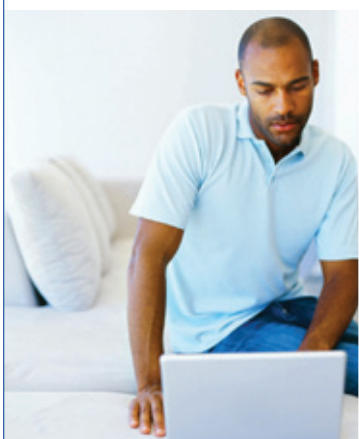


Protect your money: Avoiding frauds and scams



Canadian Securities Administrators

Securities regulators from each province and territory have teamed up to form the Canadian Securities Administrators, or CSA for short. The CSA is primarily responsible for developing a harmonized approach to securities regulation across the country.

www.securities-administrators.ca



Canadian Securities
Administrators

Autorités canadiennes
en valeurs mobilières



You’ve heard the saying “if it sounds too good to be true, it probably is.” It’s good advice, but how can you tell what’s too good to be true? After all, a scam has to be believable to be successful.

The **Canadian Securities Administrators (CSA)** have put together this guide to help you recognize and avoid frauds and scams. Our members include the 13 securities regulators of Canada’s provinces and territories. If you have questions or want more information, contact your local securities regulator listed on the back cover.

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Are you vulnerable to fraud?

There is no “typical” victim of fraud. Professional scam artists go where the money is, which means that if you have money to invest, you’re vulnerable to fraud.

Most successful scams are built on trust. Scam artists often start off by asking seemingly harmless questions about your health, family or hobbies. For example, they may find out that you’re worried about not having enough money to retire on. They then use what they’ve learned to target their sales pitch to your specific situation.

You don’t have to be wealthy to be scammed

One-third of fraud victims are scammed for less than \$1,000. Another 28% are taken for between \$1,000 and \$5,000¹.

Whatever the amount, it can be difficult or impossible to get your money back once you’ve given it to a scam artist.



¹ Canadian Securities Administrators. October 2009. *CSA Investor Index 2009*.

How you may be approached

Here are some common ways a scam artist may try to get you to part with your money.

Through a group you belong to

Affinity fraud is a type of scam that targets groups such as religious groups, seniors' groups, ethnic communities or social clubs. The scam artist may be a member of the group or may know someone in the group. These scams are often successful because many people are less likely to question advice that comes from someone they know.

A common type of affinity fraud is the pyramid (or Ponzi) scheme. Typically, investors are recruited through promises of high returns. Early investors often receive returns fairly quickly from “interest cheques.” They may be so pleased with their returns that they re-invest, or recruit friends and family as new investors.

Here's the catch: The investment doesn't exist. The “interest cheques” are paid from investors' own money and the contributions of new investors. The scheme eventually collapses when the number of new investors drops.

Investment seminars

Investment seminars have become a popular way of promoting investments. The investments themselves may not be scams, but the sales tactics used at these seminars often raise concerns.

Some presenters are paid to promote specific investments that offer high returns. They may not tell you that these products are risky and may not be appropriate for you. The presenters are usually very good at public speaking and generating excitement about the investment. They'll use high-pressure sales tactics to get you to invest on the spot or to schedule a follow-up appointment.

How you may be approached cont'd

Unsolicited email or phone call

Many scams begin with spam emails that promote a certain stock. These emails typically promote risky investments for which there's little information available.

You may also get an unsolicited phone call about an investment opportunity. The caller may ask you questions about yourself and use the answers to manipulate you into a quick sale. They'll also use high-pressure tactics, like repeat calls or limited-time offers.

The business may sound real. The caller might give you an address in the financial district, or direct you to a toll-free number or a website that looks legitimate for more information. However, the information on their website may be fake, and the address they give you may be nothing more than a post office box.



Be skeptical of any stock tips you get from an unsolicited email or phone call. It's a good idea to assume the tip is a scam until you've done your own research on the investment.

Types of investment scams

New types of investment scams appear every day. However, most are a variation on one of these common scams.

Exempt securities scam

Exempt securities, on their own, are not scams. They're sold by companies that are allowed to sell the securities without filing a prospectus.

