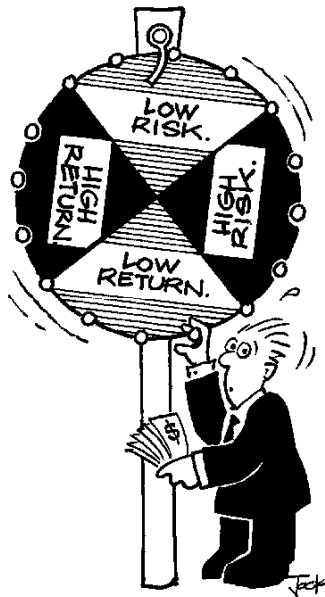




National Information Centre on  
Retirement Investments Inc.

# Safety, Risk & Scams



[www.nicri.org.au](http://www.nicri.org.au)

<http://moneymap.nicri.org.au>

# Safety When Investing

When choosing investments, the most important considerations should be safety, time frames and security of the products. While the level of security investors are comfortable with can vary from person to person, it is imperative to research thoroughly before making decisions.

An investor must be confident about the organisations through which the investments are made or, in the case of direct investments, the assets being purchased.

There are five asset classes in which investments can be made. The time the investments should usually be held to minimise the probability of financial loss varies with the type of investment used.

As a general rule the following time frames can be suited to investments with the described volatility:

- short time frame - (up to 3 years), conservative low volatility investments are suitable (e.g term deposits, bonds, high interest on-line bank accounts);
- medium time frame - (3 to 5 years), conservative low volatility investments together with a small amount of growth oriented investments are generally suitable (e.g term deposits, listed property trusts, shares in long standing sound public companies);
- long time frame - (5 years and longer), a diversified portfolio is more likely to produce a strong result, as the impact of short term fluctuations in value are averaged out. To minimise the probability of initial costs not being recouped growth investments are generally held for at least 5 to 7 years (e.g residential property, property trusts, Australian and international shares).

Different investments have characteristics that suit different time frames and individual objectives. Listed are the main investment sectors (asset classes) and the typical characteristics they carry.

## Cash

The cash sector comprises products with underlying assets in the fixed interest market and investment time frames that are short. They are considered low risk and can produce dependable income. They have no likelihood of capital growth and potential of capital loss is low. On-call accounts, cash management accounts/trusts and Bank Bills are typical products in this sector.

## Fixed Interest

Within this sector there are a number of investment options, which differ in their yield, security and flexibility. Commonly, fixed interest is used to provide a higher level of security and a strong income stream, with little potential for any significant capital growth. Again, the underlying assets are in the fixed interest market but have a longer duration.

Common options in this sector are government bonds, mortgage trusts, fixed term deposits and debentures. International fixed interest bonds may also form part of the asset allocation in various managed funds.

## Property

The property sector is traditionally considered by many to offer risk averse investors reliable capital growth over the medium to long term. Despite this often being the case, property investments can also be subject to volatility and, as a result, capital loss. It can also offer regular income and can be accessed either directly or via indirect investments such as listed or unlisted property trusts. Market and economic conditions can influence performance.

## Australian Shares

The Australian share market historically offers opportunity for strong capital growth over the medium to long term. It is, however, volatile and losses can occur if assets have to be sold when the market is down.

Investors should be prepared to maintain a long term balanced view in the face of extreme short term fluctuations in the market. The market can be accessed directly or via indirect investments such as unit trusts.

## **International Shares**

International shares, like Australian shares offer the opportunity for long term capital growth. Investing offshore offers greater diversity due to access to larger markets. They can also be highly volatile in the short term and are therefore considered a long term investment. International shares are subject to other risk factors such as currency fluctuations that can affect the risk/return equation.

## **Needs and Objectives**

Investors should prioritise their needs and objectives so that they can choose investments with characteristics that can best achieve them. Needs and objectives that are important to consider and prioritise include:

- Security of capital
- Ability to generate income
- Protection from the impact of inflation
- Flexibility
- Tax effectiveness
- Access to Government Income Support
- Lifestyle
- Ease of investment management.

At the end of the day all these objectives should be considered and the investor should be comfortable with their investment decision. To assist in determining if investors are comfortable with their investments they need to gauge their risk profile and understand the possible risks that can affect various investments.

