

# When greed makes us gullible – Avoiding the scam

*By Mark Story*

Every year unsuspecting Kiwis fall victim to outrageous investment scams. How can you protect yourself from unscrupulous hoaxers who are constantly finding new ways to swindle even the smartest and wealthiest investors?

Imagine being naive enough to either invest money into a biotech company dedicated to creating a hybrid animal that's half sheep and half goat or buy shares in air space across the Sydney harbour bridge? No one is that silly right? Well, you'd be wrong, when the Australian Securities and Investment Commission (ASIC) ran these two bogus investment offerings – as a wakeup call to the investing public over the Internet

a few years ago - the amount of people wanting to invest in them was alarmingly high.

Well might we snigger at those gullible Aussies. But as investment-savvy as we'd

like to think we are, there are still plenty of Kiwis falling prey to investment scams every year. As hard as it is to believe, many Kiwis have lost significant sums to “black money” scams by sending cheques to unknown persons in Nigeria based in an email chain letter.

It's impossible to know exactly how much money has been lost to investment scams or how many people have been taken in.

Based on his experience trying to recover money lost to investment scams both here and offshore, barrister Mark van Leewarden says many investors would rather bury their losses than suffer the public embarrassment of admitting they've been duped. He says many investment scam victims suffer so much from denial that they refuse to accept that their hard earned savings are gone.



## “PRIME BANK” PYRAMID SCAM

It’s a fallacy, explains van Leewarden to assume that investment scams only prey on the elderly, the uninformed or those with more money than sense. Geoff Matthews senior advisor with Spicers Portfolio Management Ltd recalls a successful businessman coming to him for advice after losing US\$150,000 to an offshore investment scam dressed up as a prime bank instrument scheme.

Portrayed as investment vehicles established exclusively for banks, private investors are miraculously invited into prime bank instrument schemes (sometimes referred to as the ponzi scheme) promising 8-10% monthly returns. But Jane Diplock CEO with the Securities Commission says the notion that there’s some kind of “Inter-banking” market operating anywhere in the world is a total myth.

Using parts of the name of a reputable bank, she says prime bank instrument schemes are nothing more than pyramid schemes. Money from new investors continues to be used to repay old investors until the source of new investors dries up. In other words, the “interest” investors were getting was really just a portion of their original investment

entire socio-economic spectrum - have invested more than \$110 million in mainly overseas-based investment frauds over the past few years. What convinces seemingly intelligent investors to take idiotic risks with their savings, says Diplock is the expectation of above average earnings – especially within “bear” markets where most returns are relatively low.

The sad reality, adds van Leewarden is that virtually none of the money lost to scams is ever recovered. Based on his experience as an investment fraud investigator, investment scam victims who get 10% of their money back have done exceptionally well. Van Leewarden has been charged with recovering around US\$80 million lost to investment scams by 535 clients from 35 countries. Over half of that money has been lost by Kiwis who have fallen prey to



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money, or indeed someone else’s. Based on her intelligence, Kiwis in the upper North Island alone have lost \$40 million to this pyramid scam in the last two years.

## OVER \$110 MILLION SCAMMED

But this is just the tip of the iceberg. In fact, the Serious Fraud Office (SFO) estimates that over 2000 people -encompassing the

offshore-based ‘boiler-room operations’.

## THE SHELL-GAME

Preferring to operate as far away from their own regulatory jurisdictions as possible, boiler-room operators create the illusion they’re dealing in high flying equities. Commonly referred to as the ‘shell game’ scam operators acquire new companies that

are close to bankruptcy, and register them with the SEC so they're publicly tradable. Having reduced the equity of the original shareholders through a reverse stock split, they proceed to issue new shares.

Using appropriate telephone pitches, these fraud artists are able to increase the investor base and raise the price of the stock through 'shallow' trading. When the prices hit a high point - surprise, surprise, the stock held by the fraudulent backers is liquidated, the price plummets - leaving you the investor with huge losses and a worthless stock.

What makes these investments look so plausible are the glossy promotional material they produce, and the opportunity to talk to a fellow Kiwi who's already invested into the scheme. "Often these scams will refer you to a local person, who having invested with them is currently receiving high monthly returns," says van Leewarden a former police detective. "Unwittingly that person thinks they're being looked after, until a few months later and the cheques finally stop arriving."

**MONEY TRAIL**

It often takes a long time, says van Leewarden for victims to finally accept that the cheques they did receive were nothing more than "seed money" designed to attract other investors.

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So what happens when investors get the first whiff of a scam? The only way to recover money from a global scam operation, says van Leewarden is by getting scam victims to come together to work out an effective means of recovery. He says the only hope victims have of ever seeing their money again is to follow the money trail.

By doing just that, he's so far managed to put a seizure on around \$7 million of investors' funds. "When the money trail is discovered, it's important to take immediate action to secure it via a seizure order," explains van Leewarden. "I've been able to freeze money in Australia, and pursuant to a court order, managed to freeze funds in Switzerland in only one and a half days."

