PROTECTING YOUR FINANCES

How to Avoid Investment Frauds and Scams





Canadian Securities
Administrators

Autorités canadiennes en valeurs mobilières

PROTECTING YOUR FINANCES



Mr. and Mrs. Anderson, a retired couple in their early 70's, have typically been very conservative investors. One evening over coffee, friends of theirs, the McLeans, told them about a great investment opportunity where they could invest in an off-shore, tax-sheltered venture that could provide them with a return in excess of 50% per year! It was, however, a secret.

Shortly thereafter, the Andersons met a financial planner, Stuart, who made them promise not to tell their banker, lawyer, or accountant about this investment! He told them that this opportunity was usually open only to large international banks, but they could "get in on it". The McLeans had already earned a return of 25% in just two weeks!

The Andersons were impressed and invested the minimum amount. In short order they received an interest cheque. Convinced, they cashed in some of their conservative investments and invested much more in this "great" opportunity. A week later, they got another interest cheque.

They have typically been very conservative investors.

Time passed, and they did not receive any more interest cheques. They called their friends, who had also not received any more cheques. They called Stuart, the financial planner, and he told them that their cheque was on its way.

Still more time passed, and when the Andersons and McLeans tried to call Stuart again, they found his telephone had been disconnected. They called their provincial securities regulator.

Following an investigation, they found out that Stuart had taken almost seven million dollars from more than 500 people. None of these people ever received their original investment back, let alone the fantastic returns that were promised.

The Andersons and the McLeans had become victims of a **Prime Bank Instrument Fraud**.

WHY SENIORS ARE FREQUENT TARGETS FOR FRAUD

Your lifestyle may increase your chances of being approached by a fraud artist. Do any of the following describe you?

- You are often home to answer the phone or the door
- You are involved in community or interest groups (associations, clubs, churches, etc.)
- You are alone during the day
- You have health-related difficulties that have increased your reliance on others
- You are dissatisfied with interest rates or returns on your current investments

Scam artists may use the situations listed above to take advantage of you by gaining your trust to steal your money.



Fraud artists have no conscience and will engage in illegal activity to get at your money. They can be very convincing and will take advantage of individuals who they feel lack investment knowledge. These scam artists will often use technology to their advantage. Every year in Canada, thousands of well-meaning investors become victimized by schemes involving billions of dollars.

Prevention is the best way to protect yourself from fraud. Here's how you can prevent yourself from becoming a victim:

- Educate yourself about the warning signs of fraud
- Know what to look for and what to avoid
- Don't allow yourself to be drawn in by excitement
 - don't allow your emotions to take control of your money

This brochure will help you recognize investment schemes and learn how to **protect your finances** from various types of fraud.

AN ISSUE OF TRUST

Many seniors grew up in an environment of mutual trust and respect for their friends and co-workers. Often, a handshake was good enough to settle a deal and a person's word was all you needed.

In most cases, people who wish to take advantage of you will attempt to gain your trust. As in the case of the Andersons, con-artists are sometimes able to establish affinity groups (groups that are organized around a common interest such as sports, hobbies, religion, or various social groups). Once a fraudster is able to establish credibility by association with these friendships or groups, they will ask for your involvement in an investment scheme, usually a very secretive one.

AN ATTRACTIVE OFFER



A scam organizer will often take advantage of anti-tax or anti-government sentiments held by potential investors. The promoter will offer the ability to avoid paying tax and may offer to keep your money outside of Canada where the government won't be able to touch it. The scheme will usually offer very attractive rates of return – as high as 2% per week, or up to 300% per year. Many times, you will be told to keep the opportunity a secret and not disclose the information to anyone – especially lawyers, accountants, bankers, or representatives of the government.

If you choose to participate in an investment scheme that you know is illegal (i.e. income tax evasion), it is very likely that you may lose all the money you invest. In such cases, there is little or nothing that securities regulators can do to help you recover your money. An illegal \$5000 investment to save \$700 in taxes may actually end up costing you \$5000.

QUICK RESULTS

It is very common for investors like the Andersons and the MacLeans to receive a payment from the scam organizer within a short period of time. After being given the chance to develop some confidence in the promoter and the investment, the investor will be asked to make a further contribution so they can enjoy the same percentage return on a larger investment.

WHERE DOES THE MONEY COME FROM?