The scam usually starts when you get an unsolicited pitch to invest in a promising business that is about to offer shares to the public. You may be told that this investment is only available to very wealthy people, but an exception can be made for you—all you have to do is sign some paperwork. This paperwork usually involves lying about how much money you make.

Exempt securities are risky, and you could lose all of your investment. If you have to lie about how much money you have before you can invest, you are likely taking on a risk you can't afford.

Forex scam

These scams often find their victims through ads placed in newspapers or on Internet sites. The ads look legitimate and offer you an exciting opportunity to invest your money on the foreign exchange (forex) market. You'll be told the person investing your money has a great track record and you'll be promised a high return.

What is a prospectus?

A company is generally required to put out a prospectus before it sells securities to the public. It includes information like:

- a history of the company and a description of its operations
- a description of the securities being offered
- a list of directors and officers
- financial statements
- a summary of the major risk factors affecting the company
- how the company will spend the money it raises by issuing the securities



Types of investment scams cont'd

What usually happens is that your money is not invested in anything, but simply is stolen by the scam artist. If your money is invested in the forex market, you may not have been told that the investment is very risky. Either way, you're likely to lose some or all of your money.

Offshore investment

In this type of scam, the fraudster will promise you a high return from an investment in an offshore market. They will often tell you the investment is a great way to avoid taxes.

What you may not know is that once your money is sent to another country and is in someone else's control, you may not be able to get it back. The promised high return comes with a high risk that you'll lose your entire investment. If the promised tax savings are a scam, you could also end up owing the government money in back-taxes, interest and penalties.

Pension scam

If someone tells you there is a way to take the money out of your locked-in retirement account without paying tax, it's likely a scam. In most cases, you can't take money out until you reach a certain age. Also, there are often limits to how much money you can take out each year, and you will pay tax on the money you withdraw.

If you hear about a tax loophole that will let you access your funds early, talk to a qualified, independent tax expert before you invest.

The "pump and dump"

In a typical pump and dump scam, you receive an email or phone call promoting an incredible deal on a low-priced stock. What you don't know is that the person or company contacting you owns a large amount of this stock. As more and more investors buy shares, the value skyrockets. Once the price hits a peak, the scam artist sells their shares and the value of the stock plummets. You're left holding worthless stocks.

Types of investment scams cont'd

You can be a victim of fraud more than once

Once you've been the target of a scam, you may be targeted again. In fact, 31%² of fraud victims are defrauded a second time. This is known as “double-dipping.” Here's how it often works:

1. The person who scammed you keeps your information or sells it to someone else.
2. After some time has passed, you're contacted again—either by the first scam artist or by a new one.
3. The caller explains that your investment is about to pay off and the time is right to sell your shares, but you'll need to pay a “transaction fee” or “tax” first. This is usually a significant percentage of the amount you originally invested.

If this happens to you, chances are the original investment was a scam. Don't send more money. Report the scam to the police or to your local securities regulator listed on the back cover.

² Canadian Securities Administrators. October 2009. *CSA Investor Index 2009*.



Investment fraud checklist

Most scams have some common warning signs that are fairly easy to spot. Before you invest, ask yourself these questions:

1. Were you promised a high return on a low-risk investment? Y N

One of the first rules of investing is that higher return equals higher risk. In other words, the more money you can potentially make on an investment, the higher the risk of losing some or all of your investment.

2. Did you have enough time to make a decision? Y N

You should never feel pressured into buying an investment on the spot. If you hear things like “act fast,” “one-time opportunity” or “buy now before it’s too late,” the person you’re talking to likely has something to hide.

3. Were you given confidential or “inside” information? Y N

A scam artist may claim to have information that nobody else knows about a company. You have no way of knowing if this “inside” information is true. And even if it is, trading on inside information is illegal in Canada.

4. Can you verify the investment with a credible source? Y N

If you receive an unsolicited investment opportunity, get a second opinion from your registered financial adviser, lawyer or accountant.

5. Is the person who contacted you registered? Y N

Anyone who tries to sell you an investment or give you investment advice must be registered unless they have an exemption. You can contact your local securities regulator, listed on the back cover of this guide, to check if someone is registered.



If you think it's a scam

Don't be afraid to say no. Just hang up the phone, delete the email or walk away.

Protect your money

Now you've read about what to look for when it comes to frauds and scams. The best way to protect your money is to be an informed investor.

