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*Dossier finances 18 pages*

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## Be a well-informed investor



### *FAIR Canada represents the interests of Canadian investors in securities regulation*

By Ilana Singer, Associate Director, FAIR Canada

The Canadian Foundation for Advancement of Investor Rights (FAIR Canada) is a national, non-profit, independent organization founded in 2008 to represent the interests of Canadian investors in securities regulation. In recent months, FAIR Canada has been conducting research on recent financial scandals to identify ways to reduce investment scams and improve compensation for victims. It is also focusing on educating investors about how to avoid investment scams. FAIR Canada has formed alliances with FADOQ and is an active participant on the FADOQ Anti-Fraud and Abuse Task Force. That Task Force is developing tools to help seniors detect and avoid many types of fraud, including investment fraud.

#### **FAIR Canada Research – Background**

Canadian investors lost an estimated \$2 billion in the fifteen financial scandals that FAIR Canada examined, spanning the past decade. This is by no means a complete list of financial scandals. The fifteen cases reviewed included schemes

through which investors lost money by investing in securities that were either non-existent, mismanaged or misappropriated to finance the lifestyle of the scam artists. A large

**“ If you think that an investment opportunity is  
a scam, just hang up the phone, delete the  
email or walk away ”**

number of the frauds reviewed were “Ponzi”-style schemes, where a firm or advisor used the investments of later investors to fund promised returns to earlier investors. Examples include the Earl Jones scandal in Montreal.

Sadly, these crimes are not victimless – they cause harm to people and seed doubt about the security and fairness of the Canadian financial system, as well as the effectiveness of the regulatory regime. It is particularly heartbreaking for investors who lose for good much or all of their life savings. FAIR Canada estimates, based on its analysis, that victims were compensated by Canadian compensation funds in only three of the 15 cases reviewed, comprising 2% of the dollar value of total losses incurred.

Based on this review, only 9% of the dollar value of the losses can be traced back to firms that are members of industry self-regulatory organizations (SROs), even though the vast majority of investor funds in Canada are managed by SRO member firms. SROs oversee their members, and also have compensation funds to protect investors if member firms go bankrupt. Surprisingly, almost

80% of the dollar value of the losses can be traced back to firms and individuals that are registered with one or more securities commissions across Canada.

**As a result of this research, FAIR Canada is looking into the following questions:**

- Should more registered firms be required to belong to self-regulatory organizations that are backed by a compensation fund?
- Should securities regulators be doing more to protect and compensate investors?
- How can the system for compensating wronged investors in Canada be improved?

## Tips for Investors

In addition to this research, FAIR Canada has compiled a list of warning signs and tips for investors. Be sure to think about these points before making an investment. Don't be shy to ask your advisor any or all of these questions.

Ultimately, if you think that an investment opportunity is a scam or is not suitable for you, don't be afraid or embarrassed to say no. Just hang up the phone, delete the email or walk away.

For further information, see [www.faircanada.ca](http://www.faircanada.ca) or contact Ilana Singer, Associate Director, at 416-572-2215 or [ilana.singer@faircanada.ca](mailto:ilana.singer@faircanada.ca). ■

Warning sign	How to protect yourself
No proof of registration	Ask your advisor if he is registered, and to show proof of registration. Check to confirm registration.
No proof of SRO membership	Ask your advisor if he or his firm is a member of a self-regulatory organization backed by a compensation fund.
Evidence of being sanctioned by the securities regulators	Check if your advisor or your advisor's firm is on the list maintained by the Canadian Securities Administrators of sanctioned individuals and firms. See <a href="http://www.securities-administrators.ca/disciplinedpersons.aspx?id=74">www.securities-administrators.ca/disciplinedpersons.aspx?id=74</a> .
Time pressure	Ask your advisor to provide you with enough time to: (a) read the contract, (b) understand the investment, and (c) obtain an independent second opinion about the investment (particularly for unsolicited investment opportunities). You are entitled to use as much time as you need to understand the investment before making the decision to invest.
No paperwork	Your advisor is required under securities laws to ask you a number of questions about your financial situation, investment objectives, knowledge, experience and risk tolerance. Make sure that your advisor asks you for this information and makes a record of it. Before making an investment, you should be asked to sign the appropriate paperwork, and be provided with a copy.
Promise of high rate of return for low risk and/or from an investment in an offshore market	One of the first rules of investing is that higher return equals higher risk. Therefore, the more money you can potentially make on an investment, the higher the risk of losing some or all of your investment. If an investment looks "too good to be true", it probably is. Many scams involve offshore firms or offshore investments.
Request to keep investment confidential	You should be allowed to verify the information provided by the advisor with an independent third party. By asking that you keep the information confidential, you have no way of verifying the "confidential" information being provided by the advisor.
Refusal to provide references	As with any advice, you have a right to check references of individuals who have used your advisor's services in the past. Ask for references and verify them.
Recommendation to borrow to invest—for example, through a first or second mortgage on your home	If you need to borrow to invest, you need to ask yourself whether the investment being offered is affordable and suitable for you, given your personal investment objectives and risk tolerance.
Request for you to lie about the amount of money that you make	You should never be asked to lie about your personal financial situation in order to invest. In connection with the sale of "exempt" securities (which can often only be sold to individuals who make a certain amount of money), scam artists will often ask investors to lie about their personal financial situation.