

March is Fraud Protection Month:

I am changing a few of the details here to make this anecdote untraceable, but this is indeed based on a true story.

I had inherited a commercial loan file from my boss, which itself was a little intimidating. Maybe he sensed it was a good time to let it go – that the best-before date had come and gone, its scent beginning to turn. The client was well-known in the community -- a Top-40-Under-40 sort of guy, with a home in the swanky part of town. He owned a retail store situated in a prominent shopping district, and seemed to have it all together.

I was the new kid, and was easily brushed aside, at first, when he said he was too busy to grant me a walk through the back of his store to perform the required quarterly inspection of inventory. But my reports kept haunting me for completion:

February 7th: “Oh, yeah, sorry. It’s just been crazy lately. Can you try me next week?”

February 15th: “We are just getting ready to go to Mexico for a bit of a break. Call me in early March?”

March 4th: “My wife is sick. I need to run home and help with the kids. Sorry, try in a couple of days.”

March 10th: “Sorry, I’ve got to run to a meeting with the School for the Deaf.”

Me (inside my head): “We have a School for the Deaf? Well, whadyaknow?”

March 19th: “I really can’t today, I have to... uh, go fry my bananas for charity.”

My impatient reply, walking toward the back of the store: “This won’t take long. Let’s have a peak.”

The back of the store was nearly empty. Echoey. Like a country church when it’s not Ladies’ Sandwiches and Tea day. There were a few scattered things on vacant shelves, odd-sized items, and dust.

Him: “Oh never mind this. I have a fresh shipment in my warehouse. I can take you next week.”

Me, not feeling the religion: “How about now.”

Later that day I still had to chase him down and press for a visit to his magical warehouse. On arrival, to my great disappointment, (but not to my surprise) there was little more than junk. Boxes of stuff, not quite up to yard sale quality adorned the cinderblock building. An old TV, worn out furniture, used clothing, absolutely nothing of value.

He actually still thought he could convince me that it all had value, pointing to stacks of boxes, hoping I wouldn’t dig through them. I might have been the new guy, but my adult teeth had just about fully grown in by then.

But where did the money go? He had been siphoning it off from his business to fund his home renovation, and support his lifestyle. It was a soft and slippery bank robbery.

There are measures in place to help ensure that this sort of thing doesn’t happen in publicly traded stocks, but occasionally a crooked ownership team fakes the reports and effectively robs unsuspecting investors of their cash, shaking precious confidence.

Unfortunately our very own Vancouver exchange was notorious for this sort of thing. In 1989 Forbes labelled it “the scam capital of the world.” Eventually it crumbled under the weight of its own corruption

and had to merge with the Venture exchange back in 1999, when Gretsky was still on the Rangers' payroll.

But did you know there is a relatively new and COMPLETELY FAKE Vancouver exchange? Last summer the BC Securities Commission warned:

"... that a British Columbia (B.C.) company called Vancouver Stock Exchange Corp. (VSEC) appears to have been issuing stock exchange listings to companies in China and B.C. VSEC claims to operate from Kitimat, B.C., with an enquiry centre in Shenzhen, China."

Invest in the new VSE and get... a really expensive learning experience.

And Kitimat? I love Kitimat. But Kitimat?

Somewhere in the financial district there I suppose.

Back in 2011, Sino Forest Products was stuffing hard-earned money deep into the crack of the Chinese and Canadian couch. On March 31 that year, TRE closed at \$25.30 on the TSX. Worth about \$6-billion, it exceeded the combined value of West Fraser Timber and Canfor, Canada's biggest foresters. I had one client with a (fortunately) very small holding, and he lost it all. This one hurts.

Late last year, the OSC ruled against the owners of TRE, saying the directors: "... engaged in deceitful or dishonest conduct related to Sino-Forest's standing timber assets and revenue they knew constituted fraud." Industry professionals, fooled by the scam, also had to chip in to the settlement, including all the big Canadian Bank-owned firms (yes, this one too). Like I said, this one hurt.

Confidence is Everything:

Not only does confidence feed in to the expectation of future profits, and thus our willingness to take a risk, but the very existence of financial markets depends on reliable reporting, and on a credible regulatory regime which catches liars and punishes them. We might prefer to take them out back for a little... Hockey game, but alas.

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