

SYNOPSIS

- The year has been a good one for many asset prices across the world
- Few risks are more dangerous to a nest egg than greed and euphoria
- Easy money rarely exists, so it's best to ignore those who promise otherwise

CAVEAT EMPTOR

The stock market has had a phenomenal run this year, and it has done so with very little volatility. The world economy is growing, and the risk of a recession seems to be far down the road. Cryptocurrencies like Bitcoin have soared so high that its market value now exceeds General Electric's market cap¹.

All of this excitement is creating a situation where the fear and panic embedded into investors after the financial crisis is slowly being replaced with something far more dangerous – greed and euphoria.

Emotions are viruses to an investment process and can inflict irreparable damage to a nest egg. Hence, it is up to us to avoid the temptation of swinging for the fences solely because we feel better about the world today than we did a few years ago.

Those who prey on the emotions of investors know this all too well, which is why it is no coincidence that I have noticed an uptick in financial scams this year. Fraudsters put so much effort into creating these fake websites and phony ads because they work exceptionally well when investors feel invincible.

One such ploy is known as a “pump and dump” operation. Here, scammers buy a stock and then advertise the potential for huge gains to hundreds of thousands of recipients through email, direct mail, and word of mouth.

¹ As of 11/28/2017

These schemes are often based off a credible story, whether it be a revolutionary new product, some medical breakthrough, or a soon-to-be corporate acquisition for a huge premium. They craft a ruse that triggers the part of our brains that allow euphoria to overpower logic and throw caution to the wind.

“Ignore any investment opportunity that pressures you to act quickly.”

The final hook in such a strategy is the requisite warning that potential investors must act fast before the word gets out because we all can remember a time where opportunity presented itself only to escape our grips due to indecision. It would be a shame to repeat such a blunder again.

As people start to buy the stock in anticipation of making huge profits, the price of the stock will increase. Once the stock rises past whatever threshold the scammers hope to achieve, they sell the stock and lock in profits.

The only issue is that the fundamental thesis for owning the stock is bogus, and the stock eventually tanks as the story unfolds. These schemes are highly illegal, but it's also very difficult to catch the assailants, so the scammers tend to walk away rich while the victims lose their shirts.

It's up to investors to protect themselves from such deviant behavior, so here are ten warning signs that an investment opportunity is most likely a scam.

1. **Guaranteed:** Any time the word “guaranteed” is used in relation to an investment opportunity, run away. No reputable investment firm's compliance department would allow this word to be printed on anything to anyone. Period.
2. **Unsolicited:** Investment opportunities that arrive unsolicited and/or come from an unknown source should be met with heavy skepticism.



- 3. Website Advertisements:** Anything being advertised on a website is nothing more than a tactic to get you to buy something so they make money. No company is going to pay for ad space for any other purpose.
- 4. Before It's Too Late:** Ignore any investment opportunity that pressures you to act quickly. Investment decisions should never, under any circumstances, be rushed.
- 5. By Invitation Only:** We all like to feel special, but assume any investment that is selective or urges you to keep the offer to yourself to prevent too many people from knowing about it to be nothing more than a scam.
- 6. Unrealistic Returns:** If it's too good to be true then it is a scam. Stocks that may double quickly are far more capable of going to zero in an even shorter amount of time.
- 7. Lack of Information:** If you are unable to find any public information about the investment opportunity either online or through other mediums, ignore it.
- 8. Protect Against the Next Crisis:** Scammers are well aware of the emotional response to such harrowing times as the financial crisis, so be very skeptical the next time someone tries to warn you about "the next 2008" for just a small fee.
- 9. Bogus Credibility:** Scams often try to establish credibility by posting awards or using fake endorsements. A more popular one I have seen is claiming to be an economic advisor to a former U.S. president.
- 10. You'll Regret It:** Any attempt to make you feel like you are making a mistake by passing on an opportunity is textbook manipulation.

A good rule of thumb is to approach all investments with a healthy dose of skepticism because this mindset will force you to conduct a proper amount of due diligence.

Also, be sure to run investment opportunities by your financial advisor because a second pair of eyes that is vested in your best interest can act as a second line of defense.

THE BOTTOM LINE is that few catalysts to poor investment decisions are more dangerous than greed and euphoria, so ignore any urge to deviate from your long-term investment plan for the hope of a quick buck.

SINCERELY,



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