

Lifting The Lid On The 'Boiler Room' Scams

"As the Financial Services Authority warns investors of the rise of the 'boiler room' in the UK, we examine how our clients can protect themselves against the scammers.

The 'boiler room' share scam was previously seen as an American phenomenon, but UK and European authorities have recently reported a rise in these cold calling, high pressure sales tactics to investors closer to home. It is now estimated that boiler rooms are scamming investors to the tune of £200-£500 million a year in the UK alone."

What is a 'boiler room'?

Boiler rooms typically consist of high pressure sales staff sitting in short-term, low grade rented office accommodation (hence the 'boiler room'), illegally targeting investors and persuading them to invest in non-tradeable, overpriced or even non-existent shares. The scammers are usually based abroad, with Spain, Switzerland and Gibraltar being the current favourite locations. Operating outside of the UK means they are often outside the jurisdiction of our authorities.

What to look out for?

Boiler Rooms employ highly professional sounding salesmen who will claim to be from legitimate sounding firms which have convincing looking websites. The variations on the scam are numerous; but cold callers will often claim to be contacting you after you answered a survey via email or to offer you free research in a new company. Some will ask you how your investments are performing and offer to make you more money with no risk; others may claim you have already entered into a contract to buy shares and are under an obligation to pay. New variations are cheekier still – offering to buyback shares for an upfront commission from people who initially bought their shares from a boiler room! (the so called 'recovery room' fraud).

Why now?

In the current economic climate, and with a well-established culture of private share ownership, the scammers see the UK as a juicy target market – the FSA has received over 6,000 calls from concerned investors who have been targeted in the last year. Of course, we'd love to think that we would never fall for these sort of cons but research carried out by the FSA produced surprising results. 41% of boiler room victims contacted had over 10 years of investing experience, so its not just novice investors who are being fooled.

An average boiler room victim loses over £20,000 and as these firms are unauthorised to sell shares or give advice the victims have no recourse to complaint handling and compensation schemes when things go wrong.

How can I avoid being 'scammed'?

Always be suspicious if someone you don't know cold calls you offering 'free research', 'hot tips' or drastically reduced dealing commissions. Generally its against the law in the UK to cold call a person to sell shares or similar investments.

Always ensure that you conduct your share dealing through a firm authorised and regulated in the UK. You can check both the status of both a firm and individuals by checking the FSA register on their website. www.fsa.gov.uk. The FSA also maintain a list of known unauthorised foreign firms and have a consumer helpline on 0845-6061234.

Never hand over money to a firm claiming you have entered into a contract to buy shares. Most of these contracts will be unenforceable under UK law.

Many of the scammers use copies of legitimately purchased company share registers to target their victims - consider using a nominee service to protect your identity while retaining beneficial ownership of your shares.

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