



Republic of Namibia

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ONLINE FOREIGN CURRENCY EXCHANGE (FOREX) TRADING SCAMS

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1. Background

The Financial Intelligence Centre (FIC) has noted with great concern members of the public increasingly becoming targets of the scams associated with online forex trading.

Online forex (also known as foreign currency exchange or FX) trading refers to the process of buying and selling of foreign currencies on the global foreign exchange market. Online foreign exchange is performed on a de-centralized (there is no central location) market between buyers and sellers that are located all over the world. These traders speculate on how the exchange rate will fluctuate (rise or drop).

The currency exchange rate is the rate at which one currency can be exchanged for another. It is always quoted in pairs like the NAD/USD (the Namibian dollar to the US Dollar). Exchange rates fluctuate based on economic factors like inflation, industrial production, economic and geopolitical events. These factors will influence the traders' decision of whether to buy or sell a currency. FX traders predict whether the exchange rate will rise or drop with the aim to buy a currency at a lower rate and resell it at a higher rate in order to make a profit. It is common that FX traders would thus hold on to a certain currency until it is profitable for them to sell such currency.

Example of Forex trading:

You buy USD 100.00 at the exchange rate of NAD 11.9500. One week later, you exchange the USD 100.00 back into Namibian Dollars at an exchange rate of NAD 12.5000:

$$*USD\ 100.00 \times 11.950 = NAD\ 1,195.00$$

$$**USD\ 100.00 \times 12.500 = NAD\ 1,250.00$$

$$NAD\ 1,250.00 - NAD\ 1,195.00 = NAD\ 55.00$$

You have thus earned a profit of NAD 55.00 on the currency exchanged.

However, if you exchange the USD 100.00 back into Namibian Dollars at an exchange rate of NAD 10.0500:

$$\begin{aligned} & * \text{USD } 100.00 \times 10.0500 = \text{NAD } 1,005.00 \\ & \text{NAD } 1,005.00 - \text{NAD } 1,195.00 = \text{NAD } -190.00 \end{aligned}$$

You will thus incur a loss of NAD 190.00 on that specific trade.

Online forex trading itself is not a scam, however there are plenty of scams associated with it. Like all industries, scammers will often take advantage of unsuspecting members of the public. The FIC has of late observed an increase in the frequency of scams related to forex trading, aimed at defrauding innocent members of the public. It is against this background that the FIC presents this guidance to raise public awareness on such fraudulent activities.

2. How do these Scams operate?

These are typical “get rich quick schemes”. The scammers understand that it is only human nature to take advantage of opportunities to amass wealth or profit with no or minimum risks for loss. They capitalize on such human nature. They use sophisticated advertisement techniques placed in different media platforms, including the internet, social media platforms such as Facebook, Instagram and Twitter to lure victims. These adverts usually promise high returns accompanied by images of luxury items such as state of the art houses, expensive cars and jewelry. Below are some of the most popular methods used by scam artists:

2.1 Unrealistic Gains

Scammers would normally claim to guarantee unusually high profits, promising little or no financial risks. They promise a hundred percent profit or even more on any investments made and in a very short period of time. The last thing they want you to think about is the possibility of losing your money.

2.2 Online Forex Trading Training

There are several self-declared forex trainers who are prepared to defraud unsuspecting members of the public. These trainers are driven by the volume of people they can fit in their training rooms and they charge a fee for this service. They are taking advantage of the fact that when it comes to training there is no standard to adhere to, no set of rules nor formal body that exists to regulate the type of forex training offered to people. This is how most scammers make their money.

2.3 Confidence and Urgency

Scammers usually sound very confident about the profits you will gain on your investments. This is to entice unsuspecting persons into feeling confident enough to commit to such investments. Their message is that *“they are doing you a favor by offering you a lucrative investment opportunity”*.

Urgency is very important to a scammer. Scammers usually come up with numerous compelling reasons why it is essential for you to invest with them very soon. They do not permit delays, to prevent potential victims from figuring out the scam, analyze the scammer’s proposals, or even conduct due diligence on the scammer’s proposals.

2.4 Referrals

Scammers usually deliberately pay huge profits to primary investors (from their personal or other peoples’ investments). The beneficiaries subsequently share their testimonies with close friends and family, who onward share it with their friends. This creates some validation of the scam. Eventually, the scammer no longer has to search for new victims, the potential victims come to him/her.

At times scammers recruit persons who have recently graduated as marketing executives and encourage them to convince their family and friends to invest in the scam. In return, they pay them (marketing executives) commission for recruiting new members.

2.5 Automated Trading and Signal Programs

The most advanced Forex trading scam are carried out as follows: Some of the scammers are selling illegitimate automatic trading systems which are supposed to generate automatic trades every hour of the day, for seven days (a week). They promise that these automated systems can continuously trade even when the trader is sleeping. These systems purportedly are guaranteed to earn investors profits regardless of circumstances involved.

Additionally, scammers are also offering illegitimate manual or automated systems that purports to identify favorable times for buying or selling a currency pair known as “signal sellers”. These systems supposedly rely on technical analyses, whilst others rely on ‘breaking news’ or on a combination of the two. Their aim is to provide information that leads to favorable trading opportunities. Signal sellers usually charge a daily, weekly or monthly fee for their services. Most of the signal sellers are scam artists and they are selling illicit systems. If it were really possible to use a system to predict the market, no one with this information would make it widely available, given its competitive advantage.

3. How do I protect myself from these Scams?

- 3.1 Before you choose a FX broker, perform the necessary due diligence (an investigation on the background of the business or the person prior to engaging their services). This could entail understanding where they are located and whether they are licensed by any authority to provide such services. If the FX broker claims that he/she is indeed so registered/licensed, contact such licensing/registration authority to verify the legitimacy of FX broker as a service provider. Additionally, also speak to reliable sources about the operations of the FX brokers as a service provider etc.;
- 3.2 Reject spontaneous investment offers made online, on social media or over the phone claiming to have a secret trading system that guarantees 100% profit and no financial risks;

- 3.3 Avoid FX brokers that do not want to provide complete information or those that avail incomplete information about their performance history;
- 3.4 Look out for high-pressure tactics (aggressive, persistent or persuasive) to convince you to send or transfer funds immediately to the FX broker's firm; and
- 3.5 Avoid taking recommendations from friends, family and even Forex trading training institutions, as they receive commissions for recruiting new members.

REMEMBER

Online forex trading carries a high level of risk, and may not be suitable for everyone. Before deciding to trade in foreign exchange, one should carefully consider the Forex trader's investment objectives, level of experience and risk appetite. Remember, you could sustain a loss of some or all of your investments. It is therefore advisable not to invest money that you are not prepared to lose. One requires a certain degree of knowledge/skill, a lot of hard work and patience to succeed in online forex trading, it is not a "get-rich-quick scheme".

All legal forex trading service providers in Namibia are registered and licensed by the Bank of Namibia's Exchange Control & Legal Services Department. Any firm or individual trading in forex without a license does so illicitly and is guilty of an offence. Therefore, members of the public should exercise extreme caution and verify the legality and status of the involved brokers before engaging them.