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Beware of online stranger's advice

Internet con artists prey on the desperate

The Internet can be an incredible source of information. For investors there are a lot of legitimate sites providing honest and current information about investment products but, unfortunately, there are also many con artists who just want to dip into investors' wallets. Like the operators of bogus disease-cure websites, these predators are most successful when their intended victims are vulnerable.

Despite last year's significant market rally, many investors are still recovering from declines experienced in 2008. Whether jaded by the sheer scope of the crisis or simply defeated by the emotional rollercoaster, they are skeptical of the financial industry. Some have taken things into their own hands to find new strategies for rebuilding their portfolios. Without access to professional research and analysis, these investors have turned to the internet to increase their knowledge base.

However, thinking of the internet as analogous to a library, investors can be too trusting of information they find there. They fail to verify its legitimacy and their quest for knowledge becomes an extremely risky venture.

I recently met with a disillusioned investor who had become obsessed with finding the next winning investment. She had very little investing knowledge and yet was convinced that she could beat the markets. She admitted that she'd been getting most of her theories from the internet, and had found various websites promising prosperity if she bought subscriptions to their services.

After getting a list of the websites from her, I did a bit of research and found a common theme. Most of the

websites relied on fear mongering to drive subscriptions, with videos promoting bogus theories and articles vilifying the financial industry.

The vast majority of the sites were run by obscure day traders whose intentions were more about accumulating subscription fees than providing valuable or accurate information. Many were merely portals for generating ad revenue, run by internet operators with no financial background.

She showed me the services they provided, and most were "newsletters" pumping fly-by-night investment ploys. They contained incredibly risky theories or exotic investments without track records and some required large sums of capital. The investment schemes were to be run through unsecured companies rather than proper financial institutions.

Some even looked like 'pump-and-dump' ruses where investors are given hot tips with supposedly great potential profits, but they are not told that most of the shares are held by a small group manipulating the hype. As investors rush to take advantage of the hot tip, the inside group sells their cheap shares into the rising market. When the shares fall, the other investors are left with smaller portfolios.

I realized that even such a successful woman could fall prey to such obvious schemes if she is so obsessed with recouping her losses that she becomes desperate and vulnerable. If a stranger on the street whispered to her, "Pssst...have I got a hot tip for you", she wouldn't act on it because doing so would be foolish. It is equally important to apply the same skepticism to hot tips from strangers on the internet.

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In tough times, investors should remain rational and invest in high quality products, not exotic investments that can't be explained. They should assess their holdings soberly, stay focused on the horizon, and remain true to their long-term goals. They should not take uncalculated, irrational risks based on information from unqualified sources.

As always, think carefully, choose wisely and act appropriately.

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