

Worried about investor fraud? Here are some warning signs



Red flags to watch for when investing: cumbersome financial reports that relegate unusual activity to the footnotes.

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When former financial planner Daniel P. Reeve was convicted this month of defrauding 41 investors out of about \$10 million, it was a bitter lesson.

As with many financial frauds, the victims didn't see it coming, and there's little to no chance they will recover their money.

At the outset, Reeve sold legitimate products such as mutual funds and insurance. However, unbeknownst to clients, in 2007 he lost his insurance license and by 2008 he was no longer presenting himself as a financial planner, although people at his offices did have official designations.

Impressed by past performance, clients stuck by him.

In the meantime, Reeve began directing investors to other investments, such as restaurants and hotels that he was developing, often promising little or no risk, despite the shakiness of his failing ventures.

"Yet, Daniel (Reeve) continued to flog his investments in the summer and fall of 2008 either knowing that the investors would never get their money, or not caring whether they would," Justice Toni Skarica wrote in an Oct. 13 ruling.

Reeve pleaded not guilty to the charges of fraud and theft against him, but the judge did not believe his testimony and convicted him.

"This had a devastating impact on the victims," says Crown prosecutor Fraser McCracken, who presented the case against Reeve through a trial in Kitchener, Ont., that spanned 18 months.

"That's why we remind people to take steps to avoid fraud in the first place," says Tyler Fleming, director of the Ontario Securities Commission's Investor Office.

Fraud — which depends on deceiving the victim — comes in many forms and can be difficult to detect.

"The unfortunate reality is that the bad guys are always thinking up new ways to separate you and your money," Fleming says.

But he says there are several warning signs that should raise red flags for investors:

— Promises of big returns for little or no risk. (Generally low-risk investments have low potential returns.)

— Advice based on "hot tips" and "insider information." (They're usually false and potentially against the law to act upon.)

— Pressure to buy or decide quickly. (Haste is usually not in the investor's best interest.)

— Lack of registration with a provincial securities commission or other financial service regulator.

McCracken says the victims represented a cross-section of people with varying levels of education, investor sophistication and occupation.

Among the dozens of people who trusted Reeve's record as a money-maker were:

— A retired teacher who attended one of his investment presentations in early 2007. She and her husband wanted safe investments but lost at least \$250,000.

— The owner of an international trucking firm, who had been advised by Reeve since 1993 with good results until things began to unravel. He lost \$683,000 in principal plus unpaid interest.

— A nurse who asked in 2007 for safe investments, shortly before her husband died of pancreatic cancer. She lost \$775,000.

Andrew Kriegler, CEO of the Investment Industry Regulatory Organization of Canada, stresses investors should always ask advisors who they are regulated by, and what their disciplinary history is.

He acknowledges that it's not always clear where to look, but insists it's always worth the time and effort..

"If it's under our jurisdiction, then we can look into it. If it's under somebody else's jurisdiction, we will send that person to the right place," Kriegler says.

IIROC operates two call centres in Toronto and Vancouver that take questions from the public.

The provincial commissions have a national registration search for individual advisers and investment firms at CheckBeforeYouInvest.ca

The Ontario Securities Commission also operates GetSmarterAboutMoney.ca and its own call centre.

And the Canadian Anti-Fraud Centre has contacts with several federal agencies, including the RCMP.

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