OUTSIDE THE FLAGS

Information Hygiene

Jim Parker
Vice President

Oct 06, 2022

The pandemic showed the power of a previously unknown virus to spread through the global population, threating health and creating economic mayhem. But few people appreciate the power of bad information to go viral in a similar way, endangering their wealth.

Globally, regulators are warning of an increase in financial disinformation and outright scams, fuelled by the growth of social media use, the failure of a traditional media gatekeepers, rising isolation during the pandemic and the human propensity to fall for get-rich-quick pitches.

The result of all this is people are losing billions of dollars annually by acting on unreliable information, often spread by bad actors through digital media channels.

So just as we learned during the pandemic about maintaining good hygiene and consulting health professionals, the explosion of financial disinformation highlights the importance of sticking to sound investment principles and having a trusted financial advisor onside.

THE GROWTH OF SCAMS

Just about every week, a financial regulator somewhere is alerting people to this issue. And the perpetrators are becoming increasingly sophisticated.

The Australian Competition and Consumer Commission (ACCC) says losses to bond investment scams nearly tripled in the first half of 2022. Consumers lost more than $20mn to imposters impersonating banks and claiming to offer government bonds or term deposits.[1]

Overall, scams robbed Australians of a record $2bn in 2021, the ACCC says, with investment information scams the highest loss category.

In New Zealand, the Financial Markets Authority says about 20% of the population has been targeted by investment scams. Among the latest, Kiwis have been fooled by a rogue operator claiming to be the NZ Super Fund making unsolicited offers to purchase cryptocurrency assets with a small up-front payment.[2]

Indicating that this is a global phenomenon, the US Securities and Exchange Commission (SEC) recently charged 11 individuals in a fraudulent crypto pyramid and Ponzi scheme that raised more than $300m from millions of retail investors worldwide.[3]

Aside from crypto scams, regulators in the UK have noted a significant rise in scammers taking advantage of the growing use during the pandemic of digital communication tools. Specifically, the Financial Conduct Authority found perpetrators are using screen-sharing software to take control of victims' computers, steal their passwords and drain their bank accounts.[4]

These rogue operators have become so sophisticated that in some cases, when investors seek to retrieve their money, the scammers impersonate recovery agents who offer the victims help in getting their money back…in exchange for a fee of course.

THE RISE OF SOCIAL MEDIA

But outright fraud is not the only information threat to investors. The demise of the gatekeeping role of traditional media and the rise of unverified and unedited social media content can encourage people into short-term trading, often based on unreliable rumours and opinions.

The 'meme stock' boom took off during the pandemic as people stuck at home started trading popular stocks using cheap or free trading apps, sharing information on social media channels.

As well, social media has created a new type of financial celebrity known popularly as the 'finfluencer'. These are people, often without qualifications, who offer advice on anything from buying a house, to setting up a budget to building a global stock portfolio.

In Australia, the corporate regulator has issued a warning to social media influencers, reminding them that like any licensed financial advisor they are still subject to the laws related to discussing financial products and services.[5]

It should be emphasised that social media in itself is not entirely a malign phenomenon. In many ways, it democratises access to information. But it also carries risks for users who can assume that all the information they find there can be trusted and reliably acted upon.

Again, this highlights the value that a trusted financial advisor brings, in both acting as an information filter and understanding the needs and goals of each individual client.

INFORMATION HYGIENE

All this means that exercising information hygiene habits to protect our wealth is as important as the lessons we adopted during the pandemic to protect our health. These information habits include the following:

- If an investment opportunity sounds too good to be true, you should exercise scepticism. Offers of 'high return-low risk' should set off alarm bells.
- Be wary of any unsolicited offer or unexpected contact, particularly if it comes at you via a social media platform.
- Tighten up your privacy controls on social media and protect yourself from identity

theft. Do not share your screen with someone you have never met.

- Use trusted, established sources for financial information as much as possible.
- Limit your media consumption. Just because you can check news headlines and your portfolio 24/7 doesn't mean that you should.
- Most importantly, seek out a licensed financial advisor who understands your needs, circumstances, goals and risk appetites.

1. 'Consumers Warned About Fake Investment Opportunities', ACCC, 3 Aug 2022
2. 'Scam Operation Targeting New Zealanders', FMA, 31 Aug 2022
3. 'SEC Charges 11 Individuals in $300m Crypto Pyramid Scheme', SEC, 1 Aug 2022
4. 'Screen Sharing Scams', Financial Conduct Authority, 5 May 2022
5. 'Information for Social Media Influencers and Licensees', ASIC, 21 March 2022

DFA Australia Limited prior to acquiring or continuing to hold any investment. Go to dimensional.com/funds to access a copy of the PDS or the relevant TMD. Any opinions expressed in this material reflect our judgement at the date of publication and are subject to change.

NEW ZEALAND

This material is issued by DFA Australia Limited (incorporated in Australia, AFS License No. 238093, ABN 46 065 937 671). This material is provided for information only. This material does not give any recommendation or opinion to acquire any financial product or any financial advice product, and is not financial advice to you or any other person. No account has been taken of the objectives, financial situation or needs of any particular person. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to the investor's objectives, financial situation and needs. Investors should also consider the Product Disclosure Statement (PDS) and for the Dimensional Wholesale Trusts the target market determination (TMD) that has been made for each financial product or financial advice product either issued or distributed by DFA Australia Limited prior to acquiring or continuing to hold any investment. Go to dimensional.com/funds to access a copy of the PDS or the relevant TMD. Any opinions expressed in this material reflect our judgement at the date of publication and are subject to change.