

## Protecting Against Investment Scams on the Internet

The Internet has become the communication channel of choice for many investors. It is a convenient way to communicate with investment providers and investigate investment opportunities.

The Internet has also become a popular place for thieves and scam artists to find victims.

- Emails promoting investment ideas can be sent to millions of people very cheaply instead of cold calling over the phone or using regular mail.
- Fraudsters can lure investors by building websites that look very similar to legitimate ones.
- Investment newsletters claiming to provide honest and unbiased advice have become popular as illegal vehicles for some promoters to hype specific stocks.
- Online bulletin boards may have messages from those trying to promote a stock with “inside” or “secret” information about a company’s results or new products.

### Using the Internet Wisely

It is always important to get the facts before making an investment. The Internet can make it difficult to distinguish between facts and what someone what you believe are facts.

- Never make an investment only based on what you may have read in an online newsletter or from an online bulletin board posting.
- Be very wary of small or very thinly traded stocks you read about on the Internet.
- Beware of companies that do not file regular reports with the Securities and Exchange Commission. You can access the SEC’s database of reports at [www.sec.gov/edgar.shtml](http://www.sec.gov/edgar.shtml).
- Be wary of offshore investment ideas, especially if they involve some form of tax avoidance.
- Do not be lured by promises of high returns with no risk or very little risk.
- Be wary of ideas that promise fast returns.
- Be wary of investments in alternative investments like commodities, real estate, coins, artwork or gemstones.
- If you see words like “guarantee, high return, limited offer or safe as a CD”, be very careful.

### Common Types of Internet Investment Scams

The Securities and Exchange Commission reports that most Internet scams follow the same formats that have been around for years. Here is a portion of an article from the SEC’s website:

- The "Pump And Dump" Scam
  - It's common to see messages posted online that urge readers to buy a stock quickly or tell you to sell before the price goes down. Often the writers will claim to have "inside" information about an impending development or to use an "infallible" combination of economic and stock market data to pick stocks. In reality, they may be insiders or paid promoters who stand to gain by selling their shares after the stock price is pumped up by gullible investors. Once these fraudsters sell their shares and stop hyping the stock, the price typically falls and investors lose their money. Fraudsters frequently use this ploy with small, thinly-

traded companies because it's easier to manipulate a stock when there's little or no information available about the company.

- The Pyramid
  - Be wary of messages that read: "How To Make Big Money From Your Home Computer!!!" One online promoter claimed that investors could "turn \$5 into \$60,000 in just three to six weeks." In reality, this program was nothing more than an electronic version of the classic "pyramid" scheme in which participants attempt to make money solely by recruiting new participants into the program.
- The "Risk-Free" Fraud
  - "Exciting, Low-Risk Investment Opportunities" to participate in exotic-sounding investments – such as wireless cable projects, prime bank securities, and eel farms – have been offered through the Internet. But no investment is risk-free. And sometimes the investment products touted do not even exist – they're merely scams. Be wary of opportunities that promise spectacular profits or "guaranteed" returns. If the deal sounds too good to be true, then it probably is.
- Off-shore Frauds
  - At one time, off-shore schemes targeting U.S. investors cost a great deal of money and were difficult to carry out. Conflicting time zones, differing currencies, and the high costs of international telephone calls and overnight mailings made it difficult for fraudsters to prey on U.S. residents. But the Internet has removed those obstacles. Be extra careful when considering any investment opportunity that comes from another country, because it's difficult for U.S. law enforcement agencies to investigate and prosecute foreign frauds.

### **Using Common Sense**

Skepticism and common sense should play large roles in evaluating investment ideas found on the Internet. Here are two questions to always ask:

- Does this sound too good to be true?
- What makes me so lucky to get this offer?

*Article written by Financial Wisdom, advice is solely attributed to that entity.*