INVESTMENT REPORT
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BRENTHURST
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THE POWER
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IN THIS ISSUE

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IF IT SOUNDS TOO GOOD TO BE TRUE...

FINANCIAL & INVESTMENT FRAUD:
HOW TO SPOT A SCAM & AVOID BECOMING A VICTIM

By Michelle Burger, CFP®

"CONGRATULATIONS: YOU HAVE WON ($1.5 Million USD) IN A LOTTERY PRIZE!!!" Who wouldn't get excited when receiving such a notification in their inbox? After all, it is only human nature for the first response to be one of elation at this incredible stroke of luck! Then one starts to daydream about what can be done with all this money—imagine the houses you could buy, the cars, and the shopping! But then soon after reality kicks in and the realisation arrives that this is most likely a scam, because you would have to ask yourself…when did I enter a foreign lottery, and how would this even be possible?

Unfortunately, it also happens that some people truly believe they have won this imaginary lottery and there are many individuals who end up becoming victims of such scams with the end result being that they lose money that they can barely afford to.

The inspiration for this newsletter came from an actual Brenthurst prospective client meeting. A female client in her late fifty's, well-educated and well-travelled, required advice on how to invest her R1,2 million in winnings from an HSBC lottery. She first needed some assistance in obtaining the money as it was still being held offshore where she needed to pay all kinds of fees and taxes on it. She showed the adviser her carefully filed correspondence with the HSBC bank—all very official-looking and highly believable.

After the Brenthurst adviser tried to explain to her for more than an hour and a half that this was a scam—even showing her articles on the internet clearly indicating this as a scam—this poor lady was still not convinced.

Brenthurst Wealth Management (PTY) LTD FSP No. 7833

Most indignantly offended she left our offices with her telephone-book-sized file never to be seen or heard from again. Either she was not impressed with the harsh reality of the adviser's blatant honesty and wanted a second opinion, or she was furious for falling for such a con and allowing herself to be so manipulated and fooled into thinking that she had actually won such an amount of money.

The one thing she kept repeating was "what if it's true, what if the money is real?" Although we can only speculate, I personally think she went looking for that second opinion and perhaps the big "dawn of reality" is yet to come for her? We sincerely hope its sooner rather than later.

When the adviser in question told me about this incident, I felt empathy for this lady but I was also instantly intrigued. It then prompted me to do a bit of research on the subject matter.

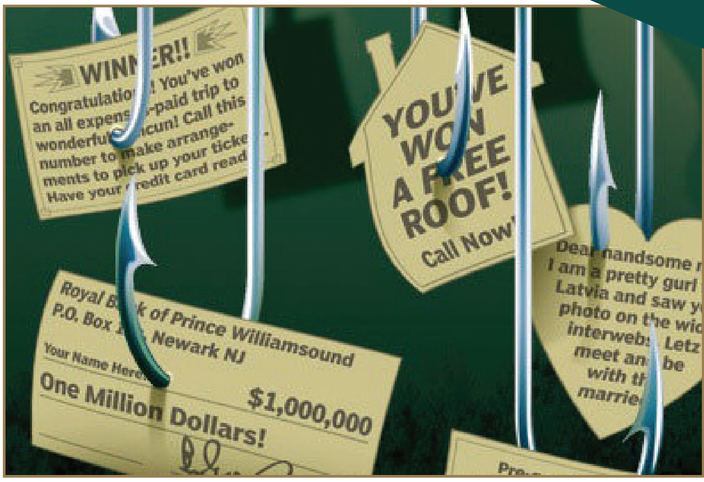
Most young, working, computer-literate individuals are aware of the existence of email and sms scams that plague our inboxes and phones on a daily basis. The sheer amount of information that exists on the internet alone concerning cons, scams, and financial fraud is simply put—overwhelming!

But how many people are actually caught by them? What type of people, demographically speaking, are typically the ones that fall victim to scams and investment fraud?

Surprisingly, research shows that it is **NOT** just retired old ladies with little financial know-how that end up fooled by these things.

A study done by the American Association of Retired Persons (AARP) found that the majority of victims of fraud tend to be wealthier, have more education and tend to be more financially literate.

