SR GROUP
2018 INVESTMENT TIPS

Investing money is always a trade-off between risk and return. Just like most things in life; the greater the risk, the greater the reward. Not all risk is the same however, and we should aim to eliminate risk wherever possible, especially with our money.

When investing your money, you want to worry about the success of your investment; will the company's new project be successful? Will it be profitable enough to pay the dividends I am looking for?

What you don't want to be worrying about is the safety of the investment itself, whether you've been scammed and whether the assets you bought genuinely exist.

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Rebuild your future

Fraudulent Financial Advisers

Fraudulent financial advisers prey on retail investors, customers who are new to investing and those too busy to actively monitor their investments. Fraudulent financial advisers rely on **information asymmetry**; the scenario where one party in a transaction has more available information than another party. These advisers may push you towards a particular investment product, spruiking a specific stock or asset extremely hard. This could simply be an investment your financial adviser is highly confident in, though it's also possible that the financial adviser is receiving large commissions and/or is a related party to the owners/operators of the investment they are pitching.

If you notice any kind of relationship between the owners/operators of the investment and the financial adviser pushing you towards that investment, note it as a clear red flag. If you are being pushed heavily into a certain financial product, ask your financial adviser if they are making commissions from it. By law, financial advisers are required to disclose to their clients the financial products from which they make commission.

When Choosing a Financial Adviser

- **Make sure they hold an Australian Financial Services Licence (AFSL) and request the licence number.** An AFSL is required for anyone that provides financial services to Australians, including giving financial advice and dealing a financial product (eg. buying/selling shares on your behalf). If you get defrauded by someone without an AFSL, there is limited ability to pursue them for compensation.

- **Research their track record:** Established, long-serving financial advisers with a large client base and lots of positive reviews are a good start. Just like you would do your due diligence into what you're investing in, it's worth doing your research into who you're investing with.

When Taking Financial Advice

- **If it seems too good to be true, it probably is:** An old saying that's around today because it's still true, especially with financial products. Be mindful of anything offering excessive returns or fast profits, and research heavily.
- **Seek a second opinion:** A second professional opinion could help save you from fraud or manipulation by your Financial Adviser.
- **Ask what commission they're getting:** Financial Advisers are required by law to disclose their commissions to their clients. This can assist you in determining why your financial adviser is really pushing you towards a specific financial product, and help you overcome information asymmetry.

Scams and Ponzi Schemes

We are currently seeing a rise in investment scams and fraudulent schemes, with the number of scams being reported to the Australian Competition and Consumer Commission's (ACCC) Scamwatch increasing year on year.

There are countless types of scams, and everyone should do research and stay vigilant to protect themselves. Today our guide will focus on investment scams, where a fraudulent individual or company will attempt to convince you to hand over your money on the promise of benefits down the track.

The SR Group has prepared a brief glossary of tips and advice to help you consider all the possible outcomes of handing over your money.

1. **Take time to consider your investment**

   Don't be rushed into handing over your money without giving yourself adequate time to consider. Often scams will force you into a quick decision by offering a small window of opportunity to invest before the window closes and the high returns become unavailable.

2. **Research the company providing the investment**

   As with all undertakings, a level of due diligence is required to ensure the investment is what it seems. There are various checklists and guides available online to help you with your due diligence process, especially if you are new to investing. From our experience, forums can be a common medium for investors to communicate their investment experiences to potential investors. Whilst you must be somewhat sceptical of forum comments, they can often provide warnings about investment scams and fraud.

3. **Do ASIC searches on the Investment Company**

   Further to your usual due diligence procedure, some other interesting things to look at are previous name and directorship changes of the business, and whether the directors are directors of any other companies. Look for related entities and related parties. A common sign of fraudulent investment schemes is a network of companies, allowing the directors to siphon money quickly and reclassify one company's assets to another. If you notice the director of your company is the director of many other similar named companies, this should be investigated further and possibly left alone.

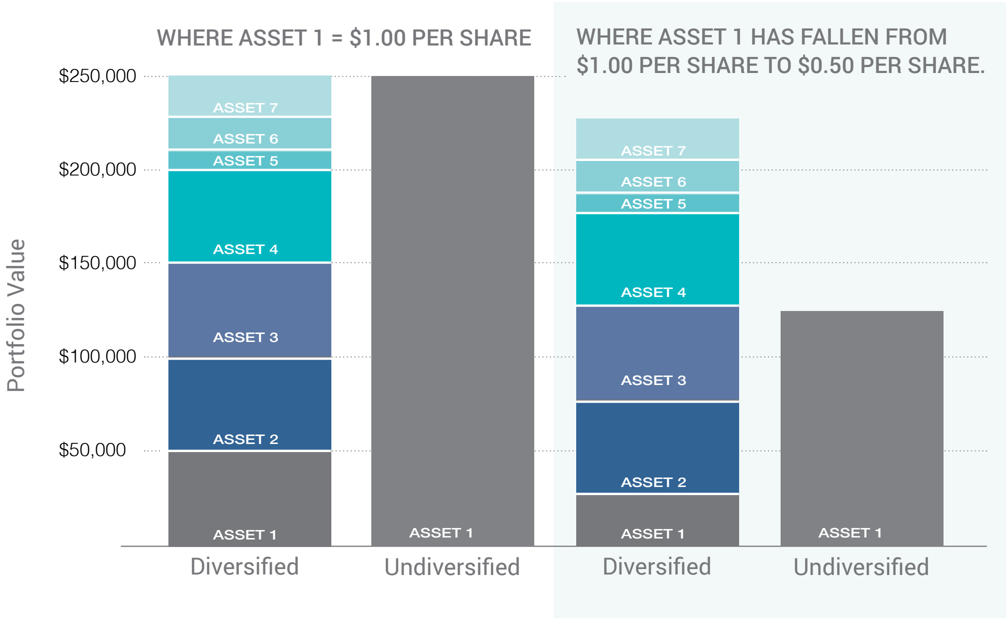
4. **Check Government and Pre-Existing Scam Lists**