Know your investment goals

If you have a financial plan, you're more likely to choose investments that are right for you.

Before you invest, you may want to set investment goals. Write down what you want to accomplish and by when. Next, think about how much risk you're comfortable taking with your money.

Once you've set your goals and decided how much risk you can take, spend some time learning how different types of investments work. Get a sense of what kind of returns you can reasonably expect for a particular level of risk. This will help you figure out what types of investments may help you reach your investment goals. If you need some guidance, you may want to talk to a financial adviser.

Know what you're investing in

Before you buy any investment, find out as much as you can about it. Read financial documents like the prospectus and financial statements.

Also take the time to read:

- analysts' reports
- financial newspapers and websites
- investment newsletters and news groups

You can get a lot of useful information from these sources, but remember each source only forms part of the overall picture of a company. Be skeptical of what you read and check as many different sources as you can to get a more complete picture. You can also get a second opinion from an independent financial adviser.

Never invest in anything that you don't fully understand. Take your time making investment decisions and never sign documents you have not read carefully.

Protect your money cont'd

Know who you're dealing with

Anyone who tries to sell you an investment or give you investment advice must be registered unless they have an exemption.

Also, anyone selling you investments should ask you about your financial situation, investment objectives, knowledge, experience and risk tolerance. This “know your client” information is critical for determining what investments are suitable for you. Make sure the person you're dealing with asks you for this information.

Know who to call for help

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

You can contact your local securities regulator to check if a person and the firm they work for are registered, and to find out if they have been involved in any disciplinary actions.



The CSA's *Investments at a glance* guide can help you learn about different kinds of investments and how they work.

Protect your money cont'd

If you have a complaint

If you believe that your adviser is not working in your best interests, you may want to make a complaint or consider finding another adviser.

Here's what to do if you want to make a complaint:

- 1. Start with your adviser or their firm.** Be clear about what went wrong and when. State the outcome you expect (for example, an apology, getting your account corrected or getting your money back). Record details of phone calls or meetings with your adviser or their firm.

If you're not satisfied

- 2. Ask about the firm's complaint process.** Follow the steps suggested. This could involve contacting a manager or the firm's compliance department. Put your complaint in writing. Be sure to keep notes of who you spoke to and what was discussed.

If that doesn't work

- 3. Contact your local securities regulator.** They can tell you what your options are, depending on the type of complaint you have. In most cases, you have to go through the firm's complaint process first.

You may also want to consult a lawyer to get advice on your rights and options.



Know where to go for help

Our free, objective guides can help you learn more about investing, how specific investments work and choosing an adviser. They're available on the Canadian Securities Administrators website at www.securities-administrators.ca or by contacting your local securities regulator.

Investing basics: Getting started
Working with a financial adviser
Investments at a glance
Understanding mutual funds

Members of the Canadian Securities Administrators www.securities-administrators.ca

Alberta Securities Commission

www.albertasecurities.com
403-297-6454
1-877-355-4488

British Columbia Securities Commission

www.investright.org
604-899-6854 or
1-800-373-6393 (toll-free across Canada)

Manitoba Securities Commission

www.msc.gov.mb.ca
204-945-2548 or
1-800-655-5244 (Manitoba only)

New Brunswick Securities Commission

www.investinknowingmore.ca
506-658-3060
1-866-933-2222 (NB only)

Financial Services Regulation Division Newfoundland and Labrador

www.gs.gov.nl.ca/securities/index.html
709-729-4189

Northwest Territories Registrar of Securities

www.justice.gov.nt.ca/SecuritiesRegistry
867-920-3318

Nova Scotia Securities Commission

www.beforeyouinvest.ca
902-424-2499
1-855-424-2499

Nunavut Registrar of Securities

867-975-6190

Ontario Securities Commission

www.osc.gov.on.ca
416-593-8314 or
1-877-785-1555

Prince Edward Island Office of the Attorney General

www.gov.pe.ca/securities
902-368-6288

Autorité des marchés financiers (Quebec)

www.lautorite.qc.ca
1-877-525-0337

Saskatchewan Financial Services Commission

www.sfsc.gov.sk.ca
306-787-5645

Yukon Securities Office

www.community.gov.yk.ca/corp/secureinvest.html
867-667-5466
1-800-661-0408