



## Investment Scams Exploit Human Greed

Despite regular warnings against falling victim to various scams, we still see many such unfortunate mishaps happening in Malaysia. Scammers keep using the same trick to lure investors i.e. through human greed. Those who fall into such traps are generally promised high returns of double-digit gains a year. Some even promised attractive returns per month. The façade of excellent returns was able to lure unassuming investors, who may have even witnessed their friends getting such high returns and were hence convinced it was possible to gain attractive returns for their own savings. In all these cases, there was no consideration on the risk of the investment, which is actually more important than the promised return of the investment.

Investment scams do not only happen among the “less educated and less informed” public, but instead they can happen to most people. There are also many in financial centres like Singapore, fallen into the traps of scammers (see Exhibits).

The victims of financial scams may be more common among those with less financial literacy, but the main reason for people falling into such scams is human greed, which is a common trait in all of us. Some people are always sceptical of every investment proposal and keep all their savings in banks, but there are many people who lower their defences in pursuit of high investment payout.

Scammers are smart people. They understand human behaviour very well. They know of human greed and the temptation for attractive returns. Scammers always allow some early investors to obtain the promised attractive return, which serves as a testament for other investors to invest. Those who try in small amounts may even put in more money subsequently including taking up a loan to invest after obtaining the promised returns.

In most cases, the first question a prospective investor normally asks is – what is the return? Returns are always on top of people’s minds when considering an investment.

Risk is seldom the first question. As such, investors always chase after funds that performed well recently without thinking whether the risk is high now.

A few pointers to watch out for dubious schemes: -

- unreasonable returns
- too good to be true
- why do the promoters not approach listed companies or other big investors
- high referral commission
- how the money is invested is unclear
- where profits come from
- little protection on the investment

Exhibit 1: Losses to Scams



Exhibit 2: Scams are rampant



Exhibit 3: Regular reports of scams



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