ASIC

Australian Securities & Investments Commission

REPORT 15

Hook, line & sinker: Who takes the bait in cold calling scams?

June 2002

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Who takes the bait in cold calling scams?

This report should be read together with ASIC's other report about cold calling, *International Cold Calling Investment Scams*, which is freely available in hardcopy and from ASIC's FIDO web site: www.fido.asic.gov.au

Prepared by the Australian Securities & Investments Commission (ASIC).

June 2002

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Background

The cold calling operations featured in this report called from overseas locations, offering investments in foreign companies traded in the US over-the-counter (OTC) market. Investors in the scam were left with low value sale restricted stock, or with nothing at all. While this is one of many scams ASIC has dealt with over the last decade, it has been a particularly effective rort, having now cost Australian victims many millions of dollars. In response to increasing complaints from the public, ASIC commenced its official campaign against the activity in January 1999. ASIC has issued warnings, cooperated with international authorities and, in some cases, taken enforcement action. One of the most publicised actions taken against cold calling occurred in July 2001, when Thai authorities raided several cold calling premises. While the large increase in cold calling queries to ASIC suggests that this publicity did alert many people, many more may still be unaware of the scam.

Research aim

It is important to learn as many lessons as we can from successful scams to help deal with future fraud. ASIC regards education and warnings as vital parts of its response to scams. The research described in this report was conducted to enable ASIC to respond to and pre-empt the detrimental effects of these, and similar, rorts. Pre-emptive strategies are particularly important in the case of foreign investment scams because cross-border jurisdictional issues limit ASIC's avenues for legal response. It is also inevitable that new scams will emerge. Given the extent and impact of cold calling scams, ASIC was concerned its messages were not reaching those at risk. In order to appropriately target its messages, ASIC sought to better understand how investors came to accept and trust these people with their money. Accordingly, ASIC conducted a research study into the demand side of the cold calling phenomenon.

Research sample

A sample of both investors (41) and non-investors (39) were interviewed and asked to describe their cold calling experience and account for the decisions they made. The sample was drawn from the population of callers who had been approached by foreign investment companies to the ASIC Infoline and Complaints Department during the six-month study period from February to August 2001. The interviews were analysed for themes that elucidated the mechanisms by which the interviewees made their decisions. Ninety percent of the sample was male, and one-third resided in New South Wales at the time of the interview. The interviewees ranged in age from 20-29 to over 70 (median age range 40-49 years), and just under one-third were between 40 and 49 years of age. The median salary range was between $AUD60,000 and $AUD79,000. The majority (70%) had previous investments in Australian shares, and a small proportion (8.7%) already had foreign shares. Forty-one interviewees in this study invested over 2.5 million Australian dollars in these scams, yet they represent less than one percent of the people who called ASIC about a cold calling experience.

Key findings

While cold calling scams are not new, a number of features of this scam distinguished it from other scams ASIC has encountered, in particular when the impact was so widespread. The two main points of difference between these and other scams ASIC has encountered are discussed below.

1. Sophisticated operations

Some features of the Asian-based cold calling scams are quite similar to other scams, including other penny stock frauds, and there were of course some crude high-pressure approaches used in the scam. However, in general the techniques used in this scam to persuade people to part with their money were relatively sophisticated compared to most "investment" scams encountered by ASIC. This is especially true for a scam with this reach. Accordingly, people (investors and non-investors alike) were not necessarily immediately alerted to the scam: while a few claimed to have "known from the start", it took even the majority of non-investors a number of conversations with the cold caller before they were sufficiently convinced to reject the offer. Some of the particularly effective practices used by cold callers included:

- Emphasis on **building client trust** and relationship rather than merely high pressure selling. Callers returned "clients'" calls promptly and addressed their concerns
- Simulated "**chain of command**" of callers where potential investors were referred and passed between "senior advisers" or "managers" and more junior administrative staff, giving the impression of a large company
- Referral to superficially **impressive websites** for both "broking" company and companies in which stock was apparently bought
- Referral to websites where "clients" could **track the price of their stock**
- Provision of **paperwork** including brochures, investment capacity questionnaires, confirmations of sale, tax exemption forms
- Use of **referees** who would reassure the potential investor that their dealings with the "broking" company had been satisfactory and that they (the company) were legitimate.

2. Heterogeneous targets

In terms of the targets of the scams, there was little demographically to differentiate those who did invest from those who did not. Investors and non-investors were of similar age, educational background, and proportion owning shares. It is also important to note that a few non-investors were almost investors except they were "saved" from investing by some external event. There were, however, a large number of people involved in their own business, and men were over-represented. Caution does need to be exercised in generalising these findings, as the present group was selected only from those who contacted ASIC.

From the data collected in the interviews, it seems that the reasons as to *why did some people choose to invest while others did not* could be classified into two groups:

- *People did not recognise the offer as a scam* and were either attracted or not attracted to the offer (this includes both investors and non-investors), OR
- *People recognised the offer as a scam*, and therefore did not need to go any further to reject it.

That is, ASIC did not simply look at those who invested versus those who did not, but rather those who saw a scam versus those who did not. ASIC is interested in arming people so that they can recognise the real markers of legitimacy and legality in investments and thereby quickly reject callers/offers that do not meet these standards (rather than evaluate these scams as investment opportunities). ASIC was therefore interested in understanding why people invested. ASIC was also interested in understanding why certain people did not invest. As the classification above makes clear, ASIC was not interested in focusing on all consumers who did not invest (for example because they did not have spare funds), but rather it wished to understand the behaviour of the subset of people who did not invest because they clearly recognised the scam. Thus, the focus of the analysis was on:

- What factors alerted non-investors (and eventually investors) to the fact that it was a scam?
- How did investors interpret these factors in a way that did not alert them to the fact that it was a scam?

From the analysis described in this report it is clear that there was no easily identifiable single factor that marked out non-investors from investors. It would appear that the interviewees identified a scam in a range of ways and after varying lengths of interaction with the cold callers. Further, warning signals to one group of people were not so for another. However, while there was no single issue that could be targeted, we identified five major themes as to how people were alerted to scams:

Theme 1: "Out of the blue"

An interesting finding was that some interviewees were immediately alerted to a scam by the fact that they were cold called. These non-investors felt that it was inappropriate sales practice to cold call.

Yet others thought this was a legitimate and routine sales technique. Because many business owners receive numerous legitimate cold calls from other types of enterprises, they did not see the practice of cold calling by the "investment" firm as unusual or a cause for caution. The sales culture of their day-to-day business dealings in effect desensitised them to being called "out of the blue" with some sort of offer.

Theme 2: "Too good to be true"

The promise of high returns in a short space of time was cited by many non-investors as a sign for them that the offer was a scam. Returns quoted by the cold callers were often 200 to 300 percent above the asking price and, although attractive, were seen by some people as "too good to be true". On this point it is clear that some investors ignored warning signs that should have made them reject the offer. It is a common observation that greed can contribute to a susceptibility to scams.

Yet many did not see high returns as indicative of a scam and it is important to go beyond the common explanation of 'greed' to understand this behaviour. While greed was a factor for some investors, these people were also able to accept the promises by explaining them away through various means. For example, some investors saw the offer as normal sales hype and/or conceived of the "investment" as a gamble dependent on luck, where the realities of market forces and business practice (and hence an evaluation of whether these would allow for the returns promised) were side-stepped. It is also important to note that a considerable number of victims were approached during or soon after the stock market boom and in particular the technology stock bubble. Thus, big returns were seen as "possible" given the spiralling prices they were reading about or hearing about in the media on a regular basis. Finally, it is also the case that for some victims the lack of financial experience and/or numeracy contributes to a lack of understanding of what constitutes a "realistic" return.

Theme 3: Foreign investment

A third trigger for suspicion was the foreign nature of the offer (either the stock or caller), as almost without exception, the stocks were in foreign markets (commonly the US) and the "brokers" were located overseas (typically Asia, though it should be remembered that many callers had "familiar" accents). Some people felt that being approached about overseas stocks and/or by foreign brokers was suspicious in and of itself - some supposed that if your money was overseas and something went wrong it was harder to recover. Others felt foreign investment operators were inherently worthy of distrust.

Conversely, rather than a signal for caution, other interviewees felt "foreign investment" signalled an opportunity to enter lucrative markets, to diversify their portfolios, and to branch out from the more pedestrian and limited Australian share scene, without considering the less risky ways of doing this through locally based financial institutions. In effect, they took seriously the urgings of legitimate investment firms and advisers to diversify, but did so in a way that ultimately proved disastrous for their own financial well-being.

Theme 4: Tests of evidence

Interviewees who refused cold callers' offers often mentioned the illogical nature of the offer as an indication that they were not dealing with a legitimate operator. These people felt that they had tested the evidence before them and it "did not add up". The illogical elements cited included: the structure of the offer (for example the sale of shares in blocks); the expected performance of the shares when the market indicated otherwise; and the fact that if there was so much money to be made from the shares, why were "brokers" seeking investors instead of retaining the shares for the themselves? This latter point – questioning the brokers as well as the investment offer – sometimes contributed to the identification of the scam.

By contrast, many of those who invested felt that there was logic to the offer, in so far as they could see (for example) the share they had "bought" (or were offered) performing as expected (via the website recommended by the cold caller), the companies appeared to exist (which they checked through using the numbers and websites proffered by the cold callers), the concept of the stock was logical (for example smart card technology), and the callers were consistent and professional in their practices (for example they returned calls promptly and sent information when requested). What distinguished these two groups was the relevance and independence of the evidence they assessed and the degree to which they recognised their own shortcomings in terms of knowledge.

Theme 5: Third party advice

Finally, some of the interviewees became aware of the scam because they received advice from a third party. This third party was sometimes a friend, a relative, or more formally, an Australian investment adviser or ASIC itself. But third party advice was not always opposed to making the "investment", nor was it always heeded when it did suggest avoiding the investment. One interviewee who invested was advised by ASIC not to deal with the cold callers, but rejected that advice on the grounds of "resistance to bureaucracy". Thus, while third party advice was often helpful, it did not always perform a protective role.

Implications

A number of implications for future education and regulation arose out of the above findings:

1. When describing scams so consumers may recognise them, it needs to be emphasised that they may not necessarily be obvious. These cold calling operators use a range of subtle techniques and props, and legal and illegal practices to simulate legitimacy.

2. In order to establish the legitimacy of an investment offer, consumers should be encouraged to first check the credentials of those making the offer and do so through independent and reliable means. This is a key result for education, i.e. to first focus on the offerer, not the offer. Consumers cannot afford to rely on the information recommended by those making the offer and should seek out official sources such as government authorities to validate what they are being told.

3. There is an ongoing need to improve the financial literacy of consumers, especially given the recent surge in participation in the direct share market. Some consumers are underestimating the gaps in their knowledge and there is scope for further clarification of the legalities involved when investing and the implications of conducting business illegally.

4. The implications of investing overseas through overseas-based firms need to be highlighted to retail consumers, as many of those caught in the scam did not anticipate the difficulties this raised when things went wrong. Investors need to understand that investing in foreign companies and stocks can be easily undertaken through licensed Australian-based investment firms.

5. Finally, consumers are heterogeneous and are active interpreters of the information they receive. Therefore, the messages and the media through which they are convened need to be appropriately diverse and targeted where possible.

There is more sophistication to the cold calling rorts than may be expected by potential investors. Further, there is significant complexity in the conceptualisations of risk that people bring with them to the cold calling situation, as well as the interpretative frameworks through which they understand the information given to them both by the callers and by their own formal and informal advice networks. Therefore, messages formulated to reduce the success of such operations must engage with the logics people use to filter information, be multifaceted, and be conveyed through appropriate media.

About this report

This report is one of two reports ASIC has released about international cold calling investment scams. The other report, *International Cold Calling Investment Scams* outlines more about the extent of the scam, how it works and what ASIC and other authorities have done and propose to do about the problem. That report is freely available in hardcopy (from infoline@asic.gov.au or 1300 300 630) and from ASIC's FIDO web site: www.fido.asic.gov.au (under the special cold calling link). This report is a more in-depth look at the consumer side of the scam. You may find some overlap between the two reports, but you will find that even where this occurs, either report has greater or lesser detail than the other according to its purpose. Because they complement each other, we recommend you read them both.

The cold calling scam characteristics outlined in this paper are based on the experiences of people who have contacted ASIC and are therefore not necessarily representative of all of those who may have been scammed. In addition, cold calling operators may modify elements of the scam over time (for example they may choose to operate out of regions other than Asia). For this reason, the cold calling practices featured in this report should only be read as indicators of how cold calling scams *can* operate, rather than components of a definitive model.

Because of the complex and technical nature of cold calling scams (for example the legislative impacts and financial terms), this report includes a Glossary for the reader to refer to when reading the report.

The cold calling anecdotes featured in this report are based on the real experiences of people who have contacted ASIC. However, to ensure privacy, interviewees' real names have not been used.

Introduction

What is cold calling?[1]

Cold calls are unsolicited approaches by sales people and are often an accepted and legitimate part of Australian business culture. However, the specific cold calling activity described in this report concerns overseas organisations that pose as large brokers/investment houses and approach investors, offering them shares in offshore companies trading in foreign markets over the telephone. Contrary to the impressive promises made by the cold callers, investors are, at best, left with deflated shares in small 'start up' companies that are unlikely to get off the ground and, at worst, are left with nothing. While cold calling scams are not new, public complaints to ASIC about these overseas based operations have indicated that the current incarnation is particularly successful. In Australia alone, at least $AUD400 million has been sent offshore to these companies. Notwithstanding the large portion of those victims that cannot be accounted for, ASIC records show that more than 7,000 people contacted ASIC about a cold calling experience between January 1999 and January 2002 and Australian victims came from all over the country. ASIC is aware of at least 82 cold calling broker firms offering shares in no fewer than 80 companies.[2] Australia is not the only nation affected by these scams and, given the sum spent by Australian investors, global losses would likely be in the vicinity of billions of dollars. Accordingly, the problem has been the focus of activities by (and cooperation between) various regulators around the world.

These cold calling operations (also known as "boiler rooms") typically consist of a room of sales people who cold call potential investors, using sophisticated scripts and clever sales techniques. They take on a series of 'roles', using an array of impressive (but fake) names, titles and business addresses. Although they often claim to be based in international cities such as Tokyo, London and New York, their actual operations have been traced to countries such as Thailand and the Philippines. In light of the illegal nature of their activities and the large sums involved, ASIC has received yet unsubstantiated allegations that these operations have links to organised crime. However, authorities believe that many of the sales staff are international tourists lured by the promise of high commissions. Hence, they often have Western accents, despite the fact that they are calling from Asian regions.

The operators of the scam use phone and mail technology to mask their true size, location and identity. These 'virtual offices' enable the organisations to operate their scams for a finite period of time, siphoning off the returns before investors and authorities detect their criminal activities. They may then open a 'new' company under a new name, with a new set of numbers and with new bank accounts, where they begin the process yet again. Investors with the 'old' company are left stranded, unable to contact their 'broker(s)'. It is often at this point that investors realise they have been scammed.

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[1] For more detailed information on cold calling scams and what ASIC has been doing about them, please see ASIC's report *International Cold Calling Investment Scams* available from FIDO: www.fido.asic.gov.au (under the special cold calling link)

[2] a) Some of these 82 are thought to represent different guises of a smaller number of actual operations.
b) ASIC's list of names is available at: http://fido.asic.gov.au/ (select the *Cold calling: o/seas offers by phone* link then *List of Names*).

Although these scamsters cunningly blend legal and illegal practices (for example some investors do end up with shares, however worthless and however deceptive the sales practice used), cold calling operations break Australian law in a number of ways. These are discussed below.

Illegal 'unlicensed' brokers

Offering shares via an unsolicited phone call is illegal according to Australian law.[3] Further, organisations making investment offers are also acting unlawfully if they are not licensed in the country in which the people they are offering the shares to reside.[4]

Australia has a licensing system in place to regulate the financial industry in order to shield investors from inappropriate investment practices. Australian licensed dealers, advisers and their authorised representatives must, by law, act honestly, efficiently and fairly. If they do not, the consumer has legal rights that help protect him/her (i.e. by giving them adequate and affordable means of recourse if things go wrong). ASIC licensees must meet minimum educational and experience requirements, supply references, pass police checks and disclose matters that may reflect on their character or honesty. They are also subject to research, compliance and certain financial requirements.[5] It is possible for consumers to check if an adviser is licensed (or authorised) by ASIC to give investment advice or deal in securities – via a free Internet or hotline service that searches ASIC's register of licensed and authorised advisers.[6] As an example of how important it is for consumers faced with unsolicited investment offers to make these checks, ASIC is aware of instances where cold callers have falsely claimed to be registered with ASIC (a claim that would quickly be disproved, thereby revealing the scam, following a check of ASIC's database).

Not all countries have licensing systems. Each country has different regulations on investment offers and advice. However, irrespective of any overseas registration or regulation, anyone dealing in securities or providing investment advice to a person in Australia must be licensed with ASIC. An individual or company not registered (i.e. licensed) in Australia may not be in an adequate position to offer advice on (or deal in) securities and may therefore not be acting in the consumer's best interests.

False, deceptive and/or misleading information and conduct

Clearly, cold calling operators mislead potential investors about the nature and intent of their operations. Though fraudulent, they behave in a way that makes them appear genuine to many potential investors (until they no longer require the façade, at which point they may cease efforts to appear legitimate and move on to the next investor). Cold caller scripts are carefully constructed to ensure callers sound genuine and the scripts indicate that country specific research about share markets has occurred.

[3] For a list of Australian laws contravened by cold calling operations, see Appendix A.
[4] As above.
[5] For more detail on the requirements that applied during the period talked about in this report, you can download a free copy of the *ASIC Dealers and Investment Advisers Kit*, by going to www.asic.gov.au (Select Licensing under Financial Services. Then select Pre AFS Licensing and Information for licensees yet to transition under the FSR Act. Select dealers and investment advisers and then scroll down to find a copy of the *Licensing kit*). For information on licensing requirements after March 11, 2002, select from the home page: Licensing under Financial Services. Then select AFS Licensing.
[6] www.fido.asic.gov.au/ (select the *Check ASIC's databases* link). Alternatively, the email address for ASIC's Infoline is infoline@asic.gov.au. The phone number is 1300 300 630.

Posing as legitimate brokers

Cold callers may do one, several or all of the following things to mislead a consumer about their legitimacy as a broker:

- Send (by courier) written brochures that resemble prospectuses and appear expensive
- Ask questions that legitimate advisers sometimes ask about the consumer's attitude toward financial risk in order to determine a 'risk profile'
- Suggest the consumer 'research' their organisation, as well as the investment companies on offer. This research includes links to impressive-looking web sites about the (broker and/or stock) companies. They also send links to NASDAQ or Bloomberg web sites, which they misleadingly infer endorses the stock when in actual fact it merely displays it
- Offer the consumer time to "think" about the investment offer before they call again
- Imply (implicitly or explicitly) they are interested in a "long term relationship" with the consumer as a "valued client"
- Pass the investor on to more 'senior' (albeit no less fraudulent) members of their organisation to make them feel important and lead them into further sales
- Supply the contact details of 'local' (i.e. Australian) referees who confirm the legitimacy or success of their dealings with the cold calling company (this can either involve people who dealt with the company and made 'apparent' profits (i.e. first wave clients) or 'virtual offices', where the calls appear to be local but are switched back to overseas locations without the potential investor's knowledge)
- Assume company names that sound similar to large and/or well-known legitimate financial companies
- Insinuate they have relationships with legitimate local and/or international companies
- Return all calls from the investor in a timely fashion (until they move onto the next wave of investors, at which point they may become difficult to contact)
- Use fancy letterhead (that displays false addresses and business titles)
- Claim they are registered/licensed with ASIC and/or a prospectus has been lodged with ASIC
- Provide receipts of payment and, in some cases, actual share certificates
- Send emails or other correspondence to investors distancing themselves from any existing investigations (some even sent out 'warnings' to investors of 'less reputable' brokers)
- Use jargon and/or company names of the market local to the person being targeted (see Appendix B for excerpt from a cold caller script).

Misleading securities offers

In addition to falsifying their *identity*, cold callers almost always deceive the people they have called about the *investments* they are offering. For example, they may do one, several or all of the following:

- Offer shares in companies that they do not have
- Suggest the returns will be higher and/or faster than they will (or can) be
- Make out that the performance of the company on offer is (or will be) better than it is (or will be)
- Present their predictions about performance and/or price as 'guaranteed'

- Suggest the company on offer will definitely list at a certain time (or by a certain time) when it has no present (or sometimes future) intention to list
- Purport the stock is a certain type of stock (e.g. safe, liquid, NASDAQ listed) when it is not (e.g. risky, volatile, OTCBB listed)
- Not mention or underplay risks associated with the type of stock they sell
- Insinuate the stock is endorsed by legitimate entities when it is not (e.g. Bloomberg)
- Claim a prospectus for the company has been lodged with ASIC (when it has not)
- Promise a refund if the stock does not perform as stated (which is not fulfilled)
- Switch between $AUD and $US quotes to confuse the actual investment sums required
- Suggest the transaction is insured when it is not
- Not mention important restrictions on sale of the stock
- Allude to enticements resulting from insider trading, offshore ("tax free") accounts and share discounts (some also suggest there is no prohibition on illegal activities such as insider trading in the country they claim to be based in)
- Suggest all conversations with the cold caller have been taped and that, in a previous phone call, the potential investor declared some interest in the offer and is therefore obligated to purchase
- Give the impression investors are free to sell whenever they like but refuse (or pretend) to sell when asked.

