Red Flags of Adviser Fraud

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So you've checked with the Canadian Securities Administrators (CSA) National Registration Database to make sure your advisor is registered with your provincial securities commission. Now you're safe from fraud, right? Well, not exactly.

The registration of the advisor means that the person you are dealing with has met certain qualifications and that he or she is selling securities through a registered dealer. That registered dealer provides supervision of the advisor and ensures that investments purchased through the dealer are suitable for your needs and objectives.

Thanks to the dealer's supervision, it is difficult for the advisor to get his or her hands directly on your money. If the advisor wants to defraud you, he or she will operate outside of the dealer, where the dealer cannot see or process the transactions.

This is where things can get dangerous for you. It's important to look for the red flags before you invest. The advisor may ask you to make a cheque payable to him or her directly in order to bypass the dealer's controls and allow direct access to your money. To mitigate this risk, the investor should make sure to write the cheque to the dealer and then look for a statement of the transaction to come in the mail shortly after. This confirmation statement will show the name and amount of the security purchased and the dealer's name.

By checking the statement and verifying that the investment is what you authorized is the best way to protect yourself against fraud or even errors. Unfortunately victims of fraud will often admit that they did not check for or even open their statements. The statement is your way of verifying that the transaction was processed and completed on your behalf through the registered dealer.

Another way for an advisor to defraud you is by pitching a non-existing investment opportunity. In these type of fake investments the pitch may be vague such as "off shore accounts" or "real estate deals" with little to no paperwork required. If no statement arrives after you've handed over your money, that's a red flag that securities may not have been purchased for you. Also be concerned if an advisor asks you for a personal loan, because registered dealers typically have rules that do not permit this.

These are the most common red flags to look for to avoid becoming a victim of advisor fraud. But, it’s still important to ask questions and do your research. Remember we're here to help. Please contact us. Happy Investing!