

This is an original article written by Philip Loh.

How not to be a victim of a scam

As the Singapore economy enters a recessionary phase in 2009, many people may well discover that they have become victims of financial scams like Ponzi schemes.

What they often do not realise is the fact that they had bought into the scheme a long time ago during the economic boom, when the impressive returns that they were promised seemed much more conceivable. Things only start to fall apart when investment outflows or redemptions far exceed investment inflows, which usually happen during an economic slowdown like the current one that the world is experiencing; Bernard Madoff's Ponzi scheme may well have continued running if not for the worst financial crisis in recent history.

Another fact that bears repeating is that appearances are not everything. The most successful Ponzi schemes are usually well-organised with the mastermind putting in a sizeable investment to ensure that he has an impressive shop front. In addition, he will make it appear as if he is highly sought-after, and is therefore not hard up for your investment. Once you have put in some money, he may even offer you some returns on your initial investment to convince you that everything is proceeding smoothly, so that you will then be swayed to put in more of your funds.

But as they always say, all that glitters is not gold, so remember: any offer that is too good to be true is most probably a scam unless proven otherwise.

To avoid becoming a victim, get yourself acquainted with the most common types of financial scams perpetrated by the likes of Bernard Madoff. Here is a brief description of the five most common types you may encounter, and how the scammer operates.

1. Advance fee fraud

You are approached via snail mail, e-mail or telephone. The scammer says he needs to transfer a sum of money out of his country, and offers you a large sum of money as a reward for helping with the transfer.

Often, the scammer will claim to be a senior government official, an accountant with a state-owned corporation, or a relative of a deposed or dead politician. The words "Strictly Confidential" or "Urgent" will appear on the envelope or the subject line of the e-mail.

He will say that he wants to use your bank account. If you respond to his request, you will be sent more documents purporting to show that his money is genuine. You will then be asked to send your bank details and an "advance fee" to speed up the transaction. However, once you have sent the money, an emergency will arise and he will ask you to send some more. Often, the scammer is from Nigeria, but there is apparently also a Russian version that is making the rounds.

2. “Work-at-home” scams

This scam is likely to become more popular because of rising unemployment now. Usually, the scammer offers a sizeable income for seemingly simple jobs like assembling items. He will also stress the advantages of working from home such as flexibility and freedom.

If you sign up, you may find that you need to spend money making photocopies, taking out newspaper advertisements, or buying software. Often, the scammer will find some excuse not to pay you. For example, if you are asked to buy craft kits and make certain items, he is likely to say that your work has not met his exacting standards, and therefore no payment will be made.

The whole thing may even turn out to be a pyramid scheme, so you will get paid only when you successfully get other people to join the scheme.

In contrast, genuine work-at-home promoters will tell you upfront the necessary start-up costs, as well as what you will likely get for your money. In any case, you should try to check with other workers participating in the scheme, or search the Internet to ensure that the information you have been given is correct.

3. Investment scams

Often known as "boiler room scams", they involve the offering shares or property for investment. These shares and properties may exist, but even so, they are usually worth nothing like the amount quoted by the scammer. Experienced investors should especially beware of such scammers, because they think they know better when, in fact, the opposite is true.

If you are really keen to invest, you should check the Monetary Authority of Singapore's (MAS) website to see whether the company is legitimate or is listed as a regulated entity. Alarm bells should ring if the company is not listed on MAS' website, especially if the scammer claims that the company is based or headquartered overseas. In general, if the company is not registered with the MAS, it is not allowed to offer investment advice in Singapore, so you should avoid dealing with such companies.

4. Foreign lottery scams

Hundreds of people are told each day that they have won thousands in a lottery. The letters they receive will typically say that they need to pay an administration fee to claim their prize, which actually does not exist.

Other warning signs that such letters are not genuine include the very short period of time that they are given to claim their winnings, and a request to send money out of the country using a money transfer service.

A simple rule to remember is that if you have not bought a lottery ticket, it is impossible for you to have won the lottery.