The losses of investment scams in the United States alone adds up to about $50 billion a year. Where 8 out of 10 consumers are subjected to a potentially fraudulent offer, 11% of those surveyed stated that they lost a "significant amount of money." So it would stand to reason that a lot more people fall victim to scams than one would imagine.



The different variants of the attempts of dishonest members of society to force hard-working people to part ways with their money is in fact shocking.

These include lottery scams, inheritance scams, boiler room scams, advance-fee fraud, phishing for personal information, social media scams, emails from financial institutions with fraudulent links (SARS, your bank), sms messages, telephone scams, fake cheques, employment scams and even romance scams! Not to even mention major international Ponzi schemes such as the Bernie Madoff debacle or the local property syndications like Sharemax or Fidelity.

To cover each and every scam topic would be an exhausting effort, so if you would like more information on any one particular scam, simply "google it" and you should find more than enough material to satisfy your curiosity.

When speaking to people personally, almost every single person I know was able to provide me with an example of a scam either they themselves have been privy to, or someone close to them have been subjected to.

However, my interest lies not in the existence of these scams, but more in the **PSYCHOLOGY AND MENTALITY OF THE VICTIMS OF SUCH SCAMS.**

How do people fall for these things, what are the steps to take to avoid falling for them, and how can we at Brenthurst Wealth Management educate our clients to avoid falling prey to con-artists that seem to become increasingly more skilled at disguising their deviant antics?

I've heard people saying that they believe the internet is at the root of all of this evil, and although internet and emails have certainly made it easier for criminals, it definitely did not start there.

You will be surprised to learn (as was I) that financial scams have been around since the late 19th century. In a scam referred to as the **"SPANISH PRISONER SCAM,"** businessmen were contacted by an individual allegedly trying to smuggle someone connected to a wealthy family out of a prison in Spain where the scammer promised to share money with the victim in exchange for a small amount of money to bribe prison guards. This is what we in modern times refer to as **"ADVANCE FEE FRAUD."** South Africa happens to be listed as one of the countries with a very high incidence of this particular type of scam.

Today, victims may receive an email from what seems like a bank official, attorney's office or something similarly "official-looking" where they require assistance in obtaining the inheritance of either some wealthy individual who passed away without a will, or someone who is a known political prisoner, for example.

All they initially want is your reply to see if you are willing to assist them, and once you do, they suspect that you might be an easy target, so they continue to communicate with you. The next step is to defraud you of small amounts at first, enticing you with the promise of an astronomically high "pay out" at the end of this fictitious "deal"—one example shows a figure of **thirty two million pounds** as the potential prize that you can have the majority share of.

All they ask for is some advance payments to help settle the taxes or expenses they have incurred in securing this money offshore. And once they've managed to secure payment of one amount, they keep at it, emotionally manipulating the victim for more and more money.

The truth is, that large sum of money they promise their victims does not exist but before the victim finally realises it, these criminals have already gotten away with a few hundred thousand—irrespective of the currency—in wire transfers, which are completely untraceable.

By the time the victim realises that there is no massive pay out, they've already handed over a substantial

amount of money and feel too vested in the endeavour to give up—so they keep going, just in case it is real.

When victims start to doubt the scheme, they usually refrain from asking for help or for advice, because it would mean admitting that they have done something foolish and this is almost more emotionally troubling to them than the money they have lost itself.

Another con worth discussing is the Investment or **SHARE SALE FRAUD,** or more notoriously known as **"THE BOILER ROOM"** scam.

I believe educating our clients with respect to this type of scam is particularly important and I personally know of someone who has fallen victim to this.

Boiler room fraud commonly starts with a smooth-talking sales person cold calling its victim in order to sell shares in small, little-known, start-up companies.

IF THE VICTIM DOES DECIDE TO DEAL WITH A SHARE SALE FRAUDSTER, THEY ARE ONLY GUARANTEED TO LOSE ANY MONEY INVESTED AND WILL HAVE NO RECOURSE OR COMPENSATION. IN OTHER WORDS, THE FSB AND THE FAIS OMBUD WILL NOT BE ABLE TO HELP YOU IF YOU LOSE MONEY, AND IN FACT, THE FIRST THING YOU SHOULD ASK TO SEE FROM ANYONE COLD-CALLING YOU FROM AN INVESTMENT COMPANY IS THEIR FSB LICENSE!

