

PONZI SCHEME: HOW TO AVOID A SIMILAR FATE.

What a terrifying time for investors! As if the financial crisis of 2008 was not enough, they now have to face companies operating deposit schemes on the market outside the regulatory system framework. The alleged Ponzi scheme stands as an example of how our regulators have failed to protect the best interests of consumers and that of registered financial companies and advisors.

Market volatility and low returns have created the breeding ground for desperate investors looking for the promise of profits in very short time. The recent report of financial fraud through the Ponzi schemes, and misused funds are popping up all over the island, thus creating an atmosphere of insecurity. Clients are being driven towards a belief that investing is rigged and the future is dark. I feel a blow every time a swindler, calling himself a financial advisor, takes investors' money with the promise of a fat return but who instead spends the proceeds, thus causing an unavoidable skepticism among prospective clients towards genuine and honest advisors. Many investors have unfortunately fallen prey to such schemes and they now find themselves with a sword of Damocles hanging over their heads, menacing to fall at any moment! It is indeed very sad for those investors who have had all their savings almost wiped out in this scheme.

But how are consumers supposed to find a financial advisor they can trust? If such feelings of mistrust towards financial advisors persist, then I really have deep apprehensions for the future of our business. So, these are a few tips that I hope, will help you avoid investing in fraudulent schemes in future.

- **Diversification:** No matter how big or how small your portfolio, you DO NOT want to have all your eggs in one basket. Sure, it might be the best fund in the world, the biggest opportunity, but fraud, trading problems, strategy backfires, etc happen and there is no excuse for having everything invested the same way.
- **Check things yourself:** No matter how much you dislike finance and the whole investment field, everyone should spend some time every month looking at what is going on. You may have a financial advisor that does most of the work, but you should still be able to question the moves made and the investments you hold. Financial matters are too important to completely ignore or to trust someone else 100%.
- **Unlicensed Companies:** Under the Financial Services Act, all investment professionals and their firms must be licensed or registered. Moreover, advisors and salespersons are issued with a license which is renewed on a yearly basis.

- **High investment returns with no risk:** Usually there is a positive relationship between risk and return and schemes that promise high returns with low risk need to be looked at suspiciously. If anyone shows you great returns years after years and promises you the milk, the cow and the farmer' smile at the same time, walk away! Forget about the finance gurus and get back to the basic: a good asset allocation, periodic investment and keep up with the same strategy no matter what happens!
- **Overly consistent returns:** Investment returns usually follow the business cycle. Returns are up when the economy is booming, and down in a recession. Investments that promise to pay the same return irrespective of business cycles are often a key feature of Ponzi schemes.
- **Secretive strategy:** Ponzi schemes usually do not publish detailed information about their investments to clients. They are referred to as "blind pools" wherein investors do not know exactly how their money is invested.
- **Issues with paperwork:** Ponzi schemes usually do not send regular performance statements or reports on clients' investments.
- **Difficulty receiving payments:** Ponzi perpetrators usually encourage investors to roll over their high returns and increase their investment holdings. Investors attempting to cash out their investments are more likely to face difficulties obtaining cash back. Ponzi perpetrators will encourage investors who want to cash out their investment to do so gradually or not at all.

The regulators have warned investors to be careful about investment proposals that promise to pay exorbitant return in a short period of time and that are not accompanied by prospectuses, annual reports, past investment performances, quotations and conditions in writing. Furthermore, through press communiqué, the population is now aware of companies authorized to deal with investments.

But it is a fact that for some time from now, investors will either hoard their money, avoiding financial advice altogether or take such a conservative approach that inflation will eat their savings. I think that the only answer to scandal and the future health of the finance industry may be time.

The Ponzi scheme will certainly not be forgotten so soon by both investors and financial advisors. However, by keeping the client first, providing references, answering questions, and establishing a process, we can restore back the trust in our industry. Indeed, one thing the Ponzi scheme has confirmed is that people have the money and are willing to invest. It's up to us now to find the correct argument.

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