

# DETECTING AND AVOIDING INVESTMENT FRAUD

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# Introduction

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Our team at Intel Suisse includes experienced investors, fund managers, fund seeders (establishing funds and allocating first capital), digital forensics experts, extensive financial markets experience and experienced fraud researchers – which we bring to bear in recovering assets and investigating financial fraud.

However, we always advise trying to avoid a fraud before it happens, so this presentation attempts to provide guidance in understanding and making an investment decision, what questions to ask, what issues to address and red flags to spot.

**Beware!! There are a lot of very smart financial fraudsters out there..**

# Presentation Contents

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1. **Why this Fund, Why this Manager?**
2. **Who makes money first?**
3. **Where does the money go?**
4. **How does the Investor make money?**
5. **Red Flags to cause concern..**
6. **Avoiding Investment Fraud!!**

# **1). Why this Fund, Why this Manager?**

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- 1. Fundamental question, why is this manager running this fund?**
- 2. Manager's track record, relevant experience, qualifications**
- 3. Big group backing or small team starting out?**
- 4. Potential one-hit wonder or a long-term commitment to succeed**
- 5. What happens if fund difficulties arise? ==> fraud, bail-out?**
- 6. Does this fund make sense – investment theme? Timing?**

## **2). Who makes money first?**

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- 1. Managers & Advisors – fee structure, how much they invested..**
- 2. Directors – overlap/independence, background/knowledge**
- 3. Placement Agents & IFA's – their commissions & influence**
- 4. Service Providers – fees, role appropriate for fund size**
- 5. Investors' rights – voting power, flow of information, intermediary?**

### **3). Where does the money go?**

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- 1. Fund bank account details, jurisdiction, bank reputation?**
- 2. How much use of funds for marketing (glitzy, ponzi promotion?)**
- 3. Investments in what – real or sham? where? newco's?**
- 4. Who owns what? Related party dealings?**
- 5. Fund documentation – consistency, regulator sign-off**
- 6. Web-site – real names/bios/photos? Consistent with documents**

## **4). How does the Investor make money?**

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- 1. Returns – how is the NAV calculated? Independent?**
- 2. NB. consistent +ve returns.. 99% of funds lose money at some time**
- 3. Returns to good to be true, against market trend inexplicably?**
- 4. Lock-up and redemption terms and processes**
- 5. Invest small, redeem before investing bigger, if possible..**
- 6. NAV Accounting – web-site vs reputable independent administrator**

## **5). Red Flags to cause concern..**

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- 1. Change of Administrator, Auditor, Banker (why??)**
- 2. Constant, +ve returns (NB Madoff or Ponzi schemes)**
- 3. Returns too good to be true? Against market trends?**
- 4. Change in investment terms – chasing profits?**
- 5. Weird structure or ill-reputed jurisdiction?**
- 6. Overall smell... (Trust your senses or ask us!!)**

## **6). Avoiding Investment Fraud!!**

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- 1. Check all documents/due diligence beforehand**
- 2. Continue to monitor media post-investment**
- 3. If unsure, redeem/take profits early**
- 4. Find and talk with other investors – blogs, social media**
- 5. Speak to directors or regulators**
- 6. Avoid poor-reputaion jurisdictions**
- 7. Ask experts.., or Ask Us!!!**