This is not to say that all cold callers use the same techniques (or will in the future), or that all potential investors are convinced. Some cold callers do behave in a way that makes it clear to some that they are illegitimate. Furthermore, those who use the above-mentioned devices to denote legitimacy may also use pressure, intimidation and harassment, albeit often later on in the sale process. It is the use of (and consumer response to) these devices that this report attempts to explore.

Consumer recourse and protection

Because overseas cold calling operations are not covered under Australian law, recourse for victims of these particular cold calling scams is very difficult. Unless the operators are Australian (or enter the country to engage in illegal activities), Australian authorities are limited in their ability to enforce their powers. To offset this, ASIC has used a multifaceted approach to fighting the problem, including international cooperation and the issuing of warnings. In order to maximise the power of its preventative strategies, further understanding of the cold calling phenomenon was considered a priority. The research described in this report is an outcome of that aim. The findings serve to highlight the key issues regarding consumers' interaction with cold callers, with a view to informing future strategies for education, prevention and further research.

HOOK, LINE AND SINKER: An empirical research project on cold calling scams

Research question

Given the extent and impact of the cold calling phenomenon, ASIC was concerned that the warnings and educational messages it offered were either not being seen by those at risk, and/or that the messages were being seen but were not being heeded. In order to produce appropriately targeted messages, ASIC therefore needed to better understand how investors came to accept and trust these people with their money, and also understand why some people exposed to the same selling techniques saw fit to refuse. With these objectives in mind, ASIC conducted a research study into the demand side of the cold calling phenomenon.

The findings yielded by this research constitute a vital tool in ASIC's armoury for combating cold calling foreign investment scams, especially given the aforementioned limited avenues for the restitution of monies to consumers caught by the scam, and similarly problematic enforcement remedies. Further, by drawing out the principals by which the currently circulating scams ensnared consumers, ASIC will be better equipped to respond quickly and effectively to future rorts.

Method

An abbreviated outline of the method used in the research study follows. For a more complete description, please see Appendix C.

Design

In order to elucidate the reasoning behind the investment choices of people cold called by foreign investment companies, a qualitative research methodology was employed. A sample of both investors and non-investors were interviewed and asked to describe their cold calling experience and account for the decisions they made. Rather than being an uncorrupted account of scams and subsequent investment decision-making, these narratives are a reconstruction of events as they were understood by the interviewees. As such, they afford an insight into the demand side of this phenomenon previously unknown to ASIC, and therefore will inform education that will be directly relevant to those at risk.

Sampling

The sample was drawn from the population of callers to the ASIC Infoline and Complaints Department who had been approached by foreign investment companies. Calls to ASIC by investors during the six-month study period (495) far outnumbered those from non-investors (53). Therefore, for the purposes of this study, the entire population of non-investors was selected for participation. Investors, on the other hand, were selected by randomly drawing 50 people from the Infoline and Complaints records. Potential participants were contacted by telephone and, after being told about the study objectives and requirements, were invited to participate on a voluntary basis (see Appendix D for interview supporting documents). After a number of people refused to participate, or were found to be unsuitable or uncontactable, the final sample size of 80 interviewees was reached. The response rate for those candidates who were suitable and able to be reached was 90 percent (93% of non-investors and 87% of investors).

Data collection

The study used a one-on-one semi-structured interview format (see Appendix D for interview schedule) with two interviewers splitting the sample between them and conducting the interviews over the telephone. Investors, on average, took longer to interview (median 51 minutes duration) than non-investors (median 29 minutes). All interview material was de-linked from the names and contact details of interviewees, and respondents are only identified by study ID number or pseudonym in this and any other publications utilising study data.

Data analysis

The detailed notes taken during the interviews by the researchers (AG and CM) were put into electronic format and read into a qualitative software analysis program (NVIVO). The data was then reviewed using the retrieval mechanisms of the NVIVO software, and analysed for themes that recurred throughout the interviews around interviewees' decision-making processes. The themes were selected, not so much for their popularity (although some of the strength of a theme may be related to the extent to which it is mentioned) but more for their ability to elucidate the mechanisms by which the interviewees made their decisions. However, the themes described here, and the quotes used to illustrate them, should be viewed as only one approach to making sense of the data collected.

Findings

Demographic Profile

A summary of the demographic characteristics of the sample is displayed in Table 1. Although this information is divided into investors and non-investors, no formal statistical comparisons were made between these groups. Formal comparisons were not appropriate due to the non-random nature of the population (i.e. the population consisted only of people who had called ASIC, not all people contacted by cold callers) and the problematic issue of defining the two groups as truly independent of each other (for example, some non-investors were potential investors, but were "saved" before they made their investment).

Table 1: Demographic characteristics of interviewees (n = 80)

Variable	Percentage of Investors[1]	Percentage of Non-investors[1]	Percentage of Total[1]
GENDER			
Female	9.8	15.4	12.5
Male	90.2	84.6	87.5
AGE			
20-29	7.3	0.0	3.8
30-39	19.5	17.9	18.8
40-49	36.6	28.2	32.5
50-59	19.5	33.3	26.3
60-69	14.6	15.4	15.0
70+	2.4	5.1	3.8
EDUCATION			
Secondary school	30.0	25.6	27.8
Certificate/Diploma	40.0	28.2	29.1
Degree	40.0	46.2	43.0
OCCUPATION			
Accountant	9.8	7.7	8.8
Manager/Director	17.1	33.3	25.0
Own business	36.6	15.4	26.3
Other	31.7	28.2	30.0
Semi-retired	4.9	15.4	10.0
INCOME			
< $20,000	0.0	5.3	2.6
$20,000 - $39,000	2.2	13.2	17.9
$40,000 - $59,000	32.5	23.7	28.2
$60,000 - $79,000	22.5	26.3	24.4
$80,000 - $100,000	7.5	2.6	5.1
$100,000+	17.5	28.9	23.1
STATE OF RESIDENCE			
ACT	0.0	7.7	3.8
NSW	34.1	33.3	33.8
VIC	19.5	23.1	21.3

Variable	Percentage of Investors[1]	Percentage of Non-investors[1]	Percentage of Total[1]
QLD	21.9	12.8	17.5
SA	9.8	5.1	7.5
WA	7.3	10.3	8.8
NT	2.4	0.0	1.3
TAS	0.0	2.6	1.3
Unknown	4.8	5.1	5.0
INVESTMENT HISTORY			
Has direct Australian shares	71.0	69.0	70.0
Has foreign shares	5.0	13.0	8.7

Notes to table
1 Proportion may not add to 100 percent due to rounding

Of the 80 people who were interviewed, there were 39 non-investors and 41 investors. Ninety percent of the sample was male, and one-third resided in New South Wales at the time of the interview. The interviewees ranged in age from between 20 and 29 years to over 70 (median age range 40-49 years). Just under one-third were between 40 and 49 years of age. The median salary range was $AUD60,000 and $AUD79,000. The majority (70%) had previous investments in Australian shares, and a small proportion (8.7%) already had foreign shares.

Table 2: Details of monies invested in cold calling scams by interviewees (n=41)[7]

Amount Invested ($AUD)	%
<$10,000	17.1
$10,000 - $29,000	31.7
$30,000 - $49,000	12.2
$50,000 - $99,000	14.6
$100,000+	17.1

A breakdown of the amounts invested by the current sample is shown in Table 2. The total estimated amount of money invested by the 41 investors included in this study was just over 2.5 million Australian dollars. The median amount invested by the investor subgroup was approximately $AUD17,000, with a range of $AUD3,900 to $AUD500,000. Although almost half of the investors parted with less than $AUD30,000, a sizeable minority (seven people) placed over $AUD100,000 with the cold calling companies. One interviewee invested $AUD13,000, but reported he recovered $AUD8,000 by deceiving the cold calling company into returning it to him (under pretext of future investment).

7 These estimates are not derived from exact amounts. Some interviewees were able to give exact amounts invested by looking at their receipts and records, whereas others estimated it. These figures, therefore, should be treated as good estimates.

The bait

As stated above, detailed notes were taken during the interviews by the researchers. In order to illustrate some of the main features of the experiences of investors and non-investors, two examples of the record of interview taken are given below. These transcriptions do not represent the notes taken from any one of our interviewees, but are fictionalised accounts of a "typical" investor and "typical" non-investor. Those phrases enclosed in double speech marks represent direct quotes of the fictional interviewee(s).

Example of a "typical" *non-investor's* cold calling experience[8]

Colin was called by Berkeley Samson International in March 2000. He did not enquire how they knew his name and he is not sure why they called him in particular. However, at the end of his experience, they asked him if he would pass on details of any friends who may be interested so perhaps they got to him this way. The caller was always the same person - a man with an American accent named Dennis Shaw. He said that they were interested in making him some money and that could they can send him some information which he agreed to. He said that he said yes because he had been exploring investment options and it had all come to nothing so he did it more out of curiosity. He did not question the broker's legitimacy at this point.

The caller said that they were involved in "free-" (or pre-) floats and listed companies looking for more capital, more or less start-ups. He said that they could achieve a return of 30-100% in three months. He said that this just "sparked my suspicion straight away". They reiterated that it was a "wonderful opportunity" and "I know you don't know me, but if you do one trade with us you will get a quick return". They said that he would get to know them and that they could "build a relationship" with him. He told the caller that it sounds good but that he needed to investigate it further. The caller said, "you have to get into this real quick", and they gave him the Bloomberg's site to have a look at Interactive Solutions. Colin observed that, "they did have a fairly comprehensive web site". They appeared "sophisticated" and had a Bloomberg chart.

The calls occurred daily, sometimes even twice a day. Colin was out of town a lot during the calling period so the caller left many messages. He was not going to take any notice but it gradually became "interesting". Colin believes this was due to the "persistence" of the caller. On one call, Dennis indicated that there'd be a report regarding new technology soon. The shares were currently $US6 but were expected to double after the report was released.

[8] This scenario is a cumulation of *several* interviewees' experiences, as recorded during the research survey. For this reason, some of the actions and company names may not precisely correspond with the offers indicative of the said broker company.

Then he asked himself, who is this group telling me I can invest overseas? He said Dennis was likeable, confident, and believable. Colin remembers, "I was surprised how knowledgeable the guy sounded". But he said he never intended to send money overseas. He didn't think they were legitimate because the returns were unbelievable. He said, "You just don't have these magic companies". Colin also discussed the offer with his wife and, by the third time he had spoken to Dennis, they'd decided there were "too many unknowns". He said that the way he reacted was typical of him – he wouldn't deal with cold calling for anything. He said that he would "never deal with someone I didn't already have a connection with in matters of that kind so I guess it was easy from that point of view".

Berkeley Sampson rang again and he said he had reviewed his finances, and he couldn't see his way clear to invest. Two months later they rang again to follow-up and had an exciting proposal. Colin said that he "fobbed them off" saying that he had no spare funds. That was it, he hasn't heard from them since. He rang ASIC because he saw the report on TV and if he hadn't seen it he would have probably just left it. When he saw about the raids he felt he had the moral obligation to provide info to ASIC to help others who may get called. Colin has Australian shares, no foreign shares, and no managed investments.

Example of a "typical" *investor's* cold calling experience[9]

Bryce was contacted by International Asset Management (IAM) in September 1999. He was contacted by phone on his home number, also listed as a business number. He asked how they got his number and they said they got a listing of business names and that they do not target private names. He didn't think it was unusual that he was cold called, as he knows legitimate people use unsolicited calling methods and that this is part of our culture.

The caller was a woman with an Asian accent. She introduced the company and asked if he was interested in investing in shares. He told her he was. Although he wasn't *particularly* looking for an investment at that time, "you are always looking for an investment". She then asked if they could send him some documents on some companies. Bryce wasn't bothered about legitimacy at that point because they only wanted to send him some information, so he said yes.

[9] This scenario is a cumulation of *several* interviewees' experiences, as recorded during the research survey. For this reason, some of the actions and company names may not precisely correspond with the offers indicative of the said broker company.

He received the documents by courier 3-4 days later. The brochures were on a company called ChinaNet. He looked at the documents and at the ChinaNet web site but only the main page. There was financial data there but nothing specific – the outline just had what the company was about, numbers of TV sets, and further trends of this and that.

Someone with an English accent then rang back and asked whether he had received the documents, and Bryce said yes. The caller said his name was Mark Ross and he was a "manager" and "well-up" in IAM. He told Bryce that they had researched ChinaNet for 6 months, and that this one was good to get in on because there would be some announcements, and (as a result of the announcements) the price would go up in the next 2 weeks. He suggested that they had a "close relationship" with the company and therefore had access "to some pretty good information". Mark offered a discount rate of $US4.25 when the share was worth $US4.50 and that's when Bryce became interested and felt excited about it. He thought he could get a quick return on his money. He assumed he could sell the stock at any time he wanted. Mark told him to look at the web site and see how big the company is. Bryce looked at the Bloomberg website and the company web site - and "everything kept checking out" in so far as what he was told over the phone about the company could be verified on the sites he'd been given.

Mark called Bryce twice a day for 3-4 days, keeping him updated on the price. Mark then suggested he buy 10,000 shares but Bryce said that this was "way out of his league". He then suggested 5000 shares. Bryce said he couldn't afford that much so Mark asked, "how much could you afford?" Bryce said about 1000 shares. Mark said that they didn't usually sell in blocks that small and he would have to ask his supervisor. He rang back half an hour later and told Bryce that they had found somebody with whom he could do a "group purchase". Bryce bought 1000 shares at $US4.25, a total of $AUD8,334. He telegraphed the money to a bank account in Hong Kong. Once he'd payed the money, Bryce "felt ok". He was sent a confirmation receipt, and received a follow up phone call "welcoming him on board" and congratulating him on making a good investment.

Every 3 weeks they rang, sometimes Mark, sometimes someone else, with news of the share price, and how things were going. They reassured him. Bryce said he had his "down times", hoping the stock wasn't down or that the companies weren't dodgy. He'd send a fax and they'd always respond with positive news. This would please and assure him. This became a cycle. In October 1999, he was contacted again, but it wasn't the same person. They explained that the previous person he spoke to, Mark Ross, had had to go to the US and this person was taking over his clients. They said the price was moving and "indicators are that it will climb steeply" and he should buy some more. The shares were offered at $US4.80, which was "not too different" from what he originally paid, so he bought 5000 more.

After 3 months, the price of his ChinaNet shares had dropped and he got a call saying it would be wise for him to move out of his investment into another called "Attegrity", which was listed on the exchange (code ATTY).

They advised him to sell as the price being offered by the superannuation company ($US1.50) was greater than the current market price, but that he had to buy more stock to get the deal. He checked this on Bloomberg and they were right (the current share price was at $1.15). He felt he could cut his losses by getting into the new share, so he sold the shares and put in another $US10,000.

Attegrity shares went to $US6 and so he rang them and said he wanted to sell. He tried this for 2 weeks, but they were giving excuses why they couldn't sell them, trying to get enough into a parcel. They didn't sell and the shares crashed to $US1. He then stopped asking them to sell. This is when he lost a lot of confidence in them.

About a month later, Bryce was alerted by the press coverage of the raids in Bangkok and looked ASIC up as a result of a radio report he had heard. He didn't know of ASIC directly. He rang the Infoline and they directed him to the ASIC website where he saw IAM listed. "I was dumbfounded". He said that he tried to contact IAM but couldn't - there was a message that the telecommunications system was being upgraded - he said he was "starting to get scared".

Bryce then rang Attegrity and spoke to the owner, Bob Wiles, and said, "he was quite OK". He asked if they had an agent in Bangkok and they said they did, but that now they had nothing to do with them. He got them to confirm the Attegrity certificate was genuine and it was. He said he felt safe because "at least the shares are real even if the caller was dodgy", although he can't sell the shares for 12 months. He then got a fax from IAM that was trying to combat bad publicity about its legitimacy. The fax advised clients to ignore any bad press.

Bryce was recently contacted by another company who also sent a glossy pack. They weren't aware of his liaison with the first company. They offered him a similar deal. He looked into that. It was tech stock of some sort. He put them off as he had no money to spare at the time. He told them he was in a "messy situation" and was not prepared to spend more.

Before he was scammed, Bryce had direct Australian shares (AMP, CBA, Telstra) but no foreign shares or managed investments. He says he thinks his biggest mistake was that he was "busy with work at the time and didn't look into it enough". "I really did think that they were kosher – they were so professional, always had an answer for my questions, and sent all the right paperwork. It just all made sense".

Key issues to be understood about the cold calling approaches

Extending from the above scenarios, and prior to the actual analysis, there are a number of key elements about cold calling (as experienced by the study participants) that are worth clarifying.

Cold calling evolution

It is important to note that cold calling is not a new phenomenon and its characteristics are by no means fixed. The techniques, focus and nuances of cold calling operations have, and will continue to, evolve and adapt. In this group of scams, for example, there was evidence that the callers were adapting both to the demands made by potential investors (e.g. providing Australian 'referees' and sending written material) and to the pursuit by authorities (e.g. disseminating faxes in which they explicitly distanced themselves from pending investigations). Therefore, the techniques relayed by interviewees involved in the current survey will not necessarily be the techniques used in future scams. Similarly, broker companies may choose to base themselves in other regions apart from Asia and target different communities or countries. This elusiveness can be a problem when developing warning campaigns.

How is the target selected?

Some survey participants were puzzled as to why they in particular were approached and how the cold callers accessed their contact details. However, many had various 'theories' as to why they were called. While, at first glance, it appears something as simple as the Yellow Pages was used (particularly in the case of managers and business owners), there was some suggestion that the list was narrower than the telephone directory because interviewees reported inconsistent factors such as a private number, an obscure listing in trade only magazines and so on. Clearly, regardless of the source, cold callers used some sort of telemarketing list. Some may also have used a 'snowball' technique, as several interviewees were asked to nominate friends or colleagues that may be interested.

In terms of the target group composition, although many of those targeted were business owners, there were also many interviewees from other occupations. Targets were of varied age and education. They were not a homogenous group and there were no immediately identifiable subgroups, apart from one exception - that of gender.

Of the randomly selected investors who called ASIC (and notwithstanding the fact that, in a few cases, 'couples' were targeted) only 10 percent of those who invested were women. While only a reflection of this sample, it does tend to suggest that women were either less likely to be targeted, or were less likely to respond to the offer. This would support recent research that has suggested that, although women were proportionately less active in the financial market, they were more successful in their investment choices (Digital Look, 2001; Fox cited BBC News Online, 2001; Graham & Warren, 2001). The women's success was in part attributed to greater caution, risk aversion and acknowledged ignorance about financial products. Thus, the variation in investor behaviour according to gender is an area worthy of further consideration when preparing targeted education strategies.

Based on information from international authorities, regions nearby Australia have also been targeted by the same broker companies, including New Zealand and Hong Kong. At least one of the cold calling 'scripts' used by these operations indicates that people in Malaysia, Taiwan, Japan, South Africa, Europe, and Singapore have also been targeted (see Appendix B). Therefore, regardless of how or who has been targeted, cold calling operations have the potential to penetrate any society or culture in which financial investment is of interest.

Persuasion techniques

In contrast to other scams perpetrated through cold calling, the persuasion techniques evident in this sample did not easily fit the "high-pressure selling" stereotype, and were certainly more complex. For example, the widespread "Nigerian letter scam" was easily detected as a scam by those targeted because the grounds for the "investment" were so implausible, and the demand for money so transparent. [10] However, it was clear from the interviews conducted for this research that the present scams were not obvious, and used a subtle combination of legitimate and illegitimate props and processes to obscure their illegal intentions. Thus, previous warnings given by authorities may not be sufficient to reveal these illegitimate operators. For example, an US SEC Internet Investor Alert on cold calling offers several characteristics designed to allow consumers to distinguish between legitimate brokers and cold callers[11]:

- "Don't deal with brokers who refuse to send you written information about the investment"
- "Honest brokers use cold calling to find clients for the long term. They ask questions to understand your financial situation and investment goals before recommending you buy anything"
- "Beware of brokers who pressure you to buy before you have a chance to think about – or investigate – the 'opportunity' ".

Yet, the cold callers in the present scams would satisfy most of these requirements (at least in a superficial way). This presents a challenge to regulators and authorities, as they need to modify warnings to incorporate such advancements in the sophistication in the perpetration of investment scams. A brief discussion follows highlighting the complexity of the persuasion techniques used by the foreign investment scam cold callers.

