

Investment Fraud Factsheet

CHECKFIRST



New forms of investment fraud appear every day. However, most are a variation of one of the following common scams:

Forex Scam

“It seemed like an easy and exciting opportunity. The trader said they had a great track record and their ads looked legitimate.”

Forex, FX or foreign exchange is essentially the trading of foreign currencies. Victims are often solicited through online or newspaper ads and the marketing is typically very aggressive, with an objective to make investors feel that they can easily become Forex experts and make large profits quickly. In reality, Forex trading is a complicated process, requiring professional training and experience with using very advanced software. Forex scams typically guarantee little or no risk and high returns, and use unregistered dealers or brokers based outside of Canada, making it difficult or impossible to recover any losses or deal with a possible dispute. In many cases, the funds are not invested in anything, but simply stolen by the fraudster.

Binary Options Scam

“Trades happen so fast and there are only two options – you either win or you lose.”

Binary options are like bets on how an asset (currency, stock, etc.) will perform in a limited amount of time – they are “all or nothing” wagers, similar to gambling. Even when investors see virtual gains, they often cannot access these profits as they don’t exist. Typically lured in through enticing online ads, emails or social media, binary options trading platforms promote higher than average returns for a small amount of work. Investors are required to create a trading account, supply their credit card and other personal information, and make an initial deposit before they start trading. Investors are often unaware that many of the trading platforms operate from servers overseas; purchasing these options may put any money “invested” at significant risk with limited ability to protect or retrieve funds because they have been sent offshore.

Affinity Fraud

“But, I knew them from my church, so I thought I could trust them.”


This type of investment fraud exploits the trust and friendship that exists in groups of people who have something in common, such as religion or ethnicity communities, social clubs or professional groups. The fraudsters who promote affinity scams frequently are – or pretend to be – members of the group. They often enlist respected leaders (who may be unsuspecting victims) from within the group to spread the word about the scheme, by convincing them that a fraudulent investment is legitimate and worthwhile. The resulting sense of affinity and trust allows fraudsters to more effectively lure their victims into a fraudulent investment.

Ponzi Scheme

“My money was not being put into an investment like I was told, it was being used to pay returns to earlier investors.”


There is a promise of high rates of return with little or no risk to investors. Unknown to the investors, returns are paid from their own money or money paid by new investors, rather than from profit. There is no legitimate investment. This scam will usually pay promised returns to early investors, as long as new investing occurs. These schemes always collapse on themselves as new investments eventually stop and investors can lose some or all of their money.

Pump-and-dump Scheme

 “I bought into a stock based on recommendations that were misleading and exaggerated, but it ended up being just a hype in order to drive the stock price higher.”

The potential investor receives an email or a call promoting or “pumping” an incredible deal on a low-priced stock. What investors may not know is that the promoter likely owns much of this stock. As more investors buy shares, the value of the stock skyrockets. Once the share price hits a peak, the scam promoter sells or “dumps” their own shares and the value of the stock plummets, leaving investors with worthless shares.

Pyramid Scheme

 “I was told that I had to invest a certain amount of money before I would be able to start seeing returns. And, the only way I would get my money back is if I recruited ten new people to invest.”

These scams are based on a hierarchical or “pyramid” structure. Participants actively promote the scheme and try to make money solely by recruiting new participants into the program. Recruiters move up the “pyramid” as new investors buy in. When new participants slow or cease to exist, the scheme loses steam and collapses. To attract new investors, recruiters will guarantee high returns and disguise the scam as legitimate. However, the majority of those who invest in pyramid schemes lose their investment.

Recovery Room/Reload Scheme

 “They said I had an opportunity to make back what I lost and more.”

Once a person has been the target of a scam, they may be targeted again in what is known as a recovery room or reload scam. Based on a study by the Canadian Securities Administrators, approximately 25 per cent of fraud victims are defrauded again. In recovery room schemes, the person who defrauded the individual the first time may keep their information or sell it to another scam artist or criminal organization. After some time has passed, they are contacted again, either by the first scam artist or by someone else. They will offer to buy the shares purchased in the initial scam at an inflated price. In order to receive the money, investors are instructed to first pay a fee for this service/transaction. Once the fee is paid, the scam artist takes the money and runs – the victim has been scammed again.

Don't be a victim of investment fraud

Follow these tips to help protect your money:

- ▶ Don't be afraid to ask questions and make sure they are answered to your satisfaction.
- ▶ Take notes during conversations with salespeople.
- ▶ Beware of high-pressure sales tactics.
- ▶ Take your time to make decisions. Don't allow anyone to rush you.
- ▶ Always seek independent financial advice or consult with a lawyer if you don't understand a document.
- ▶ Never accept a verbal agreement – get it in writing.
- ▶ Don't be drawn in by appearances – fraudsters know the importance of first impressions.
- ▶ Don't trust an investment just because you know a person involved with it.
- ▶ Check registration – in order to sell securities legally in Alberta, an individual or company must be registered with the Alberta Securities Commission (with limited exceptions).