



Gotcha! Traps for unwary players

Common sense and advice will help you avoid the cons.

Simon Hoyle reports.

IF YOU like bedtime stories that keep you awake in terror all night, forget Stephen King. Visit the Australian Securities and Investments Commission consumer website (www.fido.com.au) instead, and read some of the "True Stories About Scams".

There, you'll learn about pyramid schemes, "secret societies" promising to reveal to members the secrets of accumulating great wealth, so-called business geniuses who turn out to be nothing of the sort, and investment properties that simply never existed.

Many people have received an unsolicited email from someone purporting to be a Nigerian prince seeking help – and offering a reward – for getting money out of the country. Just provide your bank account details, and Bob's your uncle. Most of us would laugh off such an offer, but some – including one high-profile financial planner – have been caught out.

Some scams, swindles and shonky activities are easy to spot (see "Five Ways to Spot a Scam".) Others are relatively sophisticated, well organised and well executed. And sometimes investors can be misled even if a promoter or company seems to adhere to the letter of the law.

The executive director of consumer protection at ASIC, Greg Tanzer, says many problems are easily avoided. First, take advice only from advisers that hold an Australian Financial Services licence, and second, only invest in products that have a product disclosure statement (PDS) or prospectus registered with ASIC.

Neither step guarantees you'll avoid a scam or a dodgy investment, but they are a good first line of defence.

"We do still see people in scam investments who have either not sought advice,

or they have sought it from someone who isn't licensed to give it," Tanzer says.

A registered PDS or prospectus does not mean the product has been approved or signed off by the regulator, and, in fact, it's illegal for any promoter to suggest otherwise. And it's still possible for someone to produce an impressive-looking document that's not registered with ASIC.

Tanzer says confusing or vague language is often a sign an investment or the people behind it aren't legitimate.

"We've seen a lot of examples of scams that produce brochures but one of the common things is that the language is very vague," he says.

"If you come across a document that looks quite good, but it's not clear about how it is that they're going to make money, I think that's something you should take into account in deciding whether you are going to buy it.

"People might think [the document] is too big, and then when they read it they can't understand it, so it must be their fault. But the whole purpose of the document is to explain the investment. It's perfectly legitimate, if you can't understand it, to not invest in it. It's not your fault; it's not because you are stupid. The

whole purpose of the document is to explain the investment to you, and if it can't, I think it's a perfectly rational decision not to invest in it."

The managing director of listed investment company Clime Capital, Roger Montgomery, knows how difficult it can be to protect share investors from making decisions that could do them harm.

In early 2005 Clime attracted the attention of the notorious share raider David Tweed. In little more than a year, Tweed appeared on Clime's shareholder register,

and requisitioned no fewer than five extraordinary general meetings of shareholders to vote on aspects of how the company was constituted and managed.

Montgomery believes the Clime board had a moral and ethical obligation to inform shareholders of Tweed's resolutions, and to explain what their implications could be, even though it was a time-consuming exercise.

In August this year Tweed overstepped the mark when he launched a highly convoluted takeover offer for Clime. In the end ASIC stepped in and forced Tweed to withdraw the offer.

"There was no way a private investor, unless they were an accomplished lawyer, would be able to understand the implications of that [takeover] document," Montgomery says.

"In fact, our lawyers and senior counsel took some days to assess the implications of the document."

The lesson that emerged from the Tweed experience, Montgomery says, is that boards play a vital role in informing and educating shareholders.

He might have added that the law doesn't always protect investors from themselves, or those that try to dupe them.

The company will continue to explain "in lurid detail" the implications of Tweed's proposals, Montgomery says.

"We are not just addressing what Tweed was doing and trying to protect our own position. We are trying to explain the implications. [For example], if you agree to this resolution it will have this impact on you as a shareholder.

"It requires education, you really need an educator in the business explaining to shareholders what the implications are."

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Montgomery says how an investor thinks of their investment can determine how they respond to complicated or misleading offers.

"If you treat the stockmarket like a casino, and you just buy pieces of paper that wiggle and jiggle on a screen rather than [thinking of it as] buying a piece of a business, then you're never going to have that affinity with the company's management."

Shareholders should understand what they're being offered, or being asked to vote on, before making any decisions, he says.

