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*Public Opinion Research*

# National Investment Fraud Vulnerability Report

*Key Highlights*



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These materials are intended for use as general information to understand investment fraud vulnerability in Canada. They are not intended to provide specific financial investment, tax, legal, or accounting advice and should not be relied on for that purpose.

The conclusions drawn and opinions stated are those of the publisher. The data is current as of January 2012.

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Find the full version of the *National Investment Fraud Vulnerability Report* at <http://www.bcsc.bc.ca/2012NationalInvestmentFraudVulnerabilityReport.pdf>

## About this Study

The British Columbia Securities Commission (BCSC) engaged Innovative Research Group Inc. to benchmark fraud vulnerability among Canadians aged 50+ (“older Canadians”).

Previous research tells us that anyone can fall victim to investment fraud. Much of it comes down to trust – the way in which fraudsters get to their victims. Young or old, rich or poor, financially literate or not, the power of trust transcends all barriers when it comes to the likelihood of falling victim to investment fraud.

This study looks past trust and sets out to determine who is most vulnerable to fraudulent investment offers and what triggers would motivate someone to invest in one. A key goal of the study is to assess Canadians’ understanding of the relationship between risk and return. Having unrealistic expectations of market returns and not understanding the relationship between risk and reward may lead people to make the costly mistake of falling into investment fraud.

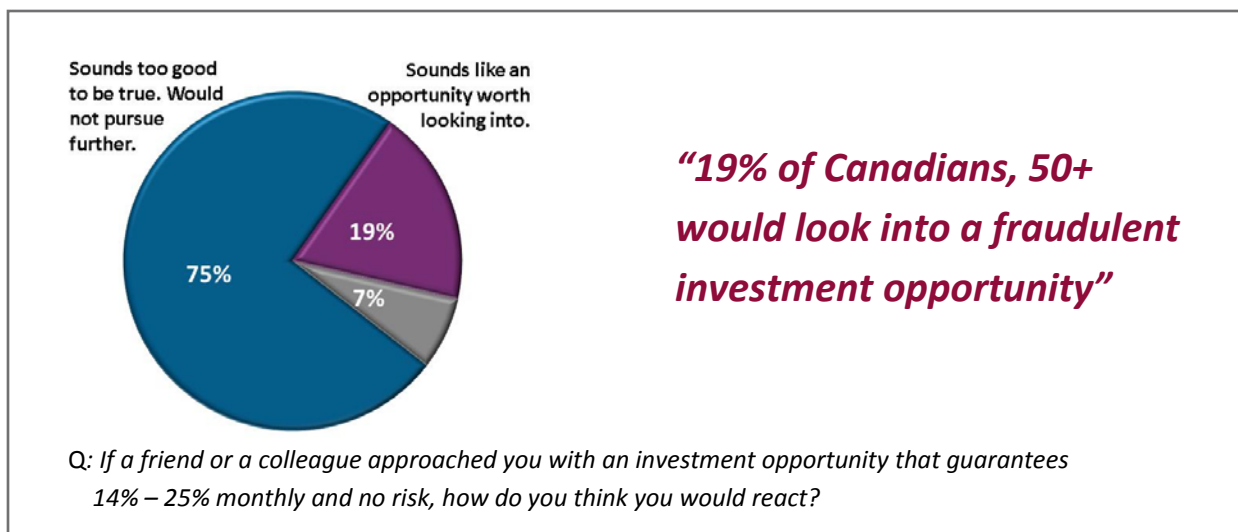
Fraud awareness means having the knowledge and mindset that enable one to spot scams and avoid them. Avoiding scams involves resisting the lure of “too-good-to-be-true” investments that do not correspond to the basic principle of risk-and-return and, instead, making informed and sound financial decisions.

A key component of the BCSC’s mandate is to protect and promote the public interest by fostering a securities market that is fair and warrants public confidence. Having a better understanding of Canadians’ vulnerability to investment fraud helps the BCSC provide more targeted and effective investor protection programs.