The cold calling techniques as described by the interviewees were multifaceted, and were often tailored to the particular potential investor. In many cases, several callers of varying 'rank' and demeanour were used to help provoke action or calm fears. For example, many of those called felt an affiliation, even friendship, with a 'main' cold caller. In some cases, this caller was a person with a similar accent or ethnic background to the prospective investor, with an appropriate sounding (but fake) name. During times of indecision, the potential investor was sometimes passed up the chain to a "senior adviser" who was often either "impressive" or "bullying". This caller would convince (or goad) the person into

[10] Readers may view details regarding the "Nigerian letter scam" on ASIC's consumer protection website at (direct link): http://fido.asic.gov.au/fido/fido.nsf/byheadline/Nigerian+scams?opendocument
[11] Source: www.sec.gov/investor/pubs/coldcall.htm.

making an investment (or a second investment). When the initial caller inevitably reappeared, the person felt reassured by the return to their comfort zone, which sometimes made them even more vulnerable to influence. Alternatively, some people were never returned to the original caller (despite in some cases demanding so), rendering them either vulnerable to further manipulation or resistant altogether.

The callers' (and in particular the main callers') emphasis on their relationship with their 'clients' made some investors feel they received special favours (for example price discounts, time to settle their finances, and so on). These callers earned consumers' confidence by appearing to act in their best interests. As a measure of the importance of these relationships, some interviewees were still in contact with their 'main' broker at the time of the survey, still convinced of their legitimacy as an individual, despite being aware of the scam.

A number of the cold callers approached the acquisition of trust by employing the use of apparently autonomous "referees". In these cases, the cold callers gave the potential investor, either at their request or at the cold caller's suggestion, the phone number of a local (i.e. Australian) referee who would vouch for the legitimacy and competency of the cold calling company. The potential investor therefore had someone "like themselves" to identify with and confirm that the cold calling company was trustworthy. In actuality, this call was either to a fellow investor who had made apparent gains and was still unaware of the scam or, more often, a virtual office that switched the call back to the cold calling operators.

Research on the importance of trust in defining the success of consumer transactions has revealed the importance of a range of factors in generating trust, including salesperson competence, low pressure sales tactics, service quality, the company's ethical concern (caring) and a general tendency to trust (Kennedy, Ferrall & LeClair, 1998). Further, the salesperson's 'likeability' is considered an important factor, both directly and in relation to other factors:

> "…not only is liking an important determinant of trust in its own right, but the widely studied more cognitive antecedents of trust – similarity of business values and frequency of personal interaction – operate through liking".
> (Nicholson, Compeau & Sethl, 2001: p10).

Thus the cold callers represented in the current sample appear to have fully exploited this range of factors to their advantage in establishing trust. Further, as "a cumulative process that develops over the course of repeated, successful interactions" (Nicholson, Compeau & Sethl, 2001: p4), cold callers were able to maintain this trust until they no longer required it.

It appears then, that the aim of the caller was not merely to quickly convince the prospective investor, enact the scam, and then disappear. In many instances interviewees conveyed a sense of relationship and trust building. The caller rarely made an offer in the first call, choosing instead to ask the potential 'clients' about themselves or to ask them permission for the broker to send information to read over before they made their decision. In addition, many callers emphasised their interest in a "long-term relationship" with their potential client. Thus, the liaison between the caller and the investor in the cold calling scams described in the current study was more ongoing and multifaceted than the stereotypical 'hit and run' high-pressure sell. Cold callers were not simply high-pressured sales people. Indeed, counter to the stereotype, they often aimed at creating an impression of deliberation and caution. Thus, in the cases described here, pressure tactics were only one of a range of devices used to coax investors. Therefore, heterogeneity of approaches and the interplay between them are important issues to consider when characterising cold calling scams in warning campaigns. If only one type is portrayed (e.g. high-pressure selling), there is a danger that potential investors may not recognise their own experience of a scam for what it is.

Cold calling props

The cold callers' relationship building technique described above ran parallel with the use of a range of material tools designed to support the impression of professionalism and legitimacy. They included extensive paperwork (forms, company brochures and press releases) and superficially impressive web sites. These relatively sophisticated and expensive devices not only impressed those not familiar with financial products, but also those who recognised the scam. Furthermore, cold callers often supplemented these physical props with apparently comprehensive knowledge of financial terms and trends: brochures became prospectuses; callers boasted an "inside touch"; offers provided "performance with security"; and investors were encouraged to approve "puts". Thus, callers were able to generate a veneer of financial authority through a range of material and behavioural devices. Cold calling operators therefore need to be understood as sophisticated fraudsters who make concerted efforts to appear as (and even mimic) legitimate operators.

Unsophisticated consumers

In some cases, the cold callers' success was probably due, at least in part, to the relative lack of sophistication in financial, technological, legal and/or regulatory literacy of their targets.

Unknown financial market

Widespread misrepresentation (by the cold caller) and misunderstanding (by the investor) of the actual market in which the stock was trading was a hallmark of the cold calling experiences featured in this paper. The companies that were offered by the cold callers traded in the over-the-counter (OTC) market and were therefore quoted on OTC systems, such as the OTC Bulletin Board (OTCBB).[12] Although cold callers often told investors this meant the stock was NASDAQ listed, it was not. The matter was further confused by the fact that the performance of many of the stocks could be viewed on the NASDAQ or Bloomberg web sites, sites that quote (*not* trade or endorse) OTCBB securities.

The OTC market is much smaller and more volatile than the NASDAQ stock market and therefore carries far higher risks. The types of companies that trade in this market are usually new, small, and low priced companies looking to raise the funds (i.e. "venture capital") to commence or build upon existing operations.

[12] The Pink Sheets is another OTC system that may be used by cold callers, although in the case of the investors featured in this research sample, OTCBB was preferred choice.

The primary difference between these stocks and other stocks is:

- Because of their age and size, the companies often have no proven track record. In fact, they may not even have assets, operations or actual products. They use the OTC market to secure venture capital in order to establish themselves. Contrary to the claims made by cold callers, a high proportion of these types of companies are destined for failure rather than success

- Unlike companies that trade on the NASDAQ, these companies do not have to meet any standards that may assure a potential investor of at least a minimum level of viability (e.g. minimum net assets and minimum number of shareholders)

- There is often very little reliable and accessible information about these companies. Unlike larger public companies, these smaller stocks are not required to file reports with regulatory bodies, nor do they post regular price results in public sources such as newspapers. This means there is limited independent, verified or audited information about the securities, which allows cold callers to generate their own (and unverifiable) hype

- Stocks that trade on the OTCBB (and other OTC markets) can be prone to market manipulation by a single market participant (sometimes known as "market makers"). In essence, the purchase and sale of these securities by even a small number investors can dramatically alter share prices.

In some cases, the stock offered to investors was already listed on the OTCBB, and in others it was due to list shortly (albeit, according to the cold callers). Regardless of whether the stocks existed or were listed, the risks and sale restrictions that can be associated with this market were often undisclosed, underplayed, and/or misunderstood. This inevitably led many investors to assume they had a legitimate and therefore safe investment, an assurance that was instead unwarranted and misleading. Thus, the cold calling scams often took advantage of scant understanding of the American system, and/or deliberately omitted crucial information pertaining to this system. Given that recent research has indicated the average Australian's local investment knowledge is inadequate (Yeow, 2002), Australian consumers' chances of understanding overseas financial markets could reasonably be assumed to be at even lower levels. Perhaps the swift rise in Australians' interest in investing in recent years may have left some gaps in consumer education. In this climate, consumers are at risk of operations intent on abusing their trust.

Attraction to technology

The cold callers described by the people in this sample used technology and their targets' misconceptions about technology as manipulative tools. As with the financial sector, there appears to be an attraction to, and faith in, technology that often exceeds people's understanding of it. For example, there was a perception among some participants that web sites are inherently objective, legitimate and operated by companies of some substance. Therefore, when cold callers referred a potential investor to a company web site or to Bloomberg, for some the mere existence of a web site not only signified the existence of the company (either broker or stock), but also its authenticity.

The cold callers featured in the current sample often sent email investment 'updates' to investors. Given the rising use of the Internet around the world (and the aforementioned evolving nature of cold calling scams), it could be considered logical that Internet services such as chat rooms, bulletin boards and email will increasingly be used by future fraudsters. Indeed, the Internet is recognised by authorities as an ideal device for use in scams because "it provides anonymity, broad circulation and the appearance of legitimacy at low cost" (Levitt, 1997: p13). The efficiency and efficacy of Internet-related mediums renders them ideal tools for cold callers.

Cold callers also capitalised on public interest in technology stock. There was keen investor response to stock that was presented by cold callers as on the 'cutting edge' of technological advancement.[13] Further, some of the interviewees were approached during the well publicised 'tech stock boom' of late 1999 to early 2000. In describing the expected high and speedy returns, cold callers often emphasised the concept of the stock's core business as a driving factor. Accordingly, some interviewees invested because they believed that the technology-based stock was capable of realising the gains promised. This may suggest that, regardless of their experience/knowledge of it, new technology appeals to many consumers and is therefore an attractive device for cold callers when trying to convince consumers to invest.

Legalities and the regulator

It would seem that the cold callers as described by our interviewees are aware of the illegalities of their actions and have made attempts to address consumers' concerns (for example, verbally or via generic emails they have made attempts to distance their operations from pending investigations). Typically, they appear to have either underplayed the illegalities (for example suggesting insider trading is not illegal in the region they are operating out of) or, in fewer cases, demonised the regulator as a bureaucratic, interfering and/or anti-individual body. Although not among participants in this survey, ASIC is also aware of consumers being told the cold caller and/or their broker company is licensed in Australia when they are not.[14] Further, consumers are also unaware as to what is legal practice within the financial service industry (e.g. insider trading).

Clearly, cold callers draw upon a range of devices to enable them to appear knowledgeable and legitimate. Compounding this, the broader share market legal framework is often misunderstood by the consumers. Thus, the limit to consumers' knowledge of financial markets, technology and regulation requires both acknowledgement and further exploration.

Multiple investments and/or 'brokers'

Just as the techniques used by the cold callers were complex, so too were many of the actual investments. Investors were often convinced to make several investments in several different securities and sometimes through several different 'broker' companies. Unfortunately, while some believed this was being 'safe' (because they believed they were "diversifying" their investments for example), it ultimately increased their overall loss.

[13] For example, some of the companies invested in by participants in this survey were dealing in smart card technology, biomedical research, Internet gaming and telecommunications.
[14] The validity of this particular type of claim is simple to prove/disprove by checking ASIC's financial advisers/securities dealers register at www.asic.gov.au.

Investors in the current sample came to make multiple investments in the following ways:

1) The first stock and/or the client-broker relationship was apparently going well so when a caller suggested to put more money into this stock, the investor accepted

2) The first stock and/or the client-broker relationship was apparently going well so when the caller offered a different stock by that broker the investor accepted

3) The first stock was apparently not performing so the investor was offered the option to 'roll-over' the first stock into new (slightly more expensive) stock with better potential. This was often accompanied by a requirement for additional monies to "supplement" the sale of the original stock

4) A new broker company called. For a variety of reasons (e.g. the current investment was going well, or poorly, or the new one sounded good etc), the investor decided to take up this broker's offer also

5) The broker suggests the first stock is performing badly and that the only way to recover the loss is to purchase new stock altogether. This does not involve a 'rollover'. The old stock is kept, with the promise that the new stock will easily recover the loss, and bring the investor "guaranteed" profits.

Again, multiple investment possibilities signify the complexity of this particular cold calling phenomenon. They also demonstrate the success of cold calling devices such as relationship and trust building in so far as people were willing to keep handing over money on the advice of the operators.

Secondary scams

Investors were also exposed to "secondary scams". An example of a secondary scam is where an investor is told that a person or institution has an interest in buying their shares at a premium to the current market price (because of tax advantages for example). Investors who proceed are then told that they have to pay a fee in order to have the restriction on the shares lifted. If they send the fee, they inevitably never receive any funds for their shares. Investors may be particularly vulnerable to this particular secondary scam after they realise their shares are worth far less than promised and/or that the shares are subject to a previously undisclosed sale restriction (i.e. often after the primary scam is revealed). Specific variations are:

1) The caller suggests they have a client who wants to buy the investor's stock for tax reasons, but the investor needs to pay for an insurance bond because it costs the client money to have the restriction on the shares lifted, and the bond guarantees that the investor will sell the client those shares. They may also refer the investor to a (fake) "US federal agent" to confirm legitimacy of their approach

2) The caller suggests a stock company is trying to acquire shares (at an inflated price) as part of a takeover. To complete the transaction they need the shareholder to place $10,000 in an escrow account (an account that has withdrawal conditions)

3) The caller tells the investor they obtained their name from a share register. On behalf of an organisation, the caller wants to buy the shares and will pay an inflated price. The cold caller's company does not trade in shares but negotiates takeovers. The investor would need to sign an agreement and send some money (for example for administrative costs or to act as a bond)

4) The caller wants to trade the investor's shares for GEC/Compaq/IBM shares held by a (fake) client but, because their client's shares cost more, the investor has to pay the balance.

Secondary scams are a good example of the evolving nature of cold calling operations. They highlight the need for those involved in protecting consumers from scams to be alert to this type of opportunistic behaviour.

To conclude, cold calling as recalled by those in the current sample is a complex phenomenon. These cold callers defy the "hit and run" high-pressure sales stereotype that dominates the popular and regulatory imagination. They use a variety of evolving behavioural techniques and material props, and they exploit gaps in consumer knowledge. The scam unfolds over time and often involves multiple 'stings'. Acknowledgment and exploration of the complex interaction between cold callers and potential investors is an important part of the process of developing efficacious warnings. It is vital that consumers and regulators alike realise that scams exist that are not obvious and may simulate genuine financial dealings well. To this end, elucidating how the people we interviewed recognised a scam is a significant step towards understanding how we may prevent future loss.

Major themes

When planning this project, the original question posed was: *when presented with similar information, why do people choose to invest in these schemes, while others do not?* From the data collected in the interviews, it seems that the answers to this question could be classified into two groups:

- People did not recognise the offer as a scam and were either attracted or not attracter to the offer (this includes both investors and non-investors), OR
- They recognised the offer as a scam, and therefore did not need to go any further to reject it.[15]

Looking at these two outcomes in terms of prevention strategies, we would argue that evaluating the offer as an investment is not helpful in preventing fraud. A more appropriate strategy is to encourage potential investors to recognise a scam, and therefore reject such an offer on that basis. Hence we are interested in arming people such that they recognise the real markers of legitimacy and legality in investments, and thereby quickly reject callers/offers that do not meet these standards. If you know it is a scam you do not invest.

Thus the dual foci of the analysis reported here are:

- What factors alerted non-investors (and eventually investors) to the fact that it was a scam?
- How did investors interpret these factors in a way that did not alert them to the fact that it was a scam?

Our analysis of the major themes arising from the data as they relate to the two issues outlined above will therefore be structured along the lines of the warning signals identified by non-investors. The discussion will analyse how the content of the warning signal to those who recognised a scam, was interpreted by those who did not. It should be noted that the order in which the themes are described in no way confers any indication of order of importance or level of endorsement.

In terms of format, the general thrust behind each theme will be explained, along with the dimensions by which we believe it manifested itself in the data. Quotations from the interview notes are also included under each of the dimensions and overarching themes in order to demonstrate how we saw the theme reveal itself throughout the interviews. Where appropriate, exceptions to the general trend of the theme are also included to reflect the richness of the data, and points of resistance to the major findings. Readers should note that *alerts* to the scam described by *investors* that were different to those identified by non-investors but *limited to post-investment events* have not been included. This is because, while interesting, from a prevention point of view, it is not desirable to base a strategy on warning signs that occur when money has already been handed over (e.g. some investors were alerted to the scam because of the difficulty they had in selling the shares that they bought).

[15] It is important to note that not all non-investors recognised that the offer was a scam – some rejected the offer on the basis that they could not afford it, or it did not appeal as an investment.

Introduction

Before describing the major themes relating to what alerted non-investors to a scam, there are a number of general issues about recognising a rort that should be made. Firstly, non-investors became aware the cold callers were perpetrating a scam at the different points, and for the different reasons. Cause for suspicion had its origins in a range of areas, including the caller or their company, the offer, and the interviewees' own characteristics. Thus, as will become clear in the analysis that follows, no single issue served as the ultimate indicator for all.

Secondly, non-investors were not necessarily alerted immediately to the scam: while a few claimed to have "known from the start", it took the majority a number of conversations with the cold caller before they were sufficiently convinced to reject the offer. As mentioned previously, in a few cases, the non-investors actually refused the offer for other reasons and only later found out it was a scam, as the following excerpts suggest:

> When he received the brochures, he said that he did think that the offer was legitimate - he just wasn't looking for an investment or feel he had the money to do so.
> *Burt, 60-69, male non-investor, primary producer*
>
> Craig didn't report it to anyone at the time as he didn't think it was anything out of the ordinary, just an 'aggressive salesman'. Craig then saw the raids on the TV news.
> *Craig, 30-39, male non-investor, sales director*
>
> The hard sell really turned him off. He said he was initially interested but didn't like the idea of it personally, not so much the product he was being offered.
> *Jared, 30-39, male non-investor, executive manager*

Thirdly, in the same fashion as non-investors, investors were eventually alerted to a scam after varying intervals and on different grounds. Moreover, a number of investors were still not entirely convinced that they had been scammed, even after contacting ASIC and/or hearing about the raids.

> Matthew says several times throughout the survey that he still doesn't know if he's lost anything yet. It is as if he is still unsure of the legitimacy.
> *Matthew, 70+, male investor, engineer/surveyor*
>
> One caller has got back some of his money and seems "above board" but he doesn't know for sure. His quandary is: are they entirely dishonest, a little bit shady, or incompetent? He doesn't know.
> *Todd, 50-59, male investor, manager*
>
> "I have a lot of confidence in the Kensington Group - the other two were just a sting - I've got no complaints".
> *Adam, 60-69, male investor, plumber*

However, it should be noted that these investors, in contrast to non-investors, have an understandable reluctance to believe that they were scammed.

To offer some insight as to why it may take some time for a scam to be revealed, it is worth examining some further comments from people who did invest with the cold callers. A number of interviewees remarked that they never questioned the legitimacy of their cold caller in the first place. The following quotes were typical of this frame of mind:

> Whether they were dodgy didn't enter his mind.
> *Matthew, 70+, male investor, engineer/surveyor*
>
> …he "did not consider at any time that it was a scam".
> *Graham, 50-59, male investor, technician*
>
> He said that he did not have any questions about their legitimacy at this point, which he said: "I suppose that's the strange thing because I didn't really know them".
> *Ray, 50-59, male investor, business owner*

Thus, for these interviewees, the cold callers were presumed innocent and the transaction was entered into in good faith. In other cases, however, while the potential investors were prepared to question the legitimacy (or otherwise) of the stock they were offered, the suspicion did not extend to the 'brokers' offering the stock.

> "I knew in my mind it was a legitimate company," Marco said, but he forgot to check, or even imagine, checking the broker.
> *Marco, 40-49, male investor, small business owner*
>
> He believed that he was "taking a punt on whether the shares went up or down, not thinking they were shonky".
> *Ray, 50-59, male investor, business owner*
>
> Aaron rang one company (Bertens USA) - he got the number from their 'prospectus'. He said the product they were promoting was actually legitimate and so he said "that made it hard for us [I think by "us" he means investors collectively]". "What we did not know enough about was 'them'".
> *Aaron, 40-49, male investor, business owner*

Therefore, it must not be assumed that the cold callers necessarily had to prove their legitimacy to potential investors. In some cases, they may have only needed *not* to *disprove* it because legitimacy was bestowed in advance. Moreover, the last quote seems to suggest that the legitimacy (or so he believed) of the stock on offer conferred legitimacy upon the broker, rather than being a separate issue. Finally, it is important to note that the cold callers used a mix of legitimate and illegitimate practices, which made it difficult for the consumers to detect a scam even if they did conduct some checks (for example establishing the companies did exist).

> The key things that made the offer seem legitimate were that they "gave us no reason not to"…
> *Samuel, 40-49, male investor, manufacturer*
>
> Catriona found the callers "very friendly". There was "no reason for me to doubt them".
> *Catriona, 40-49, female investor, manager*

Although it is only conjecture, this lack of suspicion may be interpreted as a corollary of Australian consumers living in a regulated society. That is, in this context, people have become trusting rather than questioning sources of information about consumer products, because they are accustomed to regulatory and legal control over the promotion of consumer products. For example, there are legal sanctions designed to ensure the veracity of advertised claims about products such that consumers are able to take such claims at face value. Thus, when consumers are faced with such unsolicited offers, trusting what they are told about products becomes the *point of departure* (rather than conclusion) because there is a presumption of legally regulated order and protection. There is some support for this explanation in research examining the dimensions of trust within different cultures. According to this work, there is an expectation in countries such as the United States, Canada and Western Europe, that people, irrespective of their level of authority[16], will generally adhere to a moral and legal standard of behaviour in sales transactions (Hofstede, cited Shaffer & O'Hara, 1995). In this way, one is presumed innocent until proven guilty. Therefore with respect to identifying scams, perhaps Australians are less alert because of the level of regulation that is enshrined in law that helps minimise large scams. Therefore a scam may not be identified, especially if the perpetrators simulate legitimacy well.

