

Scam promises big profits in company “about to go public”

Has someone told you there’s a way to make a huge profit if you invest in a company about to go public? Don’t believe it.

How the scam works

Scam artists are calling people about opportunities to buy shares in private companies that are about to be listed on a major stock exchange. They will say that once the company goes public, the value of its shares will skyrocket.

The company is usually in a sector that’s in the news or considered a good investment. Right now, many of these scams focus on oil and gas, alternative medicine or the latest environmentally friendly product.

Here’s the catch: the company doesn’t exist. By the time you realize you’ve been taken, the scam artist will have closed up shop and moved on to another scam. You’ll likely never see your money again.

A two-part scam

This scam is usually pulled off by more than one person in more than one stage. A team of scam artists will set up a makeshift office, called a “boiler room.” From this boiler room, the scam artists will start calling potential victims.

First, one scam artist will call to gain your trust and to see if you’d be a good target for the scam. They might

use a phony survey to find out about your investment experience or get information like your mailing address, phone number and e-mail address.

Someone else on the team will call you back at another time with the real sales pitch.

What to watch out for

The scam artist may customize their sales pitch if they know anything about your personal situation or investment history. However, here are some things they’ll almost certainly say.

You’ve been specially selected

The scam artist will tell you that this exclusive offer is not available to the general public. Or they might tell you that this investment is usually offered to high net-worth investors only. You may be more likely to invest if you think people with investment experience are investing, too.

You’re guaranteed to make a lot of money

The scam artist will tell you that this is a safe investment. They’ll also promise you a very high return. Keep in mind that real investments come with risks. If anyone promises you a high return on a “sure thing,” it’s a scam.



Who’s vulnerable to this scam?

Scam artists go where the money is. If you have money to invest, you’re a target. However, this scam takes particular aim at certain people.

Seniors

Research shows that more than half of all fraud victims are over 50. Seniors in particular tend to trust strangers. When a scam artist reaches a senior, they’ll continue to call the senior, sometimes every day, “just to talk.” This creates a bond of trust and makes the victim more likely to invest.

Experienced investors

You may be surprised to know that experienced investors fall victim to scams more often than non-investors. Research shows that they’re more open to investment opportunities and willing to take risks. They’re also more likely to make their own investment decisions, without getting advice from an independent financial adviser.



You can be scammed more than once

People who have already invested in a fake company may be scammed a second time. The same scam artist will call the victim again, usually using one of two tactics.

Company takeover

The scam artist will tell the victim that a larger company has made an offer to buy the outstanding shares of the fake company. The investor stands to make a huge profit on their previous investment.

The scam artist might say that the investor must forward a “refundable” deposit or buy more shares to take advantage of this offer. In either case, if the investor sends more money, they’ll lose that, too.

Recovering losses for a fee

This scam sometimes happens after the investor suspects something is wrong and calls the company to complain. A different scam artist on the same team will call the investor and admit that some or all of the original investment has been lost. The scam artist will say that they can help recover the lost money for a fee. Unfortunately, if the investor pays the fee, they’ll lose that money, too.

This offer won’t last long

The scam artist will say that once this company is publicly listed, the value of its shares will soar. If you invest now, you could make a fortune.

You should never feel pressured into buying an investment on the spot. A real financial adviser will give you time to look into the investment and make up your mind.

Send your money now

You’ll be encouraged to send a cheque right away. The scam artist may even send you an official-looking invoice for your investment, together with a prepaid courier envelope for your cheque. The scam artist’s goal is to make it as easy as possible for you to part with your money.

What you can do

The best way to protect yourself is to hang up the phone. Scam artists can be persistent, so don’t give in because someone calls you over and over again. Here are some other things you can do.

Don’t give out your personal information

Never give out personal information over the phone. You don’t know who’s on the other end or what they’re using the information for.

Research the investment

To convince you that the company is real, the scam artist might send you to the company’s website to check things out. They might also set up a toll-free number and an address in the financial district to make the company seem legitimate.

However, everything on the site could be fake. The toll-free number goes right back to the scam artist, and the

address is likely just a post office box or a temporary office.

You should be concerned if the only information you can find about the company is on their website. If the investment is real, you should be able to verify it with a credible, independent source. For example, you should be able to find press releases on news services, such as Canada NewsWire at www.newswire.ca.

Check registration

Anyone who tries to sell you an investment or give you investment advice must be registered, unless they have an exemption. Contact the Ontario Securities Commission (OSC) at 1-877-785-1555, or go to checkbeforeyouinvest.ca, to find out if a person or firm is registered.

Report scams

If you think it’s a scam, report it to the OSC. The OSC regulates Ontario’s capital markets.

Our Boiler Room Unit works with law enforcement agencies and other regulators in Canada and the United States to disrupt and prevent scams and illegal distributions before they reach investors.

Only very rarely can we help investors get money back. We can, however, help you understand your options for any kind of complaint.

You can reach us at:

Telephone: 416-593-8314

Toll-free: 1-877-785-1555

TTY: 1-866-827-1295

e-mail: inquiries@osc.gov.on.ca

www.osc.gov.on.ca

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