TOP 10 INVESTMENT SCAMS AND HOW TO AVOID THEM

Investment scams are fraudulent schemes where people are convinced to invest significant amounts of money—sometimes their entire life savings—only to find that the investment opportunity isn't as it was originally described, or that the company that persuaded them to do so doesn't actually exist.

Financial scams are on the rise and fraudsters are becoming increasingly skilled at conning people out of money. Many scams are now carried out on social media rather than via phone or email, and fraudsters may also have professional-looking websites. The fraudsters themselves often sound very articulate and knowledgeable, and they're not just targeting inexperienced investors. Even the financially savvy can fall victim to these investment scams.

Here are the top 10 investment scams most common today so you know what to look for and can take steps to avoid them.

Pyramid or Ponzi Schemes

These two well-known types of investment scam are fairly similar. In both, a fraudster collects money from new investors and uses it to pay returns to earlier investors. Investors often receive high returns early on, which then convinces them to invest more money. This continues until the pool of new recruits dries up or a number of investors try to withdraw their money simultaneously and the scheme collapses.

The difference between a pyramid and a Ponzi scheme is that the former involves investors being offered the opportunity to make more money by 'recruiting' other people and persuading them to invest too.

Timeshare Scams

Timeshares are shares in holiday accommodation that you can use for a certain amount of time each year. As well as the upfront cost, you also pay annual maintenance fees.

Timeshares have acquired a bad reputation over the years due to scammers convincing people to invest in properties that often don't actually exist or aren't at all as originally advertised. Victims are often trapped in 'contracts in perpetuity' that they seemingly can't exit, paying excessive annual fees, and are unable to sell the share onto someone else.

Advance fee schemes

An advance fee scam can take several forms but essentially involves a very promising-sounding deal that requires an 'advance fee' for you to accept it. You're told to send over this advance payment for the service and that's usually the last you hear from the fraudster, and the last you see of your money.

Advance fee scammers may also target investors who've already lost money in a risky investment, promising to help them recover their losses—again, for an 'advance fee.'

Forex scams

The Foreign Exchange Market allows investors to buy and sell currencies to make money on exchange rate changes and is dominated by large and established banks and so you should be immediately suspicious of ads promoting access to the Forex market, or courses or software helping you to invest. The chances of making any money are very low. Plus, many of these schemes are illegal or fraudulent.

Often you'll receive some returns initially, which will make you think that the scheme is legitimate and convince you to invest more. But then you'll find your account has been suspended and you can't contact the firm.

Forex scams are difficult to police as the companies involved are often not regulated and the case involves multiple jurisdictions.

Overseas scams

Many investment scams involve overseas products such as property or agricultural commodities such as trees and biofuels. Often you'll be told it's a low-risk investment with high guaranteed returns of around 15-25%.

As the FCA doesn't regulate the sale of land, trees, or crops, you won't have access to the Financial Services Compensation Scheme if something goes wrong. Therefore, always seek independent financial advice before investing.

Pension scams

Following pension reforms in 2015 that gave those over 55 easy access to their pension pots, pension scams rocketed.

Pension scammers try to persuade individuals to transfer their pension funds into other investment opportunities—often abroad—and victims can lose their entire life savings *and* suffer a large tax bill from HMRC for having released their pension funds early.

The UK government has banned cold-calling about pensions so if anyone contacts you offering free pension advice, you should be immediately suspicious.

Share scams

This is when fraudsters pretend to be stockbrokers, selling shares that are either worthless or non-existent. They may target investors from old shareholder lists, sometimes claiming to be a hedge fund putting in a takeover offer. Sometimes these scammers will offer to buy people's shares at an inflated price in return for the share certificate.

One common type of share scam is a 'pump and dump' where fraudsters buy a low-priced stock and then spread false information to create a lot of hype and interest, therefore manipulating its price. Once enough people have invested, pushing prices up, the fraudster sells out, 'dumping' their stock, and leaving everyone else with losses as the stock crashes.

Boiler room scams

A 'boiler room' scam is where people are encouraged to invest in various assets or shares—such as land, wine, or art—by companies that are unregulated and unlicensed. They are known as 'boiler room' scams because of the high-pressure tactics that the fraudsters use. They also often operate from small and unprofessional office spaces.

The company will also often be based overseas, as it's illegal for UK-based firms to cold-call investors to sell shares. But they may still have a UK-listed phone number. We run free audits and checks to validate company authenticity please do contact us if you have any doubt.

Cryptocurrency scams

Cryptocurrencies, such as Bitcoin, are digital currencies whose value fluctuates based on demand and supply. Cryptocurrency investment schemes often appear to be endorsed by celebrities and encourage people to pay an initial deposit followed by additional investments. On trying to withdraw their money, victims find the website has been deactivated and they can no longer contact the scammer.

One famous example is OneCoin, a Bulgarian company, which raised around £4 billion from investors between 2014 and 2017 but turned out to be a fraud.

Fixed-rate investments and mini-bond scams

A 'mini-bond' is when an investor lends money to a company and they pay it back at a fixed interest rate over a set period of time. Some mini-bonds are legitimate but they are unregulated and high-risk financial products and therefore prime terrain for scammers. Don't invest in mini-bonds unless you are 100% sure that the firm is legitimate.

How to Protect Yourself from Investment Scammers

Now you know the 10 most common investment scams, here are our top tips on how to avoid falling victim to scammers:

Don't trust the Internet

Many investors now research investment opportunities via Google but this has its risks. The search engine is exempt from UK regulations and many advertisements for investment schemes could be fraudulent.

Similarly, you may be contacted via social media—sometimes from accounts impersonating well-known financial companies. You may even find yourself on a clone website.

Beware unexpected offers

If you're contacted randomly, out of the blue, be immediately suspicious. Scammers often cold-call or send unsolicited emails or letters. Consider installing call blocker technology on your phone.

Look out for warning signs

There are a number of red flags that suggest you might be dealing with a scam, including:

Tight deadlines - you may be told that the offer is only available for a short time. This is to create a sense of urgency that will persuade you to act fast.

Unrealistic returns - guaranteed or unusually high returns are an immediate red flag, even if they appear rather modest at first glance. If it sounds too good to be true, it most likely is.

'Special' treatment - scammers may suggest that this offer is only available to you. They might even ask you not to tell anyone else about the investment opportunity.

No option to call back - usually scammers won't want to share contact details. If they do give you contact details, check to see if it's just a PO Box address. Being given just a mobile number is also a warning sign.

Tranquilitas Free Audit

Let us check a companies authenticity for you. Our team are here to help you.

Get advice

If you get advice from a regulated advisor on a product that later turns out to be a scam, you may be able to make a compensation claim.

Safeguard your information

Use strong passwords, keep evidence of online purchases, and monitor your bank account activity. Don't give out personal information over the phone.

Report scammers.

If you've already given your financial details out, tell your bank or pension provider as soon as possible so they can try to stop the transfer.