



Commission
des valeurs mobilières
du Québec

Don't take the **bait!**

ADVICE FOR SENIORS ON HOW TO AVOID FRAUD



KEEP A CLOSE EYE ON THINGS

Prevention is the best way to protect yourself from illegal activities or fraud

Here are some tips to prevent potential problems:

- Educate yourself about the warning signs of fraud.
- Know what to look for and what to avoid.
- Don't allow yourself to be drawn in by amazing promises – don't allow your emotions to take control of your savings.

Protect your hard-earned money

Many investment scams are made to seem complex. Fraud artists will assume their victims will not understand and will make themselves sound like experts. Here are ten tips to help protect you and your money:

- Before doing business with a brokerage firm or a securities representative, verify whether or not they are registered with your provincial securities regulator.
- Don't ever be afraid to ask questions to the professional with whom you are doing business and take notes every time you are in contact with someone, including the name of the person with whom you spoke, the date and time.

- If your representative intimidates or pressures you, look for one with whom you are more comfortable.
- Don't assume that the person with whom you are dealing is an "expert".
- Always get a second, independent opinion.
- Always make sure that you get written documentation – never accept a verbal contract.
- Never sign anything before reading it carefully.
- If you don't understand what is written, refer it to a lawyer.
- Don't allow anyone to rush your decision making process.
- Don't be drawn in by a well-dressed, confident salesperson – fraud artists are very aware of the importance of first impressions.

What should I watch out for?

- Any financial transaction performed in your account without your consent;
- Transactions for which you have no record;
- Someone who promises or guarantees you a high return or a future price;
- Someone who suggests that an investment will eventually be listed on a stock exchange;
- Back-dated purchase orders;
- Anyone asking you to pre-sign blank forms or proxies;
- Guarantees of any kind or promises to refund purchase price;
- Failure to provide a prospectus;
- Secretive behaviour or requests for silence.

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Cover your assets



Mr. and Mrs. Piché are a retired couple and are typically very conservative investors. One evening over coffee, friends of theirs, the Beaubiens, told them about a great investment opportunity where they could invest in an off-shore, tax-sheltered venture that could provide them with a return in excess of 50% per year! It was, however, a secret.

Shortly thereafter, the Pichés met with Sylvain, a securities representative, who made them promise not to tell anyone, not even their banker, lawyer, or accountant about this investment!

He told them that this opportunity was usually open only to large international banks, but they could “get in on it”. He also told them that the Beaubiens had already earned a return of 6% after the first month!

The Pichés were impressed and invested the minimum amount. In short order they received a cheque for the current interest earned on their investment.

Why are you, as Seniors, frequently targets for fraud?



They did not need any further convincing: they cashed in some of their low risk investments and invested much more in this "great" opportunity.

A week later, they received another cheque.

Time passed, and the Pichés did not receive any more cheques. They called their friends, who had not received any more cheques either. They called Sylvain, the securities representative, and he told them that their cheque was on its way.

Still more time passed, and when the Pichés and Beaubiens tried to contact Sylvain again, they found his telephone had been disconnected. They therefore called their provincial securities regulator, which decided to look into the matter.

Following an investigation, they found out that Sylvain had taken almost seven million dollars from more than 500 people. None of these people ever received their original investment back, let alone the fantastic returns that were promised.

The Pichés and the Beaubiens had become victims of securities fraud.

Your lifestyle may increase your chances of being approached by a fraud artist. Do any of the following describe you?

- You are often home to answer the phone or the door.
- You are involved in community or interest groups (associations, clubs, churches, etc.).
- You are alone during the day.
- You have health-related difficulties that have increased your reliance on others.
- You are dissatisfied with interest rates or returns on your current investments.

Scam artists may use the situations listed above to take advantage of you by gaining your trust to steal your money.

Fraud artists have no conscience and will engage in illegal activity to get at your money. They can be very convincing and will take advantage of individuals who lack investment knowledge as well as those who are well-informed. These scam artists will often use technology to their advantage.

Every year in Canada, thousands of well-meaning investors become victimized by illegal schemes involving billions of dollars.



An issue of TRUST

This brochure will help you recognize illegal investment schemes and learn how to protect your finances from various types of fraud.

An issue of TRUST

Many seniors grew up in an environment of mutual trust and respect for their friends and co-workers. Often, a handshake was good enough to settle a deal and a person's word was all you needed.

In most cases, people who wish to take advantage of you will attempt to gain your trust.

As in the case of the Pichés, con artists sometimes approach you through your friends or through members of various affinity groups that you belong to (these groups are organized around a common interest such as sports, hobbies, religion, or various social groups).

Once a con artist has established credibility with his or her new "friends" or with members of these groups, they will ask them to become involved in an investment scheme, usually a very secretive one.

An attractive offer

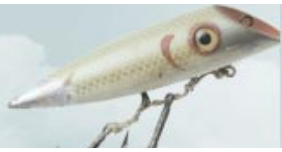
Con artists will often take advantage of anti-tax or anti-government sentiments held by potential investors. They will offer potential investors the possibility of avoiding paying tax by investing their money outside of Canada where the government won't be able to touch it.