## Key Highlights

The *National Investment Fraud Vulnerability Report* reveals that those older Canadians who have unrealistic expectations about market returns, who do not understand the relationship between risk and reward, who expose themselves to risky sales situations, and who have a lack of basic investment knowledge are more likely to fall victim to a fraudulent investment offer. Fear of running out of money in retirement drives vulnerability to investment fraud even further.

This study tested how older Canadians would react to a clearly fraudulent investment offer. Survey respondents were asked: *If a friend or a colleague approached you with an investment opportunity that guaranteed a 14–25% monthly return and no risk, how would you react?* The survey found that nearly 1-in-5 (19%) demonstrated signs of vulnerability by saying they would look into the fraudulent investment opportunity. Those most vulnerable to this fraudulent offer generally tended to be on the younger end of the sample (50 to 64 years of age) and pre-retired.



### Why would individuals be interested in such an offer?

The BCSC wanted to understand why this clearly fraudulent offer appealed to the nearly 1-in-5 Canadians who would look into it further. The most commonly cited reasons were the desire to make money (28%) and that the investment seemed worth investigating (27%). Other reasons included good rate of return, lack of risk, and recommendation by a friend.

## What's driving vulnerability to fraudulent investment offers?

Using advanced statistical analysis, the following characteristics, behaviours, and attitudes help explain some of the reasons why certain Canadians are more vulnerable than others:

- 1. Understanding the trade-off between risk and return:** Individuals who don't understand the fundamental relationship between investment risk and return are more vulnerable to fraudulent offers. The higher an investment's rate of return, the greater the associated risk. This is a basic market principle that 43% of older Canadians don't understand. The study shows that pre-retiree Canadians in their 50s are more vulnerable than older Canadians. This suggests that there is a higher likelihood of making irrational investment decisions in the 10 to 15 years before retirement.
- 2. Older Canadians most concerned about rates of return:** One-in five (21%) with savings cited "low rates of return" as their primary concern as an investor. Their next greatest concern was the economy (10%), capital preservation (9%), market volatility (9%), and retirement income (8%). When combined with other vulnerability factors identified in the survey, these worries can cloud investors' judgment, making it much harder to recognize fraudulent investment offers.
- 3. Unrealistic expectations of market returns:** Individuals are more vulnerable to fraudulent investment offers if they have an unrealistic expectation of the current market rate of return. Only 25% of older Canadians have a realistic expectation of current returns (that is, annual returns of less than 4%<sup>1</sup>). Over a third (35%) of those surveyed have unrealistic expectations of current market return, while 40% have no idea. Not knowing what to expect from the market makes one more vulnerable to someone who promises unrealistic returns, especially when the offer comes with the promise of low or no risk.
- 4. Exposure to risky sales situations:** The survey reveals that more than half (53%) of older Canadians regularly involve themselves in risky sales situations. Unfortunately, those who do so are more vulnerable to fraudulent offers than those who stay away. Risky sales situations include attending sales presentations, listening to entire sales pitches when someone tries to sell you something over the phone, giving away personal information in exchange for free promotional materials seen advertised, and reading unsolicited emails or other forms of social media.
- 5. Saving for the future:** Individuals with little or no savings are more likely to be vulnerable to a fraudulent investment offer. A troubling finding in the survey is that 30% of older Canadians currently have no savings set aside for the future. This puts them most at risk of losing what little money they have to scams.

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<sup>1</sup> The 5-year average nominal return on money market assets, all Canadian bonds, and the TSX Composite between 2007 and 2011 was 4.1%. However, in 2011 the average nominal rate of return was 0.6% (source: BCSC). For the purposes of this study, a "reasonable" market rate of return today was considered as anything less than 4%.

6. **Poor investment advice:** The survey finds that 1-in-5 (20%) older Canadians regularly consult with friends and family about an investment and those who do are more vulnerable to fraudulent offers. This suggests that individuals aren't taking responsibility for their own due diligence when it comes to investment decisions, instead relying on people who potentially aren't qualified to give investment advice when they should seek advice from a registered investment advisor, or other qualified professional.
  
7. **The financial fear factor:** Finally, the study reveals that the fear of running out of money in retirement is a strong indicator that one could be vulnerable to a fraudulent offer. Nearly half (49%) of older Canadians say they are afraid of running out of money during their retirement. Another 42% say they find it difficult to make ends meet and this proportion is significantly higher among those who are vulnerable to fraud.

