

The ABCs of Senior Investment Fraud



A Guide for Professionals Working with Seniors



Together, we can help older Manitobans protect their finances.

Senior abuse can take many forms. One of the most devastating and costly forms out there is investment fraud and scams. These can sometimes be perpetrated by people who are close to the senior such as family or friends, and more often than not is conducted by individuals who are not permitted to do business in Manitoba.

As someone who works closely with older people, you have the opportunity to help recognize and stop senior financial abuse and investment fraud by knowing what to look for and never feeling afraid to call for assistance. This guide was developed to help you recognize the red flags of investment fraud, and to respectfully help seniors take action to protect their finances.

Common Types of Investment Fraud and Scams

Con artists target seniors for several reasons. Many seniors are worried about not having enough money to last through retirement. They may still be financially responsible for their children, or their own aging parents who didn't save enough money for their own retirement. Scam artists prey on these worries by promising high-return, low-risk investments. In reality, these investments don't even exist, or are extremely high-risk and not suitable for seniors looking to protect their nest egg. Either way, some or all of the money is lost. With little time to recover from the losses, many victims find their retirement plans shattered.

Scam artists use investment-related pitches, often in what the senior believes is a safe setting like a church, a social club, or as part of a so-called "free lunch" seminar. Seniors are approached to participate in investment scams by telephone, by mail, by email, or in person. The following are some examples of different types of investment frauds and scams:

- **Affinity Fraud.** In affinity fraud, the senior makes an investment because of a recommendation from someone they trust because they share the same or similar age, profession, ethnicity, or religion.
- **Free Lunch or Dinner Seminars.** The majority of these seminars are actually sales pitches, structured in a way to trick attendees into investing money.
- **Ponzi Schemes.** A Ponzi scheme is a fraudulent investment operation that pays

returns to separate investors, not from any actual profit earned by the organization, but from their own money or money paid by subsequent investors. As the number of initial investors grows and the supply of potential new investors dwindles, the Ponzi bubble bursts and the vast majority of investors lose all or most of their money.

- **Senior Designations.** Scam artists may call themselves "Senior Specialists" to create a false level of comfort among seniors in order to get them to invest.
- **Unlicensed Salespeople.** People who sell securities or provide investment advice must be appropriately licensed. If not, chances are they aren't qualified to offer investments or advice.
- **Unregistered Investments.** The senior is sold a share in a new company or enterprise and is told that the investment "does not need to be registered" with the government.
- **Unsuitable Investments.** What might be suitable for one investor might not be for another. Securities professionals must only recommend investments that are appropriate for a customer's age, risk tolerance and need for access to the money.



What Scam Artists are Telling Seniors

- **“You can profit like the experts!” or “You’ve been specially selected.”**

These scams are pitched as opportunities that are known only to a select few who are said to be making a lot of money. The scam artist convinces the investor that he or she has exclusive access to this inside information.

- **“It’s best that you keep this information to yourself.”**

Scam artists offer “confidential” information to pressure seniors into making a quick decision. They make the offer more attractive by suggesting they have secret information about a company that the general public doesn’t have. This kind of sales pitch appeals to a person’s fear of missing out on a valuable opportunity.

- **“You’re guaranteed to make a lot of money fast.”**

There’s no such thing as a guaranteed high-return, low-risk investment. The higher the returns, the higher the risk – end of story. This type of sales pitch is often aimed at people who live on a fixed income or those near retirement.

- **“This offer won’t last long, send your money now.”**

Scam artists urge seniors to act quickly to “get in on the deal.” They will say things like “act fast,” “one-time opportunity,” or “buy now before it’s too late.”

These phrases usually indicate the person has something to hide. A senior should never feel pressured into buying an investment on the spot.

- **“It’s tax free!”**

It is possible to defer paying taxes through offshore investments, but they cannot be avoided indefinitely. Often with scams like this, money will be transferred to overseas locations, making it hard to recover and even harder for the authorities to investigate. Also, by asking an investor to keep a deal secret, scam artists know the victim won’t have to respond to hard questions and comments from family, friends or financial advisers who might see through the scam.



Five Steps to Help Seniors Protect Their Finances

The following are five steps you can take to help seniors protect their finances.

1 Understand the Situation

- 75% of the nation's consumer wealth is held by people aged 50 and up.
- The decline in mental capacity for some seniors makes them more vulnerable to fraud and may make cases harder to prosecute.