The scheme will usually offer very attractive rates of return – as high as 2% per week, or up to 300% per year. However, the promoter will usually ask potential investor not to tell anyone about the venture – especially lawyers, accountants, bankers, or government representatives.

Be aware that any illegal investments that you make to avoid having to pay taxes may actually end up costing you your entire investment.

Quick results

It is very common for investors like the Pichés and the Beaubiens to receive a payment from the scam organizer within a short period of time. After being given the chance to develop some confidence in the promoter and the investment, the investor will be asked to make a further contribution so they can enjoy the same percentage return on a larger investment.



Don't be lured into a bad situation

Where does the money come from?

Illegal schemes are based on having a number of investors.

A fraud operator will use money from later investors to pay the returns of earlier investors.

In the case of the Pichés and Beaubiens, the returns they received came from people who invested after they did. By continuing in this way, scam artists can pay handsome returns to investors while keeping the majority of invested money for themselves.

Sometimes scam artists will actually pay their victims back with their own money and call it “a return”. In many cases, there is no actual investment product! This type of investment is often called a “sales pyramid”.

Disappearing act

After the scam artist has received a substantial amount of money from an investor, the returns usually stop, and often, the person who sold the product will magically disappear – no matter how well the investor might have known the person.

The Attractiveness of membership

There is a certain satisfaction in investing in a secret product that will make you richer. It gives you the feeling of being one of the privileged few. It seems that the “confidential” nature of these investments makes you want to believe even more in their potential return. Since you've just found a gold mine and want to take full advantage of it, it doesn't occur to you to tell anyone about this good news for fear of being responsible for the collapse of the entire investment opportunity.

If it sounds too good to be true... beware!

If in doubt about an investment, a firm or a representative, contact your provincial securities regulator.



A piece of advice: be careful

What will your representative ask you?

Any conscientious professional will ask you the following information in order to get to know you better:

- Age
- Investment objectives
- Annual income and net worth
- Occupation
- Tolerance for risk
- Your knowledge and experience with investments

Always ask your advisor to explain how an investment is suitable for you based on the above information.

How to ask for information or lodge a complaint

1. Contact your representative: he or she should be able to answer your question
2. Contact the supervisor, compliance officer, or manager of your finance professional.
3. Contact your provincial securities regulator.

What information do you need to provide when lodging a complaint?

- Your name (as account holder);
- Your account number;
- Your representative's name;
- Chronological list of events (names of persons with whom you spoke, dates & times);
- Copies of documents (statements, letters, forms, applications);
- A description of how you want the company to rectify the situation;
- The date that you expect to hear back from them.

It is always a good idea to keep track of the above information in writing. It is important to specify that, generally speaking, the securities regulator can take administrative or penal measures against any individuals or legal persons involved if it deems that a breach has been committed in your file. However, these measures do not generally result in you being compensated for any monetary damages incurred.

If you believe that you have incurred losses, you may also be able to pursue legal remedies before the civil courts. You may consult a lawyer to determine what is most suitable to your situation.



Beware of the following scams!

Prime bank instrument fraud

Fraud artists will promise you high returns if you invest in the securities of the world's most prestigious banks. However, they will insist that you maintain the secret nature of the investment.

Unlicensed individuals selling securities

Before doing business with a representative, call your provincial securities regulator to verify that he or she is in fact registered. The representative's registration category determines the products that he or she can sell.

Investment Seminars

The person holding the seminar is often the only one getting rich by charging admission fees, and selling tapes or books. They are often advertised in newspapers, on the radio, or television.

Telemarketing fraud

You sometimes receive telephone calls from high-pressure sales specialists who solicit you to invest in non-existent ventures that offer very high returns. Never invest in anything over the telephone, especially if you didn't place the call.

Affinity fraud

Groups with common interests (friends, work colleagues, ethnic groups, clubs, associations, religious groups, etc.) are often targeted by scammers. It is often easier to trust someone who is like you or has similar interests as you do.

Pyramid/Ponzi Schemes

These schemes promise you high returns. As a participant, you are encouraged to bring in new investors, but the only people who make money are the people who started these schemes. Money from previous investors is used to pay new investors.

Internet fraud

Fraud artists will take advantage of the anonymity of the internet to promote stocks, and other types of "investments" that often involve pyramid schemes. Ignore any investment opportunities or "tips" that you obtain from the internet.

Promissory notes

Often sold as an insurance product, these short-term loans promise you high returns – at no risk. However, the companies offering the "investments" are often non-existent.

Callable CDs (Certificates of deposit)

Designed to mature in 10 or 20 years, these securities are issued by entities other than banks and they allow the company in which you invested – but not you – to redeem them at any time, which could potentially result in you incurring considerable losses.

Viatical settlements

Only legal in some provinces, these schemes are designed to help the terminally ill pay their bills. A terminally ill person agrees to sell the death benefits of their life insurance policies, at a

discounted rate, for cash. As an investor, you become the beneficiary, which gives you a share of the death benefits when the insured dies. These investments are very risky and often fraudulent.

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Alberta Securities Commission

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