

Binary options, over-the-phone training in trading: say goodbye to your savings

Many advertisements purporting to offer individuals training in forex and binary options¹ trading are actually fronts for well-honed scams designed to persuade investors to hand over as much money as possible, none of which will ever be seen again. Typically, the so-called advisers working for these companies will contact potential victims by telephone, looking to put them at their ease while leaving the least possible trace of their presence.

When mediating in disputes and dealing with such companies, it is crucial for me to obtain tangible evidence, such as recordings of phone conversations, emails, screen shots and so on, as proof of the scam used to trick the customer.

The following case illustrates how it was possible to recover every cent of the €46,500 lost by one customer.

The facts

Mr A. had been on sick leave for several months. He had some time on his hands and was looking for something he could do from home to supplement his meagre income.

He did not want to invest much money, but was interested in learning more about trading, which, according to his online research, would allow him to supplement his income in return for a modest outlay. He came across a website that offered training in binary options trading. The website belonged to a Cypriot company that styled itself as the “leader in binary options”, boasted of being “authorised in France” and sponsored a well-known football club.

After leaving his contact details on the site, Mr A. was contacted by an adviser, Laura F., who offered him free training in binary options. A phone meeting was scheduled for the next day. Another adviser, David P., then provided a brief run-down on trading in binary options and told him that an initial outlay of €500 was enough to get started.

In fact Mr A. never received any training, but his adviser called to tell him exactly which positions to open or close. Mr A. immediately began to make small gains and was won over by the apparent ease of trading and by the advice given to him. His adviser, who spoke only about gains and glossed over the risks, encouraged him to invest more in order to seize supposed opportunities in the future. Taken in and intoxicated by the seemingly mounting gains, Mr A. agreed to pay a further €1,000 and then, later on, €5,000 more.

But David P.'s advice turned out to be loss-making, and the balance on the trading account tumbled to virtually nothing. Still reeling from the losses, Mr A. was contacted by a new adviser, Alexandre L. Adopting a reassuring tone, he explained that David P. had been fired for his poor performances, but that he was there to help Mr A. earn back what he had lost.

Alexandre L. continued to call, and in the course of their conversations, Mr A. mentioned that he had recently inherited €80,000, which he was planning to invest in property once he was healthy again. At this point, his new adviser became pushier, urging him to deposit the money in his trading account to generate big gains and wipe out the losses. He called Mr A. daily, sometimes even several times a day, trying to get him to put up at least €40,000. Though wary of these new promises, under pressure from his adviser and seeing no other solution, Mr A. agreed to pay in €40,000.

¹ A binary option is a financial instrument that may be used to bet on the future performance of an underlying asset, such as a commodity, currency or equity. Forex means speculation on the currency market, which is open to the general public.

Once he had deposited the money, his adviser called him to tell him which binary options to invest in. The amounts in play were unusually high, but Mr A. followed the advice to the letter. The next day, when he logged on to his trading account, he saw that his entire investment had evaporated during the night, as all the positions that he had taken turned out to be loss-making.

From this point onwards, nobody at the company answered his calls and emails, and he was unable to get through to his usual advisers.

Mr A. turned to me, asking for help in recovering some or all of the money paid to the company.

The analysis

I began by making sure that the company was authorised to provide investment services in France. Like most of the authorised companies offering trading in binary options, the firm had been authorised through the Cypriot financial regulator and held a European passport to offer services in other European Union countries, including France. It was not however authorised to provide the service of investment advice, i.e. to provide personalised recommendations².

I asked Mr A. to provide me with all the evidence in his possession. He said that he had copies of several emails exchanged with his advisers. He also told me that, at the time of the events, as he felt the trap closing and began to doubt the promises being made to him, he had managed to record a phone conversation with his adviser.

I listened to and analysed the 12-minute recording and was greatly concerned by what I heard. The adviser sought to reassure Mr A. by telling that he had “ended 2015 with average returns of 43% for customers”, and that he had “many more customers who were making rather than losing money”. He responded to Mr A.’s concerns by saying “the more capital you add, the fewer risks you take”. The adviser also made the situation seem urgent, pressing Mr A. to deposit the money quickly. He said, for example, “What do you want me to do? Tell the market to cool it and wait for the transfer?”, adding “First send the €40,000, then we’ll see”.

The emails between Mr A. and his advisers, meanwhile, clearly contained precise investment advice, with indications about the assets, amount and maturity of positions to take, even though the company was not authorised to provide this service.

Armed with this evidence, I contacted the company to ask for its observations. After a first reminder, the company replied, without providing details but offering to return the entire amount of €46,500 lost by Mr A.

The recommendation

Despite receiving no answer whatsoever to my questions, I naturally recommended that Mr A. accept the offer of full reimbursement. I believe that the evidence provided by Mr A. must have played a decisive part in the outcome of this case.

The lesson to be learned

If, in spite of everything, investors are taken in by the promises made by these companies, it is vital that they should do everything they can to keep a record of communications and any documents received.

But it is not enough merely to be wary, and the simplest solution for individual investors is to steer clear of forex and binary options.

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2. According to Article D321-1, 5° of the Monetary and Financial Code, “the service of investment advice means the provision of personalised recommendations to a third party, either at the request of that third party or at the initiative of the firm providing the advice, in relation to one or more transactions involving financial instruments”.