

Some Attempts to Speculate Vigilance on the International Financial Market

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Abstract

This material has been designed to highlight some of the forms of misleading the vigilance of those who drive with money, whatever its form. Although we are in the first half of the first century of the third millennium, there are still people who deliberately try to round up their income by taking advantage of the good faith of their partners. Even petty scams are scams and do not absolve the perpetrators from criminal liability or moral implications (where they exist). But, as is well known, little by little, the great lake is made and so the sums pile up in some people's accounts. We do not want to find solutions to counteract these slippages, but, once again, we say that we want to open the eyes of those who want to take all measures to reduce the risks, so that their reduction tends towards zero.

Key words: fraud, vigilance, financial market, investment, trust

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1. Introduction

It is well known that when economies go into decline and employment falls sharply, fraud cases increase during recessions. We have witnessed four former major crises and now Romania is on the verge of recession. After each crisis, there has been an increase in fraud cases and the damage they cause, both to individuals and businesses, and to institutions and states. Expectations are similar for the coming crisis. A survey by a specialist firm (Deloitte) showed that over 60% of companies expect an increase in fraud as a result of what will happen in our country and in Europe.

Even though AML (Anti-Money Laundering) and KYC (Know Your Customer) compliance has been intensely discussed over the last decade, the field itself and the related professions are relatively new. Most likely, most professionals working in this field today have not experienced a recession or a real economic downturn while working in compliance departments. Organizations' internal experience and literature on money laundering is generally limited, mostly covering only economic boom times.

We will briefly outline some of the most common financial scams and what you need to know to avoid them.

2. Theoretical background

„Email Scams” is a simpler method and available to anyone. Suspicious emails from unknown people proposing various ways to make money or help them in exchange for extraordinarily large sums should not tempt any serious investor. Although many of these email scams are easy to spot, investors need to be cautious, as countless frauds can be hidden beneath emails that appear very serious. (Sav, 2010, passim)

However, suggestions that you could make very large sums of money or simply recommending a profitable investment should be treated with care. Why would a stranger want to recommend you a share, an investment or any other form of earning?

Think that if a strategy or investment was a safe bet with a high winning rate, no one would want to give away such an opportunity for free.

The "pump & dump" strategies became very popular during the speculative dot-com bubble, when the shares of IT&C companies were artificially inflated by means of comments and posts on various Internet sites, so that, after registering spectacular increases, the authors of these financial scams to sell the securities, thereby collecting exorbitant profits. Since then, this model of fraud is still preserved. (Ionescu et al, 2022, passim)

Increases usually start on an optimistic news or expectation (it can be exceptional financial results, a potential purchase offer, the signing of a contract with an important customer, an increase in quotations on foreign markets for the company's products). On low volumes, shares are being scooped up by insiders, several days at a time, and prices are steadily climbing.

The move is all the more successful as there are no sophisticated investors in the shareholding to be tempted to mark up the profits. In the end, all kinds of optimistic reports appear in the press absolutely by coincidence, some brokers encourage their clients that the already outlined trend gives way to new appreciations and novice investors start to bite the bullet. The appearance of higher trading volumes, against the backdrop of stagnant quotations, is the signal that profits are being made and prices will soon collapse.

Any action or investment highly praised and promoted on various media channels, may not be as safe as those who maintain the euphoria claim.

3. Research Methodology

We used the simplest and most accessible scientific methods of research, represented by enumeration, exposition, description, comparison and findings. We consider that all this can create an overall picture, after briefly reviewing the shortcomings found in the financial and monetary markets, from which we believe that even some conclusions can be drawn. In fact, we are not dealing with finding sophisticated methods to put an end to these crimes, but we want to create that overall picture, as I stated before, so that everything is known, even for beginners in the financial world.

4. Findings

The fascination of gold -As the financial crisis deepened, more and more investors turned to investing in gold or other metals. Although, investing in gold offers a safety net against the effects of inflation, like any other investment, it also has risks. It is smart to diversify and thus have, in the portfolio, including gold, but it is not healthy to believe that if you give up risky assets and move all your money to gold, the risks will be lower. (Păun et al, 1999, passim)

Recently, even in Romania, various companies have appeared, more or less unknown, generally forex brokers that entice customers to invest small amounts in gold. What they don't say is that the investments they recommend are on margin, which means that no matter how "safe" the investment in gold is, the leverage effect can very easily bring your account to zero.

Leverage effect -Leverage, in financial terms, means using borrowed money to increase your return on investment. It is called "leverage", because with a relatively small amount of invested capital, significant gains (but also losses) can be obtained, when the degree of indebtedness is high. (Ionescu et al, 2022, passim)

Margin Investments -The investor is buying on margin (buying on margin) when he borrows money from his broker, so he will be able to buy more shares than normal. For this he needs to open a margin account which is different from the usual cash account (cash account) and which will require the deposit of an amount at least equal to the minimum required by the respective broker. Any loan is repaid, so the broker will charge interest on top of transaction fees. (Ionescu, 2019, p. 62)

Initial margin - initial profit (initial margin) It is, in fact, the amount that the investor brings from his pocket - equity, when opening the account. A minimum margin is always required – usually min. 50% margin (and max 50% loan), i.e. at least 50% of the price paid for the shares must be from own funds. After the first purchase transaction, the reference point will be the maintenance margin.