This type of fraud is more common in the UK, the USA and Australia, but one should never exclude South Africa as a potential targeted area as English-speaking countries seem to be high on the list of targets.

How it works is they will convince you to buy bogus or vastly overpriced stocks and shares. Once they have managed a sale out of you, they will keep communicating to you that the share is destined to perform very well and they will constantly assure you of vast profits that you will make in the future.

There might be a little "profit taking" where they give you a pay-out, but this is usually only to pacify you, convincing you of their legitimacy. Once you've received some sort of pay-out, they manage to con you into buying more shares, and essentially the victim loses a much greater amount of money.

These types of con artists are persistent, unrelenting, very clever, and highly intelligent—so it would be very easy to become a victim of this type of scam. Research has shown that the victims of boiler room scams are often **SEASONED INVESTORS** who are familiar with the stock-exchange concept, and mostly males over the age of 50. Once again, it's not just uneducated, elderly females that fall prey to scams. Apparently anyone can be a victim!

In order to satisfy my own curiosity as well as my own misbelief that anyone can be fooled, I took a greater look into the "how's" and the "whys" of scams.

Firstly, there is relatively new research that proves that con artists are able to override the parts of our brain that typically alert us when someone or something is not to be trusted.

They do this by tricking the brain into releasing serotonin—the feel good chemical—by boosting the victim's confidence in some way. The chemical basically shuts off your critical senses and makes you feel as if everything is going to be fine and with a bit more convincing and sales-talk, the fraudster is able to make you part ways with your money in no time. But this only counts for personal interaction via telephone or face-to-face contact, what about the email scams? Why and how do people fall for those?

The incident rate of people falling victim to an email scam—whether it be the lottery scam or the inheritance scam or whatever the case may be—is relatively low. These scammers send out millions of emails where they might catch only a handful of individuals at the end of the day. But a handful of people is apparently all they need to survive in order to keep up their unlawful activities.

THESE ARE SOME OF THE REASONS WHY SCAMS ARE SUCCESSFUL

1. PEOPLE CAN BE EMOTIONAL

Emotions play a huge part of our human nature, it makes us who we are. But when it comes to financial decisions, most people use emotions to direct their thought processes and this is where problems arise. When emotions are flooding our brains, there isn't much space for clear and logical thinking. In fact, one should keep emotions out of any decision you make, but that's easier said than done. **By simply being aware of how our emotions control us, we can already avoid making potentially damaging financial decisions.**

2. PEOPLE ARE ATTRACTED TO FINANCIAL GAIN

Our emotions are definitely heightened when we see something we can benefit from financially and we tend to believe the "un-believable" when this happens. Often the victims of scams are having financial problems, coupled with emotional problems, and a promise of a huge pay-out of money speaks to those problems and fuels their greed. People who daydream about a problem-free life, "if only" they could win the lottery, "if only" they had this money promised in the email. There is just one recourse for this type of thinking: **when something seems too good to be true, it usually is.**

3. PEOPLE ARE SCARED OF LOSING OUT

It seems to be an affliction of the Western World where we are constantly reminded to "live in the moment" and to "seize the day" and that "we regret more the things we didn't do than the things we did" etcetera and so forth. So, when this "once-in-a-lifetime" opportunity comes along that seems so irresistible it is almost unbelievable, those mantras starts popping up into our brains.

Scammers and fraudsters also love using phrases that entice us to **"Act now or you may lose out"** or **"this type of opportunity will never come around again, that is why you should take advantage of it without delay".** One often sees this with a Sales scam—for example, they are trying to sell these miracle weight loss pills to you, but you must buy it TODAY because the special is going to end and then you will have to pay full price for it tomorrow. So you don't want to lose out on a promotion where you could save money, do you? This puts pressure on the victim and causes them to lose clarity of thought—another contributing factor to falling prey to a scam. Always think things through—sleep on it for a few nights, do your research, and talk to people. Soon enough, you will realise that there is nothing to lose out on and you will be glad that you didn't dive into a foolish decision.

4. PEOPLE WHO THINK THEY ARE "EXPERTS" ARE MORE VULNERABLE

Studies done at the University of Exeter have shown that when investors see themselves as experts (but are not really experts), they are more vulnerable to a scam because they let their guard down.

