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HEADLINE: GEMSTONE FRAUD: Scams have become a \$1B-a-year industry

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BODY:

Gordon Smith thought investing in four diamonds for \$12,000 was a sure-fire money-making strategy.

'I got a call at work one day and it sounded like a good investment,' says Smith, a retired Toronto high school principal. He asked that his real name not be used.

Smith was led to believe the diamonds could later be sold for many times their value. But a few weeks ago, he went to a local jeweller who told him the stones are worth \$1,900, at best. When Smith tried to call his dealer, he was gone. The police doubt he'll ever be caught.

'I feel embarrassed and angry,' Smith says. 'I just want to get my hands on the s.o.b.'

He's not alone. Gemstone investment scams have become a billion-dollar-a-year industry in Canada claiming thousands of victims. Like Smith, most victims buy what turn out to be almost worthless stones on hopes their investment will bring huge returns.

'I've talked to lots of people who have lost their homes or life savings,' says Rob McInnes, who heads Jewellers Vigilance Canada Inc., a group set up five years ago to help fight the scams. 'I just talked to a guy yesterday who lost US\$450,000.'

McInnes' one-room office in Toronto is filled with files of letters from people who've been ripped off, some for as much as \$1 million. 'The average is \$10,000,' he says.

One family even lost \$60,000 raised by their community to help pay for an operation for their daughter. The couple were led to believe the money could be tripled by investing in gems.

Toronto has become a sort of world headquarters for bogus dealers who telemarket the stones across Canada and around the world. Dealers even trade lists of previous buyers. In fact, Smith has already been approached by a company that offered to sell his stones, for a fee.

The Financial Post tried calling Smith's dealer and about a dozen other dealers. The calls were not returned.

'The problem has mushroomed,' says Det. Mike Holland, the only member of the Metro Toronto police force that handles gemstone fraud. The number of bogus gem companies has jumped to 160 from 10 in the past few years, he adds.

'And any decent operation can easily make US\$1 million a month. These guys are vampires.'

Unlike other confidence schemes, many gem scams occur over months and sometimes years. One Ontario man dealt with a company for nearly five years. By the time the dealer fled, the man was out a total of \$450,000.

Most scams start with a telephone call offering information on gems to a potential investor. The stones offered are usually colored stones such as sapphires, emeralds and rubies. Diamonds aren't normally included because their value is easier to determine independently.

The dealer then sends out a glossy grading report on the stones which sometimes includes endorsements from non-existent organizations. Some reports also carry articles from newspapers and trade magazines that discuss the value of the gem trade.

Once a stone has been bought, the dealer generally sends it in a plastic case with instructions that the seal is not to be broken. That, gemologists say, prevents the stone from being properly appraised.

The investor is later told a buyer for his or her gems has been found but the deal can't close unless the investor adds one more stone to his or her portfolio. After the investor pays for that stone, the dealer usually calls to say the buyer's offer fell through.

Sometimes investors are also told to pay taxes or custom duties that don't exist. For example, one man in Flin Flon, Man., paid US\$14,000 for what he was told was a U.S. duty to get the stone across the border. He found out after his cheque was cashed that there is no such duty.

The investor is then left with stones worth a fraction of what he or she paid. What's worse, almost no one will buy them.

"They are goods nobody wants," says Harold Weinstein, a Toronto gemologist. He has about 70 stones from people who bought them from bogus gem dealers. One stone, a blue topaz, was bought for \$6,600. Weinstein said he'll be lucky to get \$300 for it.

"In total, they paid about \$250,000 for these stones. I may get \$20,000, if I can sell them. I've had some for six years. I just can't sell them."

Weinstein and others say most of the people taken in by the scams are professionals who have little understanding of the gem market. And, police say it is almost impossible to catch the dealers.

Dealers use toll-free telephone numbers and mail-forwarding services to disguise their addresses. But even when they are tracked down it's hard to convict them. By selling outside Toronto, the dealers make it expensive for local police to bring in witnesses and victims for trials.

"For us to arrest any of these guys we must have a good case in court," Holland says. "That means bringing in witnesses from California, France, Norway - you name it. And we don't have the resources to do it."

But some people such as Kirk Backer are starting to fight back.

Backer is a business consultant in Woodstock, Ont. Last summer, one of his clients told him he'd spent almost \$500,000 on gems that were worth far less; he paid \$70,000 for one stone that turned out to be worth \$300. Furious, Backer went to Toronto to track down the dealer.

"He had this dingy office that looked like a storefront," Backer says. "I told him I wanted the money for the stones. He gave me \$40,000 and said he'd have the rest the next day."

When Backer returned the next day, the office was empty.

"I didn't expect him to be there. We were lucky to get anything."

Now Backer is helping other people take on the dealers. He's already been approached by 14 people for help.

Canadian and American gemologists have also started sharing information on scams in their area to alert consumers. And, police in Canada and the U.S. are sharing more information.

None of which will help people such as Backer's client. 'The stress is very hard,' says one victim, asking that his name not be used. 'I really don't trust anyone any more.'