There are many ways to determine a person's risk profile or investment comfort level. Most are done by answering a questionnaire that is scored or rated. The questions revolve around what the investor wants to achieve from the investment and how comfortable they would be if the investment experienced one or more negative returns over the duration of the investment. NICRI has developed an online risk profiler that can be accessed at <http://moneymap.nicri.org.au>.

With any investment, there are many different types of risk, not just loss of capital. It is important to understand how these risks may impact the strategy being considered.

## **Main investment risks and typical characteristics**

### **Financial Markets Risk:**

Markets are volatile and the value of investments may fall as well as rise. All investments (other than cash) can decline in value during adverse market conditions. This is particularly the case in the share and property markets.

For example the Australian stock market has been volatile and over the past twenty years has had some significant lows but has outperformed other asset classes over this period. A movement in the market price of an investment does not necessarily mean the investment is suddenly good or bad.

## Liquidity Risk:

Liquidity risk is where the investment may not easily be converted to cash, withdrawn or 'cashed in' without loss or penalty when access to the funds is required. For example, a condition of release may need to be satisfied to access superannuation, a penalty applied if a fixed term investment is accessed or shares are required to be sold at a loss to satisfy a cash requirement.

Generally, when dealing with one of the major fund managers, this risk is reduced. However, if the investment is with a relatively unknown manager or organisation, further research is suggested before investing.

To minimise the risk of fraud or other illegal activity all paperwork and documentation e.g prospectuses/product disclosure statements should be checked carefully and understood before being signed. Investors should ensure that they receive acknowledgement of investments from the organisations concerned within a reasonable time.

Deal only with staff of product providers who hold an Australian Financial Services (AFS) Licence or are authorised representatives of licensees. Investors can check on an organisation's licence by visiting the Australian Securities & Investments Commission's (ASIC) consumer website, [www.fido.gov.au](http://www.fido.gov.au), or by telephoning 1300 300 630. After completing the necessary investigations a good rule of thumb to follow is 'if in doubt ask more questions, if still in doubt then don't invest'.

Special care should be taken when making investments 'on-line'. Often people accept the terms and conditions without reading and understanding them.

## Scams, Schemes, Fraud and Dodgy Dealings

Many consumers lose money each year to dodgy investments or 'get rich quick' schemes that promise everything and deliver nothing. Often, the lure of making a lot of money can cloud a consumer's judgement when considering investment opportunities. Scam artists are continually coming up with new ways to lure consumers into giving up their money, some reinventing old scams but having the same result of the consumer losing out.

Careful planning goes into marketing and presenting these scams and they are designed to touch the emotional desires of consumers. They may offer a 'free gift', a 'one off favour that is available to no-one else' or a 'special discount if bought now'. Documentation can also be presented in a fashion that looks legitimate, often with glossy images of luxury cars and homes that seem okay on the surface, but an in depth look may reveal little detail on the investment and who is offering it. Some scams even offer testimonials given by so-called investors saying how 'wonderful the investment is' or that 'they made lots of money' and would 'recommend it to anyone'. Again it comes back to that old saying

'If it sounds too good to be true it probably is'.

There have been many scams where consumers have lost money such as:

- **Dodgy lottery schemes** – the sale of tickets to lottery schemes that are not registered and have no prizes (often overseas lotteries);
- **Gambling systems that guarantee success** – these can include a book subscription or computer programs that promise success in picking winning race horses, lottery numbers or share prices;
- **Offers from people claiming to have special or psychic powers** – claims that they can offer wealth, love, happiness or health by paying fees, subscriptions or calling expensive phone numbers;
- **Pyramid Schemes** – these can operate in a number of ways but the principal idea is that an operator recruits people who pay a fee or payment of some kind and then they recruit more

people who also pay a fee, the majority of which is passed up the line to the original operator. The more people recruited the more money is made by the operator often with little chance of anyone else making money;