   The Australian Government provides lists of recognised scams and companies not to deal with, through the Australian Securities and Investment Commission's (ASIC's) **Moneysmart website** and the ACCC's **Scamwatch website**.

5. Diversify your Investments

Investing in just one thing is much like putting all your eggs in one basket – your entire success or failure is contingent on the performance of one component! Instead, spread your investments between a range of different assets, limiting your exposure and risk should any of your assets fail. Diversifying your investment portfolio is a simple but important way to increase the safety of your investments. A diversified portfolio also limits the potential damage of fraud, and can you prevent you from losing everything.

Take a look below at the effect of a fall in price of an asset (e.g. a fall in share price) on a diversified portfolio verse the effect on an undiversified portfolio.



6. Ponzi Scheme Warnings Signs

Warning signs of a potential Ponzi Scheme include;

- **A suspiciously high rate of return:** Scammers will often use the lure of a high-interest paying investment to reel you in.
- **A localised or unique group of investors:** Often Ponzi Scheme recruiters will target groups of people and the local community. They rely on investors receiving dividends to tell their friends and family about the success of their investment, and encourage their investors to recruit these people to help the scheme group. Be sceptical if the large majority of investors are from the same few families, or are all from the same church group, local community, sports clubs or similar.
- **Investment operator encouraging you to recruit:** Ponzi Schemes survive on new investors coming to the table so that the operator can pay dividends to the early investors and keep the façade up. Be wary of the operator trying to get you to bring new investors to the table.
- **Take a step back and think:** Think about why the opportunity in front of you is in front of you: Match up the proposed rewards with the cost, match up the promised returns with the level of demand and compare where the investment opportunity is to where it is being sold. If something doesn't feel right, it probably isn't.

Cryptocurrency - Bitcoin, Litecoin & co.

You've probably heard about Bitcoin and Cryptocurrency by now, the latest financial product making news around the world. In case you haven't, here are some quick facts to give you some background on the new phenomena.

- Cryptocurrency is de-centralised, digital currency, outside the control of any Government body or regulatory authority.
- Bitcoin is the biggest and most popular type of Cryptocurrency, though there are hundreds of different Cryptocurrencies available, with multiple new currencies being created each day. Cryptocurrency is complicated and complex, and a lot of investors in Cryptocurrencies such as Bitcoin do not fully understand the product they are investing in.
- Cryptocurrency is exceptionally volatile, liable to fluctuate far greater than almost any financial product available. The value of a single Bitcoin for example, in US dollars, reached a high of $19,036.81 and a low of $10,895.08 in the one month between 18 December 2017 and 18 January 2018.

The extreme volatility of Cryptocurrency, and the perceived notion that they will become more and more predominant in society's financial system as time progresses, have lead to Cryptocurrencies becoming an attractive form of investment for speculative investors. Due to this same volatility, many people have been known to make and lose large sums of money in very short periods of time on Cryptocurrencies.

At the SR Group, we strongly suggest that you comprehensively research the Cryptocurrency landscape and trading platforms before entering into any Cryptocurrency investment.

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Investing can be difficult and daunting at times, but it can also help you get more out of your money and change the nature of your financial situation. Good investments get your money to work for you, and give you the level of flexibility and liquidity you need. Everyone is different, and everyone's investment needs are similarly different.

Some people want investments in safe, income producing assets which grow their money while paying them regular dividends at the same time. Others may want to take on more risk in search of more reward, putting lots of money into one particular asset they believe will boom in the future.

Whatever your investor profile is, you want to feel safe that the assets being sold to you are the same assets you're buying and that you aren't falling victim to a scam. The SR Group's Investment Tips 2018 is not a be-all and end-all guide to avoiding scams – but it is a start and a basis for those who might not where to look.

And hey, if it all goes pear shaped, you know the SR Group are here and willing to help. If you think you've been defrauded or fallen victim to a scam, don't hesitate to call us for a free consultation to discuss your matter.

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For further information on our services
phone **02 8226 8630** email **info@srgroup.com.au**
visit **srgroup.com.au** follow
Level 12 64 York Street Sydney NSW 2000