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Ways to avoid bogus investment opportunities

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Consumer Reporter

MAKE sure you do a thorough background check before considering investing money to ensure you don't fall prey to a bogus investment firm in the new year, warns the Financial Intermediaries Association of Southern Africa (FIA).

FIA chairman Gavin Came said with South Africans facing tough economic times, many were trying to find an affordable investment product that would guarantee them a high return. However, if they haven't done their homework they could be heading for financial ruin.

Came said it was vital for consumers to conduct thorough background checks as there were so many bogus investment schemes being advertised.

He said the best route to finding a sound investment product was to speak to a qualified, accredited financial advisor to advise on authorised investment products best suited to each individual's budget, investment needs and lifestyle.

"Remember, too, that institutional risk (the risk that the business you are investing in will fail) is somewhat limited if you stick to businesses that are authorised by the FSB, or the Reserve Bank.

"Some consumers have fallen victim to investment scams advertised in newspapers thinking the opportunity must be real, since it has appeared in a respectable newspaper.

"Consumers must realise that anyone can place an advertisement in a newspaper or magazine. It is not the responsibility of the newspaper to verify the validity of the product advertised, the onus is upon the potential investor," said Came.

He added that there were a number of ways to spot a bogus investment opportunity and usually any product offering an out-of-the-ordinary return should be looked at carefully: "For example, any product offering a guaranteed return, especially if it is above about 6 percent, should trigger an alarm bell as a yield higher than this normally requires some risk or some form of lock-in of your funds.

"An unplanned or volatile investment can have a similarly disastrous impact on one's finances.

"That is not to say that all volatility is to be avoided – one has to take on volatility or risk in order to beat inflation – but it is critical that one understands the risk of the product to ensure it is appropriate.

"A good way to find out more information about an investment product is to research the company and product on the internet.

"Next, look for valid contact details and see if you can set up a meeting to discuss the company history."

Came added that when deciding whether an investment opportunity was appropriate, it was important to measure the proposed product against a financial plan.

"Ask yourself, 'Where and how does this proposed investment fit into the strategy my planner and I have agreed? Is it a shorter term product or a product for my old age? Is it a policy of insurance? Can I get my money back on notice?'

"If there is no or limited liquidity, you should seek advice.

"A final important factor to remember is that you must determine how your funds will be held and invested by the institution you are considering.

"Find out whether the funds are in a legally protected vehicle like a trust or retirement fund or are they held directly by the institution. The question to ask is if that institution fails, will you lose your funds? Or will you wait many years to recover your money?

"Corporate failure in the financial services industry always leaves very unhappy people in its wake.

While it is not always possible to predict failure with certainty, it helps to ensure that you get the best possible advice."

● If you think you were given misleading information or wrong advice, contact the Financial Advisory and Intermediary Services Ombudsman Noluntu Bam on 0860 324 766 or 012 470 9080, fax 012 348 3447, or see the website www.faisombud.co.za

● *Joseph Booysen will be on leave until January 9 so, for the next three weeks, the Cape Argus will publish articles on hi-tech endeavours and problems on the consumer page.*

Argus Action

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DO YOUR HOMEWORK: Check thoroughly that you are making a wise investment choice.