- **The offer of free prizes by calling certain phone numbers or attending seminars** – prizes or gifts offered if certain numbers are called or seminars attended, where pressure is applied to sign up for questionable investments;
- **Cash payments offered from overseas if certain instructions are followed** – when promises of large amounts of cash are paid to the caller if bank/credit card details and/or payments are provided (eg; Nigerian Scam);
- **Requests to update or provide bank account details** – letters or emails received asking for account details or updated financial information;
- **Bogus charities** – requests for donations to charities that do not exist or by people claiming they are from a legitimate charity but they pocket the donations;
- **Financial scams** – offers to invest in schemes that provide high returns from an unknown source, often overseas. This can also include emails and letters sent to thousands of consumers suggesting they buy shares in a company resulting in the share price being pushed up. The operator then sells the shares they hold at the higher price leaving investors with shares of little value. A common term for this is ‘ramping’;
- **Potions and lotions** – scammers that often prey on the sick and vulnerable offering magic cures, weight loss, increased vitality or intelligence. Unlike legitimate alternative medicine there are no results or proof showing that they actually work although they are often marketed as alternative medicine;
- **Offers to buy shares** – Letters sent to shareholders offering to buy their share holdings at vastly reduced prices. This practice is not illegal but is considered to be morally improper as it is often the elderly or uninformed that agree to sell the shares without researching or understanding the consequences. The offer is usually on an official looking document which adds to the authenticity of it being a genuine offer. It has seen many investors agree to sell their shares at, in some cases, about 50% or less of the actual value and often with the payment being in instalments over a long period of time. It also means that the investor misses out on future gains and dividends.

The examples given are not an exhaustive list.

The most prudent action to take when there is any doubt at all about the investment or purchase is to not be pressured into anything, don't let emotions override the decision, and be confident to say no. Even if the offer is genuine, if there is any doubt, it is better to say no at first so the opportunity is taken to understand and be comfortable with the offer before making a decision. Legitimate financial service providers will not demand an answer immediately.

### **Some tips to help protect against being a victim of a scam or dodgy scheme**

- Ignore and delete emails, letters and chain mail offering lump sum payments or get rich quick offers.
- Take the time to examine the offer carefully and do not commit to anything until fully satisfied with its validity. Check with NICRI, visit ASIC's FIDO website or contact your state's Office of Fair Trading if in doubt.
- Ask for identification of people offering an investment or requesting payments or donations.
- Ask for proof that the business or charity is registered and that the person is employed or registered with them.
- Don't accept testimonials without proof they are real as they can often be made up or dressed up to look good.

- Ask if there is a cooling off period and how easily the investment can be redeemed.
- Don't accept offers from unknown sources over the phone. Ask how they got your details and refuse to commit to anything as verbal agreements often can be enforced legally.
- Ask for details of all costs, fees and payments that are involved in the offer or request.
- Requests by letter or email for banking details and money (eg. Nigerian Scam) should be reported to ASIC and/or ACCC.

**'The Higher the Return, the Higher the Risk'.**

This is an important investment principle. Managing the level of risk is a vital part of investing. There is no investment without some risk and this includes depositing money in the bank.

Always check potential risks when quoted returns are unusually high.

**For more information:**

**Australian Securities & Investments Commission (ASIC)**

**Web Address:** [www.fido.gov.au](http://www.fido.gov.au)

**Telephone:** 1300 300 630

**Australian Competition Consumer Commission (ACCC)**

**Web Address:** [www.accc.gov.au](http://www.accc.gov.au)

**Telephone:** 1300 302 502

## NICRI

The National Information Centre on Retirement Investments Inc (NICRI) is a free, independent, confidential service that aims to improve the quality of investment information provided to individuals who are investing for retirement or facing redundancy. NICRI works at arms length from both government and the finance industry to provide a completely unbiased source of information to the public. Funding for this consumer service is provided by the Department of Families, Housing, Community Services & Indigenous Affairs.

**PO Box 893 WODEN ACT 2606, Tel: (02) 6281 5744**

**Tollfree: 1800 020 110**

**E-mail: [NICRI@nicri.org.au](mailto:NICRI@nicri.org.au)**

**Websites: [www.nicri.org.au](http://www.nicri.org.au)**

**<http://moneymap.nicri.org.au>**

The National Information Centre on Retirement Investments Inc (NICRI) is an independent organisation funded by the Australian Government Department of Families, Housing, Community Services and Indigenous Affairs. NICRI provides a free independent source of investment information for consumers and works at arms length from Government and the financial services industry.

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