Summary

In summary, non-investors' recognition of a scam appeared to be neither necessarily immediate, nor guaranteed. Some non-investors refused the offer without ever realising it was a scam. Others came to that conclusion after a number of conversations. Similarly, some investors are still not certain they have been rorted, despite being faced with some fairly stark evidence. The lack of immediate rejection of the cold caller by investors and non-investors alike may suggest a presumptive trust born of living in a culture with relatively effective consumer regulation. However, this would have to be confirmed by further investigation.

Yet, regardless of the time taken to do so, most people interviewed for this study were able, at some point, to recognise a scam. What follows is an account of the main factors that the interviewees identified as leading to their detecting a scam. A summary of the major themes is displayed in Table 3.

[16] A cold caller may be perceived as being in a position of authority because of a perceived inequity in level of knowledge as may be expected with a professional share broker (Shaffer & O'Hara, 1995). Indeed a number of the interviewees made reference to the callers' apparent greater financial knowledge.

Table 3: Summary of the five major themes of factors that alerted interviewees to a scam with their dimensions

Categories of scam warning signs	
Theme 1: OUT OF THE BLUE	▪ Cold calling as sales practice
Theme 2: TOO GOOD TO BE TRUE	▪ High returns as reasonable ▪ Investing as gambling
Theme 3: FOREIGN INVESTMENT	▪ Foreign as unknown ▪ Foreign as untrustworthy ▪ Foreign as trustworthy ▪ Foreign versus local ▪ Investing and identity
Theme 4: TESTS OF EVIDENCE	▪ Illogical evidence ▪ Logical evidence ▪ Tangible evidence ▪ Logical stock concept ▪ Inadequate financial literacy
Theme 5: THIRD PARTY INFLUENCE	▪ Heeded advice of formal third party ▪ Heeded advice of informal third party ▪ Rejected advice of formal third party ▪ Rejected advice of informal third party ▪ Third party gives advice to invest ▪ Third party defers from giving advice ▪ Third party advice bypassed ▪ Media as third party

Theme 1: "Out of the blue"

For the majority of people interviewed, the first contact with the scam operators was through an unsolicited telephone call. These initial calls were introductory in nature, where the caller, usually different from the person who "sold" the shares, introduced the company and sounded the potential investor out for their interest.

> It was a man that called...He introduced the company as a "venture capital developer". He said that they very carefully go through companies and make sure that there is good capital growth. They asked whether or not he had invested in shares and also how were his shares going on the share market. That was all he said at that stage
> *Patrick, 40-49, male non-investor, manager*
>
> The first caller was a woman with an Asian accent. She introduced the company and asked whether he was interested in shares. She said that they had a prospectus, so can they send something out and John agreed.
> *John, 30-39, male investor, mechanic*

Despite the introductory nature of these calls, for a number of interviewees, the cold calling aspect alerted them almost immediately to the fact that the callers and their offer were not genuine. Being contacted "out of the blue" was seen as an indicator of a scam.

> Brendon's main reason for rejecting the offer was "why call me out of the blue?".
> *Brendon, 50-59, male non-investor, sales manager*
>
> "The cold call was the first thing that sparked me off. I've never heard of broking companies cold calling people".
> *Jason, 30-39, male non-investor, student*
>
> "but they couldn't be ringing out of the blue if it was a real event".
> *Trevor, 50-59, male non-investor, lawyer*

The interviewees quoted above clearly linked cold calling and illegitimacy. For them, utilising such a sales practice made them worthy of mistrust. Although not all were fazed by the cold call approach.

> ...he didn't ask how they got his number. He had heard of other people that had been contacted by them and that their dealings with them had been OK.
> *Darryl, 50-59, investor, lawyer*
>
> So he was considering investing after the first phone call, but only to a point because he had to satisfy himself that they had a dealer's license and were a registered company, and that he could find the stocks and they were trading. If he found these things were true he "probably would have done it". He would have overlooked the cold calling aspect.
> *Jason, 30-39, male non-investor, student*

cold calling as sales practice

In the main, however, the cold calling technique was not deemed unusual or undesirable (or indicative of a scam) by many of those called because of an acceptance of the practice as an integral part of a "sales culture". The interviewees said they routinely received several calls a day from telemarketers conducting surveys or offering a variety of products, and therefore these calls were no different.

> But it didn't put him off it was just sales people and he gets five of those sorts of calls a day from telemarketers so he's used to it.
> *Theo, 40-49, investor, finance broker*
>
> Matthew asserts that legitimate people use unsolicited calling methods and that this is part of our culture.
> *Matthew, 70+, male investor, engineer/surveyor*
>
> "We get that many people ringing up, just becomes another call. You go home and forget about it until next time they call".
> *Aaron, 40-49, male non-investor, small business owner*

It would seem that many interviewees had become immune to the practice of cold calling because of a constant stream of cold selling calls. The foreign investment callers were merely one of an array of sales people who hawked their wares via the telephone. Further, those involved in sales themselves identified with the callers and gave them greater latitude because the "knew what it was like" trying to do their job.

> He said he didn't ask any questions because they "get so many different people ringing with surveys, charities, telemarketers, market research. I am in sales myself. I know what it's like to ask questions myself and hope people will be patient enough with you, so I am patient myself".
> *Patrick, 40-49, male non-investor, manager*
>
> Joe is a salesman himself so he felt he knew what it was all about.
> *Joel, 50-59, male non-investor, business owner*

Summary

Although the sales practice of cold calling served as a warning signal that the offer was a scam for some interviewees, others accepted it as a custom of the general culture of sales. This granted both logic and licence to cold calling. Further, given that a significant proportion of those targeted who we surveyed were involved in a business of their own, the callers had to some degree a sympathetic audience in terms of getting a "fair go" to put their offer to potential investors. Thus, calling "out of the blue" for investments for many people is not understood as either unusual or illegal, and therefore does not always serve as the alert that they are being targeted by a scam that it does for others.

Theme 2: "Too good to be true"

One of the key features of the offer that the interviewees recalled was the high level of return expected in a short space of time cited by the cold callers. The returns quoted were often 200 to 300 percent above the asking price for the share and were (like any other investment) one of the main inducements for the potential investors. The following quotes were typical of the hype pedalled by the cold callers:

> He said that the supposed profits were worth listening to - several 100%.
> *Dennis, 50-99, male non-investor, company director*
>
> Nick said that he initially felt quite excited about the opportunity as they were saying it would go from $US2 to $US18 in 30-60 days.
> *Nick, 30-39, male non-investor, accountant*
>
> The fact that it would double in a short span of time was more alluring than the foreign element. It sounded like he was going to hit the jackpot.
> *Erik, 50-59, male investor, draftsman*

For a number of interviewees, however, the returns were considered too high to be believed. As a result, these interviewees doubted the whole offer, saying it was "too good to be true". The following excerpts were typical of these interviewees:

> He felt the offer was "too good to be true", too pressured and the returns were too high and too fast.
> *Ethan, 70+, male non-investor, retired*
>
> He didn't think they were legitimate because the returns were unbelievable.
> *Clint, 60-69, male non-investor, retired*
>
> He was suspicious because he was "67 years of age, I've been around, and nowhere in the world can you double your money with any security".
> *Terence, 60-69, male non-investor, semi-retired*

high returns as reasonable

Although other interviewees also thought that the returns offered were on the high side, as with the practice of cold calling, this was considered to be part of the standard sales routine. Some interviewees "normalised" the exaggerated quotes themselves by "taking them with a grain of salt". Therefore, instead of casting doubt on the authenticity of the whole scheme, the high returns were understood as part of an acceptable level of hype and, in turn, were adjusted to a more reasonable sum by the investors themselves. To illustrate:

> He believes he was always cautious. He was not taking it at face value, he was "dividing everything they said by three".
> *Matthew, 70+, male investor, engineer/surveyor*
>
> The offer was 500 shares at $ US 6.50 but it was predicted to rise to $US38 per share. Yvonne did not believe the returns would be that high but would have been happy with $US15.
> *Yvonne, 30-39, female investor, accountant*

Other investors did not consider the returns too high, but interpreted the expected gains in the light of the hype they had been given about the stock, and in some cases the strong performance of the share market during the 1990's.

> "I know ChinaNet have just signed a contract to sell 63mill, so the shares are going accordingly".
> *Adam, 60-69, male investor, plumber*
>
> [With] Cita Biomedical the price was to rise and the detox would expand to other drugs, not just heroin. The argument as to why the price would rise made sense.
> *Ian, 30-39, male investor, technical officer*
>
> The thing that tipped the balance was the money potential in the short term. He wasn't suspicious of the returns. They were explained to him in terms of - that opportunities are not everywhere but perhaps 3-4 a day if you look around, and "get in on the ground floor". He did read about how much Packer has made, and he felt that the money was there to be made if you got in on the right share. "Don't hesitate".
> *Russell, 40-49, male investor, cleaner*

In some cases, to explain the high returns, the cold callers apparently made use of the suggestion of "inside information".

> The prediction was that it would double in price in 6 months. Also, there was "privileged information that they had". They had the "inside running" and knew of things that were to happen, certain news that would raise the price of the stock.
> *Todd, 50-59, male investor, manager*
>
> It would peak because ChinaNet was just about to sign a government contract to expand their network throughout China. John said that this was "inside information, not public".
> *Theo, 40-49, male investor, finance broker*

The investors in the examples above appear to have taken on the hype about the stock, and this served as the logic behind the unusually high gains expected, a logic that was accessible to a potential investor of any level of experience. Unusually high returns that may have functioned as a warning signal of a scam were therefore rendered reasonable in the light of the circumstances.

This then raises the question as to "what is too high"? We did not ask interviewees to speculate on particular thresholds for reasonable returns and therefore do not know where they may have drawn the line. Further, it should be remembered that a number of the interviewees were contacted during the "technology stock boom" where large gains were being achieved, and were highly publicised. Indeed, some blue chip investments had also posted large gains (such as Woolworths (63% in 10 months), and Cochlear (55% in 1 year) therefore the argument that these levels of return are possible is not without merit. Yet, clearly, just "being possible" is not the only standard by which investment returns are measured.[17] The important issue to understand in the cold calling scenario is that the return amount alone is not always sufficient to raise suspicion of a scam. Clearly what is "too high" is heavily context dependent: what may be unreasonable in one set of circumstances may be quite acceptable in another.

investing as gambling

Although the plausibility of the size returns quoted by the cold callers was a focal point for many of the interviewees, there was a number for whom it was a non-issue. With a gambling mentality at the heart of these investors' conceptualisation of shares, analyses such as those described above were redundant.

> He said he was "used to losing money - its swings and roundabouts". "I'm a bit of a gambler…
> *Lyle, 40-49, male investor, salesperson*
>
> If the company did not do well, that was OK. He understood the shares were a gamble.
> *Nasser, 30-39, male investor, surgeon*
>
> Darryl felt that "these things were going well at the time [December 2000] so I'll have a flutter".
> *Darryl, 50-59, male investor, lawyer*

In the same fashion, non-investors thought that the offer made by the cold callers was a gamble they were not prepared to take.

[17] Moreover, technology stock share prices did, ultimately, collapse precisely because the offer price often reflected the hype and speculation of getting a quick return, rather than the underlying value of the businesses. Thus, the possibility of large returns needs also to relate to the business itself as well as whether *any* business may achieve such high returns.

He said that he would prefer a listed company, he doesn't like IPOs, "it's gambling".
Clint, 60-69, male non-investor, retired

They always want to be covered and would not risk their savings on a gamble share.
Hayley, 50-59, female non-investor, receptionist

Dylan also considers himself a long-term investor who is "not really interested in gambling".
Dylan, 50-59, male non-investor, accountant

These quotes seem to suggest that, for some potential investors, successful investing is a matter of luck, rather than a process of identifying a company with sound underlying business performance. In this context, there appeared to be only superficial assessment of the investment and the decision to be made seemed more about whether one was prepared to take a risk (partly driven by greed) rather than a deeper appreciation of the wider business context. In terms of returns, conceptualising the investment as a gamble allows the question of the return to be uncoupled from how well the business performs. The potential investor may then reasonably abdicate from the responsibility of assessing this relationship because the outcome is a function of luck rather than design. Therefore, the issue of whether the return quoted is too high for the potential performance of the company (and therefore too good to be true) becomes irrelevant.

Summary

In summary, the large returns cited by the cold callers were, for some non-investors, a clear signal that the offer, and by association the broker, were not legitimate. Gains of two- or three-fold on initial investment were clearly considered impossible by these people. On the other hand, such returns were normalised by others, either by adjusting the inflation due to standard "sales hype", or by taking on the explanations proffered by the cold callers. Finally, in yet another reading, returns were conceived as being in the hands of fate rather than business performance.

Thus, we cannot assume that people contacted by cold calling operations will recognise a scam by the magnitude of the returns promised, especially when legitimate shares are rising dramatically. Although some people clearly have a yardstick by which they measure returns as reasonable or unreasonable, there is room for others to adjust that yardstick through appeal to *context*. High returns in and of themselves are not sufficient warnings because they may be diminished depending the context in which the potential investor interprets them. In these interviews, the cold callers provided at least one context for investors, by talking about (as yet) unpublicised deals or potential markets. Further, there was the context of the sales transaction that tolerates inflation of benefits to the consumer, because it is seen as part and parcel of making a sale. The investment environment at the time also pointed to an escalation of prices to unprecedented levels, thereby normalising otherwise unrealistic gains. Finally, a gambling mentality circumvented the need for a deeper analysis of the likelihood of achieving the returns promised, by replacing business performance with luck. Thus, a range of contexts may be used to interpret high returns that places them well within the limits of possibility. Therefore, it is the particular interpretive logic to which people appeal, not the magnitude of the returns per se that determines whether high returns signify a scam or not.

Theme 3: Foreign investment

Almost without exception, the companies whose shares were promoted to the interviewees, and the callers who offered them, were situated overseas. These facts were not hidden from the potential investors, although the callers did sometimes misrepresent their location saying, for example, they were calling from Tokyo and then later revealing they were in Bangkok. For the most part, however, the foreign aspect was advertised as an attraction, an opportunity for investors to operate in the global arena. However, for many who chose not to invest, the overseas/foreign component was a flag to act with caution.

The two foreign elements of the cold calling scams that provoked wariness were: the share and its market; and the caller (as identified through their accent or the address of the broker). A discussion of the significance of both of the overseas components of interviewees' cold calling experiences follows.

Interestingly, there was very little mention by either investors or non-investors of the easier and far less risky alternative to *direct* overseas investment - that is, investing internationally via managed funds offered in Australia.

foreign as unknown

Interviewees justified suspicion of overseas shares or markets in two main ways. First, a number felt that the overseas market was unknown to them. Being unknown or poorly understood translated to being unsafe.

> He didn't understand the offshore market, and he'd read of scams. He had a "buyer beware" attitude: 'better the devil you know'.
> *Gavin, 70+, male non-investor, retired*
>
> He didn't think it was legitimate because he hadn't dealt with this sort of thing before, and especially when it was offshore because "you're pretty right when your money is in the country".
> *Elliot, 40-49, male investor, small business owner*
>
> Brendon's investments are in real estate so the offshore factor was alien to him - both offshore money and the fact that the money had to be sent offshore….The key things that made Brendon feel the offer could be illegitimate and the callers were untrustworthy was the overseas thing.
> *Brendon, 50-59, male non-investor, sales manager*

Second, some interviewees were guarded about investing overseas shares or markets because to them, it meant that they lacked control of their investment, particularly if something "went wrong".

> He thought at this stage it was risky because it was offshore, and therefore there were ramifications if anything went wrong.
> *Graham, 50-59, male investor, technician*
>
> He did feel a little uncomfortable because he didn't have control because they were overseas shares (he said that he didn't feel that way about Australian shares because "there's a trail there").
> *Ray, 50-59, male investor, business owner*
>
> Now he thinks, when they "want you to send money overseas, you think if something goes wrong how do I get it back. What's the legal recourse?"
> *Dean, 40-49, male non-investor, IT consultant*

Thus, overseas shares and markets were seen as a risk. The implication from the examples given above was that it is easier for your money to go astray in a market or with a company you did not know, than if you invested locally. Further, "going overseas" meant their ability to seek redress was compromised should anything go awry.

As with foreign shares or markets, the danger of sending money somewhere unknown surfaced again when interviewees discussed the foreign status of the caller and or their company.

> But he said at this point he had no intention of sending money to Bangkok. He said he knew this from the beginning because…he wasn't keen to send money to a place he didn't know at all.
> *Clint, 60-69, male non-investor, retired*
>
> Alan said that he then asked them "why do you think I'd buy shares from someone I have never heard of calling from Manila?"
> *Alan, 50-59, male non-investor, company director*

In the above examples, the offer inspired mistrust because the potential investor was either not familiar with the destination of the money or the person receiving it. Hence, for these interviewees, investment through foreign brokers signalled caution because they were unknown.

foreign as untrustworthy

However, there was another theme concerning foreign callers and companies offering shares that emerged in the interviews. It appeared that a strong undercurrent in the negative feeling expressed about the foreign caller/broker centred on a view of the foreign caller as *inherently* untrustworthy.

> …the fact that the C & C calls were coming from Bangkok was a sign it was illegitimate.
> *Hayley, 50-59, female non-investor, receptionist*
>
> She said that they asked if she was interested in overseas investment. She said that she wasn't interested and realised that they weren't legitimate. When I asked how she knew this straight off, she said that they said they were calling from Singapore, and "it's automatic".
> *Monica, 40-49, female non-investor, administrator*

This intolerance was sometimes expressed in interviewees' discussion of the accent of the caller. However, negative feelings about the caller provoked by their accent were not confined to one accent (and see below about "trustworthy" accents).

> The overseas factor was dodgy…They had US salesman feels to them. He admits he has a personal bias re US salesmen.
> *Kyle, 60-69, male non-investor, national manager*
>
> She rang twice in the next two days and he fobbed her off. He did so because she was calling from Bangkok and she was Asian: "I'm not being racist or anything but I thought it was suss".
> *Theo, 40-49, male investor, finance broker*
>
> [One of] the key factors in not trusting the caller [was] his US accent…
> *Cliff, 60-69, male non-investor, company director*

Therefore, in contrast to interviewees feeling foreign callers or their broking companies were of dubious repute because they were unknown, these interviewees were wary because they felt their caller was *known*: what was known was their nationality and that nationality, coming from outside Australia, was untrustworthy.

Thus, there was a wariness on the part of some consumers that was generated by the overseas elements in the cold calling experience. Explanations behind this guardedness were variously characterised by lack of control or lack of knowledge. As a result of these concerns, the offer and broker making the share offer were viewed with suspicion.

foreign as trustworthy

Nevertheless, for other interviewees, the foreign aspect did not engender suspicion. This was true both for the caller and the stocks being offered. For example, by appealing to the same logic that cast doubt on some foreign callers, other interviewees felt reassured if the caller had a particular type of accent, namely English.

> He was not suspicious at this stage because of the accent…He felt reassured by Howard's English accent - he thought he was being "pure and clear in the way he spoke to me". "He sounded classy, able to communicate, and that got me".
> *Carl, 50-59, male investor, debt recovery*
>
> Once he had agreed to get involved she put him in touch with a person called Howard Marks calling from Hong Kong who had "a professional sounding voice, the voice of a trustworthy stock broker". He said that the accent was a "cultured voice" (it was an English accent).
> *Ray, 50-59, male investor, business owner*

In the above examples, rather than arouse suspicion, the caller's accent inspired confidence and trust. This may also explain why the "referees" that cold calling companies used were Australian – the potential investors could identify with them more readily, and be more open to the offer.

foreign versus local

In other cases, the foreign nature of the shares themselves proved an attraction. This attitude is present in the following remarks:

> He had not invested overseas before but he was attracted to the offer because of the foreign angle. This is because the market was logically bigger and he'd seen friends benefit in the US and German markets.
> *Ryan, 40-49, male investor, self-employed*
>
> He felt there was a subconscious attraction to the foreign stock because of the idea that globalisation equals a bigger market.
> *Joe, 40-49, male investor, consultant*
>
> He felt this would be "getting into a bigger market". The US market was larger that ours and the potential gains were higher.
> *Dominic, 40-49, male investor, self employed*

Alternatively, Australian investments were seen as pedestrian or limited in potential.

> He felt that his own share portfolio was fairly "flat" at the time he had "more routine investments" that were giving small returns.
> *Darryl, 50-59, male investor, lawyer*
>
> Samuel then tried calling some Australian brokers but none wanted to trade in foreign investments. Samuel said they didn't seem as "switched on" as Berkley Samson did.
> *Samuel, 40-49, male investor, manufacturer*

The quotes above suggest that the foreign origins of the shares not only did not perturb some people, but actually served as an enticement to invest. For these investors, the foreign nature of the investment, rather than being risky, was the opportunity to enter into a more lucrative market. In addition, there appears to be some contrasting of foreign versus local in the interviewees' thinking. For these people, a foreign investment offered greater potential by comparison with a local one.

investing and identity

Finally, the two examples given below demonstrate another dimension to the attraction of the foreign investment.