## Other Findings

**Past Experience with Fraud:** This study also looked at past experience with fraud by asking older Canadians if they had ever been victimized. Nearly 1-in-5 (17%) of respondents believe they have been a victim of investment fraud at some point in their lives. Regionally, BC and Alberta residents are most likely to believe they have been victims of fraud at least once in their life. This is particularly true of males (24%) and active investors (29%).

**BC Focus:** One-in-seven (14%) British Columbians say that they have been victims of fraud one time, a proportion that is higher than for all of Canada (10%). However, BC residents are just as likely as Canadians in other provinces to have been victims of fraud multiple times (8% vs. 6% respectively).

	BC	Alberta	Prairies	Ontario	Quebec	Atlantic	National
Yes	23%	23%	17%	19%	8%	15%	<b>17%</b>
Yes - once	14%	12%	13%	11%	6%	8%	<b>10%</b>
Yes – more than once	8%	11%	5%	8%	2%	7%	<b>6%</b>
No	72%	74%	79%	77%	87%	83%	<b>79%</b>
Don't know	5%	3%	3%	4%	5%	3%	<b>4%</b>

**Characteristics of Those Most Susceptible to Fraudulent Offers:** The study also looked at other common characteristics of those who are most vulnerable to investment fraud. It found that those Canadians who are easily persuaded through risky sales situations, do not take steps to protect themselves before making an investment, and who have lower levels of investment knowledge are more vulnerable than others to investment fraud offers.

## Methodology

The *National Investment Fraud Vulnerability Report* was conducted by Innovative Research Group Inc. (INNOVATIVE) using a mixed methodology that combined a random digit dialing telephone survey with an in-depth online survey.

The online survey consisted of a representative sample of 2,461 Canadians aged 50+. This survey was used to develop a profile of older investors and their vulnerabilities to scams.

The online survey was conducted using INNOVATIVE's national research panel, Canada 20/20™ between January 11<sup>th</sup> and 23<sup>rd</sup>, 2012 in both French and English.

The Canada 20/20 Panel is recruited from a wide variety of sources to reflect the age, gender, region and language characteristics of the country as a whole. Each survey is administered to a series of randomly selected samples from the panel and weighted to ensure that the overall sample's composition reflects that of the actual target population according to Census data to provide results that are intended to approximate a probability sample. INNOVATIVE provides each panellist with a unique URL via an email invitation so that only invited panel members are able to complete the survey. Panel members can only complete a particular survey once.

Prior to fielding the online survey, the questionnaire was pre-tested among Francophone and Anglophone panelists. Testers were given instructions to complete the survey independently, and then complete the survey once again with an interviewer. With the interviewer, testers went through the survey question-by-question, providing feedback on comprehensiveness, completeness, and whether the questions were ordered logically.

The online sample has been weighted by age, gender, and region using the latest available Statistics Canada Census data to reflect the actual demographic composition of Canadians 50+.

The online sample was also weighted by the results of a January 2012 national telephone survey of 1,000 Canadians, 50 years of age or older, which provided the incidence rates for particular investment behaviours.

A probability sample of this size would have an estimated margin of error of +/-2.0 percentage points, 19 times out of 20. The margin of error will be larger within each sub-grouping of the sample.

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## About the British Columbia Securities Commission



The [BC Securities Commission](#) mission is to protect and promote the public interest by fostering:

- A securities market that is fair and warrants public confidence
- A dynamic and competitive securities industry that provides investment opportunities and access to capital

## About InvestRight



A key goal of the BC Securities Commission is to help investors protect their financial interests. Our website, [InvestRight.org](#), provides investors with the tools to research and assess potential investments in order to protect people from unsuitable or fraudulent investments.

## About Innovative Research Group



[Innovative Research Group Inc.](#) is a national public opinion research and strategy firm with offices in Toronto and Vancouver.

We provide critical information needed to assess and overcome public affairs and corporate communications challenges, identify and evaluate potential solutions, and monitor outcomes.