



Sounds Too Good To Be True? It Probably Is.

By Eng Tiang Chuan

Investment scams have become more creative. No longer can the investor just rely on tell tale signs of unrealistic returns to separate the sheep from the goats. We offer some questions to ponder before investing.

It has long been assumed that greed is the reason for the consumers being duped by investment scams. Not anymore, with Bernard Madoff around.

70-year-old Bernard Madoff operated a US\$50 billion Ponzi scheme spanning over nearly 2 decades. Among his victims were big names like Royal Bank of Scotland, HSBC Holdings, MAN Group and many others, including charities. These victims were not looking for sky-high returns but steady ones.

More creative investment schemes have surfaced in recent times. Imagine a firm offering to sell you some precious metals at a much higher price than what is available in the market but getting a guaranteed 2 per cent interest a month and an option to sell the precious metal back to the firm at the original price. Is this a risk free return? I would not bet on it.

What should investors consider before handing over their hard-earned money? Below are some pointers to ponder.



IS IT REGISTERED WITH MAS AS AN INVESTMENT SCHEME?

There are all kinds of investment schemes out there, but not all of them are registered. Ask the agent if the investment scheme is registered with Monetary Authority of Singapore (MAS). If they say it is, then check the listing on MAS website or ask the agent for the MAS link. Registered investment schemes are listed on the MAS's website.

The agent should be upfront about whether the scheme is registered as an investment scheme. MAS has also compiled an Investors' Alert List that records a list of persons conducting activities regulated by MAS without authorization. Click on "Check Our List" on the top right hand corner at www.moneysense.gov.sg to access the listings. Investors should exercise caution when dealing with these persons.

A tell tale sign of a MAS registered investment scheme is the requirement of a Know-Your-Client (KYC) form. This document will provide details regarding the advice and sale of the investment products and is required for compliance purposes. If there is no KYC form is used, ask the representative why this is so.

Do note that not all non-registered investment schemes are scams. There are schemes that are fully legitimate but do not fall under the jurisdiction of MAS.

BEING LICENSED ADVISERS IS NOT ENOUGH

Insurance agents and Independent Financial Advisers (IFA) alike have become agents for unregistered investment schemes. Do not take it for granted that the recommendation is a registered product just because it came from a licensed adviser.

WHERE DID THE SCHEME ORIGINATE FROM

Many investment schemes originated from

other countries. However, some of them are not even allowed to operate in their home countries. Operating in a faraway place with lavishly decorated offices would surely cloud the local investors' views. Check the local government websites for any warnings. Investment schemes registered for subscription in countries with strong regulatory environment are a safer bet. Examples of such foreign jurisdiction include the United Kingdom, Isle of Man and Hong Kong.

UNREALISTICALLY HIGH RETURNS

The run-of-the-mill investment scams typically promise unrealistically high returns over short periods. Some of them promise tripling or even quadrupling within a few years. Others vow to periodically return a certain percentage of the investment capital perpetually, meaning the investor can recoup the investment in a short time and have perpetual return thereafter. This is a signature feature of a Ponzi scheme. Sunshine Empire is an example.

HOW RETURNS ARE GENERATED

Scammers are not able to explain in detail how the returns are generated, simply because there is no legitimate business or method behind it. Things are described using general terms. Often, the so-called businesses are said to be located overseas, which makes it hard or impossible to validate.

INDEPENDENT THIRD PARTIES

Independent third parties are engaged to improve the transparency and robustness of investment scheme. Third parties can include Custodians (Who keeps the assets?), Valuers (Who provides the asset valuation?), Auditors (Who does and/or audit the accounts?), Administrators (Who does the administration?) and others. It would be harder to cook the books with independent third parties around. Generally, third parties

should be more independent and impartial.

DIVERSIFY

The Ponzi scheme operated by Bernard Madoff has claimed big name victims looking for low and steady returns. Locally, schemes like Sunshine Empire and Oilpods have run into trouble. Even equities, one of the most straight forward form of investment, have produced scandals like Enron, Worldcom, China Aviation Oil and others. Many have lost their life savings putting everything into a single scheme. Do not put everything into a single investment.

Investment scams typically prey on investors' greed. However, as Bernard Madoff has shown, slow and steady returns can also lure unsuspecting victims. Adhering to the age-old axiom of "If it sounds too good to be true, it probably is" may no longer be adequate. ■

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