



European Securities and
Markets Authority

INVESTOR WARNING

ESMA WARNS RETAIL INVESTORS ABOUT THE PITFALLS OF ONLINE INVESTING

Key messages

Be aware of the potential risks involved in online investing.

Check if the firm is authorised.

Be wary of promises of high returns.

Be aware of software that automatically generates transactions for you.

Take special care when you're asked to provide your credit card details.

If you do not understand what's on offer, do not invest.





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Why is ESMA issuing this warning?

The internet is a two-way street

The internet is a legitimate channel that is increasingly used by firms to market investment products to retail investors. Firms use the internet to offer retail investors instant access to their systems.

It offers quick and easy access to financial markets and products through various types of electronic online trading platforms, smartphones or other forms of mobile phone trading, for example.



Retail investors are searching for good returns

Using the internet is a quick and direct way to invest your money:

- You can gather information quickly and for free;
- You could save some money when getting a “no frills” service;
- It is less intimidating to deal with the *facts* that you have gathered yourself, rather than discussing investment options with an experienced adviser.

Investors are always looking to get the best return for their money. High returns are difficult to achieve *quickly and easily*, particularly at the moment, due to low interest rates, lingering instability and low predictability of financial markets developments.

When looking for high returns, investors could consider less familiar products and firms on the internet.

However ...

Sometimes high pressure and aggressive selling/marketing techniques are used to entice you to invest, or to use particular websites (for example, by using *special offers* or *free gifts* or demo access to the system offered).

Meeting and signing physically may occasionally be inconvenient, but protects you from rushing into a transaction.

Not all firms operating on the internet have permission to offer investments – they may be authorised, but only to perform other specific activities or they may also be operating illegally selling risky or non-existent products to the unwary.

While many of these firms may appear serious and genuine, they may not be. While visiting a firm’s office and physically interacting with advisers may help to evaluate its seriousness, a homepage is an easily created marketing tool which does not necessarily match reality.

ESMA, and the authorities in Member States, have observed an increase in investor complaints regarding unauthorised activities by firms on the internet.

Although financial regulations apply to advertising, not all the advertising you see complies with these. For example, there may be no, or little, investor information; and sometimes the information provided is misleading.

Investing safely

What should you be aware of?

If it is not obvious from the firm's website that it is authorised, then it is most likely not authorised.

If a firm appears to be authorised, double-check its authorisation - as many examples of false claims by firms have been discovered. You can find the lists of authorised firms on the websites of national regulators.

Remember that if it sounds too good to be true, it probably is.

Online advertisements or claims can be very persuasive. Be wary of claims that an investment will make *incredible gains* or has a *huge upside*. Claims like these often signal high risk investments or potential fraud.

Be cautious of the use of terms *safe*, *secure*, *protected* and *guaranteed*. Every investment entails some level of risk and this is reflected in the rate of return you can expect to receive. If firms use these terms in their advertising, they have to clearly explain what they mean. Consider if your knowledge and experience in the financial markets field is sufficient to fully understand the investment you are considering in terms of risks and returns.

Understand the costs involved. Firms must provide you with appropriate information.

Offers of training or trading with 'virtual portfolios' are actively used by firms offering investment services over the internet and may also encourage you to invest. Be wary of 'free' money: promotional offers such as '10% cash-back' and 'up to €500 when you open an account' are examples of ploys used to entice you.

When using online platforms you should be careful about using software which automatically generates transactions on your behalf. You could lose control over any transactions carried out in this way.



You should avoid providing your credit card details. Your account may be debited directly without your consent, and it could be very difficult to get your money back.

In most cases when you use the internet to invest on your own (that is, without receiving advice on the product sold or offered to you by the firm), the firm must have steps in place to verify your knowledge and experience, which includes asking questions about:

- the types of services and products with which you are familiar;
- the nature, volume and frequency of your previous transactions.

This list is not exhaustive.

The key objective of these steps is to determine your knowledge and experience in the investment field relevant to the specific type of product or service offered or demanded and to verify whether you understand the risks of the product. It allows the firm to judge whether the product is appropriate for you, or not. The firm must warn you if a product is not appropriate for you and you should consider that warning with care.

Before investing, it is important that you read all the marketing material and the contract or legal documents carefully and understand them.

Search the internet for information about the firm you are going to deal with. The experience or findings of other investors, consumer protection organisations or the press may be available from public sources.

What can you do to protect yourself?

You are encouraged to retain a hard copy of your online transaction as well as to look out for security features incorporated in websites. This would ensure that personal details are transacted in a secure environment.

Always check if the firm is authorised in your country on <http://www.esma.europa.eu/page/Investment-Firms> or on the website of the firm's national regulator.

If a firm is not authorised to provide investment services and activities, it is not allowed to provide them. It is also more likely not to comply with investor protection rules.

If you deal with a firm that is not authorised to provide investment services and activities this means you will likely lose your money irrespective of the result of the transaction executed and you will not have access to the national protection schemes available for investors dealing with authorised entities.

Always save or print out all relevant information for your own records. This information could also be useful should you need to make a complaint.

Further information

If you have any questions or doubts, you should contact the regulatory authority of your country. A list of all the national regulatory authorities, and their websites, is available on the ESMA website at <http://www.esma.europa.eu/investor-corner>.