"The reality is, I think, that most people are not as sophisticated as they believe they are, and as many institutions would

tell them they are. If they were sophisticated, then many things that we see in the market just would not occur.

"Never respond without seeking advice from the board. Never do anything without fully understanding it. The big risk for

investors is that they don't know what they don't know. Until you understand the limits of your knowledge, it's hard to make a truly informed decision."

Share investors aren't the only ones who need to take care. Investors in fixed-interest securities – even though they are regarded as safer than equity investments – also need to be on guard.

"Risky fixed-interest investments are aggressively advertised to consumers," Tanzer says. "ASIC regularly takes action if companies fail to disclose important information or [if they] make claims that are misleading and deceptive. But otherwise, these investments are regulated in many ways just like shares: you make your choice and take your chances."

Tanzer says the best way to avoid trouble is to have a good grasp of the fundamentals of investing. First, understand what your objectives are. Let your objectives and goals determine how you invest, rather than grabbing at opportunities as you go along.

Second, understand that to make a

return you have to take a risk – and in general, the bigger the return you want, the bigger the risk you have to take. You can mitigate risk by spreading money among different types of investments.

Third, remember to give it time. It's when you get sidetracked by too-good-to-be-true opportunities to get rich quickly that the trouble often starts. Better to get rich surely.

And fourth, if you can afford it, and it's an area of investing that you are not sure about, it's worthwhile getting advice from an expert in the field.

There will always be companies and individuals trying to con unsuspecting or gullible investors, and it's usually the lure of guaranteed or unusually high returns that they use to get people in.

But remember: if it's too good to be true, it's probably not true.

"If you're trying to understand what is a reasonable rate of return, one of the things you can do is have a look at ASIC's risk/return calculator," Tanzer says.

Five ways to spot a scam

1. Bigger and faster profits than "real" investments

Scams always offer a higher return than genuine investments. Some offer 20 per cent a year, others go for 300 per cent a year or even more. It's too good to be true. By comparison, Australian shares are some of the most successful investments, and their value has grown about 7 to 9 per cent a year over the long term.

2. Less risk and less effort than real investments

Most scams say that financial success is easy and risk isn't a problem. But real wealth demands planning, hard work and guts. Even the best investors make mistakes and have to weather storms such as market busts and economic recessions.

3. Something special that genuine investments don't offer

It could be a "secret" offer, "inside

information" or "new techniques".

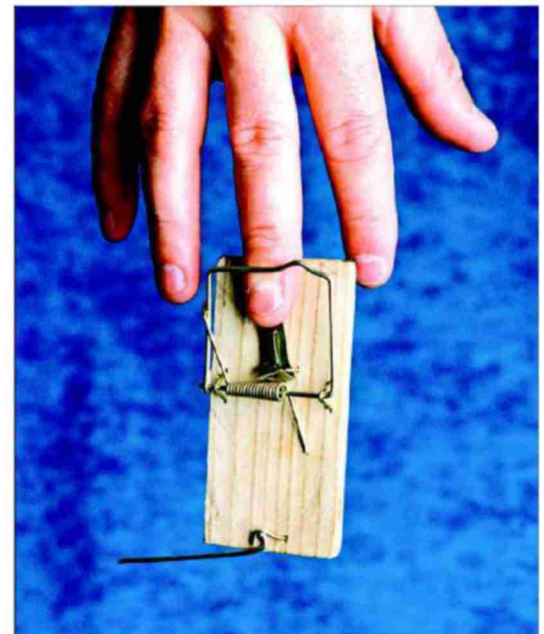
There's always some feature to make you feel like you've got an edge over other people. But chances are it's a fairytale – and it won't have a happy ending.

4. More urgent than the real thing

Every scam gets dressed up as an opportunity, so scammers often say "don't miss out" and "act quickly" to make you hurry "before it's too late". They're really just trying to grab your money before you have a chance to check properly.

5. Offered by a stranger

Many scams come from overseas, through unsolicited email or surprise phone calls. Others get sold through "wealth creation" seminars or on the grapevine. While the people can sound genuine, they rarely have any real credentials, such as an ASIC licence, to give advice or sell financial products.



Ouch ... the Nigerian scam fooled even a high-profile financial planner. Photo: Virginia Star