If you are a regular buyer of lottery tickets, you probably already have the type of personality that might succumb to a lottery scam. **If you have invested in shares before, you are probably more likely to fall for the boiler room scam, because the fraudsters know what to say to you and they know how to override your brain to get you to invest in their scheme.** Be careful of this pattern of thinking and always plead ignorance when offered any type of deal by always asking a lot of questions.

5. PEOPLE DON'T LIKE TO BACK DOWN FROM A COMMITMENT

Once a victim starts to lose money in an investment scam, they are more likely to keep quiet about it, and will keep going because they worry that the money they have already invested will go to waste in case the deal really is legitimate. They convince themselves to carry on with the process in the hopes that they will eventually reach the promised "goal." **Victims who fall for scams are usually ultra-optimists who really believe these things can pan out in a positive way and its extremely disheartening for them once they find out they have been conned.**

We have seen many clients suffer as a result of investing into property syndicates such as Sharemax and Moneyskills where they have been receiving income for long periods of time but refused to dis-invest when the media started circulating stories of problems with these companies. Unfortunately for so many people it was too late when the bubble finally burst and many folks lost all their life savings.

6. PEOPLE HAVE A TENDENCY TO TRUST AUTHORITY

Scam artists are very clever in the way they send correspondence from "official" stationary and letter heads and official sounding emails such as from SARS or Standard Bank make us immediately feel as if it is our duty to respond or act without delay. This is a type of behaviour that can be modified only through education and communication from the actual legitimate sources, so if you ever question the source of some form of communication—do your own independent research first before proceeding.

A good rule of thumb is to never trust any email where they request personal information such as your ID number, pin code, or banking details.

Never click on any link within an email and if the email looks suspicious, don't even open it—delete it right away!

If you are scared that you might have deleted a legitimate email from SARS, for example, rather get in touch with them via another channel and you will hopefully be reassured that you haven't done anything wrong.

Whether you have fallen for a particular scam or have been convinced by an aggressive sales person to buy something and regretted it later—most of us can probably identify with this topic. Crooks and criminals have been around since the beginning of time and will continue to be around most likely until the end of the world. There probably isn't much we can do about it. But aside from reading articles such as these and becoming more educated on the matter, there are a few things we would like to suggest in order to protect yourself.

HOW TO AVOID BECOMING A POTENTIAL VICTIM OF FRAUD OR A SCAM

TELL SOMEONE ABOUT YOUR SMS/EMAIL OR PHONE CALL INFORMING YOU OF YOUR "WINNINGS" OR POTENTIAL INVESTMENT.

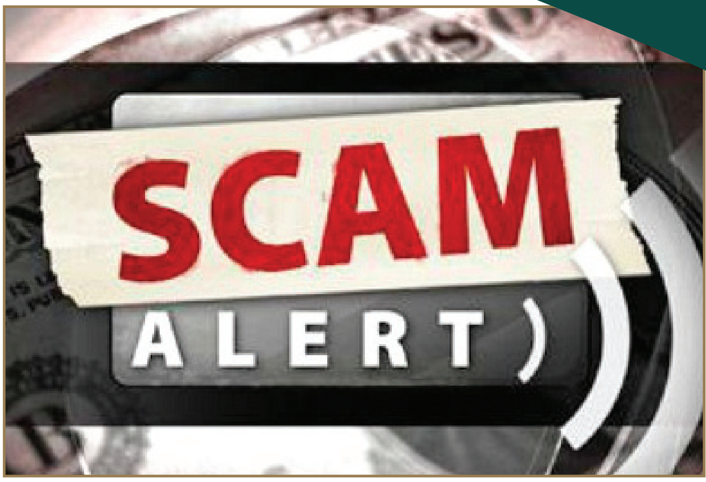
This suggestion might seem obvious, but due to the fact that people can be emotional and greedy, they might keep these things to themselves. You don't want to be in the situation where you've just received notification of the millions you've won, keeping quiet about it whilst resigning from your job, telling your boss off and prancing out of the office because you are now a millionaire and will never have to work again! A simple question posed to your spouse/colleague/neighbour might enlighten you to the fact that they have also "won" the very same prize money last week.

