

Too good to be true

Just as financial products and systems are becoming more complex, so are the scams that are being inflicted on the investing public. The financial scams being promoted these days – especially over the internet – have become as sophisticated as the clients they are attempting to target.

The word “Ponzi” was splashed across newspaper headlines in recent years, but what does that term really mean?

What is a Ponzi scheme?

Named after Charles Ponzi, a well-known fraudster who used this technique to fleece his victims in the United States early last century, Ponzi schemes are scams in which the capital invested by new investors goes to pay income to earlier investors, so new investors are always needed to keep the scheme going. A very dangerous strategy and one that is doomed to eventually fail taking “investors” with it.

An Australian example

In Australia, a sophisticated scam was perpetuated in the early 2000s against wealthy investors by a New Zealand-born conman named Derek Turner through the company he controlled, Turning Enterprises International. Based in the tax-haven of the Bahamas, he promised investors monthly returns of 37% as a result of his ‘sophisticated proprietary investment techniques’.

Turner’s clients included successful businessmen, professional share traders and celebrities. After a lengthy investigation by the US Federal Bureau of Investigation (FBI), he was convicted in 2006 of fraud and is currently serving a 20-year sentence in a US Federal Prison.

How to spot a Ponzi scheme

Identifying a Ponzi scheme versus a legitimately sound investment opportunity isn’t always easy but the common theme is that the opportunity just seems too good to be true. Here are some points to note:

- **It’s a secret:** A genuine investment promoter will be licensed with the Australian Securities and Investments Commission (ASIC) and will be happy to provide you with fund data that can be verified. Be suspicious if promoters are overly secretive in their dealings with you or use diversionary tactics to avoid providing information such as audited financial statements.
- **Lack of transparency about how returns are generated:** Make sure you really understand the investment and how it grows. Ask as many questions as you need to. Don’t be tempted to invest in anything you don’t fully understand.
- **Emotive language:** This is often used to trick investors into parting with their cash. Be careful of advertising that promises a “high-yield investment opportunity” or states that the investment uses “top-secret” investment techniques allegedly unknown to the wider financial community.
- **Check fund data thoroughly:** To maintain the appearance of authenticity a fraudster will need to provide fund statements to investors. Checking the reliability of any returns data can go a long way to uncovering a possible scam.

Just be careful.

Consult your licensed financial adviser before making any investment, especially if it seems too good to be true. Useful information about scams can also be obtained from the ASIC consumer website at www.fido.gov.au.

ASA Financial Advisers are dedicated to providing you with information so that you can make the decision that is right for you. We invite you contact us on 03 9890 4055 or email info@asaconsultum.com to make an appointment today.

Sources:

www.nbr.co.nz , Helen Malmgren "It takes a thief to catch a thief"

www.jonesbahamas.com, The Bahama Journal "Turner stripped of Bahamas assets and sentenced to years"

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