

How to spot an investment scam

Every year New Zealanders lose millions of dollars in investment scams. Learn how to protect yourself by identifying some of the tricks scammers use.

How to spot an investment scam

An 'investment' is likely to be a scam if you are:

- Contacted about an investment opportunity by someone you don't know. It's illegal in New Zealand to sell financial products through cold-calling or other unsolicited communication.
- Promised very high returns with little risk. These promises are nearly always too good to be true.
- Given little information in writing. All legitimate investments must have documents explaining the investment.
- Told the offer is known only to a select few. This is often a ploy to make you feel special.
- Asked to keep the investment a secret. This is to stop the authorities hearing about it.
- Not told who is behind the offer or given a physical address. Legitimate businesses give names and full addresses.
- Promised access to 'secret' overseas banking markets supposedly offering very high returns. These markets don't exist.

Common types of scams

Cold call or 'boiler room' scams

Members of the 'boiler room' will ring you out of the blue to offer an investment opportunity, such as shares, FX trading, binary options or sports investment schemes. They'll convince you to make a small initial payment and once they have your money, they'll introduce many different reasons why you need to make a larger payment. To make the scam more convincing, you'll receive calls from 'senior' employees like the vice president or CEO. This gives you the impression you're a valued client. In reality, the calls are from other members of the boiler room.

These callers are clever and persuasive. They might suggest they can prove they are genuine by referring you to impressive-looking websites or fake agencies with official-sounding names. This is all part of the scam. Don't engage with these callers. Hang up.

Share scams

If you receive an unexpected call about an investment offer, it's most likely to offer you shares.

Three common warning signs it's a share scam:

1. You'll be offered shares for well-known companies like Apple or Alibaba and told you need to act quickly to benefit.
2. Once you've invested, you're likely to be asked for more money. The fraudsters will provide a reason, for example that the sale can only go ahead if you purchase more shares, or there are taxes to be paid.
3. Sometimes callers will offer you money for shares you already own. You may be offered an excellent price but told you need to pay an advance or restriction fee.



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Software packages and seminars

You may be offered software that uses 'state-of-the-art' analysis, or the chance to attend an 'exclusive' event where you'll learn the secrets to financial success. You'll also typically be promised high returns. These promises are often too good to be true and the only people making money are the sales people.

Ponzi schemes

A Ponzi scheme is where money from new investors is used to pay interest or capital to earlier investors. This gives the illusion the investment is successful and encourages investors to pay more. The schemes collapse when they stop receiving money from new investors.

Advance fee fraud

You're usually contacted unexpectedly and told about a large sum of money you're owed. Examples include an inheritance you were unaware of, a lottery win, or proceeds from shares you own. You'll be told you need to make a payment before the money can be released. The payment is usually a lot smaller than the amount you're supposedly owed, but can still be a substantial amount.

Affinity fraud

Affinity fraudsters prey on people who trust each other, like members of religious, social, or cultural groups. They use the trust that exists within these groups to steal money.

High-risk products and services

While these types of products and services are legitimate, they are frequently used as a part of scams and fraud. Be wary of:

- FX trading for profit, particularly through overseas-based companies that aren't regulated in New Zealand. It can be difficult to recover your money.
- Binary options. Winnings may be withheld and trades manipulated without your knowledge.
- Cryptocurrencies. Scammers promote cryptocurrency sales and exchange to catch you in phishing scams and upfront payment scams, as well as various forms of investment scams.

Protect yourself

To avoid being scammed follow these guidelines:

1. Always use a licensed provider. This provides some protection and minimum standards of service.
2. Do not invest via offshore, online businesses. If you do, we can't help you if things go wrong.
3. Ignore unsolicited offers. It's OK to hang up, or ignore an email from someone you don't know.

For more information visit the scams webpage on www.fma.govt.nz.