If you are afraid or feel embarrassed to ask someone, why not then do a **QUICK INTERNET SEARCH** on it. See the internet as your friend, not the root of all evil as some people believe. A very quick type into your preferred search engine could very easily assure you of the illegitimacy of this particular type of scam or fraud.

IF YOU HAVE NO ONE TO TELL OR NO INTERNET TO USE, STOP AND THINK ABOUT IT FIRST BEFORE MAKING ANY HASTY EMOTIONALLY-DRIVEN DECISIONS.

Ask yourself a few of these questions: was the approach from the fraudulent perpetrator unsolicited, (which is usually the case)? In other words, did they contact you? Are they promising a potential return that seems unrealistically high versus what other normal investment companies would offer you? Is the email address coming from a strange-looking source, such as a Gmail or a Hotmail account?

If any of these questions are a "yes", this should be your clue that this is not legitimate. If you happen to win some sweepstakes or lottery, ask yourself this very important question: did you enter this competition or buy a ticket?



Lastly, if all other options have been exhausted and you are still not convinced, please have the sense to seek professional assistance. The type of assistance where you initiate the contact with the financial adviser of your choice.

On a parting note, I would like to thank the lady that came to see one of our advisers about her HSBC lottery winnings. I don't know her name—her confidentiality has been protected by the adviser, he only shared a few basic details with me. Perhaps she might come across this article in our newsletter and hopefully this has enlightened her as to the fact that there is unfortunately no R1,2 million sitting in an offshore account, waiting for her to access it with just one more wire transfer to cover the taxes.

As regrettable as the situation may be, the silver lining to the story is that she had the sense to seek independent investment advice and as a result she might have contributed to the prevention of the same thing happening to someone else.

If you find yourself in a similar situation either at present or in the future, please take our advice and always remember, if it sounds too good to be true, it usually is!

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"STATE OF THE NATION"

CPT: **23 JUNE 2014**
JHB: **25 JUNE 2014**
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MAGNUS HEYSTEK INVESTMENT STRATEGIST, BRENTHURST

WILL BE PRESENTING THE FOLLOWING TOPICS:

SOUTH AFRICA AFTER THE ELECTIONS - WHAT NOW?

THE 2014 ELECTION IS OVER AND THE RESULTS ARE IN.

The ANC & Jacob Zuma have been given another mandate to rule the country until 2019. What now?

- Will the new Zuma administration be more effective than the last?
- Will the election promises of cleaner government and better service delivery be realised?
- Will the international business community like what they see?
- Is this the end of the road for Cope and Inkatha?
- How will these elections shape our economic policy?

If you are a decision maker or have any concerns regarding the direction that South Africa is taking, then these countrywide seminars "STATE OF THE NATION" are not to be missed.

BOOKING IS ESSENTIAL TO SECURE YOUR SEATING: LIMITED SEATING!
Non-clients: subject to availability!

CAPE TOWN SEMINAR: 23 JUNE 2014

TIME: 16h00 to 17h45
VENUE: Mount Nelson Hotel (The Garden Room), 76 Orange Street, Cape Town
RSVP: +27 21 914 9646 or ronelle@brenthurstwealth.co.za

JOHANNESBURG SEMINAR: 25 JUNE 2014

TIME: 16h00 to 17h45
VENUE: Michelangelo Hotel (Il Paviglione; 10th Floor), 135 West Street, Nelson Mandela Square, Sandton
RSVP: +27 11 799 8100 or reception@brenthurstwealth.co.za

PRETORIA SEMINAR: 26 JUNE 2014

TIME: 16h00 - 17h45
VENUE: Villa Sterne Boutique Hotel, 212 Johann Rissik Drive, Waterkloof Ridge, Pretoria
RSVP: +27 12 347 8240 or magda@brenthurstwealth.co.za

BRENTHURST WEALTH
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Brenthurst Wealth Management (PTY) Ltd is a registered financial services provider and is a fully-fledged financial and investment services company with offices in Johannesburg, Pretoria and Cape Town.

All our Financial Planners are CFP® Professionals and members of the Financial Planning Institute of Southern Africa. They are highly qualified to give advice on all investment matters.

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