> Graham said that he should go overseas because all of his shares are Australian, "Mums and Dads kind of stuff" and he needs "diversifying".
> *Graham, 50-59, male investor, technician*
>
> The caller also said that Australian high flyers invest offshore and use offshore accounts. He assured Samuel it was tax-free. He said it was only the "little people" who stay back to pay the tax in Australia. The argument rang true with Samuel…that it was typical that people at grass roots pay the most tax.
> *Samuel, 40-49, male investor, manufacturer*

These quotes seem to imply that direct overseas investment could also serve as a way to overcome a parochial view of investing. In this way, the investment opportunity, and the potential investor's response to it, becomes a mechanism by which a person may convince themself they are a more sophisticated investor.

Summary

In summary, the foreign nature of the shares, or the caller and/or their broker was cited by a number of interviewees as an issue in deciding the legitimacy (or otherwise) of the deal before them. For example, it would appear that a small number of interviewees drew upon a xenophobic logic in making judgements about their callers. The accent of the caller could work both in favour of, and against, the scam, in that the national stereotypes invoked either conferred reassurance or alienated the potential investor. In terms of the stock itself, the allure of foreign shares became evident through some interviewees juxtaposition of the local and overseas share markets, concluding that the latter had a certain glamorous appeal. Further, foreign shares were more exotic than Australian shares; less routine. Thus, investors were able to position the foreign element as a symbol of investor sophistication rather than risk. However, despite the desire to invest overseas, victims typically did not identify common and legitimate overseas investments through Australian-based entities (for example, international share managed funds) as a way of gaining overseas exposure.

The evaluation process that led to these conclusions could be conceptualised as two-fold. In the first instance, the overseas component of the deals being offered was typically characterised as distinct and different to the local scene. In other words, foreign and local constituted an oppositional binary. In the second instance, the foreign versus local concept was mapped onto one of two other dichotomies. The first of these related to the stock and *favoured* being foreign. Interviewees superimposed the foreign/local divide with an "exotic" (high yield) versus "routine" (low yield) binary. Risk associated with investing overseas in this conceptualisation could be reinterpreted as a necessary evil if one is to maximise the potential of an investment. Concomitantly, local shares were positioned as limited.

Alternatively, other interviewees aligned "foreign versus local" with an "unknown versus known" dimension. This was applied to both shares and callers. In this scenario, some interviewees felt that the foreign share market was unfamiliar and therefore deemed it unsafe for investment. The local market, by contrast, was dependable and known, and therefore safe. A number of potential investors automatically dismissed the callers and their offer because their nationality signalled risk.

Thus, the attraction or rejection of the foreign aspects of the cold calling experience allowed potential investors to locate themselves as being in opposition to risk, or as open to lucrative opportunity. The investment therefore functions not only as a financial vehicle, but also as an instrument through which to construct certain versions of themselves, i.e. as either cautious deliberator or savvy opportunist.

Theme 4: Tests of evidence

Many of the interviewees, non-investors and investors alike, felt they made their decision cautiously, with some sense of deliberation. None of the investors made the decision to invest on the basis of the first call, and similarly, many non-investors indulged the cold callers for a number of calls before ceasing contact or refusing to invest.

> He said that because he was curious about what they would say - he said that he always tries to keep an open mind; that finding out was part of his education.
> *Clint, 60-69, male non-investor, retired*
>
> Dennis said that he wasn't prepared to have American shares bought on his behalf before he had had time to investigate. On the one hand, Dennis did not immediately dismiss the offer "in case it had some credibility".
> *Dennis, 50-99, male non-investor, company director*
>
> Phil told them that he wanted to research the company before committing.
> *Phil, 30-39, male investor, accountant*

By the same token, some interviewees who had invested with the scam felt that what let them down was their lack of research. For example:

> He also said he didn't feel he had enough time to research it properly. "I run pretty quick and make a judgement and [in this situation] that was bad".
> *Liam, 40-49, male investor, builder*

Thus, it would seem that for these interviewees, research is an integral part of the decision-making process.

illogical evidence

The point at which, after some research, consumers made their decision to continue with the interaction appears to have centred on proven (or unproven) legitimacy or worth. Deliberation was punctuated by judgements upon the pieces of 'evidence' they gathered or were referred to. These included the caller's behaviour, details of the offer, the concept of the stock itself, and written materials (such as brochures or "prospectuses"). For those who recognised the callers as scammers (and therefore did not invest) the evidence lined up on the side of being either illogical or insubstantial.

> Craig had a call where he told the caller he wasn't in a position to do anything for a month but the caller called him two days later apparently unaware they'd had the conversation. The caller said he didn't recall but the Craig's gut feeling was that he was going through a list and forgot to note that he'd already called. After Craig had said a direct no, the contact was ended.
> *Craig, 30-39, male non-investor, sales director*
>
> Lastly, Kyle thought it didn't add up - i.e. that, if you were on to a good thing, you would do it, not get commission and spread it around. You'd save it for yourself. Kyle said it was like the goose with the golden egg, you'd keep it!
> *Kyle, 60-69, male non-investor, national manager*
>
> …Brendon was alerted by the "fairly low entry levels to get into this". The dollars seemed small scale, which made him a bit suspicious. He wondered if it was worth their while. The fact that they'd bought a block of shares also seemed strange.
> *Brendon, 50-59, male non-investor, sales manager*
>
> Nicholas felt that the company they were recommending looked like any other Telco and why would this one be so special given that all other Telcos on the NASDAQ had gone through the floor.
> *Nicholas, 40-49, male non-investor, manager*

The above examples demonstrate that the interviewees drew on a range of evidence in assessing the offer that had been put to them, which eventually led to them rejecting the deal. For these interviewees, the various elements did not "add up" and therefore cast doubt on the whole offer. Thus, for these consumers, a scam was not so much a scam at first sight, but by deduction. Further, the standards by which they gauged the authenticity of the offer came from their own knowledge and experience:

> He went to the website and he said "it had no depth to it, no disclaimers, no information, just glossy on the surface, some financials that didn't quite add up, didn't have much purpose. He said that "they didn't impress you if you knew what a balance sheet was".
> *Nicholas, 40-49, male non-investor, manager*
>
> Brendon felt that "anybody can put things on a web site and look authentic". Although he found them "patient" and was impressed by the written material provided, he still knew it could be faked.
> *Brendon, 50-59, male non-investor, sales manager*
>
> She said that she and her husband have a share portfolio. They have managed investments including an International Share Trust, direct Australian shares, property investments. Therefore she felt like she knew what to expect in the realm of investing…she made it clear that it seemed so obvious to her that they were a scam and couldn't see how it wasn't obvious to others. As far as she was concerned, nothing about the offer was attractive because it was a scam from the start.
> *Rachel, 40-49, female non-investor, company director*

Thus, these interviewees used their own knowledge to decide on the authenticity of the offer. As a result, many refused, citing something in the offer or caller's behaviour as illogical. Interviewees typically characterised illogical behaviours by unpredictable, unreliable, or inconsistent elements, actions or arguments.

For others who concluded the offer was a scam, the inconsistency was not so much in the details of the offer, but in the fact that they were made the offer in the first place. Several non-investors felt they were an illogical choice for such an opportunity because the offer did not correspond with their own view of themselves. This was commonly expressed as a juxtaposition between being offered a large and/or exotic investment, and being an ordinary person.

> There was a combination of factors that made the callers appear untrustworthy to Kyle. First was the fact that he is in a small country town in Queensland. He is not powerful.
> *Kyle, 60-69, male non-investor, national manager*
>
> He not a big business and how did they get his number, and why call him, he is not making a million dollars so what's the point? He said it was "not me". He didn't have any investments anyway.
> *Stephen, male non-investor, floor sander*
>
> The key things that made her think the offer was untrustworthy was…the fact that she was an "ordinary everyday person", not a big business…
> *Adelle, 40-49, female non-investor, retired*

These interviewees seem to have a view of themselves that was at odds with their conceptualisation of the offer made to them by the cold callers. Thus, in the same way as some people were attracted to the offer because they understood themselves as a consumer of such products (as described in the section on Foreign Investment), others rejected it because they located themselves outside the identity implied by the offer. Further, the glamour, hype and ultimate legitimacy of the deal seemed to be tarnished by being associated with the ordinary citizen. That is, the offer begged the question: Why *were* they (the interviewee) targeted by the caller, and how professional can the caller be if they consider them a potential investor?

Thus, the yardstick by which these consumers assessed the evidence was their own expectations and knowledge based on previous experience. They rejected the deal on the basis that their expectations were inadequately met or were contravened.

logical evidence

However, investors too used their own expectations to inform their decisions and had applied knowledge. They also felt that they had assessed the evidence against the metric of logic, but the actions and/or arguments they were presented with were more likely to "add up" to proof of legitimacy. Unfortunately, though, the evidence some interviewees were testing often consisted only of information gleaned from sources recommended by the cold caller.

> In terms of what made him invest in the offer, apart from the sales pitch of the caller, he felt he did some "research" by reading the pamphlet and looking at the CD that was provided.
> *Marco, 40-49, male investor, small business owner*
>
> He felt he was gaining confidence in them because they were sending him documentation and the price was going up (he said he took their word on that because he did not do independent checks).
> *Christopher, 60-69, male investor, company director*
>
> He went to the Bloomberg site at their recommendation and found that reassuring.
> *Maurice, 50-59, male investor, on-site manager*
>
> He feels they always met his questions before they were raised. He said, "they were leading me". They would "give information to satisfy me at the time; if I needed more, they'd give more".
> *Joe, 40-49, male investor, consultant*

One caller even prioritised advice given by their cold caller over that given by ASIC representatives.

> None of them gave him a firm reason why not to invest. To him, the company not being registered in Australia seemed a "minor thing". When he talked to the Berkley Samson contact about it, they told him not to worry, that it was illegal for them not him.
> *Samuel, 40-49, male investor, manufacturer*

Other interviewees focussed on the caller's behaviour but, in contrast to those who detected a scam, these people found their caller's behaviour to be quite consistent with what should be expected. In particular, many cited the professionalism and reliability of the caller, which in turn conferred legitimacy.

> He feels confident because he can call them and they will answer the phone and talk to him, they give advice, they're all nice people not "fly-by-nighters".
> *Adam, 60-69, male investor, plumber*
>
> Matthew believes they behaved in a very methodical way, with a formal procedure and that this contributed to an impression of legitimacy.
> *Matthew, 70+, male investor, engineer/surveyor*
>
> Ted thought that the caller was legitimate at this point because he sounded "professional": he used terms such as "broadness of investment portfolio", and understood that Ted was not interested in a large investment.
> *Ted, 60-69, male investor, accountant*

Thus, in contrast to the aforementioned non-investors, some investors were sold on the offer or broker on the basis of perceived predictability, reliability, and consistency.

tangible evidence

In other cases, there was a sense that, where there was evidence of existence (of the stock and/or the broker), there was legitimacy. This theme was played out very much within the logic of "seeing is believing".

> The follow-up was minimal so he contacted them and said that he wanted something as proof of purchase. They said to send "client trading agreement form" and they sent a confirmation of invoice. That gave him some reassurance, and he felt it now seemed OK.
> *Christopher, 60-69, male investor, company director*
>
> He also looked at the website and found that convincing, as everything he was told was there, and there were photos of the bloke in charge. Elliot thought that "word of mouth is OK and you're talking face to face".
> *Elliot, 40-49, male investor, small business owner*
>
> On the second call they were telling him about a number of companies and were directing him to the Net. Aaron said that when you looked, "you could see where they spike" so he felt that the information they provided was legitimate, it was correct. "Seemed to be real".
> *Aaron, 40-49, male non-investor, small business owner*

The examples given above suggest that an element of the concept of legitimacy has its origins in visibility; if the potential investor's research yielded tangible evidence that corroborated what the cold caller had told them, they were satisfied on the question of legitimacy.

logical stock concept

Another dimension of testing evidence was where the stock itself came under scrutiny. In the same way that some felt a reliable broker equated to a professional broker (read legitimate broker), a number of interviewees felt that a logical concept behind the stock authenticated the offer. If the business concept could work, the offer could in fact be realised. Examples of these views are described over the page.

> The concept of recycling waste water from piggeries was a "logical industry in this day and age"…he said that he was reassured because there was so much information available about the company, and therefore the company was genuine.
> *Lyle, 40-49, male investor, salesperson*
>
> Lloyd found that he was convinced to go ahead with the offer both by what the caller said and also what he sent. In terms of what he said, the key features were…the share looked like it could go up. Lloyd works for an ISP so the argument that Gary Player was going to enter into Internet sales, which will raise the share value, made sense to him. Lloyd believes they played on that.
> *Lloyd, 20-29, male investor, network manager*
>
> Evive's 'business' concept got her in. The concept of Evive 'made sense'; it was a "thing of the future".
> *Catriona, 40-49, female investor, manager*

Hence, these interviewees felt satisfied of the legitimacy of the caller (and the offer) because the evidence met their standards. In contrast to those who deduced a scam, these investors felt that the callers' behaviour, the materials they were referred to, and the stock that was offered made sense. Unfortunately, often their sources of information were not independent of the cold caller, and therefore did not provide a genuine opportunity for gauging validity. Further, illegitimacy, it would appear, was understood as limited to where the stock may be fake or non-existent. Therefore, if the stock was real, the deal was authentic. Finally, there was slippage between the stock and those offering it; faith in the former conferred plausibility on the latter. If the stock was good, so was the broker.

inadequate financial literacy

It should be noted that a number of investors, in retrospect, admitted that their knowledge was inadequate to the task of assessing the offers. This is not surprising given recent research that found that, despite a growing number of Australians seeking professional advice, the average Australian's general investment knowledge is presently inadequate (Yeow, 2002).

> Joe asserts, "I am not an expert in this area" and said he did not realise there were/are registered and unregistered brokers. He feels his ignorance and their assurances and "apparent professionalism" put him "at ease".
> *Joe, 40-49, male investor, consultant*
>
> She didn't understand the significance of dealing with a company that was not registered here.
> *Catriona, 40-49, female investor, manager*
>
> He said, "they made it sound pretty legitimate to someone like me - inexperienced". "I'm the sort of people they were chasing".
> *Troy, 40-49, male investor, small business owner*

Whereas a non-investor commented:

> He said it was not unusual for him to be cautious. "And when it comes to investment, I will check up who I'm dealing with, make a decision based on fact". "Being a newcomer to the stock market, it's finding where the information is in Australia, about ASIC, its role".
> *Dean, 40-49, male non-investor, IT consultant*

Summary

Thus, although testing the evidence led to the unearthing of the illegitimacy of the caller and their offer for a number of non-investors, others found only reassurance. Despite feeling they had tested the evidence, in the absence of a sound understanding of the financial industry, authenticity for some investors rested upon generic markers of professionalism (such as being reliable, courteous, and using the right terminology) and being visible (albeit often via the internet) rather than compliance with legal requirements. The significance of more valid tests, such as licences and registration, were lost when pitted against the "props" of legitimacy. It would appear then, that what distinguished these two groups was the relevance and independence of the evidence they assessed, and the degree to which they recognised their own shortcomings in terms of knowledge. Those who recognised the scam exercised a healthy scepticism in drawing their conclusions, and kept the bigger picture in frame. Other focussed on the merits of the stock and not those offering it, or did not test the evidence they gathered against appropriate standards. Hence, testing the evidence only worked in favour of protecting the consumer when there was appropriate focus and genuinely independent research.

Theme 5: Third party influence

An important component of people's assessment of the cold calling offer that emerged from some of the interviews was third party advice. We have defined third party advice as information arising from potential investors consulting with people or government bodies apart from the cold callers. While not all interviewees sought such advice, for a number of people, the advice received was pivotal in forming their decision to either invest or not invest.

heeded advice of formal third party

For some interviewees, the information they gained from others led them to doubt the legitimacy of the offer and/or broker. The source of information or advice for these individuals was sometimes a family member, friend, colleague, official body or a combination of several of these.

Those who consulted a formal source (for example a government authority or ASIC-licensed stockbroker) included the following interviewees. These people valued the advice given, and chose to reject the offer accordingly.

> The broker he contacted was an expert in US markets and advised Nick to leave the deal alone. He said that if it sounded too good to be true, it probably was. The broker also advised him that having insider information was illegal and Nick said that made him want to "bail out of the deal"...Nick thought at this point he would not go ahead based on the broker's advice.
> *Nick, 30-39, male non-investor, accountant*
>
> He said he would check it out and then rang the Hong Kong Securities Commission and they emailed back saying that they did not have a dealer's license. They rang back and he told them he was not interested.
> *Jason, 30-39, male non-investor, student*
>
> Alan said that he had heard about ASIC (not sure where) and had a look at [the ASIC] website. He said that he saw all the information on cold calling and was reading the anecdotes. He then emailed [ASIC] even though the company that had called him was not listed on the website...He was pleased he knew about the ASIC website, otherwise he would have sent the money and regretted it.
> *Alan, 50-59, male non-investor, company director*

heeded advice of informal third party

Others followed cautionary advice provided by an informal source (for example a friend or family member). Interestingly, many of these informal sources were more aware than the interviewee of information provided by formal sources.

> The key things that made him reject the offer…his Indonesian friend's advice against the offer.
> *Hugo, 30-39, male non-investor, company director*
>
> Simon also talked to his brother who warned him that it was "not kosher…don't touch it". His brother had been told by his stockbroker about the schemes so Simon feels that, even if he had been genuinely interested, he would never have gone through with it.
> *Simon, 60-69, male non-investor, manager*
>
> Hayley's daughter put her onto ASIC as she [was familiar with ASIC] and is in the industry. She urged her to dob the company in. She went to the web site and found that ASIC had no listing for the company. She called Infoline and got this double-checked. It was confirmed that the company was not registered in Australia…She always said no to the offers. She took ASIC's advice and hung up on them each time.
> *Hayley, 50-59, female non-investor, receptionist*

Thus, these non-investors were advised not to invest and followed that advice. The sources, whether formal or informal, appear to have been well informed and the interviewees trusted and valued their opinion.

rejected advice of formal third party

In contrast to those described above, there were some interviewees who also contacted reputable third parties and yet elected to reject the advice given.

> He said he rang his [Australian] broker and the broker said that he wouldn't do anything overseas, but Peter felt that the way he said it made him think that the broker just said that because he wanted Peter to invest with him.
> *Peter, 20-29, male investor, shop owner*
>
> He spoke to his accountant - he said once you send your money overseas you kiss it goodbye. He went ahead because he just had a gut feeling that it might be alright and you take risks at times.
> *Elliot, 40-49, male investor, small business owner*
>
> Samuel also contacted ASIC. ASIC advised him against investing with overseas companies because they were not registered here. This did not satisfy Samuel, he didn't care if they were registered or not as he is anti system. Samuel said, "I am an individual" and not a bureaucratic person. Samuel believed the people he called, including ASIC, "gave me no concrete information" as to deter him from going ahead with the investment. Samuel then tried calling some Australian brokers but none wanted to trade in foreign investments. Samuel said they didn't seem as "switched on" as Berkley Samson did.
> *Samuel, 40-49, male investor, business owner*

These examples demonstrate that, even when formal sources give appropriate advice, consumers may choose to act against the advice.

rejected advice of informal third party

Similarly, in some cases, the advice (good or bad) given by informal sources was also overruled.

> Erik got his son in law to look up some of the web site information provided. His son in law didn't like it. The web site, like the brochures, had misspelt words. The son in law felt "funny" about it but Erik convinced himself it was OK despite the son in law's doubts. He felt it looked like a big company.
> *Erik, 50-59, male investor, draftsman*
>
> Scott talked to his wife, colleagues and friends about similar 'punts'. His father called him an "absolute f**king idiot" but his father-in-law had had a positive experience previously, making money via an 'out of the blue investment offer' some years ago. Scott did not have reservations.
> *Scott, 30-39, male investor, manager*
>
> He did speak to his girlfriend about it and she was saying that she thought it was bad how they said they would get the money back to him (by courier), but Peter said he thought …that his girlfriend was somewhat negative about his sort of thing, whereas he felt, why not give it a try.
> *Peter, 20-29, male investor, shop owner*

Thus, for these interviewees, while there was a genuine motivation to consult others in forming a decision, the third party advice was demoted (or rejected all together) on the basis that either the source or the advice was not sufficiently valuable or trustworthy, or that other criteria were more compelling (for example, the possibility of gain outweighed the potential risks).

third party gives advice to invest

In contrast to third parties who advised caution, there were instances where the advice given supported interviewees' wishes to invest.