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## HOME-GROWN SCAMS

Sadly, there are as many home-grown investment scams as there are offshore. The trouble is most of the time the authorities never get to hear about and it - and often when they do - there's little that can be done. It's not uncommon for retired people, especially within rural communities to collectively entrust a few million dollars to an individual - who through connections to 'local professionals' - claims to be able to do wonders with their nest eggs.

When these poor folk complain that their one-time trusted neighbour has done little more than invest in his own lifestyle, van Leewarden says there's nothing the police can do. Entrusting someone with your money is far from illegal, and unless there's a paper-based file to work off, he says there's no evidence of wrong doing for the police or the SFO to work from.

So what kinds of scams have Kiwi investors' fallen prey to in recent times? In July last year \$8 million raised by three Tauranga-based corporations and three individuals was placed on statutory management after SFO investigations proved the investment vehicles promising substantial returns on fake investments to be illegal. Similarly, the 200 investors who sank money into a PNG 4850-hectare beef and rubberwood plantation, Koitaki Farms Ltd - on the promise of five or 10% per month - have heard little from the promoters since.

Meantime, based on the prospect of 75% returns within a couple of months, around 35 Kiwis were caught out in a US-based futures contracts fraud back in 2000. With most of the cash going on commissions and fees, nearly all 35 lost most of the money they invested. It was later discovered that the contracts themselves were illegal under US laws, and there was no evidence the promoter complied with NZ law.



## HALLMARKS OF THE TYPICAL SCAM

- Rates of return well above anything else being offered.
- Large sums of money are involved with individual investments, usually having to be pooled.
- Absolute confidentiality and secrecy required.
- "Risk-free" or "guaranteed".
- Over use of banking/financial jargon.
- Complicated and official looking documentation.
- Use of offshore accounts/brokers.
- Cold-calling from overseas.
- No investment statement or Registered Prospectus.
- Pressure to take-up the offer immediately.
- Few or no details of the person or company making the offer.

### THE SEMINAR BRIGADE

Is there anything new on the investment scam front? The most obvious nuance in scams, observes Diplock is the seminar brigade. She says the recent bankruptcy of a “so-called” seminar guru in Australia should make investors’ wary of “get-rich-quick” seminars. Especially those focussing on property, currency, share trading - or fast-buck commodities futures - where a relatively few investment dollars can control sizable sums.

Interestingly enough, The Real Estate Institute and Consumers’ Institute warn

people against residential property investment seminars that are simply a front to sell over-valued houses. Unbeknown to investors, seminar operators often receive a kick-back margin on property transactions.

One of the clearest signs of a scam, warns Consumers’ Institute’s David Russell is a property promoter’s unwillingness to let you get independent advice or even give you time to think about it.

Meantime, The Securities Commission warns people against investing in a forestry scheme offered by Prime Forestry Group, the scheme just doesn’t comply with local law.

## INVESTMENT SCHEMES WARNINGS LIST

(Source: New Zealand Securities Commission)

Big International (also known as Big Lotto)  
Cronus Trading Corp  
Enterprise Solutions 2000 (betting scheme)  
Imperial Consolidated Securities  
IMI Pacific and Walakahi Pacific  
Investment Programme Management Incorporated  
Investors International  
Lakeland Wealth Creators Limited  
Millionaires of the World  
Ocean Salvage Investments Ltd  
Prime Forestry investment  
Prosper League Limited  
Quantum Executive Corporation  
Tri-West Investment Club (Haarlem Universal Corp)  
Wairua Tahi Trust (Goldrush).

### AVOIDING SCAMS

So what should investors do to avoid scams? Rule number one advises Diplock, if the investment proposition looks too good to be true, it probably is. She says while people should have greater investment confidence going through an advisor, they still need to check who it is they’re dealing with.

Obvious considerations, adds Matthews include checking an advisor’s qualifications and their affiliation to industry bodies like the FPIA.

What’s of particular concern to the SFO are rare cases where professional advisers’ are directly involved or where they allow themselves to be used to lend credibility to






an obviously dubious scheme. “The trouble with Kiwi investors is they still don’t ask enough questions. They spend more time planning a holiday than planning out their investments,” adds Matthews.

He says it’s important that people don’t invest in what they simply don’t understand. “That goes especially for hybrids and other less traditional investment vehicles,” says Matthews. “Many Kiwis feel safe investing in names they recognise. What they often don’t realise is that many Kiwi brand icons - especially finance companies that have been bought and reinstated - no longer offer the same level of security.”

It’s blatantly impractical to legislate against people being reckless with their savings. So the bottom-line is clearly caveat emptor or “buyer beware”. But that said, Diplock says investment statements and prospectuses should at least ensure the investments people are considering, comply with the law. “That’s not to say the risk/return curve doesn’t apply.

Investors have to look at what extra risk they’re accepting to get returns significantly higher than bank deposits.” 

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