Keep up your guard

Rip-off artists strike in bull market. Beware their moves and make some of your own to reach the truth

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Since our economy got its second wind in 1991, we have had about 10 major financial scams. Each hurt the small investor. Each unravelled during -- and because of -- a market boom. Each followed a similar pattern: a steady build-up, denials about it being a bubble, a bust. Is it, then, a surprise that the small investor has progressively gone into a shell during the past seven to eight years, and migrated from stocks to bank deposits? He can manage the risk of equity, but how does he manage the unmanageable risk of fraud?

Smoke signals

As this bull run roll on, and sentiment lords over reason, is another heartbreak for small investors lurking? When prices were 15-20 per cent lower some months ago, stocks were said to be expensive. Now, the same investors say India Inc is undervalued. It doesn't add up.

Foreign investors are a big driver of share prices, but they invest mostly in top-rung companies. What's disturbing is the sharp rise in thousands of second and third-rung stocks, as this set is where small investors, who typically enter a bull run late, get sucked in only to regret it. In their rush to make money, they look at price and not value, they go by broker tips and not fundamentals. Ironical, since the need of the hour is being careful where one invests.

History shows that unscrupulous players -- promoters, operators, brokers -- surface during such times and start to manipulate share prices. This time is no different. Last year, unknown companies released ads declaring bumper profits, ostensibly seeking to justify the abnormal increase in their share prices. A probe by the BSE revealed that most of these profits didn't exist.

Unusual ads from little-known companies are being seen again -- intent to make rights, bonus or preferential issues, declare dividends, ink business alliances. In the guise of increasing liquidity, several companies with a small capital base are splitting their shares, sometimes with the covert objective of making their share price appear 'cheap'. In several listed companies, many of which have a dubious track record, information flow is polluted and incomplete.

It is well known that thousands of unscrupulous entities have violated laws in the past and cheated investors. Worse, many of them, taking advantage of short public memory and exploiting the basic human instinct of greed, resurface by taking on new identities. Although penal action has been taken against thousands of such entities, information about such actions lies scattered in a difficult-to-access, difficult-to-use format across a large number of sources. Till recently, it was almost impossible for an investor to locate an entity at any regulator's website. Worse, the absence of a combined database of actions taken by all regulators prevented investors from assessing the extent of defaults by a given entity.

Data resources

But now, help is on hand. A free-to-use website, www.watchoutinvestors.com, does bolster the defences of small investors. I can be accused of self-interest, as I am associated with the site, but I have nothing but the interests of small investors in mind. The site lists entities -- companies, intermediaries, individuals -- that have been indicted for economic defaults or for violating laws, or those who are no longer in a specified area of activity.

Here's what you you should do. Avoid investing in companies you don't know or understand, or have the slightest doubt about. If you have invested in such companies, exit now. If you must invest, do your due diligence. Each time you invest in an entity whose credentials you are unsure about, do a search on this site. If you are investing in a company, run a search on the company, its promoters and directors. Likewise, if you sign up with a broker or DP, check whether it has ever been hauled up. If it has, chances are, the site will list the offence and the action taken by the regulatory body. Regulators are there to correct lapses in the system, not your bad investments. Ultimately, you have to take responsibility for your investments.