

Are You an Informed Investor?

Other People's Money Investment Scams

Securities regulators have seen a rise in schemes where scammers target victims with the promise of making big returns by trading "other people's money." This frequently occurs online, with the scammer posting an investment opportunity on a social media platform or reaching out to unwitting recipients via a messaging application (such as WhatsApp). Investors should be cautious when approached with unsolicited investment opportunities.

How other people's money scams work

Scammers offer the opportunity to make lots of money by trading stocks, foreign currencies (commonly called "forex"), or cryptocurrencies, frequently through a "proprietary trading platform" that supposedly uses special artificial intelligence or some other computer algorithm to make all of the trading decisions. In reality, there is no proprietary trading platform or algorithm directing trades. This part of the scam is designed to lure people who may not have any trading or investing experience. The scam also targets those who may not have any disposable cash to invest by offering the opportunity to use other people's money on the fictitious trading platform.

The scammer pretends to offer access to other people's money to trade in exchange for a small up-front fee, usually ranging from a few hundred to several thousand dollars. This is accompanied by the promise that the investor will get a percentage of the profits generated from the trading platform, which are always projected to be exponentially more than the up-front fee. The scammer may also ask the investor to fill out an "application" for access to the funds, which requests personal and financial account information. Once the scammer has this information, they may steal the identity of, or additional funds from, the investor.

These scams may use a multi-level marketing angle by offering additional compensation if an investor recruits other people to join the fictitious trading program. This could mean they receive a one-time bonus, or they may be offered a percentage of the putative profits their recruits generate trading through the platform. In reality, the supposed trading and profits are phantoms. Investors may get small payments at the beginning to entice them to pay for more access to other people's money or to recruit other investors. As the scheme progresses, communications break down and eventually the scammers disappear, leaving the investors with lost money and lots of questions.

Red flags

- A stranger contacts you or posts an online advertisement about opportunities to make money through proprietary trading in stocks, forex, or cryptocurrency;
- The message comes from a number you do not recognize or contains more than ten digits (i.e., originates from outside North America);
- The person offers you access to trades using other people's money in exchange for an up-front fee;
- The person asks you to complete an application requesting your personal and financial account information; and,
- The person requests that the up-front fee be made in cryptocurrency or on a mobile cash transfer app. These transfers can be difficult for regulators and law enforcement to trace, especially if the money is transferred outside of the country or the cryptocurrency wallet is anonymized.

How to protect yourself

- Do not use investment strategies or programs that you do not understand.
- Do not respond to unsolicited messages you receive offering too-good-to-be-true investment opportunities.
- Do not provide any personal or financial account information to anyone you do not know or whose identity you cannot verify.
- Before you send any money, contact your state or provincial securities regulator to verify whether the person offering the investment opportunity is registered to offer securities or provide investment advice.

The Bottom Line

When it comes to investing, remember that rewards are generally strongly correlated with risks. The greater the projected reward, the higher the likely risk involved. If an investment sounds too good to be true – for example, trading other people's funds to make massive profits – it is probably a fraud. Furthermore, unsolicited investment offers involving trading speculative stocks, commodities, or cryptocurrencies are always highly suspect and involve a significant risk of fraud.

Before making any financial decisions, ask questions, do your homework and contact the Nebraska Department of Banking and Finance at 402-471-2171.

The Nebraska Department of Banking and Finance is a member of the North American Securities Administrators Association (NASAA). NASAA has provided this information as a service to investors. It is neither a legal interpretation nor an indication of a policy position by NASAA or any of its members, the state and provincial securities regulators. If you have questions concerning the meaning or application of a particular state law or rule or regulation, or a NASAA model rule, statement of policy or other materials, please consult with an attorney who specializes in securities law.