Dodgy spruikers still playing same games

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I've recently been reading about a failed investment scheme. What struck me was that I recall hearing about the same types of schemes nearly 30 years ago when I first started working in financial services.

The schemes never seem to change much but what also never changes is the terrible damage that they do to people's lives. Money is only money but lost money is really the loss of the countless hours that it took to earn it and the loss of all the things that it could have been used for.

In an effort to prevent another 30 years of losses and heartache, here are the things that you must look out for so that you don't end up investing in one of these schemes.

The first thing is that they will be promoted by someone who does not hold an Australian Financial Services Licence. A person who provides advice about financial products or who deals in them must hold an AFSL. A person who does these things without holding an AFSL is breaking the law.

You wouldn't want a medical procedure performed on you by someone who wasn't a doctor. It's the same for financial advice.

There are thousands upon thousands of licensed financial advisers in Australia, many of whom are backed by the resources of big international corporations. It is simply ridiculous to believe that a person who isn't even licensed will be able give you better advice than a licensed professional adviser.

If someone wants you to allow them to invest money for you, check on ASIC's website to see if they hold an AFSL. If they don't, ignore what they have to say.

The second is that the scheme will involve trading in some exotic financial product such as foreign exchange or derivatives over commodities like coffee. The trading will usually be conducted on some overseas market and involve strange-sounding documents that no one has ever heard of.

The same factors that cause people to make or lose money operate overseas in the same way that they do in Australia. There is no reason to believe that it will be any easier to make money trading in derivatives over Guatemalan coffee beans than it is to make money trading in Australian shares.

The third is that the scheme will offer high returns and no risk of capital loss. The only investment that has no risk of capital loss is a bank deposit, and even bank deposits are only guaranteed by the government up to $250,000.

All other investments have a risk of capital loss. Anybody who tells you otherwise is lying.

It is very difficult to achieve high returns. Investment advisers with decades of experience with access to very sophisticated trading systems and information are unable to do so consistently. Believing that an amateur trading in complex financial markets on overseas markets will do better than a professional licensed adviser is like believing that an amateur tennis player can win Wimbledon in the professional era. It never happens. The fourth is that the scheme will pool money from a number of investors. The legal pooling of money involves very strict requirements that will not be complied with by the investment scheme. Those requirements are put in place for a number of very good reasons, not least of which is to make sure that investor funds are properly accounted for.

If you invest in one of these schemes, what you are actually doing is giving your money to an incompetent person who is committing multiple criminal offences before they have even started losing your money.

On the topic of losing money, these schemes are usually Ponzi schemes. At the start of the scheme it seems like returns are being paid and capital is being returned to investors. What is actually happening is that money is being lost and probably stolen. This is covered up by using one investor's money to pay the returns promised to be paid to another investor.

The scheme comes to an end when the money from new investors runs out.

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