Schemes are based on having a number of investors. A fraud operator will use money from later investors to pay the returns of earlier investors. In the case of the Andersons and McLeans, the returns they received came from people who invested after they did. By continuing in this way, scam artists can pay handsome returns to investors while keeping the majority of invested money for themselves.

Sometimes scam artists will actually pay you back with your own money (that you gave to them) and call it "a return." In many cases, THERE IS NO ACTUAL INVESTMENT PRODUCT.



DISAPPEARING ACT

After the scam artist has received a substantial amount of money from an investor, the returns usually stop, and often, the person who sold it to you will disappear – no matter how well you might have known them.

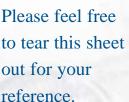


There is a certain satisfaction in investing in a secret product that has made wealthy people even richer. It seems to have credibility simply because it's a secret. You're told not to verify it with anyone because the whole thing would collapse if it became public knowledge - and no one wants to be responsible for the collapse of an amazing investment opportunity.

PROTECT YOUR HARD-EARNED MONEY

assume their victims will not understand and will make themselves sound like experts. Here are 10 tips to help protect you and your money:

Many investment scams are made to seem complex. Fraud artists will



- Don't ever be afraid to ask questions and make sure your questions are answered
- Take notes of every contact with a salesperson, including date and time
- If an adviser intimidates or pressures you, look for an adviser with whom you are more comfortable
- Don't assume that a salesperson or financial adviser is an "expert"
- Always get a second opinion
- Always get written documentation NEVER accept a verbal contract
- NEVER sign anything before reading it carefully
- If you don't understand what is written, refer it to a lawyer
- Don't allow anyone to rush your decision making process
- Don't be drawn in by a well-dressed, confident salesperson fraud artists are very aware of the importance of first impressions

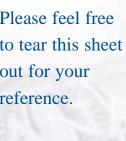
If in doubt about an investment or the seller of an investment, contact your provincial securities regulator (refer to the back of this brochure).

WHAT WILL AN ADVISER OR SALESPERSON ASK ME?

An investment representative needs to know you as a client by asking you the following information:

- Age
- Occupation
- Investment objectives
- Annual income and net worth
- Tolerance for risk
- Your current knowledge and experience with investments

Investment advisers who have your best interests at heart will ask you for the above information. Always ask your adviser to explain how an investment is suitable for you based on the above information.



What should I watch out for?

- Any financial transaction completed on your behalf or without your consent
- Transactions for which you have no record
- Someone who promises or guarantees you a high return or a future price
- Someone who suggests that an investment will eventually be listed on a stock exchange
- Back-dated purchase orders
- Anyone asking you to pre-sign blank forms
- Guarantees of any kind or promises to refund purchase price
- Failure to provide a prospectus
- Secretive behaviour or requests for silence

Please feel free to tear this sheet out for your reference.

WHAT DO I DO IF I HAVE AN INQUIRY OR A COMPLAINT?

- 1) Contact your adviser to see if he or she can answer your question
- 2) Contact your adviser's supervisor, compliance officer, or manager
- 3) Contact your provincial securities regulator (see the back of this brochure)

WHAT INFORMATION WILL I NEED BEFORE I MAKE A COMPLAINT?

- · The name of the account holder
- Your account number
- Salesperson/Representative's name
- Chronological list of events (dates & times)
- Copies of documents (statements, letters, forms, applications)
- A description of how you want the company to rectify the situation
- The date that you would like to hear back from them

It is always a good idea to keep track of the above information in writing.

If it sounds too good to be true. . . it is!

Securities regulators oversee Canada's capital markets and the advisers who sell and manage investments traded in those markets. We strive to protect investors from unfair, improper and fraudulent practices while fostering a fair and efficient marketplace.

ACTUAL SCAMS TO BE AWARE OF!

Unlicensed individuals selling securities - call your provincial securities regulator to verify that a salesperson is licensed. There are different licenses for different products.

Affinity fraud - groups with common interests (ethnic groups, clubs, associations, religious groups, etc.) are often targeted by scammers. It is often easier to trust someone who is like you or has similar interests as you do.

Promissory notes - often sold as an insurance product, these are short term loans that promise high returns for borrowing money from you - at no risk. The companies offering the "investments" are often non-existent.

