

Thesis Reflection

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Too good to be true?

I am sure we wouldn't fall for a scam saying we had won the Spanish lottery, especially if we had never bought a ticket, we might, however, as well as our clients, be tempted by an offer to buy an exciting investment to spice up our portfolios, after all the share price of Glaxo and Shell haven't exactly done much over the last five years have they? Unfortunately a number of investors are being seduced by these so called "boiler room" scams, which are becoming increasingly sophisticated and ensnaring relatively experienced investors.

It may start quite innocently, with a telephone call offering to send some research on a company in which your client might have shares. We had a client recently who had received such an approach, from an apparently English company with an address in the City of London inviting him to invest in Viking Gold and Mining, a company which was potentially a takeover target by the mining giant Rio Tinto. Needless to say the fraudsters are very persuasive, the company had a plausible website, although with one or two quaint English usages, and it wasn't until the client had invested £20,000 and received a certificate with more spelling mistakes that his suspicions began to be aroused. Phone calls were not returned, however he did receive a letter saying that his initial investment of £20,000 was now worth £88,000 following the takeover "approach" by Rio Tinto, the only problem being that he had to pay £12,000 upfront to obtain his money back!

At this point the client asked our advice, and although he suspected he had been duped, he still seemed rather reluctant to admit this, and quite apart from the thought of losing his money was also I believe quite embarrassed at having been taken in. Our advice regretfully was that he was unlikely to see his money again, and that he should certainly not commit any further funds, but if any of your clients come to you, or indeed if you receive such approaches yourself, then perhaps the following may be useful.

As the saying goes "prevention is better than cure", as sadly in these cases there is usually no cure. Reputable financial firms do not make cold telephone calls, but before dealing with any firm with which you are not familiar it is sensible to make a number of checks. Firstly the Financial Services Authority has a number of pages on their website relating to share scams and other frauds which contain a number of useful hints www.fsa.gov.uk/pages/consumerinformation/scamsandswindles.

You can also check whether the firm that is contacting you is authorised by the FSA, in which case there is a certain element of protection. It also has a list of known unauthorised overseas firms. It may also be worthwhile searching the company through search engines such as Google to see whether other investors have also raised alerts over the company. Finally there is a sense check, does the opportunity sound too good to be true, and if you are primarily invested in safer established "blue chip" shares, is potential investment in a racy small Russian gold mining company appropriate?

If unfortunately your client has already committed money, and £20,000 seems to be a fairly typical amount, then what can you advise them? Firstly they should not send any more money, especially to a foreign bank as they are most unlikely to see their money again. It is probably also inadvisable to arrange to meet anyone involved, as criminals may not only be persuasive but also violent. They should also

be made aware that it is highly likely that they will receive further approaches, probably from firms masquerading under different names. It is quite common for people's details to be added to a "suckers' list" as these firms prey on clients hoping to get their money back. Amongst the approaches may be requirement of payment of a fee upfront, or perhaps another firm offering to buy his worthless shares, again probably involving an upfront fee, or other operators claiming to be able to recover the money.

We also suggest that any suspected fraud is reported to the FSA, there is a special page on their website to do this and also the City of London police, who are coordinating "Operation Archway". However it has to be said that it is extremely unlikely that any money will be recovered.

Apart from being on your guard, there is perhaps one other way of avoiding these types of fraud, which often originate from fraudsters obtaining details from the shareholders register. If instead your investments are held in a nominee company, then it is unlikely that you and your clients will be targeted: a by-product is that this might also reduce the amount of junk mail you receive. Although Thesis primarily provides investment management, we can offer a custody service, holding investments in CREST in our nominee company. Please contact your usual Thesis manager for more information on this - it might just help your clients sleep better at night.

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