> In fact one of the friends had a lot of money and was "very smart", and therefore Theo felt that he must know what he is talking about. The friend did say only invest what you can risk, and had bought 10,000 shares himself.
> *Theo, 40-49, male investor, finance broker*
>
> The key things that made Scott feel the offer was legitimate included that he had a friend in a senior position in Hong Kong who he contacted. He sent the details of the stock and the TT form to his friend who concluded that Gary Player "all looks legit".
> *Scott, 30-39, male investor, manager*
>
> She talked to her partner and he agreed it sounded fine. They'd missed out on the St George-Primus offer [i.e. before being approached by a cold caller] so they wanted to try again.
> *Yvonne, 30-39, female investor, accountant*

Other interviewees who were encouraged to invest by third parties had quite different experiences from those discussed above. These potential investors demanded (or were directed to) third parties nominated by the broker. While interviewees characterised them as autonomous, these referees were nevertheless cold caller-dependent resources and therefore not truly independent assessors of either legitimacy or satisfaction. Furthermore, it appears that a number of referees were part of the cold calling scam.[18]

> Matthew said he wanted to speak to someone to validate. They nominated someone in Australia. This person confirmed it was good…this person confirmed he was happy, that he'd been to Thailand and seen their operations and that he'd even talked to the operators. So Matthew then felt more assured. This person was from WA, a local…Matthew believed it was a "very important factor for me".
> *Matthew, 70+, male investor, engineer/surveyor*
>
> …and they gave a number of a client; a John <surname & contact number>. John said that he had been dealing with the company for four years and "we've done really well them, currently have R-tech stocks are doing well. No problems with them". Alec said, "That's what convinced me".
> *Alec, 40-49, male investor, business owner*

Again, there was a genuine motivation among these interviewees to consult others before making their investment decision. However, the quality of the advice received was ultimately flawed because the informant lacked independence from the cold callers. The interviewees' inability to render the offer invalid on the basis of this unsound advice led them to proceed with their desire to take up the investment.

[18] Although, as mentioned previously, in some cases the referees may have been fellow investors who did not yet realise they had been scammed, however in most cases it is likely that the Australian-prefixed calls were transferred by the operations' 'virtual offices' back to the cold calling location.

third party defers from giving advice

Some interviewees consulted third parties who opted out from providing the advice sought. Instead, these potential informants (usually wives/partners of male interviewees) deferred the decision back to the interviewee.

> He discussed the investment with his wife and she trusted whatever he thought. Now she is "a little more vigilant".
> *Aaron, 40-49, male investor, business owner*
>
> He did discuss the investment offer with his wife and she said if he thought it was all right, go for it, "because she doesn't know anything about investment".
> *Jason, 30-39, male non-investor, student*
>
> He discussed it with his wife and she didn't know so she deferred to him.
> *Graham, 50-59, male investor, business owner*

Other reluctant third parties did express some degree of concern about the offer before they eventually deferred on giving advice but, again, such cautions were ultimately overruled.

> He did discuss it with his wife and she was sceptical. Her concerns were with that the company was in Bangkok, and she thought it was "too good to be true". Troy said that he replied "I know - give it a go and see what happens" and she left it up to him.
> *Troy, 40-49, male investor, business owner*
>
> He did discuss it with his wife and she said to be careful, but left it up to him…So they borrowed $AUD20,000.
> *John, 30-39, male investor, mechanic*
>
> He said he did discuss it with his wife - but she doesn't understand much about that - but she went to the shareholders' meeting and said that, "we can't afford to make mistakes". He said that he feels "rotten bad: really let my guard down"…"entirely up to me. I'm really scolding myself, [it was] a silly thing to do".
> *Adam, 60-69, male investor, plumber*

Interestingly, the experiences defined in the above examples tend to support recent findings that women are not only more cautious about financial decisions than men, but are more likely to admit ignorance when faced with these decisions - whereas men generally tend towards (somewhat misplaced) overconfidence (Graham & Warren, 2001).

third party advice bypassed

Finally, there were some interviewees for whom third party advice was not a key decision point. These people bypassed third parties altogether (sometimes consciously sometimes not), believing that their own knowledge was enough, or, again, that other criteria were more compelling.

> He sees himself as someone who is very cautious with his money. He did not speak to anyone else about these investments.
> *Phil, 30-39, male investor, accountant*
>
> Joe did not discuss the offer with anyone else. Although he now believes it was "naive" and "lazy", he let the (previous) experience he'd had with the (legitimate) US broker guide him…He feels his ignorance and their assurances and "apparent professionalism" put him "at ease".
> *Joe, 40-49, male investor, consultant*
>
> He did not discuss this with his wife because she wasn't interested in that sort of thing; she left it up to him. He said he did it himself without talking to anyone.
> *Russell, 40-49, male investor, cleaner*

Again, this last quote raises the issue of partners and, in particular, female partners as third parties. It is worth mentioning that, as well as excluding this particular third party on the investment decision, some interviewees have also withheld disclosure of their investment and/or subsequent losses to their respective partners.

media as third party

A slightly different, unsolicited 'third party' was the media. There is evidence that the high profile publicity surrounding the Thai raids in July 2001, provided a clear and widespread alert, both to those thinking of investing, and to those already deep in the investment(s). Consumers were able to access this publicity through newspapers, radio and television.

> He then saw/read articles in the paper on the raid of Benson Dupont. Until this point he had had no doubts.
> *Ted, 60-69, male investor, accountant*
>
> The point at which he realised it was a scam was when he saw a SBS program regarding the raids. There was a shot of the inside of one of the offices with a Jardines brochure on one of the desks.
> *Mitch, 50-59, male non-investor, grazier*
>
> He said he then saw about the raids in the media and said, "I was dumbfounded".
> *George, 20-29, male investor, accountant*

Furthermore, this media coverage drew many consumers to the appropriate source of information and guidance, ASIC (and, in turn, the relevant overseas authorities).

He did not know they were dodgy until the press alerted, then ASIC confirmed it.
Joe, 40-49, male investor, information systems consultant

The press was the first alert. That led him to the ASIC web site for information. He then called Infoline and made a complaint - he knew the procedure to do this via the information on the web site.
Dave, 50-59, male investor, semi-retired

He got called close to the time when ASIC was in media and then rang ASIC to confirm that it was a con. He contacted ASIC because of the media exposure.
Burt, 60-69, male non-investor, primary producer

Craig then saw the raids on the TV news. There was a reference to the ASIC web site. The company he had been approached by was on the ASIC web site so he sent his details through.
Craig, 30-39, male non-investor, sales director

Summary

In closing, third party consultation clearly played a role in making some survey participants aware of the cold calling scam(s). This was irrespective of whether the informant was an individual family member, the media or a contact of ASIC. Some interviewees chose to take the advice given and others chose to reject it. This was true of both investors and non-investors, and included formal and informal sources – no one source was universally trusted. Evidently, regardless of whether advice was sought, abided by, or rejected many interviewees did not have a clear understanding of the relevant third party resources to consult with in order to make an informed decision (in this case, government authorities or licensed investment advisers). Further, some did not know how to adequately assess the quality of the advice given. This would suggest that, although many interviewees had a general sense of the need to gain independent knowledge about an investment offer, they lacked an awareness of how to *evaluate* both the informant and the information received. Thus, although third parties may be a mechanism by which potential investors may be spared from being scammed, the informants are not always appropriate, or heeded.

ASIC was not necessarily the first independent port of call, which indicates the need for ASIC to continue the promotion of its newly acquired consumer protection role. Finally, the high profile mass media reports surrounding the Thai raids in July and August 2001 proved to be an effective vehicle for directing people (investors and non-investors alike) to ASIC as the most appropriate third party source available to them.

Post scam – Consumer reactions

In order to understand more about the diverse implications of cold calling scams for consumers, it is worth examining how investors conceptualised their experience after the fact. It should be noted that most of these observations were discussed in hindsight and therefore often act as subjective rationalisations for the interviewees' behaviour.

As discussed in the previous section, many people decided to contact ASIC after exposure to the media coverage of the Thai raids. Others were prompted by other factors, including their own hunches, an inability to contact their broker or on the advice of a friend, for example. Thus, in some cases interviewees already knew the scam was a scam, while in others the purpose of the call to ASIC was to get more information. However, at the time of the research interviews, all participants had had contact (either oral or written) with ASIC Complaints or Infoline staff, and therefore had quite firm evidence that what they had experienced had been a scam. The following typography of post-scam consumer reactions therefore reflects how interviewees explained their past and current behaviour in the light of information provided by ASIC.

Investors

The reaction of many of the investors seemed to reflect the level of emotional investment they had been encouraged to place in the offer by the cold caller(s). That is, the relationship and trust building that was fostered in many of the experiences seemed to compound the loss; it was not just a financial betrayal but also an emotional betrayal. Thus, investors described feelings of anger, stupidity, betrayal, confusion and shock. Because the cold caller had played on feelings about self (for example by posing confronting questions such as "are you the decision maker?"), many investors found themselves revisiting their views of self at the time they were relaying their stories to the interviewers. As a result, many investor interviewees tended to be highly reflective and self-critical.

Based on the responses found in this survey, there appeared to be four primary investor states post scam revelation. It should be noted that some interviewees fell into a number of these states.

Blame

Inverted

> He then saw/read articles in the paper on the raid of Benson Dupont. Until this point he had had no doubts. He then thought to himself "serves you right"…I got the impression he didn't think that it was worth chasing it up at all and that he deserved to lose his money for being so stupid. He said he "feels an absolute fool" and "don't blame anybody but yourself, thems the breaks"
> *Ted, 60-69, male investor, accountant*

Many interviewees blamed themselves for their predicament. They variously surmised they had been too "greedy", "trusting", "vulnerable" or "naive". Some interviewees branded themselves "idiots" or "foolish" and others were "embarrassed". Shame was also a factor, as demonstrated by a small portion of interviewees who had not disclosed their loss to their family, including their partners. Some of the interviewees who blamed themselves described an accompanying degree of emotional pain, one describing the experience as akin to being "financially raped". Others described an acute feeling of regret, listing things they should have done but neglected to, for example "proper research". This is of particular concern to ASIC as shame and embarrassment may stop some people from informing authorities of such scams and/or seeking assistance.

Cold caller skill

> Scott gives a fishing analogy; different people to catch, scale, and gut the fish. Some people are better at different roles and tasks. Scott observes that the first guy was there to get you excited, then another guy would say 'you did the right thing', and so on. Scott said, "I can't fault their service". The callers always called back. Their "customer service was impeccable really"…In summary, Scott observes that their "customer service", response (i.e. accessibility) and "very feasible explanations", "gives a lot of confidence" and is "a pretty clever skill of theirs".
> *Scott, 30-39, male investor, manager*

Several investors directed blame outwards rather than at themselves. These people believed the skill of the cold caller was a key culprit regarding their predicament. In this sense, the cold callers had "good conmanship". Further, their tools (web sites, brochures referees and the like) were "impressive" enough to successfully blind even the most "cautious" of investors into thinking the scam was legitimate. Hence, according to this conceptualisation, although they may have been fooled, it was understandable given the sophistication of the cold callers.

> Marco said that, under normal circumstances he wouldn't have fallen for it but that he was going through a separation at the time. "I was in a vulnerable position". Marco told the caller this also. The caller told him he'd gain the money from his lost affairs via the investment. He used "kind words and false promises"…Because of his separation, Marco felt "quite desperate" financially and was emotionally very down. He thought that "maybe it's a sign" that he should take up the offer. His mind said no but his emotions said yes.
> *Marco, 40-49, male investor, small business owner*

Some investors believed the experience was an unlucky 'one off' event, that it was uncharacteristic, and even influenced by a freak 'life' factor. Thus, 'life factors' such as separation, redundancy, housing extensions or a child's operation were cited as trigger points for atypical choices. Again, blame was directed outward, but this time it was extenuating circumstances that allowed for the interviewees to be swept up in the scam.

Justice seeking

Active

> Gwen had been alerted by the press. She then talked to anyone who would listen and is still contacting people. Her first call was to the AFP in Brisbane, then ASIC, then the SEC in Thailand. She's also spoken to the Australian Embassy (not helpful), the AFP again, Brinton, the companies invested in, and her local member. The companies offer voicemail and email only. She was told by at least one company that there is no record of her owning shares so it is now a criminal matter.
> *Gwen, 30-39, female investor, business owner*

At the time they were interviewed, many investors appeared active, busy, hopeful and focussed on seeking restitution. This is not surprising, given the high motivation to retrieve their losses. Thus, interviewees cited the number of people they'd called, including the brokers, stock companies and various authorities. Others asked to be put in contact with other scammed investors. Several mentioned their high phone bills as evidence of the level of activity. Interestingly, while some of these investors appeared to be driven by a sense of "anger" and "betrayal", others felt they were trying to compensate for their pre-investment mistakes by being diligent in the post-scam phase of their experience. This seemed to be a vehicle for them to reclaim their sense of empowerment.

Frustrated

> He said he tried to ring the company but the phone went to message bank. He felt that was a bad sign. He called ASIC because he saw an article in the Age. It said be wary of [cold calling] Asian investments - don't invest. When he called [ASIC], the person he spoke said to be wary, and that that sort of investment is illegal. John said, "What can I do? Can't do anything".
> *John, 30-39, male investor, mechanic*

Some investors, including those who were active, felt frustrated that they were unable to make sufficient progress on retrieving funds, seeking justice or both. For some, this feeling of frustration was a general response to the news that they had been caught in a scam (as quoted above), while for others frustration was directed at the process of retrieval. In terms of the latter, there was a sense that the calls they made led them either to further calls (for example to overseas authorities) or to dead ends (for example an inability to contact the broker). In some cases, this translated to a sense of powerlessness, of being in a vacuum. In turn, some investors felt the degree of assistance from authorities did not meet their expectations (i.e. that Australian authorities would be able to retrieve the funds for them and, in turn, bring the perpetrators to justice). Some also experienced language barriers when contacting overseas authorities.

Denial

Of (or extent of) scam

> "I have a lot of confidence in KG [The Kensington Group]- the other two were just a sting - I've got no complaints". He feels confident because he can call them and they will answer the phone and talk to him, they give advice, they're all nice people not "fly-by-nighters"
> *Adam, 60-69, male investor, plumber*

Several investors interviewed were still unconvinced that their experience had been a scam, or at least that they were not 'entirely' scammed because the shares themselves "might be ok". These people felt this way despite their knowledge about the raids and contact with ASIC. Interestingly, as a measure of investors' unwillingness to acknowledge the scam, some responded to the press alert by attempting to contact the broker before they contacted authorities. Not surprisingly, some 'brokers' had prepared for this and had ready-made excuses. Unsolicited, some 'brokers' also emailed and faxed notices to investors, claiming their innocence and distancing themselves from pending investigations. The measure of impact for investors who placed emphasis on the extent of the scam was the proven (or unproven) legitimacy or ownership of the stock they purportedly invested in. For these people, the actuality of the claims they were originally promised (for example the high gains) became unimportant. In some respects, the stock became a "lifeboat" for these investors, as if it were proof not only that their financial loss was not so extreme but also that their original decision to invest was therefore not completely invalid. The reluctance of some to acknowledge the scam (or the full extent of the scam) demonstrates the high level of emotional, as well as financial, investment in the cold calling experience.

Of particular caller as scam artist

> The caller gave Nasser his mobile number…The caller has acted like he doesn't know what is going on either. In another conversation he said that someone had come in and raided all the company documents so he was unable to give any further information…In terms of the main caller: I really thought he was genuine". Nasser is still not sure if he was or wasn't. He is still in contact and due to talk to him on the evening of the [survey] interview. Nasser felt he connected to the main caller on a personal level. They "had a lot of things in common". For example their Lebanese background. The caller said he'd show Nasser around his office if he was ever in the country. Toward the end it became like a "friendship thing".
> *Nasser, 30-39, male investor, surgeon*

This quote demonstrates the power of the emotional side to the transaction: of trust, relationship building and the accompanying fear of betrayal and/or fear of bad judgment. In this sense, although the broker company is acknowledged as a scam, the 'main caller' with whom the investor identifies, remains legitimate. Further, the caller may become even more closely identified with the investor after the scam has been revealed because he/she has also (supposedly) been "naive" or "tricked".

Philosophical

> "I'll write that off to bad luck and get on with life"…"I put it down to a learning curve".
> *Ray, 50-59, male investor, business owner*

For these investors, the event was put down to experience. For some it was an experience to forget and for others it was an experience to learn from. Either way, these investors were able to evaluate fund retrieval relative to other concerns. Thus, some cited specific reasons as to why they were philosophical about the loss, for example that they were young and would therefore "bounce back" or that their health was more important.

Non-investors

Not surprisingly, non-investors were generally less elaborate in their rationalisations than investors. For some this may be attributed to a distinct lack of emotional investment. Non-investor states can be loosely bundled into the following (overlapping) categories.

Relief

> He said, "I may have questioned the actual stock (but only in retrospect), [I'm] just pleased I didn't send any money. Makes you very, very wary".
> *Alan, 50-59, male non-investor, company director*
>
> He found the pressure of work prevented him from visiting the site and feels "lucky I didn't".
> *Dylan, 50-59, male non-investor, accountant*

It should be remembered that, as mentioned previously, not all non-investors were instantly aware of the scam. For example, some discovered the scam via the publicity concerning the Thai raids. Therefore, it is not surprising that one of the key reactions of non-investors to knowledge of the scam was relief. These interviewees felt "lucky", as though they'd experienced a timely 'near miss'.

Self-validation

In relation to investors

> He thinks that others have invested because of greed, and some people gamble. He said, "They take more care buying a stereo than spending $50k on shares. He felt that they don't think about when things go wrong. He said he and his wife have attended quite a few seminars - they have been educating themselves. They've talked to a lot of people and most want to make money but they don't understand and are not prepared to educate and understand - they rely on other people to advise them. He thinks that you've got to know a bit yourself…
> *Clint, 60-69, male non-investor, retired*
>
> He is also a businessman and feels this makes him aware of things that go on…He wanted to prevent others losing their money because he had found the operation to be quite slick.
> *Douglas, 50-59, male non-investor, consultant/trainer*

For some non-investors, self-validation was formed in the context of the opposing investor behaviour. However, while some took the unsympathetic attitude that "if you were greedy, you wouldn't fall for such scams", others identified with investors. The latter group acknowledged that the scam artists were particularly skilful, and that had they been less financially experienced, unlucky or generally unwary people, they too may have fallen for the scam. This attitude was not always patronising, rather, it was often inclusive. Some investors felt that they too could have found themselves scammed, if not for fortunate factors that prevented them from doing so, for example the timing of the approach or the unavailability of funds. Regardless of their feelings of vindication, non-investors contacted ASIC to log their experience, and therefore to assist future potential investors. There was a strong notion of community responsibility.

Game playing

> He said he let them keep talking, to hear "how extravagant" and to "see how far they went" seeing as they were paying for the call.
> *Ben, 40-49, male non-investor, manager*
>
> He said that he "played them along for a while"…"Never at any point actually contemplated doing it". He said he was just playing along for the fun of it. He said he thought others may invest because there was a "touch of plausibility".
> *Nicholas, 40-49, male non-investor, manager*

Some non-investors used official confirmation of the scam to validate their negative treatment of the callers. That is, several non-investors treated the experience as a game. They spoke of "leading [callers] on", of "playing with them". For these interviewees, retribution for the approach came in their ability to waste the cold callers time and money by pretending they were interested when they were not. Many of these interviewees took particular delight in relaying their devices to the interviewees. Others offered themselves as informal 'sleuths'.

To conclude, clearly interviewees, whether investor or non-investor, were as varied in their reaction to the scam as they were in their treatment of the investment offer(s). This would again tend to support the need for a multifaceted approach to education strategies. Finally it is noteworthy that many of the reactions described above are matched by other research concerning victims of telephone scams (Shichor, Doocy, & Geis, 1996). Given the relatively sparse research in this area, further work may be warranted, particularly when considering ways to maximise enquiry and complaints procedures.

Conclusions

The cold calling foreign investment scams perpetrated in Australia as described in this study were effective and sophisticated operations. Through the use of superficially impressive websites, deliberate selection of callers, and use of techniques such as referees and official paperwork, the cold calling companies were able to generate a veneer of legitimacy that managed to deceive some people into making an investment, and in some cases, more than one investment. Forty-one interviewees in this study invested over 2.5 million Australian dollars with these companies, yet they represent less than one percent of the people who called ASIC about a cold calling scam experience. Thus, the cold calling scams described here were highly successful and it is important that we learn as much as possible about their impact, both to deal with this current scam and to help minimise the effect of future scams.

In terms of modus operandi, the cold calling operations, as described by the respondents in the present study, did not fit the usual "hit and run" stereotype. The callers often took a great deal of time and trouble to establish a trusting relationship with potential investors. Further, they ensured they addressed investors' questions and concerns about investment security through provision of ample written documentation and referrals to websites. From the interviewees' point of view, although high-pressure techniques were mentioned, there was also frequent reference to the professionalism and dedication with which the callers conducted themselves. In some cases, investors were sufficiently convinced of the legitimacy and good intentions of their callers that, even after they had been alerted to the scam, they continued to have faith in the integrity of "their caller". Thus, the characterisation of scams in the popular imagination, as well as some of the current warning campaigns, as invariably high-pressure may need some adjustment.

Another surprising feature of this investigation was that, apart from whether they had handed over money or not, there was little to distinguish those who had invested from those who had not. Investors and non-investors were of similar age, educational background, and proportion owning shares. It is also important to note that a few non-investors were almost investors except they were "saved" from investing by some external event. In terms of targeting, the only common features that emerged among the target group sampled in this study was the significant number of people involved in their own business, and the overrepresentation of men. Otherwise, the group was diverse. However, caution needs to be exercised in generalising these findings to the wider population of people who may have been contacted by the cold calling companies, as the present group was selected only from those who contacted ASIC about their experience.

