence against common investment scams, that doesn't mean the authorities are not working on your behalf. Action Fraud, has a section on its website warning of the signs of fraud against individual investors.

It lists the classic 'boiler room' scam, where fraudsters hit the phones and cold call individuals.

Action Fraud says,

"You're called by a professional-sounding broker who offers you investment opportunities that involve incredible potential for making profit. They usually propose to sell you shares or bonds, but may also offer other investments including precious metals such as gold, silver or diamonds, wine, art or energy."

Always remember, when faced with these so-called promises, if it sounds too good to be true, it probably is.

More sophisticated scammers practise what is known as 'teeming and lading' in the UK and a 'Ponzi scheme' in the US, according to Investor.gov. Here, investors are indeed rewarded (at least initially), with above-average returns supposedly generated by a brilliant investment strategy.

In fact, the 'returns' are drawn from the money paid by the next wave of investors and the next...and so on. Like a chain letter or pyramid scheme, the scam will eventually run out of new subscribers and collapse.

This is why 'Ponzi scheme' scams are attractive at the moment. Taking advantage of the rising number of people being made redundant during the Coronavirus pandemic, the opportunist scammer is spoilt for choice when it comes to potential victims.

There are warning signs that you can look out for so you can protect yourself against 'Ponzi scheme' scams. These include:

Guaranteed high rates of return on your investment, but with little or no risk.

Being placed under pressure to invest quickly.

Overly complicated information about the scheme, designed to impress (or more likely confuse) you.

A lot of effort is made to make a Ponzi scam appear legitimate, so don't be fooled by glossy brochures and snazzy websites. Now, more than ever, it pays to be extra vigilant before you invest.

### **Fraudsters target the most vulnerable**

One of the saddest aspects of investment scams is the deliberate targeting of older people. Action Fraud says over-65s are particularly vulnerable to 'boiler room' fraud. An outstandingly bad example came with the collapse in the late Eighties of the Barlow Clowes investment group, as explained by Management Today.

Supposedly investing in 'gilts' – British Government bonds - on behalf of a generally older clientele, Barlow Clowes actually used client money to accumulate a yacht, a French chateau, fast cars and other luxury goods. A classic Ponzi scheme, Barlow Clowes collapsed and founder Peter Clowes went to prison.

This example of investment fraud serves to remind us that scam artists did not always mean to start out that way, but fell into swindling their investors after their legitimate investment strategies failed.

Those who believe they're not really fraudsters can be the most dangerous of all. Alas, there will always be scam victims, for the simple reason that many people want to believe the easy-money yarn, however implausible. As Michael J. Comer explains in his 1998 book 'Corporate Fraud', "For every credibility gap, there is a gullibility fill."

Just make sure it's not you who's supplying it.

### **Tips to prevent investment scams**

Never give them your bank details or any personal information if you have any doubts whatsoever that you're dealing with a legitimate company.

Don't be fooled by documents printed on high-quality paper with 'official' crests and seals.

Don't click on a digital advertisement for an impressive investment opportunity. Instead visit the company website directly.

Don't let yourself be rushed into signing up for this 'sure fire' investment.

If you receive a phone call you're not expecting, the safest course of action is to hang up.

You can independently verify investments by calling a company directly.

If you're unsure that the caller is legitimate, ask for their company name, explaining that you intend to check their authorisation to conduct investment business on the Financial Services Register. At this point, a fake caller will probably hang up.

### **What to do if you suspect a scam**

If you think you've been targeted by an investment scam or are the victim of investment fraud, then the phone call or conversation should be ended as soon as possible.

If you've received an email or message on social media, do not click on any suspicious links and check websites are genuine before sending money or giving out personal information. If you've already sent any money and have any doubts, stop the payment straight away. If the payment has been set up as a Direct Debit, contact your bank immediately.

You can report a suspected investment scam to Action Fraud by calling 0300 123 2040 or using their quick and easy reporting tool.

If you've been contacted by a firm or individual trying to scam you about investments, pensions, insurance or bank related matters, you can report the fraudulent activity to the Financial Conduct Authority (FCA). Call 0800 111 6768 or complete the simple reporting form.

If you receive a solicitation using the Schroders Personal Wealth name and you have any concerns, please contact our Information Security Team at [emailscams@spw.com](mailto:emailscams@spw.com) before you take any action.

If you believe you have been the victim of fraud, please contact our Fraud and Financial Crime Team at [fraudandfinancialcrime@spw.com](mailto:fraudandfinancialcrime@spw.com).

If all else fails, call the police via the non-emergency number 101.

Please note that any information sent via e-mail is not secure and could be read by others.

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