It is often lower than the initial one (so as not to put the investor in difficulty right from the first transactions) and which will have to be respected throughout the use of the account. When the value of the investment decreases and therefore the weight of the equity decreases (because all the loss is subtracted from the equity), then the famous margin call appears, through which the broker forces you to bring more money to the account, in order to return to the required proportion. (Ionescu, 2019, p. 64)

Overconfidence in financial advisors In the Bernard Madoff era investors place far too much trust in financial advisors or certain investment experts. For example, the Cristian Sima Case is a very good example, that even in Romania investors, often even with serious financial education, rely far too much on experts or individuals posing as specialists.

Any investor must maintain a dose of distrust in the consultant who presents the benefits of an investment or a financial strategy.

Furthermore, no investor should accept a consultant or fund manager who guarantees him a certain return or tempts him with certain gains. Most likely, if a consultant promises a certain profit, in the financial markets, in addition to being illegal, at some point it will turn out that he will not be able to keep his promise to the clients, and they will realize that were deceived by these practices. (Negoiescu, 2022, *passim*)

By viewing financial advisors and stock market specialists with more distrust, investors will be more likely to recognize various fraudulent practices.

One of the most important players on the American stock market in recent decades, Madoff, was the founder of the L. Bernard firm. Madoff Investment Securities LLC. Madoff also established an investment fund, based on the so-called "Ponzi scheme", an illegal operation in the management of investment funds, similar to pyramid schemes. It involves returning exaggerated profits to investors without any real basis. It bears the name of Charles Ponzi, an Italian immigrant who went down in US history as one of the biggest fraudsters. (Ionescu, 2022, *passim*)

He stated that he could not believe that the American authorities had not been able to discover, sooner, the huge fraud that he had set up and that he had managed to escape for so many years without being arrested. Madoff was sentenced to 150 years in prison after being found guilty of defrauding more than \$50 billion.

The mirage of the Forex market and short-term transactions With the expansion of the Internet and online trading platforms, investors were lured with "day-trading" strategies, through which, in theory, they could realize good profits, trading on very short terms, even for a day. The various advertisements, in general, of the companies that traded on the foreign exchange market (Forex), suggested that even housewives with little financial education or specialization in the capital markets, could make good money, just by reading a trading manual. (Ionescu, 2019, p. 64)

Day trading (active trading) It refers to the practice of buying and selling financial instruments on the same day, with most positions usually closed before the market closes. Traders who participate in "day trading" are also called "active traders" or "day traders". In this context, by traders we do not mean authorized brokers, but natural or legal persons who make this occupation, a job or a passion. Large exchanges owe a large part of their daily traded volume to these special participants who, in turn, can derive significant benefits from this activity. (Ionescu, 2019, p. 65)

Active day traders focus on price movements, trying to anticipate them. They use for this technical analysis, an unlimited number of strategies that they consider potentially profitable. Day traders prefer to liquidate their positions before the close of the trading session to avoid the risk of a significant price change. in a direction that could cause them major losses.

As a rule, for a large number of transactions in a day, brokers practice pre-ferential rates. Also, statistically, it was found that most active traders prefer to transact online, so as to avoid delays due to internal procedures of brokers.

It is common sense not to believe such a thing. If it were that simple and any investor could read a 20-page manual and suddenly start making money on Forex, everyone would be rich, and no one would work. It is enough, however, to look at the statistics, to realize that inexperienced investors "are the cannon fodder" in the markets. Over 90% of Forex traders lose money, and only a little under 5% manage to make a profit a year. Moral for investors - Do not rely on a trading system bought from the Internet or lessons taught by a more or less obscure Forex broker. (Ionescu, 2019, p. 61)

5. Conclusions

First of all, you cannot act in the international financial market as an uninitiated. , that is, you must provide a minimum of information, regarding some risks, no matter how small. So, the prevention activity, including for natural persons, is part of the arsenal of ways to counter fraud attempts by some considered ... more experts. Then, it should be known that there is a Regulation on market abuse (market abuse regulation - MAR) which aims to guarantee that the regulation in the European Union (EU) keeps pace with market developments, in order to combat abuse on the financial markets, as well as on the financial markets related derivative commodities (such as gold or wheat). The Regulation explicitly prohibits the manipulation of commodities and reference values [such as the interbank interest rate offered for operations in euros (Euribor)]. It strengthens the investigative and sanctioning powers of regulatory authorities appointed by EU Member States to ensure the smooth functioning of their financial markets. The Regulation, which must be known by all, provides a single regulatory framework, reducing administrative burdens on medium-sized issuers where possible.

Market abuse inhibits the full transparency required for trading in modern integrated financial markets. The rules outlaw three types of abuse: market manipulation, insider trading and unauthorized disclosure of insider information.

The MAR rules apply to a person or an enterprise that commits market abuse while trading financial instruments, either through trading platforms or privately negotiated in "over-the-counter" transactions, as long as they can influence: financial instruments traded in -a trading place; or financial instruments whose price or value depends on or has an effect on the price or value of a financial instrument traded on a trading venue.

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