

Caution against online trading brokerage scams

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The online markets in South Africa have been experiencing influx of retail traders and brokers, most especially in Forex and stock markets.



The Financial Sector Conduct Authority (FSCA), alongside with Johannesburg Stock Exchange (JSE) play important roles in the regulation and supervision of the capital market with a view to ensuring client funds are safe.

Despite the popularity of online trading in South Africa, it comes with lots of risks which a sizeable number of traders may not be aware of. One of such risks borders on brokerage scams which is now very common. Some traders don't understand how to tell fake and dubious brokers from legitimate brokers. That is why it is very essential to have a good understanding of how brokers work and know the vital questions to ask before choosing a broker.

Some of the major issues associated with online trading brokerage scams include:

Unregulated brokers

One of the major signs you should look out for in order not to fall prey to scammers, is whether the broker is regulated or not. As stated earlier, the FSCA is the watchdog for online trading market in South Africa. It issues licenses to online brokers that are deemed 'fit and proper' to hold traders' funds and provide financial services.

While choosing a brokerage firm, you should note that applying for a license is different from being granted a license. You need to be aware of this because some brokers can show you only their application documents.

One example related to this is the court case involving the FSCA and a Forex brokerage firm called JP Markets who had been in existence since 2016 and had over 300,000 clients before they were liquidated in 2020.

The FSCA moved for the liquidation of JP markets and froze their bank accounts holding about R2.5bn, for not having a license to operate an OTC derivative business, but this liquidation decision was later [reversed by the Supreme Court](#) citing that although the brokerage did not have the ODP license, it had applied for it. The initial license the FSCA granted JP markets in 2016 was for offering advisory services and to render non-discretionary intermediary services in respect of derivative instruments. In order to operate an OTC derivatives business, JP markets needed to apply for a new license.

However, after a protracted legal tussle, the Supreme Court of Appeal (SCA) on October 2021, finally acquitted JP

Markets. The reason for acquittal was because the SCA said JP markets had actually applied for a license, but the FSCA had neither approved nor rejected their application meaning the application was left pending or untreated.

The key takeaway here is that you should ensure a broker's license has been approved by the FSCA before patronising them, instead of having to wait for arbitration before you get back your money. Visit the FSCA website at www.fsc.co.za and navigate to the [regulated entities](#) page to carry out a search using your broker's name. This search will reveal if your broker has applied for a license and the status of the application, whether pending, rejected, or approved.

Cloned websites of legitimate brokers

While searching for a reputable broker you want to trade with, you should be aware of some fraudulent websites using similar names of websites of credible brokers, to defraud unsuspecting traders.

The scammers achieve this sinister objective by extracting the name and other vital details from the websites of the genuine broker and put the information on their fraudulent websites with the purpose of directing new traders to the clone websites. The likely purpose is to gain access to clients' private details and login information.

As an example, all the [South African forex brokers](#) have to have a FSP no. which they will mention on their website. This is normally displayed on the footnote, about page etc. A scammer could copy the exact website of the broker, and use the 'FSP number' of a genuine broker, and claim that they are regulated.

In order not to fall prey to this strategy, ensure you do a proper investigation about the website address and other details of the broker. All this information is available on the FSCA website. Also, if you notice grammatical errors, misspellings etc., on the website, it may be a clone.

Not segregating client's funds

One of the things you have to investigate about the credibility of a brokerage firm is if it holds client deposits in a separate account from other funds.

For example, a brokerage should not be paying staff salaries from customer deposits as it should keep a separate account for such expenditure. This is necessary so that should the broker go bankrupt, your funds will be safe and can be returned to you easily.

Forex brokers are required to hold client funds in segregated accounts, and these funds should be held in a South African bank. Regulated forex broker [HotForex](#) claims to have segregation of funds. This is important to ensure the safety of your funds, otherwise the broker could use the client's funds for their own business.

If you notice that the broker lumps the two accounts together, then you need to be suspicious because it may be a decoy to defraud you. You can find out if the broker segregates client funds by checking their website as it is always stated there. If you don't find the statement on their website, then you need to ask more questions.

Promises of unrealistic or guaranteed gains

Keep in mind that there is nothing like 'guaranteed' in online trading operations. Recording profits or returns is not certain, so the word 'guaranteed' should not be thrown around by professional capital market operators.

If you come across any broker advertising promotional offers which promises clients huge returns with little or no risk; it is advisable to exercise caution. Such a broker could try to lure you by placing a time limit to the 'special offer', by saying early investors would be given free gifts or some special bonus.

Online trading is associated with risks; therefore, always know that recording of losses is part of the attributes of the system. Think of the fact that a broker who knows how to make guaranteed profits for himself, wouldn't be seeking for your

little amount, and he wouldn't be exposing the secrets to anybody.

Asking you for referrals

One of the ways you can spot counterfeit brokers is through their aggressiveness in marketing new clients. They would tell you that you would be given some commissions, if you invite other people to come and enjoy the unique packages they offer.

You should also be careful because brokers offering you commissions referrals, may be pyramid schemes masquerading as reputable brokerage firms.

A sense of urgency and complicated jargon

Scam brokers could try to use some coercive languages to get you to part with cash. Through persuasive and well selected statements, they would tell you that the special offer has a limited time frame. They make you feel you are missing out on the next big thing.

Dubious brokers can be spotted through their use of complicated jargon and lengthy statements in the aspect of 'terms of use' agreements and other details. The complex statements are a red herring to hide the hazards of what the trader is entering into. Like Warren Buffet famously said, "Never invest in something you don't understand"

Inability to withdraw funds

Inability to have access to your funds at a particular period is a dangerous signal. Withdrawing funds should be as easy as depositing funds. If your broker requires you to deposit more funds before you can withdraw your earnings, they may be a scam.

If you could not have access to your accounts, just know that your broker's capitalization statement is false. Secondly, he could have dubiously commingled your funds. Withdrawal of funds shouldn't take more than two working days.

Cold calling/Unsolicited messages

One of the ways to track a scammer is that they usually send unsolicited email messages, and make unsolicited telephone marketing calls known as 'cold calling'.

You should beware because a scammer would always use polite and catchy words to get your attention quickly. They may tell you that they are trading experts, working on behalf of a legitimate broker, and ask you to invest little and earn very high returns. This is just name calling so be vigilant.

Vital questions to ask before investing your money with a broker:

- How long has this brokerage firm been in existence?
- Is it licensed by the FSCA to offer the products for which they claim to be regulated?
- Looking at the firm's financial statements, is it properly capitalised to manage lots of accounts?
- Has the broker been involved in any arbitration?
- How does the broker make his money? (Is it from commissions or spread? etc.)
- Who serves as a counterparty to my trading activities? (Is it your broker or other liquidity providers?)
- What is the caliber of people managing the brokerage firm? (Look them up on LinkedIn.)

Use common sense & be cautious

Some brokerage firms are not what they seem. A simple Google search about the brokerage firm's history can save you a lot of headaches. Cheap fees and free offers should take a backseat to the broker's credibility. It is better to err on the side

of caution.

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