From the analysis described in this report, it would appear that the interviewees identified a scam in a range of ways and after varying lengths of interaction with the cold callers. Further, warning signals to one group of people were not so for another. For example, some interviewees were immediately alerted by the fact that they were cold called at all, yet others thought this was a legitimate and routine sales technique. The issue of the foreign nature of the offer (either stock or the caller) prompted questioning about the legitimacy of the deal for a number of potential investors, yet other interviewees felt "foreign investment" signalled an opportunity to enter a lucrative market. For others again, advice from a third party gave them all the warning they needed, yet some people ignored such advice, or received advice that they were on safe ground. Finally, a few investors and non-investors did not even realise that they had been exposed to a rort until raids on one of the operations were widely publicised in the mass media. Hence, identifying a scam was neither guaranteed nor simple.

Clearly, there is more subtlety to the cold calling rorts than most potential victims would anticipate. Further, there is significant complexity in the conceptualisations of risk that people bring with them to the cold calling situation, as well as the frameworks through which they understand the information given to them both by the callers, and by their own formal and informal advice networks. Therefore, messages formulated to reduce the success of such operations must: engage with the logics people use to filter information, be multifaceted, and be conveyed through appropriate media. Below are a number of key recommendations that may be used to guide education strategies relating to cold calling scams. Following these recommendations is a discussion of the wider implications this analysis has raised for education strategies more generally.

Recommendations for education

The cold calling survey results have revealed key areas of interest for ASIC (and potentially other authorities and consumer groups) when developing education strategies to combat these kinds of scams.

Defining a scam

The danger in misrepresenting the traits of a scam is that, should they be faced with one, consumers may be unable to recognise it as such. There are two important issues arising out of the analysis that may need to be considered when characterising cold calling scams for the purposes of education.

Not obvious

Based on the survey finding that the cold calling experienced by these interviewees did not necessarily reflect cold calling stereotypes, ASIC will need to carefully consider how we characterise cold calling scams. For example the scams are not necessarily 'obvious'. However superficial, these cold calling operations make concerted (and, we have seen, successful) efforts to appear legitimate, particularly in the early stages of their contact with investors. The consumer must therefore be alerted to the fact that it is normal for the fraudsters to *appear* legitimate but that this initial impression is not in itself protection against fraudulent behaviour. A key point is that consumers should continually be reminded of the reliable 'checks' they can make to determine whether the person cold calling them is likely to be legitimate or not (e.g. licensed).

Exceptions

Importantly, any scam 'scenario' authorities or consumer groups put forward will not necessarily be the definitive scam, and that needs to be made explicit. Because fraudsters evolve and adapt, there will always be variations on technique. Thus, in characterising a cold calling scam, warnings must communicate the possibility of any known variations or exceptions that may be current.

Preferred research

Research focus

Clearly, the majority of investors participating in this survey felt they engaged in some form of 'research'. In their minds, they were approaching the investment decision cautiously, subjecting the offer to a series of 'checks'. However, as discussed in the findings above, often the focus of these checks was inappropriate.

In many cases, the cold caller/broker was *not* the primary focus and therefore the potential investor missed the opportunity to discover that the operation was fraudulent. This indicates a key finding - the need for more consumers to be made aware of the authority and obligations of stock brokers/agents/advisers. Although the cold calling operations seemed to have avoided using these titles explicitly, they implied such roles by presenting themselves as a 'company dealing with offshore investments'. Consumers must realise that, although the stock being offered may be legitimate, this offers no protection against a fraudulent intermediary.

Research quality

The findings reported here suggest there is a need for consumers to recognise the difference between some of the tests of evidence that have been performed by investors in this survey, against those more effective in determining legitimacy. The cold calling survey has yielded some insight into what constitutes "research" for investors, however there appears to be a need modification to some of these approaches. Thus, the first step to adequate research is a shift away from research suggested by the offerer toward *independent* research. Further, third party consultation as a form of information gathering should be evaluated appropriately (for example independent information should have greater weight than broker-dependant information). Thus, sources of information (people or material) should be both relevant (for example ASIC) and valued (i.e. the advice is adhered to).

The following table is a summary of the consumer research described by the interviewees in this study compared with ASIC preferred research.

Table 4: Comparison between some interviewee's research and examples of alternative approaches preferred by ASIC[19]

Cold calling consumers' research	ASIC preferred research (for example)
Brochures sent by 'broker'	Seek a legitimate prospectus or P.D.S (Product Disclosure Statement)
Web sites provided by 'broker'	Seek web sites of licensed Australian financial advisers/product providers
Calling the company to be invested in	Search appropriate regulatory or market web site for registered status of broker and stock
Calling referees provided by the company	Check licensed status with ASIC (free web site search or Infoline)

[19] These factors are not listed in order of significance.

Financial literacy

Cold callers used particular techniques, including financial jargon, written material and web sites as signifiers of professionalism. They also made extravagant claims about the potential performance of the stock they were offering. These methods would be less effective (and in fact *were* less effective in the case of some non-investors) if consumers' general level of financial literacy was raised. In addition, it would be useful to convey that it is common not to understand everything about the financial industry, that it is a difficult arena to grasp and that, if something is not understood, decisions should be deferred until a greater understanding is attained. Though the following areas are part of ASIC's broader ongoing education, the table below reveals some specific needs for consumers faced with cold callers.

Table 5: Summary of gaps in consumer knowledge arising in the cold calling research

Gap	What is needed
Financial advisers	Who is allowed to give financial advice? How do I verify they are qualified/licensed? What activity can they undertake?
Prospectuses	What should I expect to find within a prospectus? Many of the survey participants described the brochures they were sent as prospectuses. Consumers need to understand what should be in a prospectus and then how to evaluate the information within it. They also need to understand ASIC's role with respect to prospectuses.
Forecasts	What are reasonable gains and return periods? Explain the risks involved in forecasts for highly speculative industries.
Speculative investments	Relating to the above, the stock offered was highly speculative. Consumers need to know what constitutes a speculative investment and what that means in terms of risk.
Markets	Reiterate that there are important differences between different markets that have real consequences for investors. In the instance of cold calling, specific areas of confusion are the differences between: ▪ The Australian and US markets, most specifically the OTCBB US market ▪ The US NASDAQ and OTC markets.

Continue over the page…

Gap	What is needed
Regulator	When and how should ASIC be used by consumers? ▪ How to access, in the case of cold calling, essential information services ▪ Its legislative limitations (i.e. the limits to its powers), especially for cross-border consumer protection.
Legalities	Having contacted ASIC after the scam, many survey participants felt shocked to learn of their rights. In other cases, investors did contact ASIC as part of their 'research' yet went ahead with the investment in spite of the information given. This suggests that clearer and stronger messages about these legalities and related risks are required. Key areas of confusion were: **Licensing:** that some consumers view licensing as a formality rather than a legality; as a bureaucratic process rather than an authentication process. The survey revealed that unlicensed status does not necessarily denote risk to many consumers. **Share hawking:** Many investors were shocked to learn that share hawking is illegal in these circumstances, or even that there is any specific law around cold calling and investment offers. **Insider trading:** Some investors were told insider dealings were not prohibited in the country the cold callers were operating out of. Whether insider trading actually occurred or was part of the misleading claims, investors expressed some confusion over its legal status and consequences.

Consequences of overseas investments

Investors were often shocked at the difficulties they were faced with when trying to retrieve their funds and/or seek retribution for their loss when they contacted authorities. Warnings therefore need to continue to emphasise the obstacles to retrieving funds lost in overseas scams. This is a factor that often comes to consumers' attention *after* the scam, obviously too late. The inter-jurisdictional issues are both an indication of ASIC's role (and its legislative limitations) and also risks worthy of reconsideration at the investment decision stage.

Message media

This research revealed that consumers consult various types of third parties when deciding to invest in an offer. Accordingly, ongoing prevention should utilise a variety of information channels. However, the most widespread and successful alert of the scam for many interviewees was the high profile coverage of the Thai raids. Given the range of consumer types and dispositions found in the current sample, the ideal medium for alerting people to known cold calling scams would therefore appear to be the broadest medium (i.e. mass ("popular") media and, in particular, the use of electronic media (television and radio)).

However, this research has shown that not all consumers used the information in the way it was intended. For example: many interviewees had looked at the ASIC web site and found ASIC's blacklist of cold calling firms. Some people decided not to invest after finding a firm on the list. However, if the name was not on the list, some consumers assumed 'this' broker was legitimate, despite quite strong evidence to the contrary. In response, ASIC emphasised that the list of cold calling companies was as up-to-date as possible but the list cannot be exhaustive because new names arise frequently and ASIC finds out about scams primarily from complaints from the public. The most important safety check is to find out if a company holds a license, not just to rely on the ASIC cold calling list.

Thus, the research into cold calling scams has provided some insight into the way education strategies can be focussed when dealing with such scams. Indeed, the some of the issues raised here are also applicable more widely, as is detailed in the section that follows.

Wider implications

Although this project focussed on one topic (i.e. cold calling scams), the research described in this report does have implications for the broader arena of consumer protection in financial services. Many of the issues outlined below point to the need for longer term efforts to improve financial literacy – there are not necessarily quick and simple ways to address the gaps in knowledge or incorrect beliefs listed here.

Heterogeneity of consumer audience

The audience for campaigns and education is not homogeneous. The population targeted in this scam (as far as we know it from those that called ASIC) was quite diverse in terms of demographic characteristics such as age, education, income and assets, as well as investment experience. Thus warnings need to be launched through a number of media and appeal at a number of levels. Further, men and women, according to this research and other research cited in the report, clearly have quite different approaches to investing. Therefore warning and educational messages need to appeal to both sexes.

Consumer self assessment of knowledge

According to the findings in this report, some consumers underestimate their own lack of knowledge about investing. Many interviewees found out too late what they needed to know when considering the cold callers' offers, yet it is difficult to know what you don't know. It may be useful to strongly emphasise particularly weak spots, for example complications with direct overseas investments.

Active interpretation of information

The data reported on here clearly show that people can be exposed to the same information (whether it is from ASIC or a cold caller) and invoke quite different interpretations and rationalisations from the next person, or from the original intention. Because the interpretative context of a warning is not the same for all people, some may not focus on the part of the warning they were intended to. A good example is the listing of cold calling operators that was posted to the ASIC "FIDO" website. As discussed previously, some investors visited this site and, upon not finding the name of the particular company they were dealing with, believed they were safe. Thus, they read the absence of their company as an endorsement by default. Clearly this was not the intention, and ASIC subsequently added a caveat to the site stating that, just because the company calling the consumer is not listed, does not mean they are reputable.

Consumers draw on a range of sources of information when making investments

A clear finding from this research was that ASIC's advice is only one of a number of pieces of information people draw upon when deciding on an investment. Consumers variously used: what the cold caller told them over the phone, written brochures, websites, self-concept, advice from friends, family and colleagues, as well as what they were told by ASIC representatives, in order to make their decision. Further, advice from ASIC was not always given top priority among the numerous sources. Thus, warnings issued by authorities are operating in a competitive environment, and therefore, need to be salient and engage with investors' concerns to contend effectively for the investor's attention.

Illegality is not necessarily a deterrent

In the research described in this report, illegal activities such as insider trading and giving investment advice without a licence were reported by many interviewees. However, a significant number of consumers did not seem to be too concerned by (or simply didn't understand the implications of) the illegality of these practices. While it is necessary that ASIC, as a regulator, needs to indicate where entities may be acting illegally, it should recognise that for some people this may not necessarily detract from an offer. Some of the investors rationalised that it did not matter that the operators were not registered in Australia, because they were based overseas. Certainly, the negative consequences of this belief on recourse are considerable and should continue to be emphasised.

Investing as gambling

Many people in their interviews spoke about investing as if it was gambling. There was a suggestion that there was as much (or little) certainty in the outcome of a share's performance as a horse race. This implies that no amount of research is going to place a potential investor in a better position to judge the wisdom or value of an investment than if no research is conducted. Taken a step further, conceptualising investing as gambling may provide logic and licence to sidestep any in-depth research.

Investing as an expression of identity

Throughout this analysis, there was an emerging sense that making an investment was not only a financial action, but that it may also serve as a vehicle by which people identify themselves as sophisticated and/or risk takers. In the case of cold calling, a number of investors were able to position themselves as sophisticated investors (when they really had relatively limited experience) by claiming attraction to foreign investment and "diversification" of their portfolios. Interestingly, a couple non-investors did not admit to not having the money to invest to their cold callers on the basis of pride. It is also instructive that the cold callers often used the expression "capacity to invest" when first making their offers. This wording implies that having the money is an ability that the person possesses rather than an objective statement about their finances. This would suggest that the power to invest had implications about potential investors as people.

Further, given the potential for imprudent investment decisions to make people feel fools, and avoiding them to make others feel wise (see section on Post-scam consumer reactions), the links between investing and identity may provide some possible grounds for developing education in informed financial decision making. These social and psychological implications of investing should contribute to educational remedies.

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Appendixes

Appendix A: Australian laws contravened by overseas cold calling operations

OFFENCE TYPE DESCRIPTION	CONTRAVENTIONS OF/FAILURE TO COMPLY WITH
Engaged in such activities as carrying on a securities business or investment advice business or acted as a representative of a person engaging in such a business, including the promoting, recommending, subscribing, offering or dealing of or in securities, fundraising and/or investment advice or opportunities whilst not holding a licence or a proper authority from a licensed person	[ss. 780, 781, 806, 807] *Corporations Act 2001* (or a previous corresponding provision) [**NB**: Contraventions occurring after March 11, 2002 apply to the following sections of the *Financial Services Reform Act 2001:* ss. 911A – ss 911C ss. 916A, 916B, 916C, 916D, 916E]
Offered, made available or otherwise promoted securities of companies that did not exist, offered made available or otherwise promoted securities or distributed application forms for the offer of securities, without disclosure documents that had been lodged with ASIC	[ss. 726, 727] *Corporations Act 2001* (or a previous corresponding provision)
Engaged in the unsolicited hawking of securities	[s. 736] *Corporations Act 2001* (or a previous corresponding provision)
Engaged in conduct that was, or provided or disseminated information that was, fraudulent, false, reckless, misleading or deceptive, or that was likely to be fraudulent, false, reckless, mislead or deceive for the purpose of inducing persons to buy, sell or retain securities	[ss. 995, 999, 1000, 1308] *Corporations Act 2001* (or a previous corresponding provision) [s. 12DA] *ASIC Act 2001* [s. 191] *Crimes Act (Vic)* [**NB:** Contraventions occurring after March 11, 2002 apply to the following sections of the *Financial Services Reform Act 2001*: ss. 1041H, 1041E, 1041F (s. 1308 remains) s. 12DA of the *ASIC Act* remains (although sb. 12DA(1) will be repealed and replaced with a new sub-section, Schedule 1 Part 2 of the *FSRA)*]
Offered securities and accepted payments for such securities without intending to supply all or some of the said securities, harassed or coerced persons to buy and pay for securities and/or asserted a right to payment for unsolicited financial services in relation to the offering or dealing in securities or advice in relation to such	[ss. 12DI, 12DJ, 12DM] *ASIC Act 2001*

Appendix B: Excerpt from cold calling script

EXCERPT FROM REAL COLD CALLING SCRIPT...

3RD DROP – 5,000 to 2,000

Obviously **when** *you* **deal with** *your* **local broker** *you* **buy**...

Malaysia	KLSE	Sime Darby or Tenaga!
Taiwan	Taipei Stock Exchange	Formosa Plastics or Acer Computers!
Japan	Tokyo Stock Exchange	Sony or Toyota Motors!
South Africa	Jo'burg Stock Exchange	De Beers or Nedcor!
Europe	London Stock Exchange	British Airways or British Telecom!
Australia	ASX	BHP or Telstra!
New Zealand	New Zealand Exchange	Brierley or Goodman Fielder!
Singapore	Straits	Creative Tech or DBS!

What's your normal trading range?...50 lots or 100 lots...**Right?**...Get a response!

Appendix C: Methodology

Design

In order to elucidate the reasoning behind the investment choices of people cold called by foreign investment companies, a qualitative research methodology was employed. A sample of both investors and non-investors were interviewed and asked to describe their cold calling experience and account for the decisions they made. We felt that a qualitative approach was more appropriate than a quantitative survey as we were interested in obtaining details of the steps and reasoning behind their decision to, or not to, invest, rather than, for example, quantifying characteristics of investors. The data gathered was analysed for recurrent themes (Strauss & Corbin, 1990). Allowing people describe their experiences in their own words rather than imposing set categories is more likely to yield detail about the demand side of this phenomenon previously unknown to ASIC, and also, generate education directly relevant to those at risk. However, we understand that, rather than being an uncorrupted account of scams and subsequent investment decision-making, these narratives are a reconstruction of the events as they were seen by the interviewees. Therefore, the data described here is a reflection of how the interviewees make sense of their own actions in retrospect.

Sampling

The sample was drawn from the population of callers to the ASIC Infoline and Complaints Department who had been approached by foreign investment companies. Details from calls made to these departments are recorded on ASIC's databases along with the caller's contact information, with the caller's consent. A sampling frame was generated by downloading all records where cold calling was the enquiry type, and the caller had left contact information. Calls to ASIC by investors during the six-month study period from February to August 2001 (495) far outnumbered those from non-investors (53). Therefore, for the purposes of this study, the entire population of non-investors was selected for participation. Investors, on the other hand, were selected by sorting callers' records into date-of-call order, and randomly drawing 50 people. This resulted in an original group of 103 people to be contacted and asked to participate in the study. After a number of people refused to participate, or were found to be unsuitable or uncontactable, a further 16 people were added to the contact list to reach the desired final sample size of 80 interviewees (see below for details of response rates).

Potential participants were contacted by telephone and, after being told about the study objectives and requirements, were asked to participate. To ensure confidentiality, the interviewers identified themselves as being from ASIC and the purpose of the call only to the potential interviewees (and not to family members or work colleagues). Potential interviewees were informed that their participation was entirely voluntary and any enforcement action conducted by ASIC on their behalf would be unaffected by their participation (or otherwise) in the research study. For further information on the measures taken to ensure data confidentiality and security, and anonymity of participants, a copy of the script used to invite potential interviewees is included under *Supporting documents* below.

Participants

Of the 103 in the original contact list, 67 were interviewed, 15 were uncontactable, seven had complaints that were outside ASIC's jurisdiction, five agreed to participate but did not "show" for their interview, five were unsuitable (e.g. they had made the complaint on someone else's behalf), and four declined to take part. Therefore, as noted above, an additional 16 names were obtained by further random sampling of the list of investors, and from referrals of non-investors from our International Directorate. Thirteen of these people agreed to be interviewed yielding a total of 80 respondents and an overall response rate of 67 percent (63% of non-investors and 72% investors). The response rate for only those candidates who were suitable and able to be reached was 90 percent (93% of non-investors and 87% of investors). This is a very high response rate for social research and is more than likely attributable to the population being highly motivated (having lost money or successfully avoided loss) and having previously had contact with ASIC on this matter.

Data collection

The study used a one-on-one semi-structured interview format (see under *Supporting documents* below) with two interviewers splitting the sample between them. All interviews except one were conducted over the telephone. The one interview that was conducted face-to-face was done so at the request of the interviewee. Although interviews were not tape recorded and transcribed, the interviewers took detailed notes, including direct quotations from the interviewees. The median interview length was 35 minutes (range 16 minutes to two hours). Investors, on average, took longer to interview (median 51 minutes duration) than non-investors (median 29 minutes). This is understandable given that investors' stories were often quite complex, especially in the case where they had made multiple investments and/or were contacted by multiple cold calling companies. All interview material was de-linked from the names and contact details of interviewees, and respondents are only identified by study ID number or pseudonym in this and any other publications utilising study data.

Data analysis

The detailed notes taken during the interviews by the researchers (AG and CM) were put into electronic format and read into a qualitative software analysis program (NVIVO). This program assists in the organisation, storage, and retrieval of qualitative data. It does not, however, impose any kind of pre-existent system of interpretation. The analysis was conducted by AG and CM and was two-fold. In the first instance, using the qualitative analysis software segments of text were "tagged" for their relevance to issues such as persuasion techniques used by caller, investor's sources of information, and their responses to the investment offer. To promote consistency of this process across the 80 interviews, a small number were coded by both researchers and then compared. From this procedure, a common coding system was devised for the researcher to analyse the interviews she had conducted herself. Coding consistency was further supported by the researchers frequently checking and rechecking on coding decisions with the other researcher.

In the second instance, the data was then reviewed using the retrieval mechanisms of the NVIVO software, and reanalysed for themes that recurred throughout the interviews around interviewees' decision-making processes. This was an iterative process whereby commonalities and systematic relationships were identified and then tested against the data. Preliminary observations made prior to the data being coded (for example, issues identified while the interview data was still being collected) also informed this process. Departures from the major directions of these themes were also sought to ensure that the complexity of the responses of the interviewees was reflected in the analysis.

Although the findings described here have emerged from a systematic approach, it should be understood that because a quotation or practice has been included under one theme and interpreted in a certain way, this does not mean that we believe that that is the only way to interpret that event. Moreover, the aim of qualitative data analysis is to understand the meanings and processes associated with a particular phenomenon (Ezzy, 2001), in this case, investing in cold calling scams. Therefore, the themes that are described here are selected, not so much for their popularity (although some of the strength of a theme may be related to the extent to which it is mentioned) but more for their ability to elucidate the mechanisms by which the interviewees made their decisions. Thus qualitative analysis, in this context and more generally, focuses on the "how" and "why", rather than the "how often". This analysis therefore represents how we (AG and CM), as informed researchers, conceptualised the responses of the interviewees in relation to the central issues of the project. In this way, the themes described here, and the quotes used to illustrate them, should be viewed as only one approach to making sense of the data collected.

