

EIGHT COMMON INVESTMENT SCAMS



Investment scams usually involve getting you to put up money for a questionable investment—or one that doesn't exist at all. In most cases, you'll lose some or all of your money. Here are some common scams.

Common investment scams



Advance fee scheme

In an advance fee scheme, the victim is persuaded to pay money up front with the promise of receiving something in return. The catch is that the scammer

takes the money and the victim never hears from them again.

Scammers often target investors who have lost money in a risky investment. They'll contact the investor with an offer to help recover their losses. They may say they will buy or exchange the investment at a huge profit to the investor, but the investor must first pay a "refundable" fee, deposit or taxes. If the investor sends more money, they'll lose that, too.



Boiler room scam

Investment scams are often pulled off by a team of people who set up a temporary office, called a "boiler room". To convince you their company is

real, they might send you to the company's website, which looks very professional. They might also set up a toll-free number and a respectable address to make the company seem legitimate.

However, the company doesn't exist. Everything on the website is fake, and the office is just a post office box or temporary office. By the time you realize you've lost your money, the scammer will have closed up shop and moved on to another scam.

Four signs of a scam:

1



High returns and low risk.

2



Hot tip or insider information.

3



Pressure to buy now.

4



Seller not registered to sell investments.



Exempt securities scam

When a company wants to sell securities in Canada, it must file a prospectus with securities regulators. Exempt securities are an exception. They may be sold without a prospectus, but they're limited to accredited investors, who can meet certain financial criteria or certain other conditions.

On their own, exempt securities aren't scams. But some scammers pitch fraudulent investments as "exempt" securities. Be suspicious if you get an unsolicited phone call or email about a hot tip on promising business that is about to "go public". You may be told that the investment is only available to very wealthy people, but an exception will be made for you. You could be asked to sign some paperwork that misrepresents your income or net worth. If you have to lie about how much money you have, you are dealing with someone who breaks the rules.



Forex scam

The foreign exchange (forex) market is considered to be the largest and most liquid financial market in the world. Investors buy and sell currencies with the aim of making money on changes in exchange rates. But trading in foreign currencies can be very risky. Forex ads promote easy access to the foreign exchange market, often through courses or software. But foreign exchange trading is dominated by large, well-resourced international banks with highly trained staff, access to leading edge technology and large trading accounts. It's extremely difficult to consistently beat these professionals. You may not be told how risky forex trading is.

In addition, some forex trading schemes may be illegal or fraudulent. Because forex trading services are often operated online from another country, unregulated firms may be marketing their services outside of the rules. Your money may not be invested as claimed, and you may be asked to wire money into an offshore account before you begin trading, where the money will be inaccessible. In any of these situations, you're likely to lose some or all of your money.



Offshore investing scam

This scam promises huge profits if you send your money "offshore" to another country. In most cases, the goal is to avoid or lower your taxes. Be suspicious of tax avoidance schemes – you could end up owing the government money in back taxes, interest and penalties.

There are other risks of offshore investing, too. If you move your money to another country and something goes wrong, you won't necessarily be able to take your case to a civil court in Canada. It may be impossible to recover your money.



Pension scam

This scam targets people who have retirement savings in a Locked-In Retirement Account (LIRA). In most cases, you can't withdraw money from a LIRA until you reach a certain age, usually 55 or older. There are usually limits to how much money you can take out each year, and you'll likely have to pay tax on the money you withdraw.

The scam is often promoted in ads as a special "RRSP loan" that lets you get around the tax laws and tap into your locked-in funds. To get the loan, you must sell the investments you hold in your LIRA and use this money to buy shares of a start-up company the promoter is selling. In return, the promoter promises to loan you back 60% to 70% of the money you invested. They will keep the rest as a fee. You're told you'll get cash, pay no tax on it, and still hold a valuable investment in your LIRA. But the investment you buy may be worthless, and you may never see the loan. You could lose your retirement savings.



Ponzi or pyramid scheme

These schemes recruit people through ads and e-mails that promise everything from making big money working from home to turning \$10 into \$20,000 in just 6 weeks. Or, you may be given the chance to join a special group of investors who are going to get rich on a great investment. The invitation might even come from someone you know.

Investors who get into the scheme early may receive high returns fairly soon from what they think are interest cheques. They're often so pleased that they invest more money, or recruit friends and family as new investors.

But the investment doesn't exist. The "interest cheques" are paid from the investors' own money and money from new investors. Eventually, new people stop joining the scheme. There's no more money to pay out and you don't see another cent. That's when the promoters will vanish, taking all the money with them.



Pump and dump scam

In these schemes, scammers work through lists of potential investors to promote an incredible deal on a low-priced stock. You don't know that the person or company contacting you also owns a large amount of this stock and the stock may not represent a legitimate business. As more and more investors buy shares, the value of the stock rises sharply. Once the price hits a peak, the scammer sells their shares and the value of the stock plummets. You're left holding worthless stocks.



Take action

Check the registration of an individual or business trying to sell you investments or investment advice at [CheckBeforeYouInvest.ca](https://www.checkbeforeyouinvest.ca)

Ontario Securities Commission

20 Queen St. W., 22nd Floor, Toronto, Ontario M5H 3S8

Tel: 1-877-785-1555 Email: inquiries@osc.gov.on.ca

[GetSmarterAboutMoney.ca](https://www.getsmarteraboutrisk.ca)

[GetSmarterAboutMoney](https://www.getsmarteraboutrisk.ca) [@smarter_money](https://twitter.com/smarter_money)



ONTARIO
SECURITIES
COMMISSION

