

BRAMWELL BROWN LTD

INVESTMENT ADVISERS – BROKERS

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Bramwell Brown Limited – Newsletter – Christmas 2017

Investment Scams

Last month's newsletter about scams prompted a number of calls to the office. In the age of electronic communication it appears provincial New Zealand is just as accessible to crooks as London or New York. Plenty of Wairarapa residents have been the subject of unsolicited phone calls or emails from scammers in recent times. We have supposedly won the Spanish lottery, we have unclaimed Bitcoins in our name, our computer has a virus, or a Nigerian benefactor would like to give us a large sum of money. Below is another real-life example of someone who has succumbed to a scam. This and other examples can be found on the FMA website <https://fma.govt.nz/investors/avoid-scams/real-life-scam-stories>

Spotting an investment scam - John's story

John is age 53, a chartered accountant and an experienced investor. He owns a property, has KiwiSaver, a company superannuation scheme and invests in New Zealand shares. John recently lost US\$39,750 through a 'boiler room' share scam. A boiler room share scam involves bogus stockbrokers, usually based overseas, cold calling people to pressure them into buying shares that promise high returns. In reality, the shares are either worthless or non-existent.

How John was targeted

Initially John was contacted out of the blue by an Asian research company doing a survey of New Zealand businesses. A week later, John received another call. This time from a trading company based in China asking if John wanted to purchase pre-IPO shares in Alibaba Group. After initially saying no, he was contacted again shortly after by another more professional and persuasive member of the trading company and convinced to set up a trading account. After looking at the account and believing it was legitimate (having used other New Zealand share trading accounts), he decided to purchase US\$3,300 in shares. John was then contacted by the 'vice president' of the fake trading company, who proposed that he buy more shares. This time the offer was for shares Alibaba Group had asked them to sell on behalf of employees who wanted to free up their share packages. These shares were more expensive but John was told the vice president was working on a sales package for all their clients for when the shares listed.

John found media coverage supporting this story and after doing some online research into the company and the vice president, he felt satisfied the deal was legitimate. He made a further two share purchases to the value of US\$19,950. At this point a third member of the trading company got in touch, and remained in contact with John while the supposed sales deal was finalised. A couple of months later, he advised John that the deal was complete and asked for a further US\$16,500 to convert the share options before they could be sold. John made the payment and was issued with a 'memorandum of agreement'. At this point he noticed that the trading company's commission was suspiciously low and he could also find no record of the company mentioned on the memorandum.

Shortly after this the website closed and John realised he'd been scammed of US\$39,750. Since then, John has been contacted at least four more times by people claiming to be from legal firms acting on behalf of Alibaba Group. These callers have asked for further payments to help John recover his money. They've even claimed they can still make the share deal happen. Sadly, these callers are either part of the same scam or another group of fraudsters who've been sold John's details. The fact is, John has no means of recovering any of the money he has lost.

The warning signs

- The final question asked by the research company was 'Do you invest on your own behalf? John now believes that by answering yes to this question he became a target.
- One of the 'trading room' callers had a strong British accent and claimed to be a compliance officer for the trading company. When John called them back a few days later, the same person answered the phone (rather than a receptionist) and this struck him as suspicious.

TIP: Before investing, check that the business is legitimate. One way to do this is to check that they are licensed to provide financial services in New Zealand.

TIP: It is not difficult for criminals to create very credible-looking websites. Don't rely on a slick website as proof a business is legitimate.

The company John was scammed by was called PFM-Trading but scammers such as these regularly change their company names. As part of his research John looked at the [scamadviser](#) website. This site claims to assess websites for scam risk but should not be relied on. The trading company that contacted John was given a high trust rating by this site. John's story shows how anyone can be caught out by an investment scam, even experienced investors. In fact, capable investors are often more likely to be targeted. If you receive an unexpected call about an investment opportunity, hang up. Don't engage the caller as they'll use their skill to persuade you to part with your money. **If you think you've been scammed, you can report it to the Financial Markets Authority (FMA).**

US Interest Rates

The US Federal Reserve raised its benchmark interest rate on December 14th by 25 basis points to a range of 1.25% to 1.50%. The reason for the decision to increase rates was the economy's faster than expected growth, and strong job creation. There is an expectation that rates will be increased further through 2018. What does this mean for financial markets? When Reserve Banks increase interest rates it is generally a sign that economies are performing well. Rates are raised in an effort to limit inflation. Therefore owners of shares should not be overly concerned – presumably companies in general are performing well. A very sharp increase in interest rates would not be welcomed by companies, so hopefully any increases are small, and anticipated. The challenge for the economists is to keep a lid on inflation without limiting productivity growth.

Rising interest rates may cause concern however for bond holders. A bond purchased today with a coupon of 4.50% is going to be less valuable in a year's time if interest rates increase in the interim. However most clients of Bramwell Brown buy bonds with the intention of holding them until maturity. The value of those bonds during their lifetime is rarely a consideration. My philosophy has always been to reinvest maturing fixed interest at current rates. I have seen too many cases where investors have held cash on short-term deposit only to see interest rates slip back further.

Portfolio Reviews

I have been meeting with clients through December reviewing portfolios. The general trend is yet another increase in share valuations. New Zealand shares have performed exceptionally well, and international shares have not only increased in value, but have had a further boost following the drop in the value of the New Zealand dollar.

My advice remains the same – constantly review your exposure to shares and don't be afraid to take some profit where appropriate. Either reinvest in shares where you don't currently have exposure, or take some of the risk out of your portfolio and invest in bank deposits or bonds. If you would like to have a formal review of your investments don't hesitate to contact the office.

Portfolio Administration

Are you having trouble with the share registries sending your financial information via email rather than post? Are you spending hours searching for financial information for your accountant at the end of each financial year? If so Bramwell Brown can help. We offer a portfolio administration service where we handle all the mail associated with your portfolio and liaise with your accountant at the end of each year.

Call the office if you would like to discuss this service.

Christmas Office Hours



BRAMWELL BROWN LIMITED

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THE OFFICE WILL BE CLOSED FROM FRIDAY DECEMBER 22nd
AND WILL REOPEN ON MONDAY JANUARY 15th

I will be in the office periodically, so don't hesitate to ring and make an appointment if you need to see me. When I'm not in the office the phone will divert to my mobile – please ring or email at any time.

I would like to thank all clients of Bramwell Brown Limited for their ongoing support throughout the year. I hope you enjoy a relaxing holiday period, and I look forward to helping you with your investment decisions in 2018.



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