If it sounds too good to be true, it probably is

Over the last two decades advances in digital technology have changed the way we shop, bank and manage our investments. In the spirit of empowering millennials during youth month, Phiko Peter, Client Relationship Manager at Allan Gray, warns younger investors to be aware of digitally driven investment scams.

Catering to our desire for instant gratification, recent technological advances have made our lives easier and more efficient. Many researchers claim that these advances have made millennials more impatient than previous generations. They claim that our need to experience immediate fulfilment has affected everything from our expectations in the workplace, to our spending habits and the way we approach our health and wellbeing. If you have ever caught yourself yelling at a device because a YouTube video is buffering, you'll find it difficult to disagree.

This impatience is also extended to the way many of us approach investing: We want great returns and we want them now. This ultimately makes us even more susceptible to fraudulent get-rich-quick schemes. In recent years, technology has disrupted the financial services industry and made instant investing more accessible. Unfortunately, investors aren't the only ones benefiting from these advances: Fraudsters are giving old-fashioned scams a digital makeover and using online channels to fleece their victims.

The new age pyramid scheme

Social networking scams aren't a new phenomenon: The traditional pyramid scheme has exploited the power of our social networks for many generations.

The rise of social media has merely given fraudsters easier access to our social networks, but the scam is essentially the same: A charismatic con artist introduces an amazing financial opportunity that promises unbelievable returns to a small group of investors. Each investor is then encouraged to sign up and recruit new investors (friends, family, acquaintances and colleagues). In turn these new investors recruit even more investors, and a multi-level pyramid structure is formed, with the fraudster firmly on top.

Each time an investor invests in the scheme, their contributions are funnelled upwards and used to fund the returns due to some of the investors higher up the pyramid. Initially, investors may receive great returns and can confidently assure new recruits that the investment will pay off. However, these schemes are not sustainable. As soon as the pool of new investors and additional investments dries up, the scheme is unable to provide returns to its investors and inevitably collapses, leaving investors with permanent capital losses.

In the digital age, these schemes are administered on messaging platforms like WhatsApp, where messaging groups are created to extend the reach of these schemes far and wide. With a reported 1.5 billion active users in over 180 countries at the start of 2019, WhatsApp has proven useful for con artists, who can now communicate efficiently and encourage recruitment with relative anonymity. With the help of digital payments, these schemes operate efficiently. By the time the scheme unravels, and the truth is revealed, it's too late.

The money-flipping scam

Though less popular than WhatsApp scams in South Africa, money-flipping scams have ripped off many local investors through social networks like Facebook, Twitter and Instagram. 71% of Instagram's one billion daily users are under the age of 35, making the social network an increasingly popular playground for scammers wishing to target millennials.

Money-flipping scams promise to double or triple your money in a very short period. Victims are convinced to send funds to a scammer who promises to deliver excellent returns for a small commission. In South Africa, these investment opportunities are often sold as forex trading, binary options or offshore property opportunities.

To pull off this scam via social media, a scammer will create a legitimate-looking social media profile showcasing exotic travel destinations, expensive cars and designer clothing. These opulent lifestyle images are used to position the scammer as a successful and trustworthy investor. Some will even boast about working for less than an hour per day to sell investors the dream and tap into our need for instant gratification.

Once scammers have hooked a victim, they may even supply detailed investment reports to show investors how their money is growing and encourage larger investments. As soon as the investor requests a withdrawal, they are met with a series of delays and may be asked to fork out even more money to release the funds. This escalates until the scammer deletes their account and ceases all contact.

It happens to the best of us

Many of us believe that we could never be caught out by these seemingly obvious scams, but *New York Times* bestselling author and psychologist, Maria Konnikova disagrees. She has studied and written extensively about con artists and believes that we are all vulnerable, “It’s not who you are, but where you happen to be at this particular moment in your life.” Consumers facing large amounts of debt, financial stress and unexpected expenses are most vulnerable.

Social media gives us a false sense of security, prompting us to trust members of our online social networks. This is what con artists play on, according to Konnikova.

Most victims of investment fraud fail to identify the con artist until it’s too late, but Konnikova offers a very simple tip: If someone is manipulating your emotions to get some cash, that is absolutely a con artist.

Slow and steady wins the race

Despite our need for instant gratification, the truth is that there are no shortcuts to building long-term wealth.

Successful investing requires consistency, patience and time. While it is never too late to start investing, the one advantage younger investors have is time. By starting legitimate investments at an early age, you can benefit from the power of compounding and time in the market, building real, lasting wealth.

Scam-proof your investment approach

There are a few red flags to look out for when considering a new investment:

1. An investment that requires you to recruit new investors in order to realise the return on your investment is a pyramid scheme. Be wary of tiered investments that classify investors or have multiple levels (e.g. bronze, silver, gold, platinum and diamond).

2. If you don't understand how an investment product generates its returns and there are no clear underlying assets you should be cautious.
3. Fraudsters want to create a sense of urgency to limit the amount of time you spend researching and thinking about the potential investment. Anything sold as a "once-in-a-lifetime opportunity" should be avoided.
4. Though past performance doesn't guarantee future returns, you should consider financial service providers with decent track records. Most scams will promise great returns, without a solid track record to back them up.
5. If the investment is not registered with a mainstream financial body, like the Financial Sector Conduct Authority, it is not regulated. You should also contact financial bodies to verify the registration of any financial entity that is relatively new or not well established.
6. The adage still applies: If it seems too good to be true, then it probably is. Trust your gut – it will help you avoid permanent capital loss.

Always consider expert advice

There are hundreds of investment products available and choosing the right product can be a minefield. A reputable independent financial adviser plays an important role in vetting investment opportunities and ensuring that their clients are protected from scams.

Many investors fall prey to scammers because they do not have a solid financial plan. A good financial adviser will explore your unique set of circumstances and implement a long-term investment strategy to help you reach your financial goals.

Maria Konnikova is the keynote speaker at the Allan Gray Investment Summit in Johannesburg and Cape Town in July 2019.

- *Allan Gray Media Release (12 June 2019)*