

Dr Wise is a fictitious character. Through his column, he talks to investors about the key issues of investing and regulatory thoughts.

## Boiler rooms - don't be a victim

I read recently that a British stockbroker was jailed for laundering \$680 million generated from a boiler-room scam based in Spain. Boiler rooms were first found operating out of basements (boiler rooms) or other low-rent premises around 20 years ago and are not new forms of fraud. However, this recent news shows that these classic frauds still work. I think I need to remind investors yet again to be vigilant against investment scams, many of which occur across borders.

This particular British stockbroker, who claimed to represent an investment advisory firm, conned investors in the United Kingdom into buying shares in a number of high-risk companies registered in the United States. Through a combination of cold calls, e-mails and high-pressure sales techniques – classic tactics of a boiler-room scam – the victims were persuaded to buy what were purported to be shares in US companies. The victims, aged 52 to 83, were asked to deposit money into the broker's bank accounts in Hong Kong but when they tried to sell these shares later, they were unable to do so.

### How people get tricked

Now you may think that you are too sophisticated to have this happen to you and that scams of this nature only happen to inexperienced or naïve investors. However, the fact is that victims very often include educated, middle-aged professionals and experienced investors, as was the case with this scam. To fraudsters, educated professionals hold a certain appeal; they have the money, are too busy to do any research, and are open-minded about investing.

Here are some interesting figures on boiler rooms to share with you. According to a 2004 survey of victims of boiler-room scams, commissioned by the British Financial Services Authority (FSA), the majority were male with 30% being professionals or company directors. In a 2006 FSA survey of boiler-room victims, most were found to be experienced investors with 41% having been investing for over 11 years.

Perhaps even more surprising is that some people get tricked by fraudsters twice. You may ask how on earth this could happen since they should have learned their lesson the first time. However, the underlying reason is often the desire to recover losses from the previous scam. The more anxious these victims are, the more vulnerable they become, resulting in some being taken in again by the same scam operation, which poses as another party offering help.



## Key Messages

- Inexperienced investors are not the only victims of scams; boiler rooms often target well-educated, experienced professionals who have money to invest.
- Investors should beware of all unsolicited offers to invest.
- The best protection against scams is to stay alert, look for warning signs and just say no!
- If you report suspicious activities to the appropriate authorities, you may help prevent scams defrauding others.

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The existence of a contact list, a so-called “suckers” list, also makes it easier for people to be approached twice. People who have become victims of a scam often have their contact details placed on a “suckers” list, which can be used again by the same scam operator or distributed or sold among other fraudsters. Once you have become a victim, it is likely that you will make it onto a list.

Investors should note that while the methods follow a similar pattern the “investment opportunities” are not always the same. Instead of selling shares in overseas companies, which is so typical in a boiler-room scam, fraudsters may also sell shares in companies based locally to make the scam seem more plausible. One possible scenario is where a boiler room approaches a small local company and proposes to sell its shares to investors for a commission. At the same time, the fraudster cold-calls and persuades investors to buy shares in that company at an inflated price. The fraudster takes the money from both parties and then disappears! In other cases, the fraudsters will “hook” the victim by arranging for the first small investment to turn out well, tricking the investor into letting down their guard and then investing more money with the fraudster.

### **Protect yourself from being duped**

Staying vigilant is the best way to protect yourself against scams. If you receive unsolicited calls or emails watch out for the following warning signs:

- The caller is excessively friendly and asks for personal details.
- A “call centre” buzz sounds in the background.
- You are given a sense of exclusivity, as if you are one of few preferred clients.
- You are asked to act quickly or miss the chance to make big gains.
- You need to make payments directly to an overseas bank account immediately.
- You receive an email with a subject line about some other topic or a false chunk of text, such as poetry, which is designed to slip through spam filters.
- The opportunity sounds too good to be true!

If you receive any unsolicited offer of investing opportunities, you should always ask why. If it is such a golden opportunity, why isn't the rest of Hong Kong investing? Why are they offering it to you? How did they get your contact information? What is it that they really want from you? Also, never rely solely on websites and information provided by the caller; instead, make use of independent sources such as the alert list [hyperlink] of the Securities and Futures Commission (SFC) and those of overseas regulators, to verify the authenticity of the firms and products you are offered.

The case I referred to above was discovered after an investor reported it to the Hong Kong authorities. The perpetrator was subsequently arrested following cooperation between the Hong Kong and British authorities. Boiler room frauds are particularly difficult to prosecute given the cross-border nature of their operations and it is important that any suspicious investment offers are reported promptly to the appropriate regulators, with as much information as possible. If you suspect that you have been approached by a scam operation please report this to the SFC as soon as possible.

A scam doesn't need to be a classic boiler room operation, they come in many shapes and forms. Stay alert, look for the warning signs and just say no!

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The Dr Wise Column is posted under the “Dr Wise” section of the SFC's InvestEd website at <http://www.InvestEd.hk>.

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