Ponzi / pyramid schemes - these swindles promise high returns, but each participant is encouraged to bring in new investors. The only people who make money are the people who started them. Money from previous investors is used to pay new investors.

Internet fraud - fraudsters will take advantage of the anonymity of the internet to promote stocks, and other types of "investments" that often involve pyramid schemes. Ignore any investment opportunities or stock tips that you obtain from the internet.

Callable CD's (certificates of deposit) - designed to mature in 10 or 20 years, but allow the company you invest with - not the investor - to redeem them at any time, potentially resulting in large losses to the investor.

Viatical settlements - only legal in some provinces, these are designed to help the terminally ill pay their bills. A terminally ill person agrees to sell the death benefits of their life insurance policies, at a discounted rate, for cash. The investor becomes the beneficiary in order to get a share of death benefits when the insured dies. Very risky investments and often fraudulent.

Prime bank schemes - fraud artists promise high returns through investments in the world's most prestigious banks. They will insist on the investor maintaining the secret nature of the investment.

Investment seminars - the person holding the seminar is often the only one getting rich by charging admission fees, and selling tapes or books. They are often advertised in newspapers, on the radio, or television.

Telephone fraud - fraud artists can call from "boiler rooms" (rented rooms full of slick, fast-talking telephone salespeople) to solicit you for investments in non-existent ventures that offer very high returns. Never invest in anything over the telephone, especially if you didn't place the call.

CONTACT INFORMATION

The CSA is comprised of the 13 provincial and territorial securities regulators.

Alberta Securities Commission

Suite 400, 300-5th Avenue SW, Calgary, Alberta T2P 3C4

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20th Floor, 10025 Jasper Avenue, Edmonton, Alberta T5J 3Z5

Telephone: (403) 427-5201Fax: (403) 427-0777

Web site: www.albertasecurities.com E-mail: inquiries@seccom.ab.ca

British Columbia Securities Commission

P.O. Box 10142, Pacific Centre

701 West Georgia Street, Vancouver, British Columbia

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Telephone: (604) 899-6500 Fax: (604) 899-6506 Toll free: 1 800 373-6393 (B.C. and Alberta)

Web site: www.bcsc.bc.ca E-mail: inquiries@bcsc.bc.ca

Manitoba Securities Commission

405 Broadway Avenue, Suite 1130, Winnipeg, Manitoba

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Telephone: (204) 945-2548 Fax: (204) 945-0330

Toll free: 1 800 655-5244 Web site: www.msc.gov.mb.ca E-mail: securities@gov.mb.ca

New Brunswick Securities Administration Branch

133 Prince William Street, Suite 606

P.O. Box. 5001 Saint John, New Brunswick E2L 4Y9 Telephone: (506) 658-3060 Fax: (506) 658-3059

Web site-English: www.investor-info.ca Web site-French: www.info-investisseurs.ca

E-mail: securities.branch@gnb.ca

Securities Commission of Newfoundland and Labrador

Government of Newfoundland and Labrador 2nd Floor, West Block, Confederation Building P.O. Box 8700, St. John's, Newfoundland A1B 4J6 Telephone: (709) 729-4189 Fax: (709) 729-6187

Web site: www.gov.nf.ca/gsl/cca/s

Northwest Territories Registrar of Securities

Minister of Justice/Government of the Northwest Territories

1st Floor Stuart M. Hodgson Building

5009 - 49th Street

P.O. Box 1320, Yellowknife, Northwest Territories X1A 2L9

Telephone: (867) 920-3318 Fax: (867) 873-0243

Web site: www.justice.gov.nt.ca

Nova Scotia Securities Commission

Joseph Howe Building

2nd Floor, 1690 Hollis Street

P.O. Box 458, Halifax, Nova Scotia B3J 2P8 Telephone: (902) 424-7768 Fax: (902) 424-4625

Web site: www.gov.ns.ca/nssc



Nunavut Registrar of Securities

Department of Justice/Government of Nunavut

1st Floor, Brown Building

P.O. Box 1000, Station 570, Iqaluit, Nunavut X0A 0H0

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Ontario Securities Commission

20 Queen St. West, 19th Floor

P.O. Box 55, Toronto, Ontario M5H 3S8

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Web site: www.osc.gov.on.ca E-mail: inquiries@osc.gov.on.ca

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Yukon Registrar of Securities

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