N.S. SECURITIES COMMISSION--Commission identifies top investor traps

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The Nova Scotia Securities Commission today, Aug. 3, released its annual list of traps that cautious investors should avoid.

The tips will help protect investors trying to jump-start investment portfolios as the impact of the financial crisis and increased market volatility continue to reverberate. The commission said investors rebuilding nest eggs damaged by the market collapse and those frustrated with low interest rates are particularly susceptible to speculative investments.

"Knowledge, attention to detail and a healthy sense of skepticism are a triple threat to fight investment fraud," William Slattery, executive director of securities, said. "Provincial securities regulators provide detailed information about those who sell securities or give investment advice, as well as about the products being offered.

"The more you are prepared, the better your chance of sidestepping a trap that can leave you in a financial hole for many years."

The following five products and practices make up this year's list of top 10 investor traps and deserve special scrutiny:

Products
1. Exchange-Traded Funds (ETFs): While ETFs resemble mutual funds in many respects, some, such as leveraged and inverse ETFs, may contain hidden traps and could include leveraged financial instruments, including options and other derivatives. Given their potential for volatility, leveraged ETFs may not be suitable for most retail investors. Some ETFs are traded infrequently and cannot always be sold.

2. Foreign Exchange Trading Schemes: Currency trading and foreign exchange (forex) trading schemes can be particularly harmful to unsuspecting investors. Trading in foreign currencies requires resources far beyond the capacity of most individual investors. Promoters profit by charging high commissions or selling investment strategies, assuming that trades are actually made. In some instances, salesmen and promoters are running Ponzi schemes. Too often, provincial regulators have encountered situations where there are no trades; the money is simply stolen.

3. Gold and Precious Metals: High gold prices have trapped some investors in gold bullion scams in which a seller offers to retain "purchased" gold in a "secure vault" and promises to sell the gold for the investor when it gains in value. In many instances the gold does not exist. Investors have also been harmed by promoters pitching investment pools in precious metal commodities and gold mines.

4. Green Schemes: Investment opportunities tied to new energy-efficient "green" technologies are increasingly popular with investors and scammers alike. Scammers often exploits headlines to cash in on unsuspecting investors, from oil spill clean-ups to environmental innovations tied to "clean" energy, such as wind energy, wave energy, carbon credits and other alternative energy financing.

5. Oil and Gas Schemes: Oil and gas investments tend to be risky and unsuitable for traditional, smaller investors who cannot afford the risk. Securities investments in oil and gas ventures can be legitimate, but even then, revenues can be absorbed by high sales commissions and dubious "expenses". Some promoters, many of whom have had run-ins with regulators, have attempted to structure "joint ventures" or "general partnerships" to avoid securities regulation and deprive investors of important protections.

Practices

1. Affinity Fraud: Scam artists can abuse membership or association with an identifiable group to convince a potential investor to trust the legitimacy of the investment. Typical affinity groups include religious, ethnic, professional, educational, language and age that allow investors to trust members of the group. Investors should seek further information about the investment from an unbiased, independent source and review the promises and risks.

2. Undisclosed Conflicts of Interest: Investors need to know that not all advice is given with their best interest at heart. Some salespeople can receive lucrative commissions when they sell a product that is risky or inappropriate for an investor, but don't have to disclose that financial incentive. Investors should demand that anyone giving advice or recommendations disclose how they are compensated.

3. Private or Special Deals: Some investors encounter investment opportunities or deals couched as "private" or only for

"special" clients. While securities laws do offer businesses the opportunity to raise capital by selling securities to a relatively small number of investors in a non-public offering, these securities are not subject to the same review as others. Although properly used by many legitimate issuers, private offerings have become an attractive option for con artists.

4. "Off the Books" Deals: Be cautious if your dealer offers an investment on the side instead of one sold through his or her employer. These "off books" investments may not only be illegal, they can also be especially risky without the oversight and supervision of the dealer's employer.

5. Unsolicited Online Pitches: Promoters of fraudulent investment schemes are moving beyond e-mail and turning to social media and online communities, such as Facebook, Twitter, Kijiji, Craigslist and YouTube to solicit unsuspecting investors. Some may use these sites to spread misinformation to artificially inflate the value of stock before selling in a "pump and dump" scheme. Others may promise high-yield, tax-free returns from investments in offshore markets. In many cases, these offers turn out to be Ponzi schemes. Investors should approach any unsolicited investment opportunity with suspicion.

Mr. Slattery cautioned investors to familiarize themselves with the warning signs of investment fraud and independently verify investment opportunities and the background of the person and company offering the investment.

"Investors should do business with registered dealers and advisers and should report any suspicion of investment fraud to their provincial securities regulator," Mr. Slattery said. "One call can protect your financial security and might prevent others from becoming victims."

The Nova Scotia Securities Commission is the provincial government agency responsible for regulating trading in securities in the province.

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