- Seniors are less likely to report fraud because they are embarrassed or fear loss of freedom if seen as unfit to manage their own finances.
- Financial losses suffered by seniors are higher with investment fraud scams than with other forms of financial abuse.
- Many common investment scams can be quickly discovered and avoided by checking with securities regulators before sending money.
- Only an estimated one out of three investors using a financial adviser has ever checked the background of that person with regulators.
- Investment fraud complaints from seniors account for nearly one half of all fraud complaints received by securities regulators.
- As with other forms of senior abuse, officials estimate that only a small percentage of cases of financial abuse and exploitation are reported.
- Seniors who are abused or mistreated are three times more likely to die earlier than seniors who are not.

2 Recognize the Red Flags of Investment Fraud

- Mail piled up.
- Unpaid bills.
- Excitement about winning the sweepstakes/lottery.
- New companion, adviser or power of attorney making financial decisions.
- Feeling fearful, distressed or depressed.
- Received information or was asked to invest in unregistered or startup companies.
- Was asked to sign blank paperwork on an investment, or gave an adviser discretionary authority over their account.
- Has unopened investment account statements, missing account statements, or missing documentation for an investment (salesperson claiming to get paperwork to the senior later).
- Missing cheques from the chequing account, or made cheques for the purchase of an investment directly to the adviser or salesperson.
- Complains that he or she is unable to get in touch with the adviser or broker and has difficulty remembering the terms of the investment.
- Has lost money in other scams.

3 Ask Questions

As a care provider, if you suspect a senior is about to fall victim to investment fraud, don't hesitate to ask questions and get more information. If you suspect they are in danger, you aren't being nosy by asking questions, you are exercising due diligence. Consider the impact of doing nothing.

It is important to be extremely respectful when asking a senior about money matters. Using tact and diplomacy and sticking to factual questions will help you to better assess the situation. The following is a list of questions you can ask to assess the situation:

- Do you manage your money on a day-to-day basis? How is that going? Or, is there someone in your life that assists you with your finances? And if so, how is that working?
- Do you have a plan for your money and have you been able to stick to your plan? If not, what has taken you off track?
- Do you regret or worry about financial decisions you've recently made? Or, are you currently feeling pressured into making a financial decision?
- Are you happy and comfortable with the way that your finances are being managed? Or, has someone you know asked you to do something with your money that made you feel uncomfortable?
- Is there someone in your life that you trust to help you manage your financial matters? Who would that be?
- Are you able to make your money last until the end of the month?

4 Encourage Personal Protection

You can gently guide a senior by suggesting that they:

- Don't give out personal information.
- Don't make rash decisions.
- Save their good manners for friends and family, not strangers looking to make a quick buck.
- Receive written information such as a prospectus, receipts for money given, and monthly statements.
- Check the registration status and disciplinary background of any firm or individual offering investments for sale.
- Check to see whether the investment itself is properly registered or exempt from registration.
- Learn more about current investment scams that have been reported in Manitoba.
- Ask questions if they don't understand and walk away if the salesperson refuses to answer the questions or gives them unsatisfactory answers.
- Go to someone independent whom they can trust such as a lawyer or an accountant to review the investment.
- Be cautious if the salesperson does not ask questions about their past investment experience and how much risk they are comfortable with.
- Read educational resources for seniors such as *Identifying and Preventing Financial Abuse: A Guide for Older Manitobans*, and the *Protect Your Money: Avoiding Frauds and Scams* booklets available from The Manitoba Securities Commission.



5 Report It!

It's free, confidential and easy. Don't let embarrassment or fear stop you from reporting what you think might be a scam. Your action might just prevent someone else from becoming a victim. Call or email The Manitoba Securities Commission (MSC) if you believe a senior in your care may be the victim of financial abuse or exploitation through an investment scam:

The Manitoba Securities Commission

500–400 St. Mary Avenue

Winnipeg, MB R3C 4K5

Phone: (204) 945-2548

Toll Free (MB only): 1-800-655-5244

Email: securities@gov.mb.ca

The MSC helps seniors avoid becoming victims by investigating possible violations of securities laws, providing disciplinary and registration status on financial advisers, enforcing laws and standards of professional conduct, and offering investor education programs.