Appendix D: Interview supporting documents

Invitation to participate script

"[NB important: ensure that the person you are speaking to is the person who contacted ASIC.] Hello my name is <<insert name>> from the Australian Securities and Investments Commission. We obtained your number from our information hotline; apparently you contacted us <<insert how long ago they called>> months ago about your experience with overseas investment cold calling, is that correct? Because of the volume of calls that we have received about cold calling, ASIC is conducting a survey of a sample of people who have called us in order to get a better picture of the experiences of people who have been affected by cold calling. We are seeking this information such that we can improve the warnings we give about these sorts of investments and learn more about the way they operate and to help other people who may be affected. So we were hoping that you may be interested in taking part. I should stress that the survey is in no way part of an enforcement investigation or attempt to recover any monies that investors may have lost. Those outcomes may be pursued separately and if so, you will be contacted (or may have already been contacted) by someone else. Further, participation in the survey is purely voluntary and whether you decide to participate or not will not affect any other dealings you may have with ASIC on this or any other matter. If you would like to check that ASIC is indeed conducting this survey, you may check our website for information (http://fido.asic.gov.au), or you may wish to call our reception and ask for Consumer Protection, and they will confirm the existence of study.

The survey is in the form of a short interview over the telephone of approximately 15 to 20 minutes duration conducted either by myself or <<insert name of other researcher>> at a time that is convenient to you. We will be asking to describe your experience with cold calling. Your responses will be kept confidential and we will keep all contact details of all participants separate from the data we collect, so no one will know which particular individual said what. Only ASIC will be able to access the raw data. Any publications or media releases that come out of the study will not contain any information that would allow individuals to be identified. Would you be interested in taking part? When would be a convenient time to call so that you have enough time to talk and can get together any documentation you may have? The survey should take around 15 to 20 minutes, but may take longer depending on the details of your particular story. Is the number I have called you on today the one I should use? Here is my number in case you want to clarify anything before we do the interview. Thank-you for your time/agreeing to participate.

Interview schedule

I. Pre-interview introduction

Thank you for agreeing to take part in this study. As I mentioned when we first contacted you, I should stress that this survey is quite separate to any investigation that may or may not take place of your particular case, although there may be some overlap in the types of questions we ask you. However, the purpose of the survey is a little bit different. The information you provide will help us get a better picture of what sorts of schemes have been offered to people such as yourself, the techniques the companies use to induce people to invest, and why some people choose to invest while others do not. We also hope to get some information as to who the companies are targeting such that we can appropriately aim our education and warning campaigns. If at any time you don't feel comfortable about answering any of the questions just let me know and we can go onto something else. However, I encourage you to tell us as much as you can, as we are very interested in people's experiences, and we hope by you telling us your story, we can prevent people losing money in the future. All of your answers will be kept confidential, and we keep contact details of all participants separate from the data we collect, so no one will know which particular individual said what. Only ASIC will be able to access the raw data, and any publications or media releases that come out of the study will not contain information that would allow individuals to be identified.

II. Interview schedule

Just briefly say that we'll just be taking them through a series of questions about their cold calling experience, and should they not follow any questions just ask the interviewer to repeat it. It should not take too long, approximately 15 to 20 minutes depending on the details of your particular story, is that OK? Where we know something such as the company name, or amount invested, just check this back with the respondent.

First contact of cold caller with respondent

1. First of all, do you recall the name of the company that first contacted you and made you the investment offer?

2. Can you tell me how long ago were you first contacted by <<insert name of the company>>?

3. How did they first contact you – was it by phone? Was it your home, work, or mobile number?

4. Did they ask for you by name? (i.e. did they seem to be after you in particular, or just whoever answered the phone?)

5. Did you ask how they got your name/number? [If yes], what did they say?

6. Why do you think they called you in particular?

7. I will ask more about the offer that was made to you in a minute, but I just want to check approximately how many times were you contacted? Was it always the same person who contacted you? What did they sound like – for example, did they have an accent? Did it sound like a man or a woman?

The offer

8. And now can you just walk me through what they said to you the first time they offered you the deal? What exactly was the offer they made? In this question find out:

   - The exact details of deal (shares in what company at what price for example)
   - The returns offered

- Where were the investments based (e.g. shares in an American company listed on the NASDAQ)
- Any minimum investment requirement
- Any time limitations (e.g. you must invest in next few days etc)
- How you were supposed to make the application and send money

Inducements

9. What sorts of things did they do or say to try and convince you to invest (e.g. pressure, taking friendly position, linking investment with personal situation of complainant, etc)? What else?

10. How did what they say make you feel?

11. Were you sent any written materials (INVESTORS ADD "before you signed up")? [If yes], what were they, and did you ask for them or did they offer to send you something anyway? [If no], did you ask for any?

Making the decision to invest/not invest

FOR INVESTOR

12. At what stage did you decide to invest in the offer (i.e. after how many calls, or after receiving what information)? How much did you invest? What proportion does this represent of your assets?

13. Were you looking for an investment at the time? Have you invested overseas before? Were you particularly attracted to this investment because it was foreign?

14. What made you decide to invest in the offer? (If respondent does not mention anything that the caller said that induced them to invest, ask): Was there anything about what the caller said that helped you decide to invest? What was it? What was the MOST attractive feature of the offer to you? (If respondent does not mention anything outside what the caller said that induced them to invest, ask): Was there anything apart from what the caller said that helped you decide to invest? What was it (e.g. partner, ASIC, Investment adviser)? Was there anything that the caller said that made you have reservations about the investment?

15. How did you feel about the investment once you made the decision to invest?

16. What were the key things that made you confident that the offer was legitimate? What made you trust them?

17. Can you just tell me what steps you then took to actually make the investment?

18. When you confirmed that you were making the investment, did you still always deal with the same person, or were you directed to somebody else?

19. How did you feel about it once you paid the money? (i.e. confident, apprehensive, indifferent) Probe about what made them feel that way.

20. Once you had made the investment, were you contacted about any other offers? If yes, was it through the same company or a different company?

FOR NON-INVESTOR:

21. At what stage did you decide NOT to invest in the offer (i.e. after how many calls, or after receiving what information)

22. Were you looking for an investment at the time?

23. What made you decide not to invest in the offer? [If respondent does not mention anything that the caller said that induced them to invest, ask]: Was there anything about what the caller said that helped you decide not to invest? What was it? [If respondent does not mention anything outside what the caller said that induced them to invest, ask]: Was there anything apart from what the caller said that helped you decide not to invest? What was it (e.g. partner, ASIC, Investment adviser)? How did what the caller was saying make you feel?

24. [If respondents says that one of the reasons they did not invest was that they thought the offer was not legitimate] What were the key things that made you think that the offer was not legitimate? What made you not trust them?

Follow-up

FOR INVESTOR

25. What happened once you sent the money? Did you receive anything back (documents etc)? Did you receive any phone calls to follow-up?

26. Did you try and retrieve your money at any point? If yes, what made you decide to do that? What happened when you asked for your money back?

FOR NON-INVESTOR

27. Once you had said no to the investment, what did they do? Were you contacted about any other offers? [If was contacted again] By the same person or somebody different within the same company or perhaps a different company?

Making a complaint/enquiry

28. Did you report this to anyone at the time when it happened? Who did you contact?

29. What made you decide to call/complain to ASIC?

30. How did you know to call ASIC?

Demographics

[If the respondent baulks at giving age/education/income details, reassure them that is only for the purposes of seeing if they are targeting any particular group and that these sorts of details will help us target education appropriately – the information will not be passed on to any other government department, and besides, people's names and contact details will be kept separate from this information – their data will only be identified by a number].

31. To help us get a bit of a picture of whom these companies are targeting, could you please tell which of the following age ranges would you fall into?:

   - Younger than 20
   - 20 to 29
   - 30 to 39
   - 40 to 49
   - 50 to 59
   - 60 to 69
   - 70 or over

32. What is your current occupation? [If retired ask], how long ago did you retire?

33. Are you the main income earner in your household?

34. Would you mind if I ask which of the following income ranges you/the main income earner fall into:

   - Below $20,000
   - $20k to $39k
   - $40 to $59k
   - $60 to $79k
   - $80 to $100k
   - $100k plus

35. What is the highest level of education you have completed?

36. Could I also get the postcode where you live?

37. Have you made other kinds of investments before? [If yes] What kinds (e.g. managed funds, direct shares Australian or foreign)?

Post-interview

Thank-you very much for your time. We appreciate you making the time and effort to pass on your experiences. If we need to clarify any of the information you have provided us with, would you be happy for us to contact you again on this number? Do you have any questions that you would like to ask us about the survey? [NB: Ensure that they understand that this is not an investigation or will lead to the recovery of money for their particular case].

Appendix E: Information about ASIC

	Description	Further Information
ASIC	ASIC stands for Australian Securities and Investments Commission. ASIC is one of three Commonwealth government bodies that regulate financial services in Australia. ASIC is the single national regulator of Australia's 1.2 million companies. ASIC's role is to: ▪ Protect investors, superannuants, depositors and insurance policy holders. For more information about our consumer protection role, go to FIDO, our website for consumers and investors ▪ Regulate and enforce laws that promote honesty and fairness in financial markets, products and services and in Australian companies ▪ Underpin the strength, growth and international reputation of Australia's financial markets ▪ Maintain a public database on Australia's 1.2 million companies to provide certainty in commercial dealings, and ▪ Work with other financial, consumer and law enforcement bodies in Australia and internationally.	▪ www.asic.gov.au ▪ www.fido.asic.gov.au Of specific interest: ▪ *ASIC's consumer role* (http://fido.asic.gov.au/fido/fido.nsf/byheadline/ASIC's+consumer+role?openDocum ent) www.fido.asic.gov.au (scroll down to ASIC's consumer role on right menu panel) ▪ *ASIC at a glance* (http://www.asic.gov.au/asic/asic.nsf/byheadline/ASIC+at+a+glance?opendocument) www.asic.gov.au (scroll down to About ASIC on left menu panel then select ASIC at a glance) ▪ *Cold Calling information* *('Cold calling: o/seas offers by phone')* (http://www.fido.asic.gov.au/fido/fido.nsf/byheadline/Cold+calling?opendocument) www.fido.asic.gov.au (scroll down to *Cold calling: o/seas offers by phone* link in Hot topics section on right menu panel) ▪ *Licensing and registration requirements for dealers and investment advisers* www.asic.gov.au (Select Licensing under Financial Services. Then select Pre AFS Licensing and Information for licensees yet to transition under the FSR Act. Select dealers and investment advisers and then scroll down to find a copy of the Licensing kit). For information on licensing requirements after March 11, 2002, select from the home page: Licensing under Financial Services. Then select AFS Licensing.

	Description	Further Information
		▪ *Prospectuses* (http://fido.asic.gov.au/fido/fido.nsf/byheadline/Prospectuses?opendocument) www.fido.asic.gov.au (Select the Shares link on the left of the page, then select *Company Prospectuses* under the Getting information about a company heading in the top right slice of the table) ▪ *Investing basics* (http://fido.asic.gov.au/fido/fido.nsf/HeadingPagesDisplay/Investing+Basics?OpenDocument) www.fido.asic.gov.au/(Select the *Investing basics* link on the left of the page) ▪ *Investing in shares* (http://fido.asic.gov.au/fido/fido.nsf/HeadingPagesDisplay/Shares?OpenDocument) www.fido.asic.gov.au/(Select the *Shares* link on the left of the page)
FIDO	FIDO is ASIC's special web site for consumers and investors. It is separate to (but available from) ASIC's main web site. It offers useful and easily explained information on all sorts of consumer issues, such as: ▪ Scam warnings, tips and tricks on things like investing and superannuation ▪ Links to check ASIC's various databases (for example to see if a person is licensed, a company is registered in Australia, or a prospectus has been lodged) ▪ Instructions on how to complain to ASIC about suspect financial matters.	▪ www.fido.asic.gov.au ▪ Or, to access via the ASIC web site (www.asic.gov.au), just click on the top right grey area that says "visit FIDO our consumer site

	Description	Further Information
	The site is designed to be user friendly and even offers a free monthly email newsletter service (called FIDO News), updating consumers on latest warnings, tips and information about investments, superannuation, insurance and deposit accounts.	
Infoline	Infoline is ASIC's free phone or email service that provides information: ▪ About ASIC policy and procedures, company administration, and other regulatory and enforcement issues ▪ For consumers about financial services and products (except lending). Information on investors' rights.	▪ www.asic.gov.au (choose the **Contact Us** link) ▪ To contact Infoline: Email: infoline@asic.gov.au or Phone: 1300 300 630

Glossary

Term	Description	Sources and/or Further Information[20]
ASX	ASX stands for Australian Stock Exchange. The ASX operates Australia's primary national stock exchange (or 'stock market') for equities, derivatives and fixed interest securities. It also provides market data and information to a range of users. Specialised information technology systems underlie these operations.	▪ www.asx.com.au
Bloomberg	Bloomberg is an international news and information organisation that provides online news, data and analysis to the business community and media outlets. Bloomberg provides real-time pricing, historical pricing, indicative data, analytics and electronic communications 24 hours a day through its 'Bloomberg Professional' service.	▪ www.bloomberg.com
Broker	An individual or firm who transacts on behalf of a buyer or a seller, usually charging a commission.	▪ www.asic.gov.au ▪ www.sec.gov
Brokerage	The commission (fee) charged by the broker.	▪ www.fido.asic.gov.au ▪ www.asx.com.au
IOSCO	IOSCO stands for International Organisation of Securities Commissions. IOSCO is an international assembly of securities market regulators. Its current membership encompasses regulatory bodies from 91 countries (including ASIC), all of which have day-to-day responsibility for securities regulation and the administration of securities laws.	▪ www.iosco.org
IPO	IPO stands for Initial Public Offering. This involves a company listing on a stock exchange and offering sale of its stock to the public for the first time. Companies making an IPO are seeking new public capital for their equity.	▪ www.asic.gov.au ▪ www.sec.gov

[20] Please note that the url links provided in this Glossary (and in the report generally) may change over time. In most cases, web sites have Search facilities – use these to locate the relevant information if the urls become outdated.

TERM	DESCRIPTION	SOURCES AND/OR FURTHER INFORMATION[20]
Liquidity	The liquidity of a stock refers to the volume of transactions in that stock. Low liquidity leads to wide bid/offer spreads and hence could lead to large price fluctuations. High liquidity tends to minimise overall transactions costs.	▪ www.investor.nasd.com ▪ www.asx.com.au
Market maker	A broker/dealer who provides liquidity in a given security by being both a buyer and a seller (at different prices) at the same time. The market maker's bid/offer spread allows opportunities for profit as reward for risk taking.	▪ www.investor.nasd.com ▪ www.nyse.com ▪ www.nasdaq.com
NASDAQ	NASDAQ stands for 'National Association of Securities Dealers Automated Quotation' system. It is the NASDAQ Stock Market's computer-screen trading system and enables people to trade by computer from wherever they are located. The NASDAQ Stock Market is a major national and international stock market that uses computers and telecommunications for the trading and surveillance of thousands of securities. It is built on a system of competing' Market Maker' firms that list specific prices for the sale or purchase of securities. The NASDAQ is overseen by NASD – the National Association of Securities Dealers. NASD is the largest self-regulatory organisation for the securities industry in the United States and is responsible for the operation and regulation of NASDAQ and the over-the-counter securities markets.	▪ www.investor.nasd.com ▪ www.nasdaq.com
OTC (US)	OTC stands for over-the-counter and refer to US securities that are not listed or traded on a an organised exchange and are therefore not governed by the same SEC reporting requirements as companies that list on organised exchanges such as the NASDAQ are. The securities that trade in this market are usually start-up companies (therefore new, small and low priced) looking to raise the funds to start or build upon existing operations. The OTC market is much smaller and more volatile than larger markets such as the NASDAQ.	▪ www.sec.gov ▪ www.investor.nasd.com
OTCBB	OTCBB stands for OTC Bulletin Board and is a regulated quotation service that displays real-time quotes, last-sale prices, and volume information in US over-the-counter (OTC) equity securities. OTCBB securities include national, regional, and foreign equity issues, warrants, units, American Depositary Receipts (ADRs), and Direct Participation Programs (DPPs). The OTCBB is a quotation medium for subscribing members, not an issuer listing service, **and should not be confused with the NASDAQ Stock Market**. Thus, although NASD	▪ www.sec.gov/answers/otcbb.htm ▪ www.sec.gov/investor/pubs/microcapstock.htm ▪ www.investor.nasd.com ▪ www.otcbb.com

TERM	DESCRIPTION	SOURCES AND/OR FURTHER INFORMATION[20]
	oversees the OTCBB, it is not a part of the NASDAQ Stock Market. OTCBB securities are traded by a community of Market Makers that enter quotes and trade reports through a sophisticated, closed computer network, which is accessed through NASDAQ Workstation II (a computerised trading tool that provides access to all NASDAQ markets for Market Makers, brokers, and institutions).	
Pink Sheets	Similar to the OTCBB, Pink Sheets is an electronic quotation and information service through which broker dealers firms may deal in OTC securities. It is NOT a Securities and Exchange Commission (SEC) Registered Stock Exchange or a NASD Broker/Dealer. **It has no affiliation with either NASD or the NASDAQ Stock Market.**	▪ www.sec.gov/investor/pubs/microcapstock.htm ▪ www.investor.nasd.com ▪ www.pinksheets.com/risk.jsp
Prospectus	The formal document that must usually be issued by a company or fund seeking to raise money from the public. It should provide the details of the financial and management status of the company or fund. In Australia, a prospectus is required by the Corporations Act to contain all the information a consumer or professional adviser would need to make an informed investment decision about the company. It must clearly disclose any risks associated with the investment. In Australia, prospectuses are lodged with ASIC.	▪ www.asic.gov.au ▪ www.fido.asic.gov.au
Regulation S	If a US company wishes to offer or sell securities to the public they must either register with the SEC or obtain an exemption (according to the US Securities Act of 1933). One of these exemptions is Regulation S. Regulation S means companies do not have to register stock they sell outside the US to foreign ("offshore") investors. This means the usual protections offered to investors by the registration of securities is bypassed. To help counteract abuse of this exemption, the SEC issued a new rule (Rule 144) that any stock placed offshore (i.e. outside US) under Regulation S will be classified as "restricted securities". This means resale without registration or an exemption from registration will be restricted - i.e. the shares cannot be resold back into the US market for 12 months and/or under certain conditions.	▪ www.sec.gov/rules/final/33-7505.htm ▪ www.sec.gov/rules/final/33-7505a.htm ▪ www.sec.gov/answers/restric.htm
SEC (US)	SEC stands for Securities and Exchange Commission. This is the US financial regulator. It is a federal agency that was created by the Securities Exchange Act of 1934 to administer that act and the Securities Act of 1933. The laws	▪ www.sec.gov

TERM	DESCRIPTION	SOURCES AND/OR FURTHER INFORMATION[20]
	administered by the SEC are designed to promote full public disclosure and protect the investing public against fraudulent and manipulative practices in the securities markets.	
Share certificate	A share certificate is a document issued when a person purchases shares in a company. It is written proof that the person is a registered holder of a certain number of shares. In Australia, share certificates have been replaced by CHESS (Clearing House Electronic Settlement System) holdings registrations.	▪ www.asx.com.au
Shares (also referred to as 'stock')	Shares signify a partial ownership of a company. If, for example, a company has issued a million shares and you own ten thousand shares in it, then you own one percent of the company. As a part owner of a company, you participate in ownership of the assets and in the future earnings of the company.	▪ www.asic.gov.au ▪ www.asx.com.au ▪ www.sec.gov
Speculative	A speculative deal involves taking a big risk, but deliberately so, in the hope of making an extraordinary gain.	▪ www.asic.gov.au
Takeover	A takeover is when a company or individual(s) takes effective control of an existing company, usually by buying enough shares to become a majority shareholder.	▪ www.asx.com.au
Transfer agent (US)	An agent who maintains records of stock and bond owners to cancel and issue certificates, and resolve problems arising from lost, destroyed, or stolen certificates.	▪ www.investor.nasd.com
Venture capital	Venture capital is money provided by people (usually a partnership of several investors) who invest alongside management in young, small start-up companies that are looking for the funds to properly establish themselves.	▪ www.avcal.com.au
Volatility	Volatility is the measure of the degree of fluctuation in price of a security calculated using a given method (for example standard deviation of average daily price change).	▪ www.asx.com.au ▪ www.investor.nasd.com

Online glossaries:

- www.investor.nasd.com - (choose **Investor Resources** link then **Investor Glossary of Terms** link)
- www.nyse.com - (choose **Help/Glossary** link)
- www.asx.com.au - (choose **Glossary** link)
- www.fido.asic.gov.au – (choose **Definition of terms** under **Quick links**)